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Abu Dhabi City Profile – April 2010

Abu Dhabi: Sustainable Capital

Abu Dhabi's real estate markets remain under-supplied in most sectors with vacancies currently at very low levels. This situation will change shortly for the office market as more supply comes on stream. The residential market will generally remain under-supplied, particularly for lower to middle market segments. Retail supply will remain more balanced relative to spending power and the residential market will generally remain under-supplied, particularly for lower to middle market segments.

Abu Dhabi has been impacted by the international economic slowdown over the last 18 months. This has resulted in a real estate market correction with suppressed demand, a significant adjustment to rental and pricing levels and delays of announced development projects.

The future prospects for the Abu Dhabi real estate market remain very strong, due to the combination of sovereign and private wealth, the government's vision and its strategic investment initiatives. The key to unlocking this long-term success will be achieving greater transparency, improving the regulatory framework and the transition from the reliance on a short term speculative development model to a more stable investment horizon.

Abu Dhabi as the rising regional hub

Abu Dhabi, the economic powerhouse and federal capital of the United Arab Emirates, has attracted major regional and global attention over the past few years and this trend is set to continue.

Abu Dhabi already plays a major role globally. With over 8% of the world's oil reserves, it is a major exporter and is linked to many of the world's largest economies by trade. Through Sovereign Wealth Funds such as the Abu Dhabi Investment Authority (ADIA) and International Petroleum and Investment Company (IPIC) together with the activities of entities such as Mubadala, Aabar and private investors, Abu Dhabi has multiple strategic overseas investments and is becoming ever more dominant on the world stage.

Abu Dhabi's economic growth is underpinned by its wealth of natural resources having 90% of the UAE's crude reserves. While oil and gas production continue to dominate, there is a major drive to diversify the economy and achieve a sustainable balance of oil and non-oil GDP by 2030. Various government backed entities are at the forefront of investing in the strategic economic development of Abu Dhabi to catalyse new high-growth sectors as well as developing world-class infrastructure and real estate offerings throughout the Emirate.

In this regard, Abu Dhabi entered a new era of leadership under His Highness Sheikh Khalifa bin Zayed Al Nahyan (President of the United Arab Emirates and Ruler of Abu Dhabi) and His Highness General Sheikh Mohamed bin Zayed Al Nahyan (Crown Prince of Abu Dhabi and Deputy Supreme Commander of the UAE Armed Forces) leading to establishing the new government Policy Agenda in 2007–2008. Central themes of the government's Policy Agenda include establishing a dynamic open economy, a large empowered private sector, a sustainable knowledge-based economy, a transparent regulatory environment and continuing to grow strong and diverse international relationships through oil trade and new ventures.

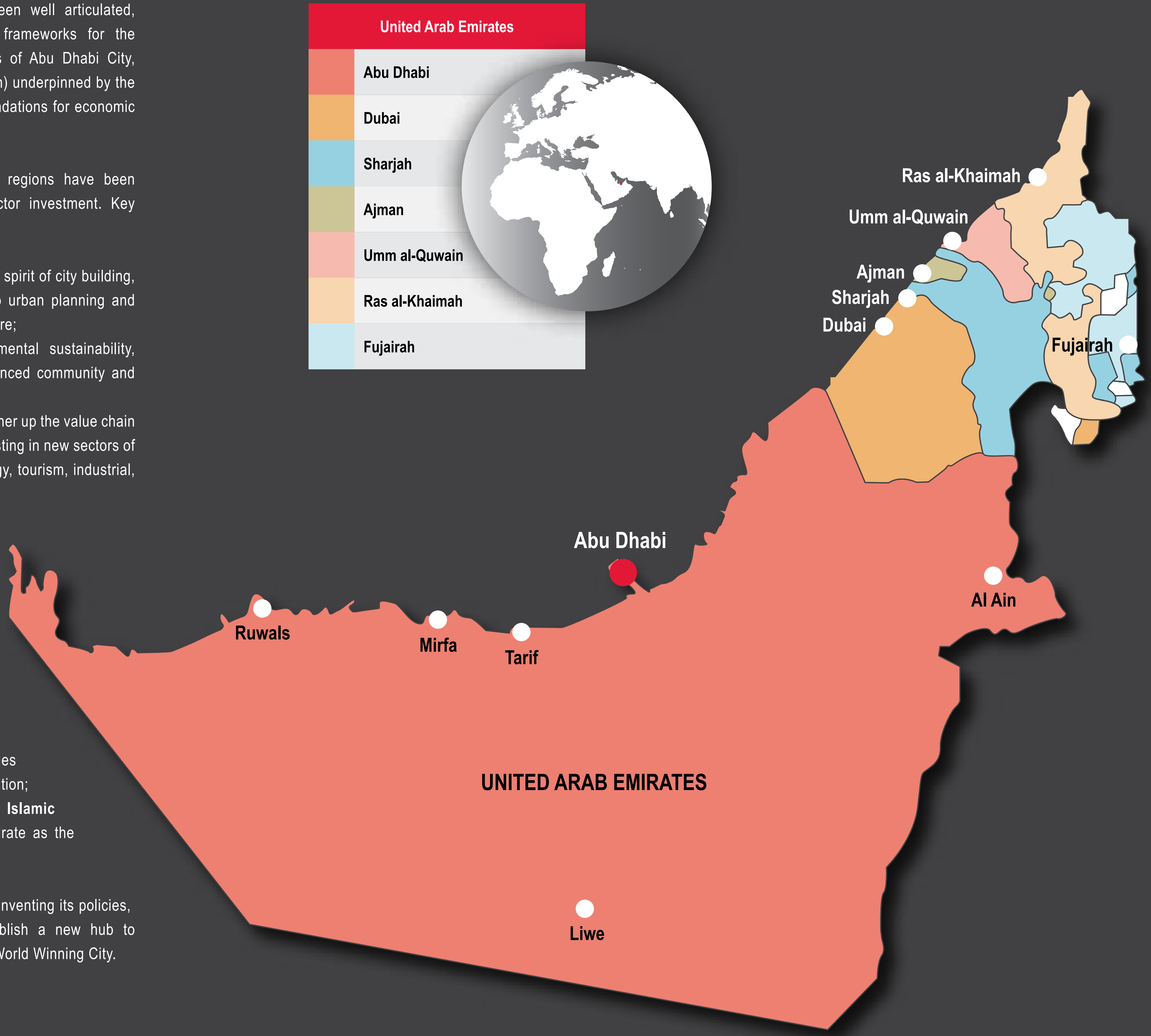
Through the vision and governance of its rulers, following in the legacy of His Highness Sheikh Zayed bin Sultan Al Nahyan, (Past President of the United Arab Emirates and Ruler of Abu Dhabi) Abu Dhabi is rapidly increasing its regional dominance through the social, physical and economic development of the Emirate.

The Government's '2030 Vision' has been well articulated, through urban planning and transport frameworks for the Emirate and the individual municipalities of Abu Dhabi City, Al Ain and Al Gharbia (the Western Region) underpinned by the 2030 Economic Vision which lays the foundations for economic development across the Emirate.

In line with the 2030 Vision, all three regions have been witnessing major public and private sector investment. Key themes across the Emirate include:

- **Vision** – Abu Dhabi epitomises a fresh spirit of city building, supported by visionary approaches to urban planning and the promotion of world-class architecture;
- **Sustainability** – promoting environmental sustainability, sustainable transport systems, a balanced community and long-term stable economic growth;
- **Economic development** – moving further up the value chain in oil-related industries as well as investing in new sectors of the economy such as alternative energy, tourism, industrial, media and knowledge-based industry;
- **Large Scale Investment** – through strategically deploying sovereign wealth into major infrastructure projects and signing strategic joint ventures with world leading global entities to bring the world to Abu Dhabi;
- **Social inclusion** – as the Emirate continues to develop, recognising the multi-cultural population, tackling issues such as affordability, and social integration;
- **Respecting Arabic culture and Islamic values** – to establish Abu Dhabi Emirate as the model for 21st century Arabic living.

Through these strategies, Abu Dhabi is reinventing its policies, economy and urban landscape to establish a new hub to dominate the region and establish a new World Winning City.



Urban Planning Initiatives

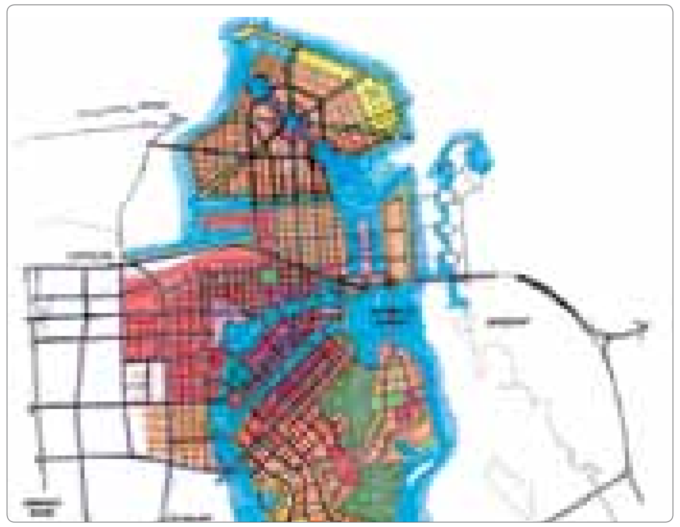
Abu Dhabi is fully embracing world class urban planning through "Plan 2030". Published by the Urban Planning Council in for Abu Dhabi city with subsequent plans for Al Ain and Al Gharbia, the plans create structured frameworks for long term urban development and lay the foundation for growth for generations to come.

The 2030 Plan for Abu Dhabi city, supported by area framework plans and the Abu Dhabi Development Code which will be published in 2010, sets out the key principles for land-use planning including managing land use and density allocation, aligning new development areas with infrastructure improvements and setting key design principles to guide future development. Some of the key development areas highlighted in the plan are listed below:

Central Business District: Revitalisation of the existing CBD area to the north of Abu Dhabi island and extending this to Sowwah Island, Al Reem Island and the regeneration of Port Mina Zayed. Sowwah Island will become the new focal point for the CBD.

The Corniche: Abu Dhabi's prime waterfront will see a number of trophy high-rise mixed-use developments including Nation Towers (ICT), Itihad Towers (HH Sheikh Suroor Private Office), Central Market (Aldar), Capital Plaza (Reisco), Saraya (Sorouh) and Landmark Tower (Department of Presidential Affairs).

