CLUTTONS

Dubai property market overview

1st Quarter 2010 (April)

Snapshot

Residential rents	
Apartment rents	↓ 6.0%
Villas rents	↓ 4.0%
Average rents	↓ 5.4%

Residential sales prices	
Apartments (high end)	↓ 2.9%
Apartments (mid)	↓ 3.9%
Villas (high end)	↓ 3.3%
Villas (mid)	↓ 1.3%
Average prices	↓ 2.9%

Commercial	
Office rents	↓ 25%

Industrial	
Industrial rents	↓ 16%

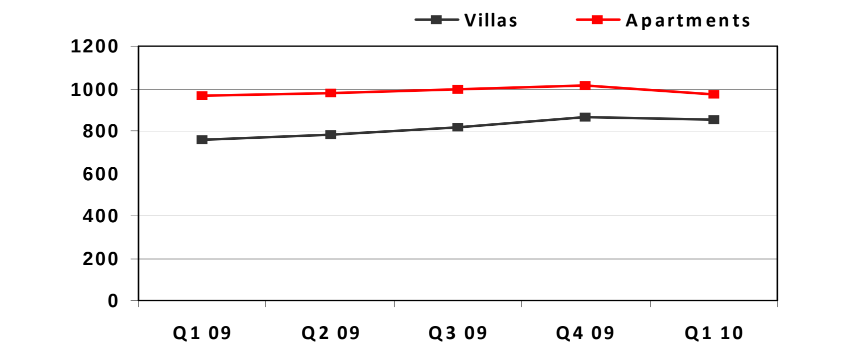
OVERVIEW Affordability may be the key to revitalising Dubai's real estate sector. Although the property market continues to remain soft, heightening interests around residential and industrial property investments may signal resumption in real estate transactions over the next two quarters. As of yet supply and demand have not reached equilibrium, as both buyers and sellers have remained fairly stalwart on pricing. The registered interest in residential property for purchase or rent is concentrated only in completed stock within well-established communities with a reputation for build-quality. Appetite for off-plan development shows no signs of returning in the foreseeable future.

Occupancy and rents have fallen further in Dubai's commercial office sector from the last quarter. The level of decline is not uniform but varies from location to location. The Dubai International Financial Centre (DIFC) has faired the best in terms of occupancy and rental rates. The worst hit areas have been Jumeirah Lake Towers (JLT), Sheikh Zayed Road and TECOM site C. Sheikh Zayed Road, however, has been able to achieve relatively higher rents and occupancy levels to other locations due to its proximity to DIFC.

Dubai's industrial property sector has declined since the last quarter in terms of rents and occupied space. Down 16%, current rental rates in industrial areas range from AED 22 – 24 per sq ft per annum. Registered interest from medium-sized companies looking to take advantage of abundant supply has begun to surface. This may lead to an increase in the number of transactions over the following quarters.

Dubai sales prices 2009 – 2010

(AED / sq ft)



Source: Cluttons Strategic Consultancy

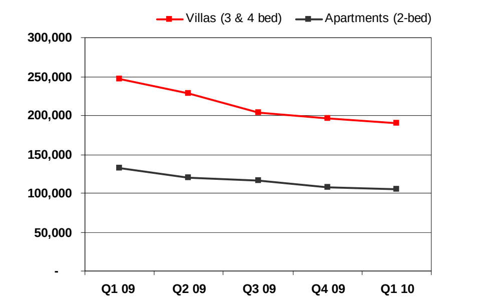
Buyers play the "wait-and-see" game

RESIDENTIAL rents in Dubai have continued to decline by an average of 5.5% across the Emirate from the last quarter. Villas have shown more resilience in achievable rental rates, down only 4% compared to 6% for apartment rents. Although momentum has slowed, rents are expected to come down further over the second quarter due to the completion of new residential units.

Although net positive, UAE population growth slowed in 2009 with estimates ranging from 3.7% - 4.9% according to several NGO sources. At a 7.6% growth rate, the newly released government population figures for the Emirate of Dubai have been difficult to interpret, as anecdotal evidence suggests that there was a significant mid-level income population outflow last summer, and many are expecting another wave this summer. Stating that expectation as a decision-making factor many buyers have recently adopted a "wait-and-see" attitude.

Dubai rental rates 2009 – 2010

(AED / annum)



Source: Cluttons Strategic Consultancy

According to Dubai's Real Estate Regulatory Agency (RERA), 2009 saw a modest 2% increase in property sales transactions over 2008. Until very recently, the number of transactions taking place had been slow but steady over the last two quarters. The latest change has been due primarily to the amount of residential stock on the market which has increased markedly over the last quarter. Asking prices, however, continue to remain level and have only decreased marginally in some instances. The increased supply is expected to place downward pressure on sales prices in the next quarter, but equilibrium will only begin its process when the market experiences an uptake in inventory clearance. When property transactions start to pickup, the extent of the expected price fall will become more apparent.

