

Quick Stats

Lease Rates	Change from	
	H1 09	H2 09
Residential	↓	↓
Sale Prices	Change from	
	H1 09	H2 09
Residential	↓	↓

Hot Topics

- Lease rates across the Northern Emirates have dropped by 35% since H1 2008.
- Consideration of freehold rights to foreign nationals in selected developments in the Emirate of Sharjah.
- Infrastructure issues continue to haunt the Northern Emirates.

OVERVIEW

The relative proximity of property developments within the seven Emirates has resulted in the market dynamics of each Emirate becoming intertwined. Real estate offerings in the Northern Emirates continue to feel a strong influence from the Dubai market, with the availability of significantly reduced rates and better infrastructure enough to convince occupiers to relocate back to Dubai.

One of the main barriers to further investment in the Northern Emirates is the condition and capacity of existing infrastructure. The much-publicised power issues faced by residents in Sharjah and Ajman recently have raised awareness that much work is required, even to meet the needs of the current population. The negative sentiment that this has caused is already impacting upon occupancy and lease rates with migration to Dubai only likely to worsen if problems persist and suitable solutions are not found.

One potential driver for fuelling new market demand in Sharjah is the offer of freehold rights to foreign nationals. This topic, amongst others, is understood to have been discussed during Q2, as various measures are considered to help rejuvenate the market. Such a direct legislative change could positively impact upon sales activity and help to transform the fortunes of the market.

RESIDENTIAL SECTOR

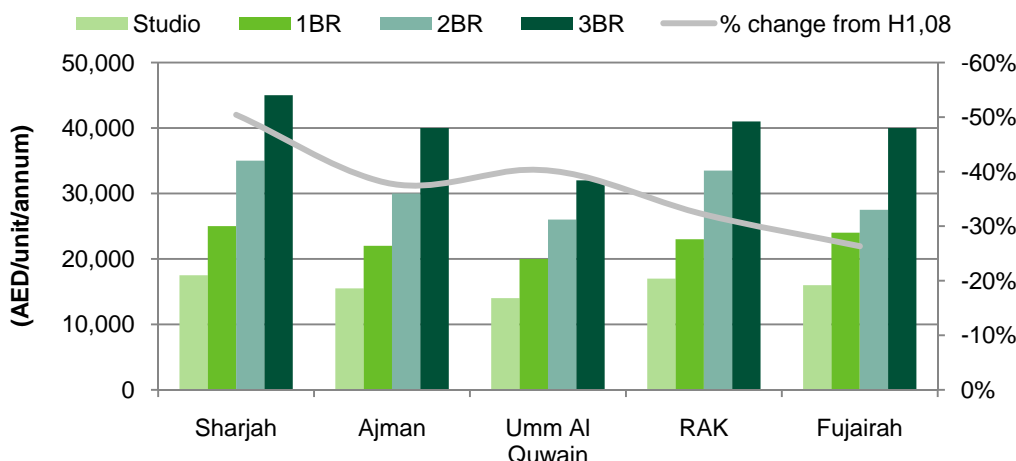
Residential lease rates across the Northern Emirates have continued their steady decline during the first 6 months of 2010. This is seen largely as a consequence of prevailing low demand levels and an ever-growing supply of stock ready for occupation.

Sharjah still enjoys the highest lease rates among its Northern Emirates compatriots, although it has suffered the sharpest fall. Higher rents are the result of larger and more concentrated commercial and industrial activities, and its relative proximity to Dubai.

Ajman has witnessed a substantial increase in residential stock over the past year, from within both freehold and non-freehold areas. This includes the completion of Horizon Towers and Al Khor Towers. As new supply has come on line, achievable lease rates have dropped away sharply. Average one bedroom rental units are currently leased at AED22,000/unit/pa, as compared to AED38,000 in H1 2008, a decline of 42%.

Umm Al Quwain has seen a 39% drop since the market peak in 2008, while Ras Al Khaimah and Fujairah have fallen by 28% and 23% respectively. The lower levels of decline in some Emirates has been due to lower levels of development activity and delays in the completion of units.

Apartment Lease Rates – (H1 2010 & % change from H1 2008)



Source: CB Richard Ellis



Quick Stats

	Change from	
Lease Rates	H1 09	H1 10
Office	↓	↓
Sale Prices	H1 09	H1 10
Office	↓	↓

Hot Topics

- Drop in office lease and occupancy rates. Current lease rates are averaging around AED530/sqm/pa.
- Dedicated commercial office properties started to emerge in the Northern Emirates with better quality.