Central Business District



Source: Plan Abu Dhabi 2030

Capital District

Source: Plan Abu Dhabi 2030

Capital District: In parallel with the expansion of the central business district, the Capital District, promoted by the Urban Planning Council is being developed on the mainland as Abu Dhabi's secondary business district for the relocation of federal and local government offices, embassies as well as major new universities and associated uses.

The Grand Mosque District: A number of mixed-use development areas have been established in Abu Dhabi's Midtown area, surrounding the Grand Mosque including Capital Centre (ADNEC), Arzanah (Capitala), Danet (Al Qudra) and Rawdhat (Reem).

Island Developments: A number of islands surrounding Abu Dhabi have been released for premium quality mixed-use developments including Al Reem Island (Sorouh, Tamouh, Reem), Saadiyat Island (TDIC), Lulu Island (Sorouh and Mubadala) and Yas Island (Aldar).

Raha Beach and the Airport District: Mixed-use developments including Al Raha Beach along the mainland coastline (Aldar and ICT), Masdar City and the Airport District (a number of developments by groups such as ADAC, ICT, Hydra, Aldar and Manazel).

Mixed-Use Development Areas

Abu Dhabi National Exhibition Centre

Ferrari Theme Park, Yas Island

Sheikh Zayed Mosque

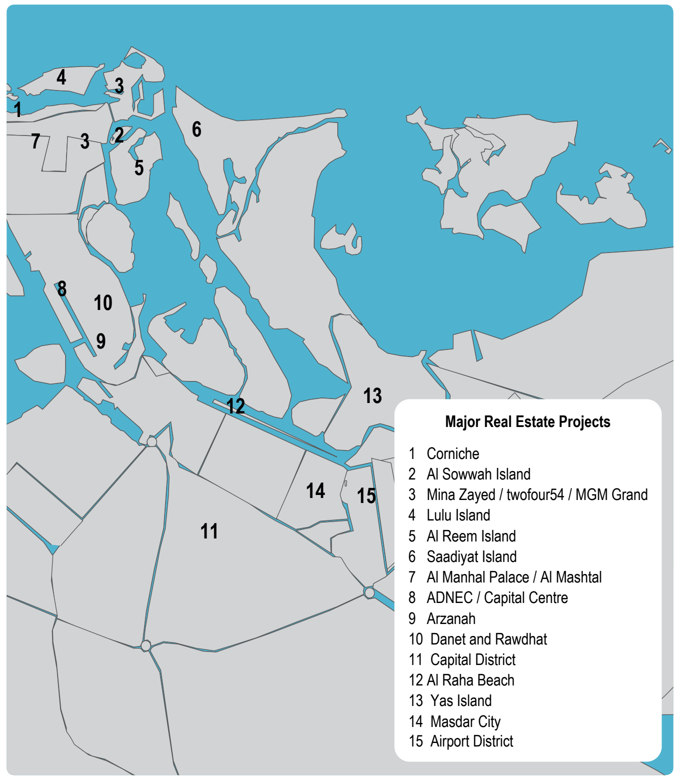
Louvre, Saadiyat Island

Guggenheim Museum, Saadiyat Island

Source: TDIC, ADNEC, Aldar

Through its urban planning initiatives, Abu Dhabi is ensuring that it puts in place the requisite components of a world city, to attract the very best in commercial, cultural, technological and lifestyle activities. This also includes a series of iconic anchor projects that, in combination, will position Abu Dhabi more successfully than other cities in the Middle East region.

Major Real Estate Areas and Projects



Source: Jones Lang LaSalle

Environmental Sustainability – Estidama

A critical aspect of Abu Dhabi's long term vision is to establish a truly sustainable city. This refers to environmental sustainability but also to ensure that the rapid pace of development can be sustained in the long run – economically, culturally and socially.

The theme of environmental sustainability recognises the public responsibilities of a major oil producing state and builds on the legacy of His Highness Sheikh Khalifa bin Zayed Al Nahyan (President or the United Arab Emirates and Past Ruler of Abu Dhabi), who pioneered environmental conservation.

A key government-backed initiative, Masdar City, is set to become the first carbon neutral city in the world, relying entirely on renewable energies and ensuring zero waste. Masdar City will serve as a test case for environmentally sustainable mixed-use development in the 21^{st} century as well as establishing a major centre for research and technology in sustainability through the activities of the Masdar Institute of Technology.

Various Abu Dhabi entities Abu Dhabi (the Urban Planning Council, the Environment Agency, Abu Dhabi Municipality, Masdar and developers such as Aldar and Sorouh), Abu Dhabi Municipality, Masdar and leading developers such as Aldar and Sorouh) have come together to sponsor a new sustainability programme known as 'Estidama' to promote sustainable design, operation and maintenance of all types of buildings and communities across the Emirate of Abu Dhabi.

The first phase of the Estidama programme includes a Design Rating System ('Pearl' rating), pilot projects, stakeholder engagement and Integrated Design Process education and training.

Source: Masdar City

Transportation Initiatives

The essential link between master planning and transportation planning has been recognised with the Department of Transport releasing the 2030 Surface Transport Master Plan to set the route map for major transport improvements.

Critically, this plan identifies the essential role that public transport must play in the creation of a sustainable city. The objective is to reduce transport congestion and reliance on cars and deliver an effective multi-modal transport system that can support the major planned development projects.

The Government is funding substantial infrastructure improvements estimated at more than USD 200 billion over the next seven years including:

- **Roads:** Many major highway improvement projects have already completed including the new Shahama – Saadiyat link (Sheikh Khalifa Highway) from the Dubai highway, through Yas and Saadiyat Islands to the Corniche, completed in 2009. Other current roadworks include the upgrading of Al Salam Street and new connections to Reem and Sowwah Islands.
- **LRT:** An extensive network of tram routes is planned across Abu Dhabi's urban and suburban areas by 2015.
- **Metro:** A comprehensive metro system that will connect Abu Dhabi's metropolitan areas and ultimately link into Dubai's metro is currently at the planning stage. The metro is envisaged to cover 113 kms, mainly underground and is also planned to be operational by 2015.
- **Rail:** A major project to develop an inter-emirate transportation system linking with other GCC countries is currently being planned. This system is planned for completion by 2017 and represents AED 30–40 billion of investment across the 1,500 km route connecting the seven Emirates.
- **Airport:** Abu Dhabi International Airport currently has capacity for 12 million visitors per year and SCADIA is leading plans to increase capacity to 40 million visitors with 2.5 million tons of cargo. The planned expansion of the Midfield Terminal is planned for completion in 2015. Elsewhere in the Emirate, Al Ain Airport is planning an expansion in aerospace and logistics activity.
- **Port:** The relocation of Abu Dhabi's port from the current location at Mina Zayed to the north of Abu Dhabi Island, to a modern facility at the Khalifa Port Industrial Zone, with the new facility to be operated in a joint venture with Dubai's DP World.

Abu Dhabi Proposed Road Network

* Proposed Scenario 2 of the Working Paper 6a, Surface Transport Master Plan
Source: Surface Transport Master Plan, Department of Transport, Abu Dhabi

Economic Development – Driving the Vision

Abu Dhabi is by far the largest Emirate in terms of land area and controls more than 85% of the UAE's total oil output. Consequently, Abu Dhabi dominates the United Arab Emirates economy, accounting for over 50% of total UAE GDP, although contributing only a third of non-oil GDP.

Abu Dhabi's abundance of natural resources combined with its accumulated private wealth means it ranks among the world's richest cities, with GDP per capita being amongst the highest in the world and including a very high proportion of high net worth individuals.

In the last decade, the Abu Dhabi economy has grown at an exceptional pace. Between 2001 and 2009, total GDP growth averaged 9% per annum in real terms, largely driven by rapid growth in the oil and gas sector. Over the same period, non-oil GDP grew at a slower pace averaging 3.6% each year. While there are ambitious plans to diversify and expand the non-oil sector of the economy, the non-oil sector continues to account for less than 40% of total GDP.

The economy declined in 2009 due to the impact of falling oil prices and output, combined with Abu Dhabi being affected by the global economic crisis leading to a major slowdown of real estate markets and other industries, exacerbated by a lack of bank lending and a reduction in investor confidence. These factors resulted in a decline of 7% in real GDP for Abu Dhabi in 2009.

Abu Dhabi's current economic downturn is expected to be relatively shortlived with positive real GDP growth of 6.7% being forecast for Abu Dhabi in 2010, well ahead of the 2.2% growth expected for the entire UAE, largely led by a recovery in oil production and prices. Over the next 5 years, the Abu Dhabi economy is expected to record an average real growth rate of 6.1% per annum from 2009 to 2013.

Macro Economic Indicators

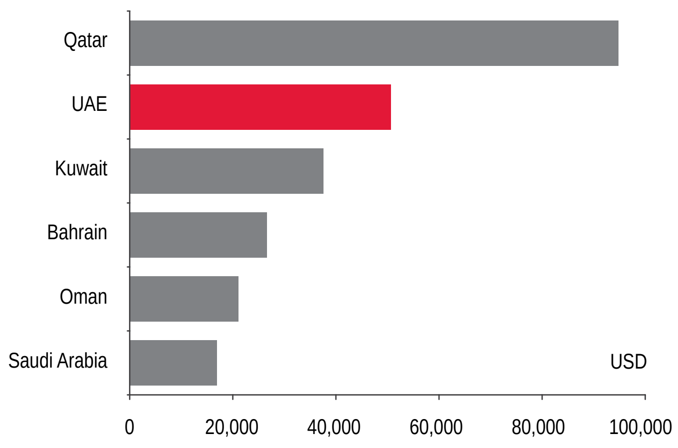
Abu Dhabi	2009	2010
Nominal GDP (USD billion)	104	123.9
Major Contributing Sectors of GDP	Oil, Gas, Manufacturing	Oil, Gas, Manufacturing
Real GDP Growth	-7.1%	6.7%

Source: Abu Dhabi Statistical Centre, Oxford Economics and Jones Lang LaSalle

UAE	2008	2009	2010
Nominal GDP Growth (%)	9.7%	-1.9%	3.2%
Real GDP (USD billion)	180.5	175.0	178.9
Major Contributing Sectors of GDP	Oil, Gas, Manufacturing	Oil, Gas, Manufacturing	Oil, Gas, Manufacturing