Renters trade-up for Jumeirah & Umm Sequim

Leasing property has become more affordable in Dubai, and trading-up residences is foremost on the mind of renters. Registered interest in the Emirate suggests a movement towards popular locations within Jumeirah and Umm Sequeim. Rental rates have fallen in this area by approximately 45% from their peak. The prospect of being able to live in the highly popular district has once again become financially feasible for a larger number of people. The major reason cited for wanting to move to Jumeirah is lifestyle preference, including easy accessibility to the beach and area attractions. Proximity to preferred schools, nurseries and clinics also ranked high on the list along with Jumeirah's reputation for being one of the more historically established areas in Dubai. Also stated was the desire to live in a green and low-density villa community that is pedestrian friendly with cafés and shops within walking distance.

Established commercial areas fair better than new areas

COMMERCIAL rents have fallen between 18% - 45% across all locations. Occupancy has also suffered in tandem with the exception of DIFC and the older established areas within TECOM. They are sustaining over 90% occupancy levels. It is estimated that Sheikh Zayed Road is currently at 60% occupancy after a long run of full occupancy between years 2005 – 2008. As expected, the newest areas appear the worst off with occupancy levels estimated at around 20% for JLT and 40% for TECOM site C, which have to do directly with quality and lack of established history.

There is still a scarcity of truly prime, "Grade A" office space in Dubai. The best option remains firmly in DIFC which is reflected in their high occupancy levels. Sheikh Zayed Road and Downtown Dubai benefit from proximity as well as the spillover affect from DIFC. It is also apparent in regards to Sheikh Zayed Road where facilities management has made a difference in tenant retention. Proficient and proactive property management, where practiced, has not only preserved the integrity of the physical structure but in many cases has also been able to stave off tenant vacancies. Tenants are hesitant to take on the associated costs of moving which often include unforeseeable liabilities. Property managers who were able to establish good working relationships between landlord and tenants were able to garner loyalty from occupiers, while managing expectations with regards to rent negotiation which facilitated both parties.

Dubai office rents (AED / sq ft / annum)

Location	Q3 2009	Q4 2009	Q1 2010
Emaar Square	250 – 300	250 – 300	200 - 250
TECOM	130 – 175	75 – 150	50 – 175
Sheikh Zayed Road	120 – 250	90 – 250	130 – 200
Business Bay	140 – 160	90 – 120	100
Jumeirah Lakes Towers	55 – 120	55 – 85	50 – 70
DIFC	250 – 300	250 – 300	250 – 350

Source: Cluttons Strategic Consultancy

Newer office areas like JLT, TECOM site C and Business Bay are not expected to fair as well as others. Newer areas take time to establish their presence in the marketplace, and currently these areas are suffering from a lack of market momentum to carry them through. Moreover, of the stock coming on-line in JLT, TECOM site C and Business Bay, the reputation is currently one of disjointedness. There are not only disparate levels of quality within the developments, but fragmented ownership has proven difficult for larger companies to rent or buy appropriately sized contiguous spaces. As such, we expect DIFC, Sheikh Zayed Road and Downtown
Dubai to continue to lead in terms of commercial space offering, as well as, occupancy.

Extended rent-free periods are the trend in TECOM

In other commercial trends, rent-free periods are becoming the norm in TECOM due to an official pricing floor. As landlords are not allowed to lower their rents beyond AED 140 per sq ft in the "free zone," contractual rent-free periods are becoming common practice. As the effective market rental rate in TECOM is between AED 50 – 70 per sq ft, landlords have been offering up to six months rent-free in order to meet demand.

Investors look for “sale-and-lease-back” units

INDUSTRIAL AND LOGISTICS sectors in Dubai have seen further downward movement in the first quarter 2010. Warehouse rents in non-freehold investment areas have dipped from approximately AED 30 per sq ft down to AED 27 per sq ft on average. Much of this downward movement in rental rates can be attributed to a hesitation to commit on the part of industrial occupiers.

As many third-party logistics contracts are now being awarded at slower intervals, this has created a holdup in the demand for industrial spaces. At present the market has an abundance of stock compared to willing occupiers. There are positives in the current scenario, chiefly that the market is witnessing sound interest for leasing from medium-sized logistical and storage companies requiring 50,000 – 80,000 sq ft units. Landlords in the past have been somewhat intransigent with regards to rental rates, but we expect that rates will fall further as more reasonable landlords will endeavour to capture some of this demand in the next quarter.

Another positive to note is the revival in the investor market. The market is witnessing increased interest in high-quality income producing industrial assets with “blue-chip” covenants at net yields of 8.5% upwards. In this regard we see opportunities for an increase in sale-and-lease-back transactions as companies who own their own industrial and manufacturing properties look for relatively quick ways to off-load from their balance sheets.

Dubai industrial prime rents (AED / sq ft / annum)

Location	Q4 2009	Q1 2010	% change
Al Quoz Industrial Area	35	32	9%
Dubai Investments Park (DIP)	28	25	11%
Jebel Ali Free Zone (JAFZA)	30	28	7%
Jebel Ali Industrial Area	28	24	14%

Source: Cluttons Strategic Consultancy

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Presented here is a list of our principal activities. We offer you a single point of contact so that you may be directed to the person who will best be able to offer you the right service.

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