OFFICE SECTOR

The office market in the Northern Emirates has emerged predominately within dedicated Freezone areas and within residential/mixed-use buildings, as opposed to single use office towers. A few notable exceptions do exist however, namely in the Emirate of Sharjah, but the availability of office space at lower rates with residential conversions has typically led to an overall under-development of dedicated office accommodation.

The Emirates of Ajman and Ras Al Khaimah have more recently started to deliver true office space, including the Atrium 360 Business Tower in Ajman, and the RAK Amenity Centre in Ras Al Khaimah. Both of which offer significantly better quality office accommodation than has previously been available.

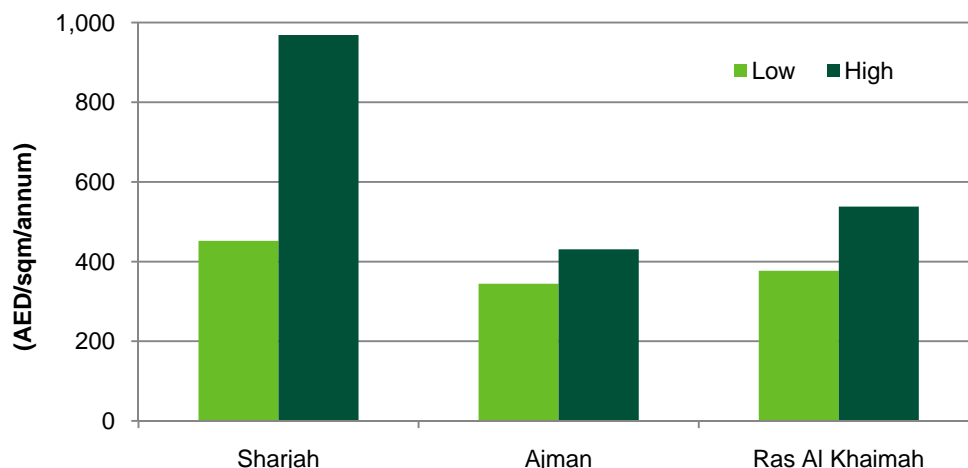
Lease rates across the Northern Emirates have dropped considerably over the past eighteen months, and now range between AED344 to 970/sqm/annum, dependant on the location and view. The highest achieved rates can typically be found in dedicated office buildings along the corniche area in Sharjah. However, even here occupancy levels have started to dip within some of the more established commercial towers. This is viewed as a direct result of increasingly price-sensitive occupiers, and heightened levels of competition in the market.

The availability and affordability of space in neighbouring Dubai is also having a growing influence on both occupancy and rental rates. The emergence of competing supply in border areas of Al Ghusais, Nahda and Muhaisanah, has severely affected the attractiveness of some office accommodation in areas of Sharjah impacted by congestion and failing infrastructure.

A number of companies which had previously moved back-office operations into Sharjah in order to reduce operational costs, are now consolidating back to Dubai with current leasing rates considered too attractive to ignore. The marked downward shift in residential lease rates has also resulted in a major portion of the employee base reconsidering their housing options, with many choosing to capitalise on existing conditions to attain property in previously unaffordable developments.

With so much new supply still within construction phases across the Emirates, there is likely to be further downside potential to be felt over the next 12 months. Even if projects are mothballed and do not enter the market, the impact of new supply in Dubai alone is deemed sufficient to make further rental reductions a formality.

Current Class A Office Lease Rates in Northern Emirates



Source: CB Richard Ellis



OUTLOOK

The quality of existing infrastructure in the Northern Emirates is a key concern for residents and businesses, and remains arguably the single largest challenge for the real estate sector as a whole. However, with around 17.5% (AED4.6 billion) of the Federal Budget currently understood to be allocated to development of infrastructure projects in the UAE, it is hoped that some of the ongoing power and traffic congestion issues will be eradicated.

Leasing and occupancy rates for both offices and residential properties are likely to experience further declines during the second half of the year, with multiple buildings already complete and awaiting utility connections. During 2010 Sharjah could see the addition of around 37,000 sq m of new office space and roughly 7,000 residential units, provided construction and utility delays are minimised. The sheer volume of these new real estate offerings is expected to further drive down lease and occupancy rates, against the continued backdrop of weak demand and heightened competition.

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