Source: Global Insight, March 2010

Nominal GDP / Capita – GCC



Source: International Monetary Fund

Real GDP Growth (2002–2013) – Abu Dhabi Emirate

Source: Abu Dhabi Statistical Centre, Oxford Economics and Jones Lang LaSalle

Government Initiatives and Forecasts to 2030

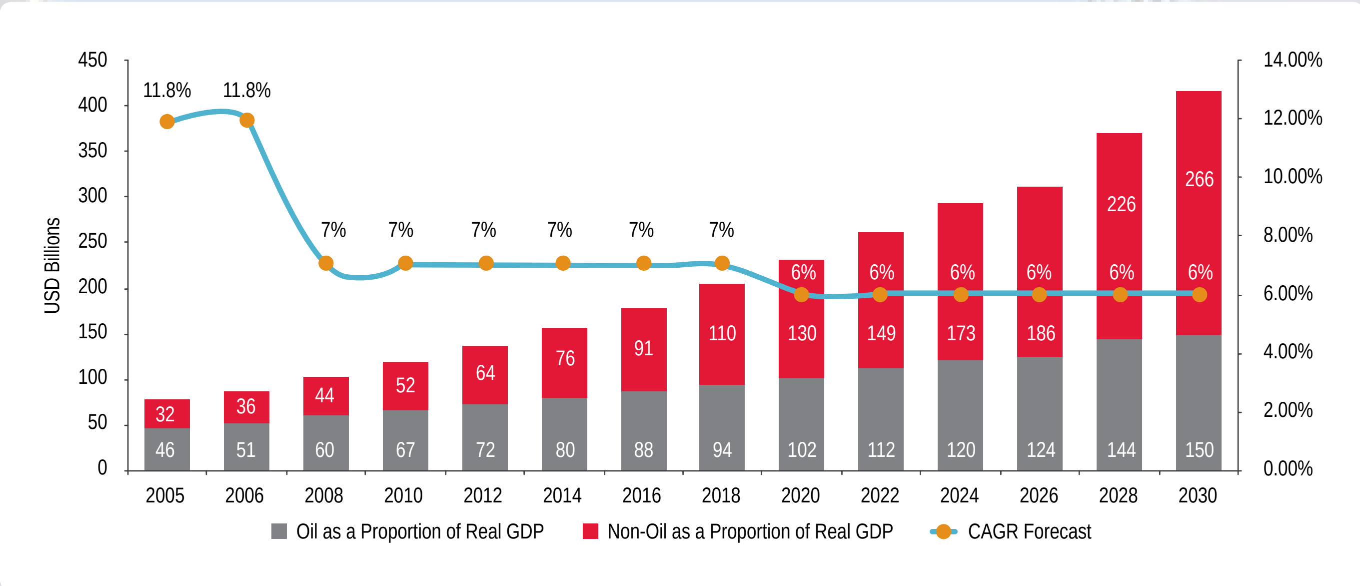
The Abu Dhabi 2030 Economic Vision (released by the General Secretariat of the Executive Council, Department of Planning and Economy and Abu Dhabi Council for Economic Development in November 2008) articulates the Government's economic development strategy. Key objectives of the Economic Vision were to conduct an exhaustive assessment of the key enablers of economic growth and to create a comprehensive long-term economic vision, with explicit targets, to guide the evolution of the Abu Dhabi economy through to 2030.

A central theme of the Economic Vision is to reduce dependence on oil sectors to achieve 'economic equilibrium' and a diversified economy by 2030.

The Government has projected long-term real GDP growth rates of 6–7% for the period up to 2030. In order to achieve economic diversification based on these growth rates, the Government is targeting a long-term GDP growth rate of 8.8% in non-oil sectors in order to outstrip oil sector GDP growth (estimated at 4.5%) and achieve over 60% of GDP being derived from non-oil sectors by 2030.

Sustaining 8.8% in non-oil sectors is an aggressive long-term target comparing to the historic growth rate of non-oil sectors (averaging 3.6% per annum from 2001 to 2009). Achieving this will require a major economic step change, transformation of underlying fundamentals and the rapid development of new high-growth sectors. Key sectors being targeted are those that are capital intensive, knowledge intensive and energy intensive as well as substantially boosting Abu Dhabi's tourism offering.

Economic Vision 2030 – Real GDP Growth



Source: General Secretariat of the Executive Council, Department of Planning and Economy and Abu Dhabi Council for Economic Development

Source: The Gate District Sorouh

Oil Sector

The Economic Vision recognizes that oil-related sectors will continue to play a very major role in the economy, through sustaining oil production as well as moving further up the value chain in oil-related sectors.

The easing of production quotas allowing a recovery in oil production, combined with a recovery in oil prices, will ensure that the oil sector continues to dominate the economy in the short to medium term.

Tourism

The tourism sector has been one of the fastest growing areas of GDP over the past 5 years as a result of measures such as government training schemes, marketing campaigns, the creation of Abu Dhabi Tourism Authority (ADTA), the development of major new tourist attractions and hotels, the establishment of the Abu Dhabi National Exhibition Centre (ADNEC) and the hosting of world class sporting and cultural events led by entities such as Mubadala, Flash and Abu Dhabi Authority for Culture and Heritage (ADACH).

As part of its strategy, Abu Dhabi is targeting the luxury tourism market, and has put major focus on arts and culture including attracting the Guggenheim and Louvre Museums to Saadiyat Island alongside other cultural attractions including delivery of the Zayed National Museum in conjunction with the British Museum. Abu Dhabi is also growing its sports and entertainment offering with the development of the Yas Island Grand Prix Circuit and the MGM Grand and Ferrari theme parks and has positioned itself on the global circuit for sports, cultural and entertainment events.

As a result of these initiatives supported by the continual expansion of the national airline Etihad, the total number of hotel visitors in Abu Dhabi is forecast to increase from 1.5 million in 2009 to more than 2.1 million by 2013 (an increase of around 10% per annum). International leisure is expected to comprise the fastest growing market segment, with an anticipated increase from 500,000 visitors in 2009 to more than 832,000 visitors in 2013 (an increase of almost 17% per annum).

Financial Services

Abu Dhabi currently lags behind other regional markets in terms of the transparency and openness of financial markets and level of financial services activity but still has a major presence in this sector due to the scale of its domestic banks and the abundance of private wealth.

The Government is seeking to grow Abu Dhabi as a hub for financial services, with a view to complementing the financial services offering in neighboring Dubai. This involves Abu Dhabi targeting growth areas such as private wealth management and the global growth of Shariah compliant financial products together with continuing to develop its domestic banking sector and encouraging new inward investment.

Industry

Abu Dhabi's economic diversification agenda attaches importance to the further development of the industrial sector. Particular focus is placed on potential downstream businesses from the oil and gas sectors as well as energy-intensive manufacturing companies that can benefit from low-energy prices, the low tax environment and access to raw materials.

The industrial development of Abu Dhabi is being promoted by government entities such as Zones Corp, the General Holding Corporation, Abu Dhabi Basic Industries and Mubadala. and the establishment of a number of industrial clusters, notably: Industrial City of Abu Dhabi (ICAD) led by ZonesCorp with specific clusters allocated for plastics and petrochemicals, automotive, food and textiles, building materials and other industry. In addition Khalifa Port & Industrial Zone is being developed close to the Dubai border for the relocation of Abu Dhabi's port and a major new industrial hub including the world's largest single site aluminium smelter (EMAL).

Knowledge Based Industry

The government is actively pursuing the growth of knowledge-based industries. Through attracting leading international universities such as New York University and the Sorbonne together with further developing domestic universities such as Zayed University and Abu Dhabi University, and a wide range of R&D initiatives, Abu Dhabi is looking to play a major regional role in developing its knowledge-based industry to continue to move the Emirates economy up the value chain.

Key sectors identified for growth include healthcare, pharmaceuticals, biotech, IT and telecommunications. Strategic joint ventures with world-leading entities engaged in these sectors and government investment to catalyse new industry will further develop Abu Dhabi's role in knowledge-based industries The development of many of these initiatives is, however, still at an early stage.

Media

twofour54 is becoming established as an internationally significant media cluster – aimed at positioning Abu Dhabi as a regional centre of excellence in media content creation across all media platforms for 300 million Arabic speakers globally.

The project is anchored by Abu Dhabi Media Company (which owns the principal local media and is investing heavily in growing and developing its various media) together with international anchors such as BBC and CNN and is being developed to create synergies and spin-offs between various media platforms including film, broadcast, music, digital media, events, gaming and publishing.

Aerospace

The Government is looking to grow the aviation and aerospace sectors of the economy with clusters planned around Al Bateen airbase and Abu Dhabi and Al Ain International Airports.

There has been a strong drive to secure international corporates involved in aerospace activity to invest in major facilities in the Emirate, creating major aerospace clusters. The emphasis to date has been on knowledge intensive operations in research and development and the manufacture of component aerospace parts.

Clean Technology and Alternative Energy

The Masdar Initiative combining the Masdar Institute of Technology with the Masdar City development is at the fore-front of research and development activity related to clean technology, alternative energy and other aspects of sustainability, as well as being the new headquarters of the International Renewable Energy Agency (Irena).

Nuclear Technology

Organizations from the United Arab Emirates and the United States have established the Gulf Nuclear Energy Infrastructure Institute (GNEII) in Abu Dhabi, an educational institution associated with Khalifa University. This is combined with a recent agreement with a South Korean consortium, led by Korea Electric Power Corporation to design, build and operate four nuclear power plants.

Key Opportunities and Challenges

Abu Dhabi's current strength is derived from its oil and gas based economy. Sustaining high growth rate in non-oil sectors to achieve economic diversification will be challenging and will require continual improvements to transparency and the regulatory environment as well as continuing to attract and retain the best talent and competing for high levels of inward investment.

Whilst wealth of capital and low energy costs will help, the future macro-economic and market performance of Abu Dhabi is heavily dependent on new policy decisions to achieve the economic step-change required to transform the economy and generate wholly new levels of demand. There are a number of key areas which the Government needs to address including:

- Developing the employment base: The current labour pool is relatively small. Whilst the Government is taking active steps to upskill Abu Dhabi's national population, it will require a continued influx of expatriates to attract and retain the best foreign talent, yet the current regulations for personal residency permits, visas and home ownership are restrictive.
- Regulations concerning company set-up and ownership are restrictive and bureaucratic and freezones are currently limited. The achievement of economic development goals will require a relaxation of current policy restrictions including easing company set up procedures and establishing more extensive freezones to allow foreign companies more control over their business including ownership along with onshore and offshore activity.
- Improving Transparency: Establishing a business environment comparable to other developed economies. Progress is being made but there is still work to be done to establish a legal regime and more transparent business environment that will sustain high levels of foreign investment.
- Enhancing city competitiveness: A key area where Abu Dhabi currently lacks competitiveness is on costs offsetting the benefit of tax exemption. Abu Dhabi also needs to develop its global marketing initiatives to increase inward investment as well as making continual improvements to the underlying fundamentals.
- Controlling land release: Whilst rising supply will help make costs more competitive, continual imbalances between demand and supply creates uncertainties in development planning and causes damaging boom-bust real estate cycles.

