

Dubai real estate market to see 'selective stability'

By

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"Selective stability" will be witnessed across the office and residential sectors of Dubai's real estate market in 2010 with the market moving to become more tenant-friendly, according to Jones Lang LaSalle Mena.

"The tenant is becoming the ultimate winner as the office market is going through a significant adjustment with more vacancies and cheaper rents on offer. This scenario is encouraging for businesses as it offers multiple options for expansion and relocation as Dubai becomes a more competitive office location both locally and regionally," said Blair Hagkull, Managing Director of Jones Lang LaSalle Mena.

Rents in Dubai's office market fell 15 per cent between the third quarter and the fourth quarter of 2009, signalling a slowdown in rental declines, said the global real estate consultancy, in a market overview report for Dubai's real estate for January.

"Attractive deals can be found throughout the city's prime and peripheral areas as rental rates and capital values are hovering at pre-2007 levels. This is an opportune time for tenants as average annual Grade A rentals have fallen to about Dh220 per sq ft," he added.

Rents dropped by an average of 44 per cent between the fourth quarter of 2008 and the fourth quarter 2009, but only 18 per cent between the fourth quarter of 2007 and the fourth quarter of 2009. Rents peaked in the fourth quarter of 2008 but bottomed out in 2009 to about Dh200-250 per sq ft. However, supply and demand balance suggests no rental growth in the short to medium term.

In the fourth quarter of 2008, an additional 60 million sq ft of office supply was expected to enter the market between 2009 and 2011, but this figure has been revised downwards by 33 per cent to about 40 million sq ft due to project delays and cancellations, the report said.

Total tenant demand stood at 2.7 million sq ft as of 2009-end with existing tenants looking to dispose of surplus space. The total tenant disposable space was at 295,000 sq ft.

"Vacancy rates are hovering about 33 per cent and are expected to increase over the next year as new supply continues to be released. However, central business district vacancy in the fourth quarter of 2009 is much lower at about 10 per cent," JLL said.

Capital values peaked in third quarter of 2008 and bottomed out in 2009, but it declined by about 50 per cent between 2008 and 2009 to approximately Dh1,320 per sq ft.

Office capital values decreased 50 per cent year-on-year while quarter-on-quarter decrease was of five per cent to about Dh1,320 per sq ft. While falling rents have encouraged more businesses to implement strategies for their future growth, new demand in 2010 will "fall short" of additional supply causing vacancies to increase across the market.

Total office stock as at the end of 2009 was about 43.6 million sq ft spread across various projects in Dubai.

Residential

Prices seem to be stabilising and even increasing in select areas of Dubai. Average price per sq ft in fourth quarter 2009 was about Dh882, down two per cent from the average price of Dh901 in third quarter 2009. Apartment rents decreased 39 per cent year-on-year but increased by three per cent quarter-on-quarter.

Despite stabilisation in both pricing levels and transactional volume, Dubai's residential market will experience a situation of over-supply and prices are not expected to recover fully before 2011 at the earliest, the report said.

Hagkull said: "There may be an emerging opportunity for both investors and financiers in the Dubai residential market as it has already seen a significant level of pricing adjustment in 2009."

Lending is a key factor in market recovery. Despite media reports of improved financing conditions, the value of mortgages as a per cent of total sales value has dropped significantly from 74 per cent in the first quarter of 2009 to 38 per cent in the fourth quarter of 2009.

About 17,000 units were completed in 2009, taking the total residential stock to about 273,000. Supply estimates for 2009 were at 22,400 units of which only 76 per cent were delivered. The global real estate consultancy expects 24,000 units to be completed in 2010, followed by 25,000 units in 2011, bringing the total residential stock to 322,000 by end of 2011.

Project cancellations and construction delays decreased future supply estimates by about 60 per cent since the second quarter of 2008. Apartments will now comprise 77 per cent of total residential stock by the end of 2011.

Overall sales performance in the fourth quarter of 2009 revealed a mixed bag with some residential areas faring better than others. While the overall market is continuing to undergo a price correction, the rate of decline has slowed.

Asking prices declined by 38 per cent between the fourth quarter of 2008 and the fourth quarter of 2009 while the decline for achieved prices was 33 per cent during the same period. Asking prices increased by an average of seven per cent between the third and fourth quarters of 2009 to about Dh990 per sq ft. Meanwhile, achieved prices remained the same at about Dh900 per sq ft since the third quarter of 2009.

Apartment rents rose marginally in the fourth quarter of 2009, while the yearly decrease was of 39 per cent between the fourth quarter of 2008 and the fourth quarter of 2009. A three per cent increase was registered in the fourth quarter of 2009 compared to the third quarter.

JLL said villa rents stabilised in the fourth quarter, as there was no significant change from the previous quarter. There was a 46 per cent decrease between the fourth quarter of 2008 and the fourth quarter of 2009, while one per cent decline was registered between the third quarter and the fourth quarter of 2009.

According to JLL report, nearly \$15 billion (Dh55bn) worth of residential projects have either been cancelled or put on hold in 2009.

In Dubai, however, the total number of transactions increased 14 per cent in the last six months, while the total value of transactions stabilised with no negative growth being witnessed in the last six months.

Although the number of transactions increased 19 per cent since fourth quarter 2008, total value of transactions declined about 10 per cent indicating overall price declines.

Retail

Although overall occupancy is expected to be on the lower end, it is important to note that occupancy rates in super regional and regional malls will remain well above 90 per cent as opposed to older shopping centres, resulting in the emergence of a two-tier market.

Average estimated rental value (ERV) declined by about 29 per cent to approximately Dh264 per sq ft from the fourth quarter of 2008 to the fourth quarter of 2009, according to JLL.

Average ERV's declined by 13 per cent from the third quarter of 2009 to the fourth quarter of 2009. Regional and super regional malls achieve rents about 30 to 40 per cent higher than other types of centres. The market dynamics will continue to shift in favour of tenants as rents soften and vacancies increase in some centres.

"We expect to see an increase in shorter leases, break clauses and rent free periods as the market shifts in favour of the tenants.

"The shift in power from landlords to tenants will result in increasing incentives for tenants. This will negatively affect rental incomes, but may benefit owners by allowing them to retain tenants that would otherwise close stores in the face of falling footfall and turnover," JLL said.

As of the fourth quarter of 2009, total mall retail supply across Dubai was 24 million sq ft (GLA). This figure has changed little over the third quarter of 2009 as there were no major completions over the quarter. Total mall stock is expected to reach over 27 million sq ft at the end of 2010 with the major mall to open this year being the Mirdiff City Centre (1.9 million sq ft). Total mall stock as at the end of 2012 is expected to reach 32 million sq ft (GLA).

Super regional and regional malls currently account for 71 per cent of total mall based retail space and are likely to continue to dominate the Dubai retail scene over the next few years.

Although super regional malls account for majority of total retail space in terms of GLA, they only account for 26 per cent of the total number of shopping centres in Dubai.