Source: twofour54

Demographics – Populating the Vision

The population of the Emirate of Abu Dhabi was estimated at 1,559,000 at the end of 2009, with 979,000 (63%) living within the Abu Dhabi Metropolitan area. These totals exclude a significant number of lower-skilled workers (labourers).

There are around 1,160,000 expatriates (non-nationals) living in Abu Dhabi, comprising 75% of the total population. This is very high relative to international standards; with cosmopolitan world cities such as London and New York having no more than 40% of their residents born overseas.

The proportion of expatriates is slightly higher in the Abu Dhabi District, where they account for around 77% of the total population, with lower levels in the other regions. Approximately 56% of the Emirates national population of 398,000 live within the Abu Dhabi metropolitan area.

Given the dominance of the expatriate population and their dependence upon employment to remain in Abu Dhabi, the future population of the Emirate will be more closely dependent upon trends in employment generation than the organic growth of the national population. The population of the Abu Dhabi Metropolitan area is expected to increase by 5% per annum over the next four years.

Organic growth of the National Population

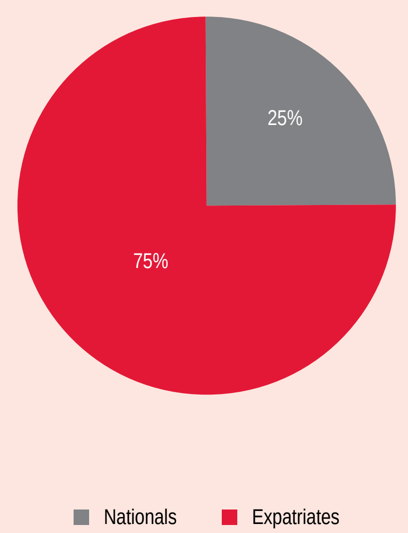
Abu Dhabi's national population has increased at a steady pace, growing by around 4% per annum between 2001 and 2009. Following a 'baby boom' over the last two decades, the national population is young – with 42% of the local population aged under 15 while the working age population (15–64 year olds) accounts for just 55% of the total.

This age mix and a relatively high birth rate will drive the projected growth of the citizen population to approximately 3.4% per annum for the period to 2013.

Growth of the Expatriate Population

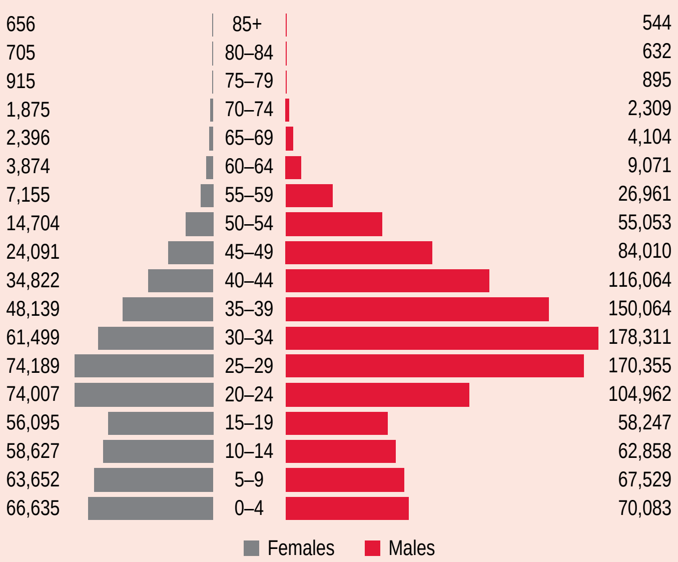
A key objective of the Abu Dhabi's economic vision is to retain, capitalise on, and upskill the national population, while attracting sufficient levels of expatriates that can add useful skills to the economy. Given the planned pace of GDP growth there will need to be continual reliance on expatriates.

Nationals versus Expatriates



Source: Department of Planning & Economy, Abu Dhabi, Economic Vision 2030

Population Breakdown



Source: Based on Population Census 2005, Department of Planning & Economy

The expatriate population is estimated to have grown by an average of almost 4% per annum over the past 5 years (despite a fall in 2009 as a result of the recent economic downturn and a shortage of housing). The expatriate population is expected to grow at a rate of 5.7% per annum between 2009 and 2013, as economic development initiatives take hold and through the continual growth of supporting subsectors. This will lead to the number of expatriates rising from 1.16 million in 2009 to 1.42 million by 2013.

Employment

The global economic downturn resulted in a contraction in employment in many sectors including oil, manufacturing, finance and construction sectors. Most sectors are expected to rebound strongly from 2010 and total employment is forecast to post an average growth of 4.8% per annum between 2009 and 2013. The strongest growing sectors between 2009 and 2013 are forecast to be restaurants and hotels (8.4%), real estate and business services (8.0%), construction (6.0%), distribution (5%) and financial services (5%).

The rise in employment in the services sectors will drive demand for office space and will continue to increase the spending power of the population, driving demand for retail.

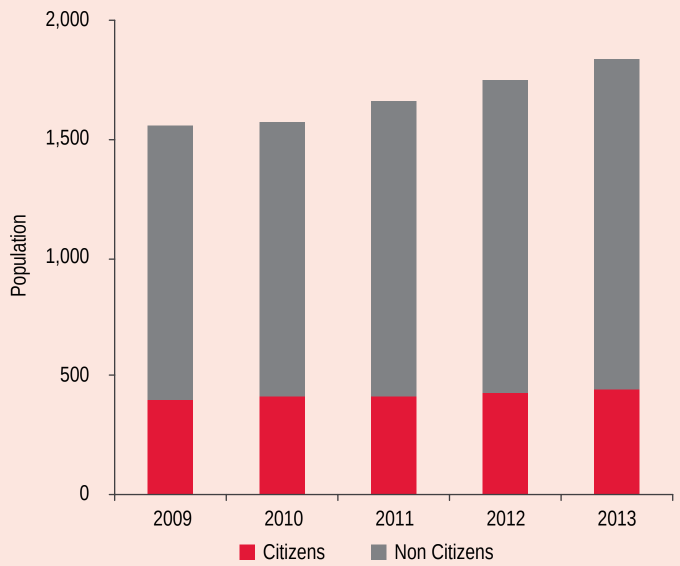
Key opportunities and challenges

Abu Dhabi's philosophy of seeking sustainable long term growth recognises that population growth needs to be supported by a step-change in the underlying economic fundamentals to establish new levels of demand (as covered in the economy section of this report) as well as putting in place sufficient services including healthcare and education facilities. The government is currently engaged in multiple joint ventures with world-leading healthcare and education establishments to achieve this goal.

The expatriate population will continue to be relatively transient in nature. Whilst rapid population turnover can create incredible dynamism and is a feature of some of the world's most vibrant global cities, it also brings challenges relating to community soul and social cohesion and this will need to be continually managed.

Whilst the Government is taking active steps to upskill Abu Dhabi's national population, it will need to rely on the continual influx of expatriates from the Arabic world and other nationalities. Currently the restrictions on home ownership and obtaining residency permits and visas are not conducive to the long term retention of an expatriate workforce. It is essential that current policy restrictions are relaxed if Abu Dhabi is to attract the level of employment and expatriate residents required to sustain the proposed level of economic growth.

Total Population (citizen and non citizen) 2009–2013



Source: Based on Population Census 2005, Department of Planning & Economy

Total Employment Growth (2002–2010)

Source: Abu Dhabi Statistical Centre, Oxford Economics and Jones Lang LaSalle

Regulatory Environment and Transparency

Real Estate Ownership Regulations

The Abu Dhabi property market entered a new era in 2005 when regulations were introduced which allowed UAE nationals to trade land and real estate and provided for foreigners to acquire property rights in designated areas.

Law 19 sets out for the rights of ownership and leasing of land and property according to nationality with special concessions being made for foreign ownership in 'Investment Areas' and indeed elsewhere where special dispensation is granted by the government. Law 3 covers Registration Law.

In summary:

- **UAE Nationals and local wholly owned legal entities** are entitled to the freehold ownership of property anywhere in Abu Dhabi;
- **GCC Nationals** are entitled to the freehold ownership of land and the right to own apartment units or entire floors in buildings in Investment Areas. GCC nationals are also entitled to the right to usufruct (right to use and exploit property belonging to another person) for a period of 99 years renewable by mutual consent and to musataha (build and develop land belonging to another person) for a period of 50 years, renewable by mutual consent.
- **Non-UAE / GCC Nationals** are entitled to own apartment units or entire floors in buildings only in Investment Areas (excluding a share of the ownership of the underlying land) and are also entitled to the right to usufruct for a period of 99 years (renewable by mutual consent) and right to musataha for a period of 50 years renewable by mutual consent.

Investment Areas where GCC and other foreign nationals are granted increased property holding rights include Reem Island, Raha Beach, Lulu Island, Al Reef, Yas Island, Seih Sediera, Saadiyat Island, Sowwah Island and Masdar.

Planning regime

The planning framework has been developing since the inception of the Urban Planning Council and publication of Plan 2030 in 2007. Further the new Abu Dhabi Development Code is expected to be published in 2010 and new planning laws thereafter.

Foreign Investment Regulations & Incentives

Foreign companies wishing to conduct business in Abu Dhabi may do so either by establishing a formal, permanent presence in the Emirate or by using a commercial agent. However, there are general guidelines for all foreign entities wishing to operate in Abu Dhabi:

Companies established in Abu Dhabi are required to have a minimum of 51% UAE national ownership, although in certain cases 100% GCC ownership is allowed. However, profits may be apportioned differently.

- Branch offices of foreign companies are required to have a national agent, unless the foreign company has established its office pursuant to an agreement with the federal or emirate government.
- Any general partnership interest must be owned by UAE nationals.
- Foreign shareholders may hold up to a 49% interest in limited liability companies.

Freezones are emerging in areas such as Masdar, Abu Dhabi Airport and twofour54 where relaxed ownership regimes exist, however these are still at an early stage of development.

Landlord and Tenant Law

Article 16 of Law 20 introduces a rent cap (originally 7% reduced to 5%) which is the maximum that landlords can increase the rent each year. This applies to all leases including annual rent reviews, renewals as well as new leases to new tenants. In these respects the rent cap is specific to the property rather than the individual tenant.

Where the landlord and tenant are in dispute over the rental level, either party may apply to the judiciary (recently amended from the Rental Disputes Committee) for resolution.

The Executive Council is currently reviewing the future of rental control in Abu Dhabi and amendments to the existing legislation are expected to be announced during 2010 for implementation from November 2010.

The landlord and tenant law also provides for security of tenure to the tenant. Tenants are protected for a period of 5 years (extended from 3 years), preventing the landlord from evicting the tenant other than for stringent grounds such as taking the property for his own occupation or undertaking a material redevelopment.

Transparency of the Real Estate Market

Jones Lang LaSalle's latest Real Estate Transparency Index reveals that Abu Dhabi is ranked significantly below the global markets with which it is seeking to compete.

The Government has been taking active steps to improve transparency, with a series of new laws drafted by the Department of Municipal Affairs and currently with the Executive Council for approval. Among the proposed laws are:

- Strata Law: highlighting the roles of property owners in split-occupancy developments including ownership rights and provide clarification of ownership rights;
- Trust-Account Law: which will enable and regulate escrow accounts to ensure that money from investor pre-sales is protected and used in a specified manner by developers;
- Law establishing a Regulator for Abu Dhabi's real estate market, similar to RERA in Dubai;
- Mortgage Law to protect financiers;
- Law to ensure developers have acquired the requisite title and permits before launching pre-sales.

These new laws are critical to improve real estate market transparency and to protect consumers. Since the market slowdown at the end of 2008, many investors have suffered financial losses through not exercising sufficient caution in making investments. The creation of the new real estate regulatory body and new legislation regulating escrow accounts requiring developers to obtain permits before booking sales will also help protect consumers going forward.

Whilst these are certainly positive measures that will help moderate the market during the next upswing, additional developments to the legal system are required to improve the transparency of the economy and investment environment. This is crucial for Abu Dhabi to achieve the next level of economic growth and achieve its strategic goals of being a market open for expansion and investment. This requires a number of issues including:

- New legislation and increased regulation;
- Greater enforceability of contracts and transparency of legal challenge;
- Industry participants collaborating to ensure the sharing of accurate market information.

Real Estate Investor Sentiment

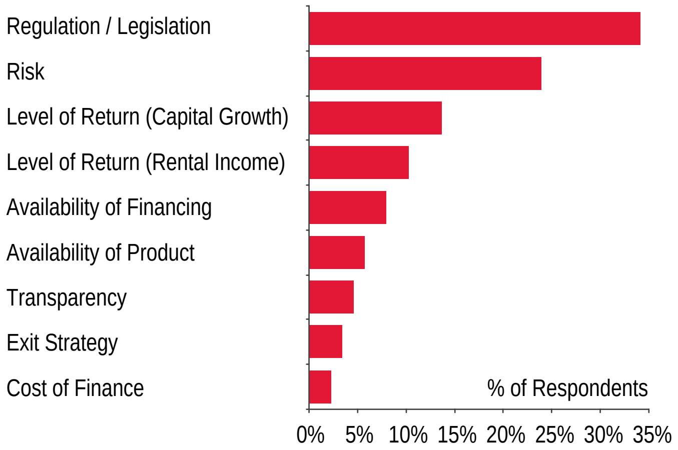
Jones Lang LaSalle's recent Investor Sentiment Survey (April 2010) has highlighted the importance of both regulations and transparency as investors seek increased certainty in a period of rapidly changing market conditions.

This survey shows that real estate investors are relatively confident about the prospects of Abu Dhabi, with a quarter of respondents expecting the city to offer the strongest performance of any market in the MENA region over the next 12–24 months.

Key conclusions from this survey in respect of Abu Dhabi include:

- Investors feel Abu Dhabi is the best market in MENA in terms of the financial strength of real estate players, the availability of capital for real estate and the level of government support to the real estate sector.
- Reflecting their confidence in the drivers of city competitiveness, almost 70% of investors believe the real estate market is likely to recover in Abu Dhabi within the next 12 months.
- Yield expectations have generally increased across the MENA region over the past 6 months with Abu Dhabi being no exception. The average yield that investors are seeking from real estate in Abu Dhabi has increased from 10.9% to 12.1%.
- There are significantly more buyers than sellers in the Abu Dhabi market, with 25% of investors seeking to purchase over the next 12 months, compared to just 12% that are seeking to sell assets.
- There has been a switch in emphasis across the region from speculating on rising capital values to holding secure income. Investors are moving to a new business model based around holding assets to benefit from rental income streams. With these will come the requirement for more intensive management of assets to ensure stable income growth.

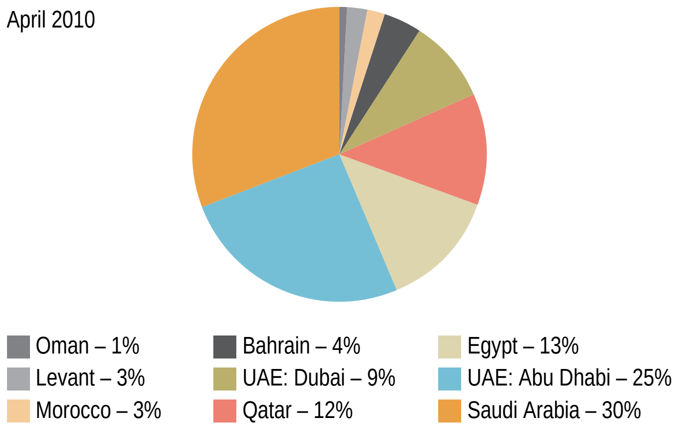
Factors Influencing Investor Decisions



Source: Jones Lang LaSalle Investor Sentiment Survey, April 2010

Strongest Performing Real Estate Market (2010 / 2011)

April 2010



Source: Jones Lang LaSalle Investor Sentiment Survey, April 2010

Real Estate Market Overview

Facing a Challenging Market

Abu Dhabi was one of the last real estate markets to be impacted by the global economic slowdown with the decline beginning in late 2008. This has resulted in a reduction in investor confidence, the tightening of liquidity and a major slowdown across all real estate markets, with transactional activity grinding to a halt and asset prices falling substantially from their 2008 peaks.

Whilst this has caused many real estate investors and developers to suffer short-term financial losses, the impact has been less dramatic than other regional markets. This was because the slowdown occurred after only a few years of growth since the opening up of the land market (and therefore a limited overhang of supply) and because of investor confidence in Abu Dhabi's longer term growth potential compared to other markets in the region.

The positive impact on the economic slowdown is that it forced developers to re-assess their schemes, scale back more ambitious projects, seek more sustainable means of funding projects (rather than off plan sales) and plan product to be more aligned to the needs of the end user.

Most projects have faced some kind of delay as developers are experiencing cash flow issues. The vast majority of announced projects for which construction has not commenced are being put on hold until the market picks up.

Balancing supply and demand

Real estate supply currently remains fairly tight across all sectors with existing vacancy rates very low. This is set to change in varying degrees over the short to medium term.

The office market is expected to be the first sector to become significantly over-supplied as the number of projects under construction exceeds projected demand for 2010–2011.

The hotel market is also expected to witness short-term over-supply in certain sectors before the government's various tourism initiatives kick-in and boost demand from leisure travelers, to supplement the current demand dominated by business travelers.

The retail market is expected to achieve an approximate balance between supply and demand by 2013 taking into account the significant spending power of the population and increasing tourism spend.

The residential market is expected to generally remain under-supplied. While there will be an over-supply in the upper segments of the market, the lower and mid-market segments will remain under-supplied relative to potential demand.

Negative Influences

Dubai's market slowdown continues to have a major impact on Abu Dhabi. There is a complex inter-relationship between the Abu Dhabi and Dubai real estate markets, given their proximity and the exposure many Abu Dhabi entities have to the downturn in Dubai. We consider there will continue to be downward pressure on rentals and prices in Abu Dhabi caused by further declines in Dubai. In addition there will continue to be a large number of Abu Dhabi employees commuting daily between Abu Dhabi and Dubai.

Liquidity remains tight with banks generally not lending to the real estate sector other than selective relationship lending. Most developers are facing significant cashflow issues (due to an over reliance on residential pre-sales to fund development) and are also over-leveraged. Many of the smaller-scale sub developers together with foreign funds that acquired sub-plots in Abu Dhabi are currently inactive – either due to financial distress or due to their previous investments being led by speculation on rising land values rather than a commitment to real development.

There is an emerging oversupply situation in most sectors which makes development planning unpredictable and will make it more difficult for the government to co-locate development with transport improvements. This needs to be addressed along with new legislation to take back control of stalled development as well as managing future land release.

Positive Influences

On the positive side, there remains an abundance of private wealth in Abu Dhabi and significant regional investor appetite and this will quickly be injected back into the real estate market as confidence is restored. There are also expectations from major developers of further financial support from government to keep development projects on track.

The market downturn has allowed the government a 'pause for breath' to put in place the required regulatory reforms to improve transparency, scale-back potential supply and drive demand ahead of the next market upswing.

Last but not least, oil prices and productivity are forecast to increase significantly in 2010 (+20% on 2009 average price), driving positive growth in real GDP and generating revenue surpluses for the economy that can be in part invested into infrastructure, economic development and other nation building initiatives to drive demand.

Future outlook

We expect the current slowdown to be relatively short-term in duration. Developing markets such as Abu Dhabi tend to have short, sharp cycles and we are confident that Abu Dhabi will bounce back quickly. As investor and consumer confidence is restored, liquidity returns and the government's infrastructure investment and economic development initiatives take hold, Abu Dhabi's market prospects will be favourable. Furthermore, at the point of this recovery, we expect the regulatory framework will be more robust with the introduction of new legislation including more substantial safeguards for consumers, investors and financiers.

Cash-rich developers today can benefit from a reduction in land prices and a major fall in construction prices to capitalise on new development opportunities. Tightened liquidity and a shift away from relying on pre-sales to fund developments will require developers to look for alternative ways to fund projects and, fundamentally, will require more cautious development planning and a focus on end-user requirements taking into account increasing supply.

In this increasingly competitive environment, the most successful developers will be those that can deliver all the key aspects of truly Grade A real estate on competitive lease terms. Location will remain fundamentally important but other key factors will include securing the very best anchor tenants, ensuring efficient access arrangements and car parking, delivering international grade technical specifications, ensuring efficient and functional floorplates and building design, ensuring high quality common areas, committing to international quality asset management as well as offering flexibility on lease terms.

Office Market


Source: Sowwah Square, Mubadala

Supply

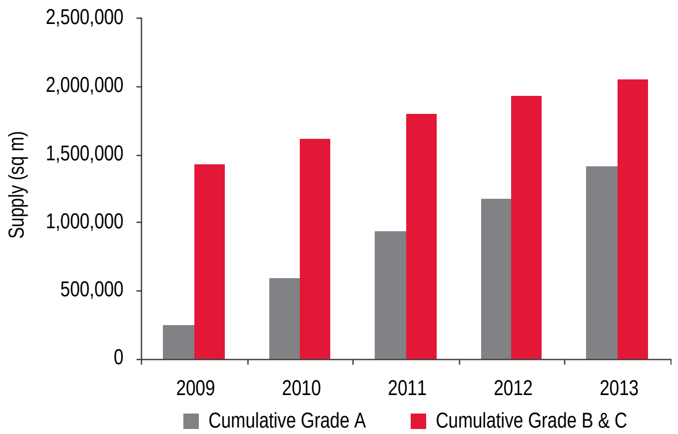
The total office stock in the Abu Dhabi Metropolitan area is currently around 1.8 million sq m (Grade A, B, C and D), of which 1.4 million sq m is located on Abu Dhabi Island.

Only a small portion of this space is international quality, professionally managed Grade A office space; a high proportion of supply comprises the conversion of residential buildings. There is currently around 300,000 sq m of Grade A space, with few existing buildings complying to international Grade A standards (including ADIA, Al Mamoura, Aldar's HQ, Baniyas Towers). These Grade A buildings are typically occupied by government-related groups and are not easily available to private sector tenants.

Abu Dhabi's principal office districts are currently:

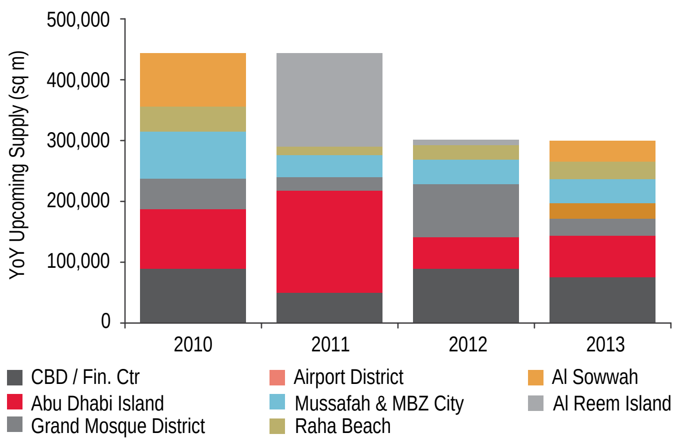
- **Central Business District** – focused on the area surrounding Hamdan Street and extending to surrounding areas along the Corniche, within the Tourist Club Area and to Al Dhafrah. This area has a current stock of approximately 800,000 sq m.
- **Midtown** largely comprising Airport Road and Muroor Road corridors – a large number of Grade B/C buildings, often residential conversions. This area also includes the prime Al Mamoura complex and upcoming office developments.
- Other clusters of office buildings **elsewhere on Abu Dhabi Island** such as Al Bateen and Khalifa Park, typically comprising Grade B buildings (reasonable quality for current standards, albeit residential conversions) which have attracted professional services, investment firms and public sector groups due to the current absence of higher quality stock.

Existing Office Supply by Grade



Source: Jones Lang LaSalle, April 2010

Upcoming Office Supply – by Sub Market



Source: Jones Lang LaSalle, April 2010

Over the next two to three years, significant office space will be delivered to the market. The total supply of office space across the Abu Dhabi metropolitan area is expected to almost double from its current level of 1.8 million sq m to approximately 3.6 million sq m by the end of 2013. We expect 540,000 sq m to be completed in 2010, and approximately 470,000 in 2011.

Major mixed-use projects including office space that will be completed within the prime Corniche and extended Central Business District area over the next few years include Sowwah Square, Itihad Towers, Capital Plaza, Central Market, The Landmark Corniche, Saraya and Nation Towers.

The Grand Mosque District and surrounding area will also offer new office supply over the next four years upon the completion of the first phases of the major master developments at the Capital Centre (adjacent to ADNEC), Danet and Rawdhat.

There will also be a limited amount of Grade A office space being completed on the mainland over the next few years, (following Aldar's HQ building at Raha Beach) including TDIC/ADTA's HQ building, various projects around the airport, Masdar City and the emergence of the Capital District as the new secondary business district.

A high proportion of announced office projects where construction has not commenced have been put on hold until the market picks up, pre-letting becomes more of a certainty and other announced projects have been further delayed.


Source: Al Mamoura Complex, Aldar

Demand

Abu Dhabi's office market is currently dominated by large-scale state-owned enterprises, the domestic banking sector, federal and local government entities.

Beyond the large-scale local entities, office occupiers are typically small-scale, with most being found in the oil and gas industry and the financial and professional services sectors. These users predominantly occupy units under 1,000 sq m with only a small number of occupiers exceeding 5,000 sq m.

Given the shortage of available space, many companies are currently operating from very low levels of office space per employee and international groups tend to have a larger office base in Dubai.

The lack of competitively priced, good quality office space has artificially constrained demand resulting in up to 500,000 sq m of deficit of office space in Abu Dhabi.

As more supply comes on stream, take-up rates will increase as companies take up more space per head and move more employees to Abu Dhabi. Total market-wide demand for office space in Abu Dhabi Metropolitan area will increase significantly driven by an increase in employment in office based industries and the expansion of new clusters and increasing deal sizes. However, this will be insufficient to absorb the expected level of completions over the next few years, resulting in vacancies increasing significantly.

Some of the demand for new space will be generated by existing occupiers upgrading their office space in a flight to quality but the majority of new office space will need to be occupied by new demand from companies expanding their Abu Dhabi base and new entrants to the Abu Dhabi market.

The major sectors expected to drive office demand from 2010–2013 will be financial services, professional services (lawyers, accountants, and consultants), corporate HQs (dominant sectors such as oil and gas, consumer goods, IT and Communications), real estate (developers, construction firms and consultants) and the government sector, which along with state owned enterprises will continue to be the largest occupier of office space.

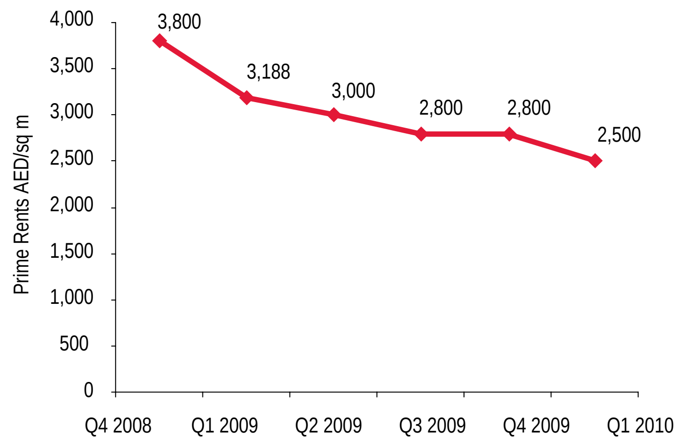
Performance

Rental values peaked in 2008 and are now falling due to upcoming supply and suppressed demand. As more supply comes on stream and existing Abu Dhabi-based companies relocate from existing low-grade office space and residential conversions to new purpose-built office space, the most dramatic rental declines will be for the current overspill space that is not suited to office use.

Rental rates for well-located, well managed and well-specified Grade A buildings will soften but will be the least affected. Going forward, we expect the market to normalise with a much greater differential between high quality and low quality office space. As a result, poorer quality space will face vacancies and rental declines, with residential conversions reverting to residential usage.

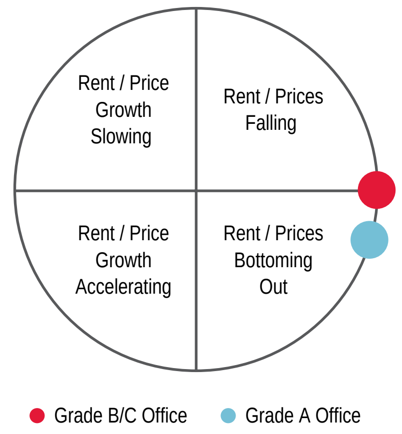
As an oversupply situation starts to emerge it will be appropriate for the Abu Dhabi government to enforce the existing regulation preventing residential space being used for commercial purposes (currently not strictly enforced given the lack of office supply). This will have the dual benefit of reducing vacancy rates and rental declines within new, purpose built office space as well as releasing much-needed residential supply.

Prime Office – Historic Rental Performance



Source: Jones Lang LaSalle, April 2010

Abu Dhabi Property Clock Q1 2010 – Office



Source: Jones Lang LaSalle, April 2010

Residential Market

Source: Al Oyoun Village, Sorouh

Supply

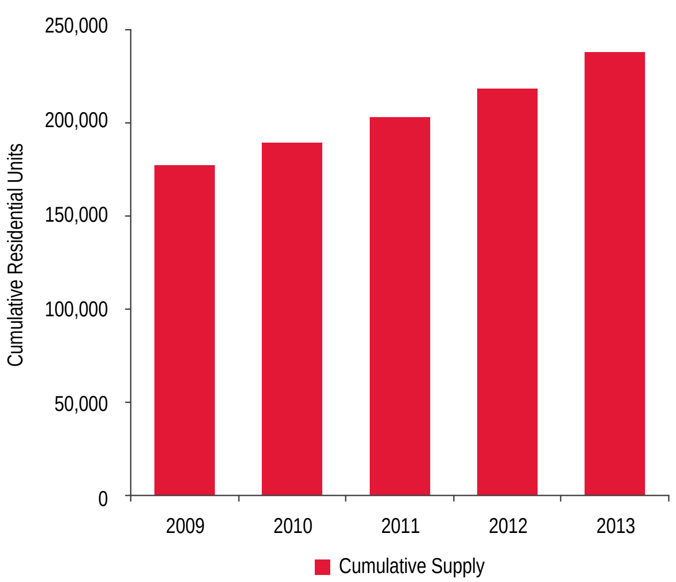
As of 2009, the total stock of residential units across Abu Dhabi Metropolitan area is estimated at approximately 177,000 units (excluding worker accommodation). The residential market is currently under supplied with prime locations commanding very high rents and operating at nearly full occupancy. The lack of adequate supply and consequent high rentals have resulted in many families sharing apartments and villas originally designed for single family occupancy.

The majority of recent additions to supply have been delivered in the outskirts of Abu Dhabi Island. Higher quality additions to housing stock have included Raha Gardens, Sas Al Nakl and Golf Gardens.

A range of non-masterplanned piecemeal developments targeting the middle market as well as Emirati families have also manifested in different areas such as Khalifa City A and B and Mohammed Bin Zayed City. These areas have also witnessed sub-division of villas due to the current shortage of residential units on Abu Dhabi Island.

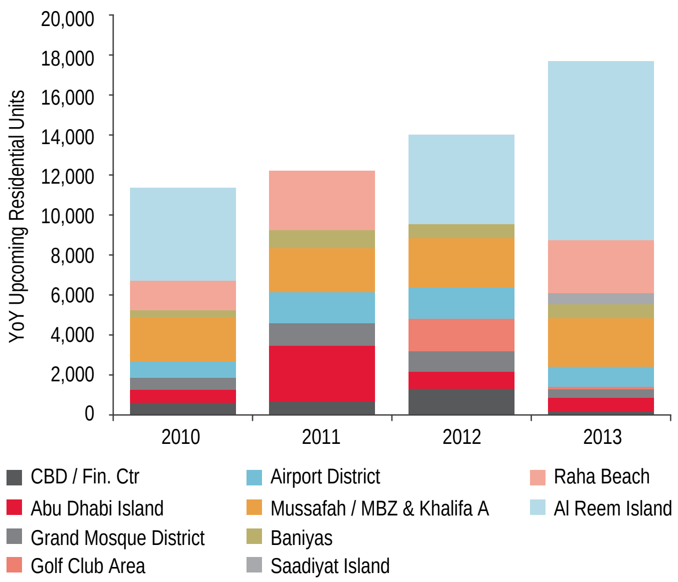
The current supply is expected to increase to around 238,000 units by end of 2013 – an increase of 61,000 units or 35% of the existing supply. Approximately 12,500 units are estimated to be delivered during 2010 within Marina Square (Reem Island), Raha Beach, Danet Abu Dhabi, Al Reef Villas as well as other individual projects.

Future Residential Supply / Number of units (2009–2013)



Source: Jones Lang LaSalle, April 2010

Upcoming Residential Supply by District



Source: Jones Lang LaSalle, April 2010

Delay and Postponement of Projects

Throughout the real estate boom of 2007 and 2008, the majority of residential projects were funded by pre-sales / off-plan purchases, whereby the investor committed to phased payment plans in parallel with the development progressing. The weight of investor demand fuelled by rapidly increasing capital values led to highly speculative investment. In many cases, investors were committing to projects that had substantial risk of non-delivery (heightened by the current absence of escrow account law and other regulation), without exercising due diligence.

This speculative market came to an abrupt halt at the end of 2008. Many announced projects have now been put on hold as developers are experiencing serious cashflow issues, due to their over reliance on pre-sales and the general lack of liquidity in the marketplace. For these reasons – combined with Abu Dhabi's slowdown occurring after only a few years of growth – Abu Dhabi's development boom was short-lived and did not deliver sufficient stock to the market.

Demand

Abu Dhabi has witnessed unprecedented economic and population growth in recent years. While the resident population of the Abu Dhabi metropolitan area (979,000 in 2009 with 75% expats) remains low compared to other prominent regional and global cities, the population has been increasing at a relatively rapid rate (4% per annum between 2001 and 2009) and is expected to increase by 5% per annum over the next four years.

The total demand for residential units is forecast to reach 277,000 by 2013 – an increase of approximately 52,000 units from 2009, while the anticipated supply by 2013 is forecast at 238,000 units, resulting in a deficit of approximately 39,000 units.

While many developers are currently reviewing and re-positioning their project pipeline to increase the supply of lower and mid-market product for end users, a shortage of lower and mid-market housing stock is expected to continue for the next three to four years.

Since the market correction at the end of 2008 the principal demand has been from end-users.

Demand – Rental Market

Given the rules on foreign ownership, expatriates are only able to purchase apartments in Investment Areas (currently under development) and are therefore limited to the undersupplied rental market. Consequently the majority of expatriates are required to rent their homes.

Performance Rental Market

Rents have adjusted downwards in 2009 across almost all sub sectors, particularly for lower grade and upper market product, although rents still remain relatively high compared to neighboring Dubai, due to the continued shortage of supply.

The 2007 to 2008 boom years led to the majority of developers marketing higher end product. Consequently there will be an excess of supply at the upper end of the market and an undersupply for lower to middle income product.

Given the rent control mechanism that has existed since 2007, there is currently a two tier market. Those residents that came to Abu Dhabi before 2007 are typically on very low rents whereas those that have arrived more recently are paying closer to market rents. We expect market rents to continue to fall over the coming years driven by increasing supply in Abu Dhabi, combined with the Dubai affect (falling rents in Dubai impacting on Abu Dhabi's rents and causing certain segments of the workforce, particularly younger expatriate middle management, to commute to work from Dubai).

With more new supply becoming available and as rents decline, residential tenants will have more choice. As a result, many tenants are expected to trade-up from shared accommodation into single occupancy units, creating a multiplier effect. However this price-driven increase in demand will cause the limited increase in supply to be quickly absorbed, thereby keeping availability of competitively priced product relatively low.

Whilst we expect residential rents to continue to decline during 2010 a key factor affecting residential rental performance will be the government's decision on potential changes to the rent control mechanism beyond November 2010.

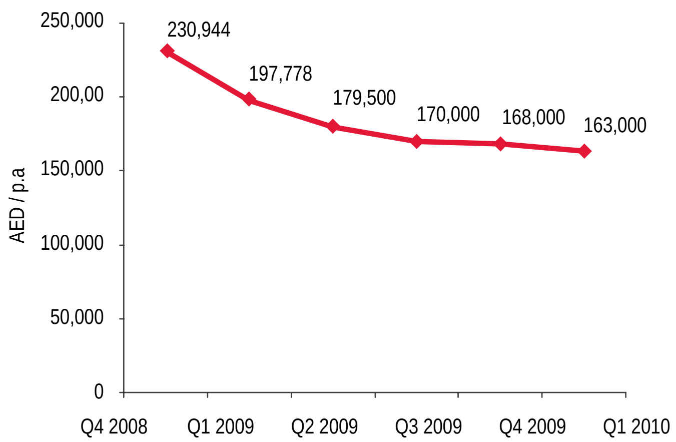
Source: Eastern Mangroves, DDIC

Performance – Sales Market

The boom of the last cycle was caused by the rapid opening of the real estate markets to local and foreign investors. Prices increased at a very fast pace, catching up with the prices that were being reached in Dubai, with the market being largely driven by price speculation.

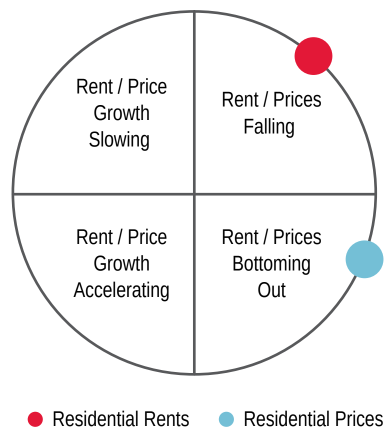
Prices peaked towards the end of 2008 and since then there has been a dramatic fall in pricing and sales activity. The majority of trades have been distressed situations at substantially lower prices (30% to 40%) pulling down average price levels across the market – albeit with minimal transactions occurring.

Prime 2 Bedroom Apartments – Historic Rental Performance



Source: Jones Lang LaSalle, April 2010

Abu Dhabi Property Clock (Q1 2010) – Residential



Source: Jones Lang LaSalle, April 2010

Retail Market

Source: Central Market, Aldar

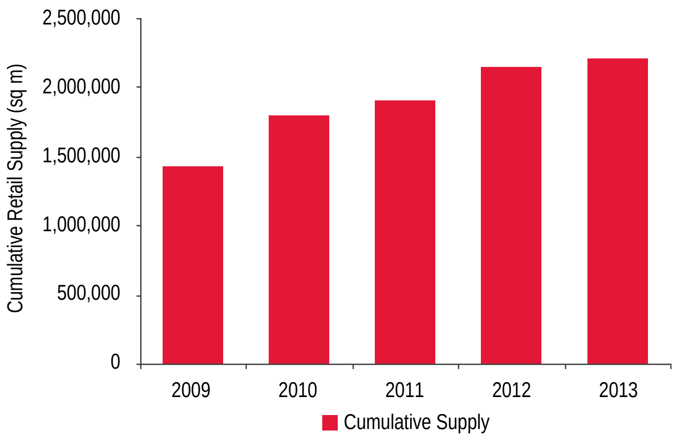
Supply

The total retail supply in Abu Dhabi Metropolitan area equates to approximately 1.42 million sq m of GLA. The majority of this space is in non mall retail formats (e.g. street shops); with only 36% of the total GLA being in enclosed malls or shopping centres, of which Marina Mall and Abu Dhabi Mall are the largest followed by Delma Mall, Al Wahda Mall, Khalidya Mall and Al Raha Mall.

There are currently only 16 major retail centres in Abu Dhabi, with a combined GLA of less than 520,000 sq m. The market is experiencing a significant shortage of international quality projects and an undersupply of floor space relative to the potential demand. As a result, the existing shopping malls are currently experiencing high occupancy rates (above 95%).

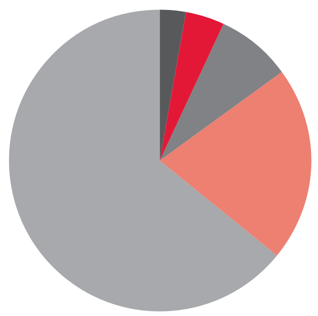
The present stock is poised to grow to around 2.2 million sq m by 2013 with the addition of a number of major new centres together with the extension of existing malls such as Al Wahda Mall and Marina Mall. The major additions to retail supply over the short term will be located on Abu Dhabi Island (e.g. the Souk and Emporium at Central Market, Mushrif Mall, Capital Plaza and Al Wahda City Extension) with other additions to supply on Reem Island, Shahama, Mohammed Bin Zayed City, Baniyas and Al Falah. The new additions to supply will be variable in terms of location and quality.

Future Retail Supply (GLA sq m) (2009–2013)



Source: Jones Lang LaSalle, April 2010

Breakdown of Retail Space by Type



Community – 3%
Convenience – 4%
Super Regional Mall – 8%
Regional Mall – 21%
Non Malls – 64%

Source: Jones Lang LaSalle, April 2010

Demand

Total household income for Abu Dhabi was estimated at AED 76 billion in 2009 which was roughly split 36% for the national population and 64% by the expatriate population.

Retail spending was estimated at approximately AED 18.9 billion in 2009 comprising approximately 49% by expatriates, 43% by the national population and 8% from tourism. Retail spending is expected to grow in line with the income growth at 4.5% per annum from 2009 to 2013 over the short to medium term, with a much stronger growth expected in retail spending by tourists at 14.4% per annum to establish aggregate growth of retail spending at 5.4% per annum.

Based upon levels of potential spending from the resident population and visitors to Abu Dhabi, it is estimated that over 2.1 million sq m (GLA) of retail space could be supported currently. This suggests the market is currently under supplied to the level of approximately 700,000 sq m (GLA).

Given the tourism market is at an early stage of development, retail demand is presently dominated by Abu Dhabi residents. The lack of currently supply in Abu Dhabi is resulting in a significant divergence of spending to Dubai, which offers a wider range of retail centres and more variety.

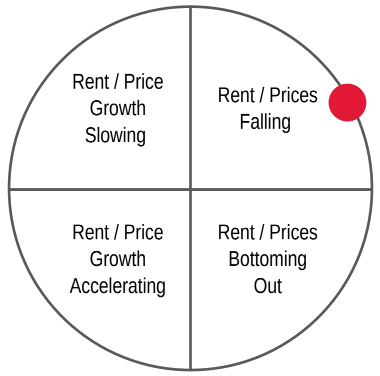
The demand for retail space in Abu Dhabi is expected to increase to 2.3 million sq m (GLA) by 2013, driven by increased spending by residents and higher tourist levels. This is broadly in line with the level of additional supply, suggesting the market will become relatively balanced by 2013.

The new developments in Abu Dhabi will offer high quality retail with more entertainment elements. This will be a major factor increasing demand. The transformation of Abu Dhabi into an international tourism destination, with the continuous support and promotion of the government will also support the growth of the retail market.

Performance

Although retail space is currently under-supplied in Abu Dhabi, average rentals declined during 2009. The average rent for line stores in enclosed malls in Abu Dhabi peaked at around AED 3,230 per sq m per annum in mid 2008. Rents have since declined by approximately 15% as many tenants are finding it more difficult to generate revenues to support their target sales / rent ratio.

Abu Dhabi Property Clock (Q1 2010) – Retail



Retail Rents

Source: Jones Lang LaSalle, April 2010

Hotel Market

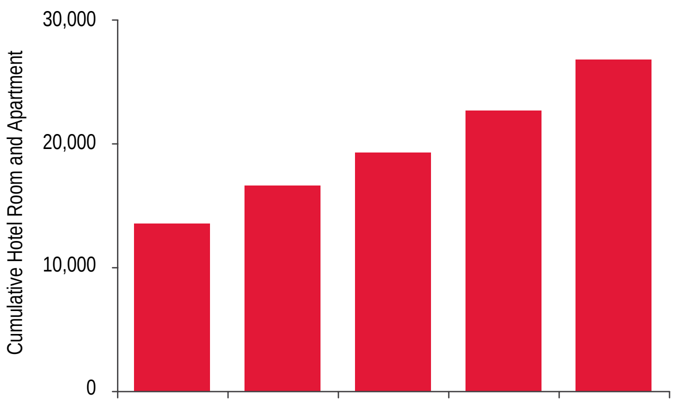
Source: Shangri-La Hotel, Qaryat Al Beri

Supply

The Abu Dhabi Tourism Authority (ADTA), estimates the total stock of hotel rooms (including rest houses and serviced apartments) at the end of 2009 was approximately 13,500. 2009 witnessed a significant increase in supply, with more than 2,600 additional rooms added to the stock across Abu Dhabi, of which more than 1,900 were located on Yas Island.

Approximately 60% of the total quality hotel supply is managed by international management companies with a further 18% of the quality supply being managed by regional management companies.

Hotel Rooms and Hotel Apartments Supply (2009–2013)



Source: Jones Lang LaSalle Hotels, April 2010

Hotel supply is expected to increase significantly over the next few years in line with the government's objective of developing tourism. It is estimated that the total supply of hotel rooms in Abu Dhabi will double, from its current level of 13,500 rooms to approximately 26,500 rooms by the end of 2013. Large scale tourism projects such as Saadiyat Island, Yas Island and Al Raha Beach, will distinctly transform the hotel market over the next 4 years.

Other major hotel stock will be delivered in new mixed-use projects on the Corniche, including at Nation Towers, Itihad Towers, Central Market, together with other projects at Al Bateen and Al Sowwah Island.

The development and expansion of the Abu Dhabi National Exhibition Centre (ADNEC) has enabled the Emirate to generate further hotel demand within the MICE (Meetings, Incentives, Conferences and Exhibitions) segment of the market. The Capital Centre development adjacent to ADNEC is expected to provide a major supply of high quality hotel rooms and serviced apartments up to 2012.

The graph opposite shows the announced room supply over the next four years.

Demand

Abu Dhabi's hotel sector has been less impacted by the global financial crisis than other regional markets given its strong current focus on the corporate and government sectors.

The number of hotel visitors to Abu Dhabi doubled from around 800,000 in 2002 to more than 1.5 million in 2009. The corporate sector is the strongest component of the Abu Dhabi market, with the business and MICE sectors accounting for over 60% of all visitors to the city in 2009.

Leisure travel is currently under-represented although this situation is expected to change with increased leisure offerings over the next 2–3 years. The hosting of the first Abu Dhabi F1 Grand Prix at the newly constructed circuit on Yas Island represents the first of a number of major initiatives aimed at promoting the city as a viable leisure travel destination, to be supplemented by the major cultural, arts and lifestyle projects at Saadiyat Island.

The tourism industry is currently dominated by the Arab market, with visitors from GCC and other Arab countries accounting for approximately 53% of hotel guests. The European market constitutes a further 25% of hotel guests. With the leisure market expected to develop in the near future, the European sector is set to increase. Asia is another significant source market for the Abu Dhabi hospitality industry, accounting for approximately 15% of hotel guests. Australia and the Pacific, Africa (excluding Arab countries) and America currently account for just 7% of hotel guests.

The Abu Dhabi Tourism Authority (ADTA) is forecasting the total number of visitor arrivals to increase from its current level of 1.5 million to 3.0 million by 2015 (representing an increase of 9.3% per annum). Leisure travelers are expected to be the fastest growing sector of the market, accounting for 40% of all visitors by 2015. While this will result in a significant growth in demand for hotel room nights, this growth is below that in proposed supply, which will see average occupancy levels decline from their 2009 present levels.

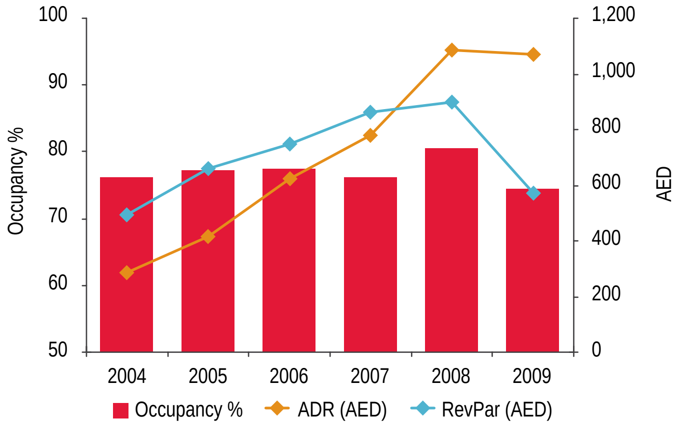
Performance

Abu Dhabi had one of the lowest ADRs in the region in 2004 (AED 286 / USD 78). Since then, the market has experienced a remarkable average growth rate of 40%, with ADRs reaching AED 1,076 (USD 293) in 2009.

While occupancies and room rates have both fallen in 2009, Abu Dhabi has continued to out-perform other regional markets. Average occupancies for 2009 were 75%, well down from their peak of above 80% in 2008, but still well ahead of regional and global benchmarks.

The impact of the global economic slowdown on world tourism and the recent introduction of around 3,400 additional rooms into the Abu Dhabi market resulted in average performance continuing to soften in early 2010. The market is becoming more segmented, with hotels in established locations such as the Corniche and the CBD outperforming those in newly established areas such as Yas Island, between the Bridges and around ADNEC.

Hotel Average Daily Rate (ADR) and Occupancy



Source: STR Hotel Benchmark, 2009

Market Outlook

The level of planned supply of new hotel rooms is expected to result in a short term situation of oversupply. Despite the overall softening of market conditions in 2010, established hotels in the Central Business District and along the Corniche are expected to continue to perform strongly.

About Jones Lang LaSalle

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Jones Lang LaSalle (NYSE:JLL) is a financial and professional services firm specialising in real estate. The firm offers integrated services delivered by expert teams worldwide to clients seeking increased value by owning, occupying or investing in real estate. With 2009 global revenue of USD 2.5 billion, Jones Lang LaSalle serves clients in 60 countries from 750 locations worldwide, including 180 corporate offices.

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Jones Lang LaSalle – Abu Dhabi

Jones Lang LaSalle's Abu Dhabi team is moving from strength to strength and is playing a lead role in shaping the future development of Abu Dhabi. Jones Lang LaSalle has advised on many of the major projects mentioned in this report including Saadiyat Island, Al Reem Island, Arzanah, Al Sowwah Island, twofour54, ADNEC, Danet and Masdar City.

We have been retained to advise to Abu Dhabi's leading entities including Mubadala, TDIC, Aldar, Sorouh, the Urban Planning Council, ADNEC, Reem, Masdar, twofour54, Al Qudra, International Capital Trading, SEHA, Abu Dhabi Airports Company, Abu Dhabi Media Company, Abu Dhabi Investment House, ZonesCorp and Etihad.

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