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Dubai Real Estate Market Overview Q4 2011

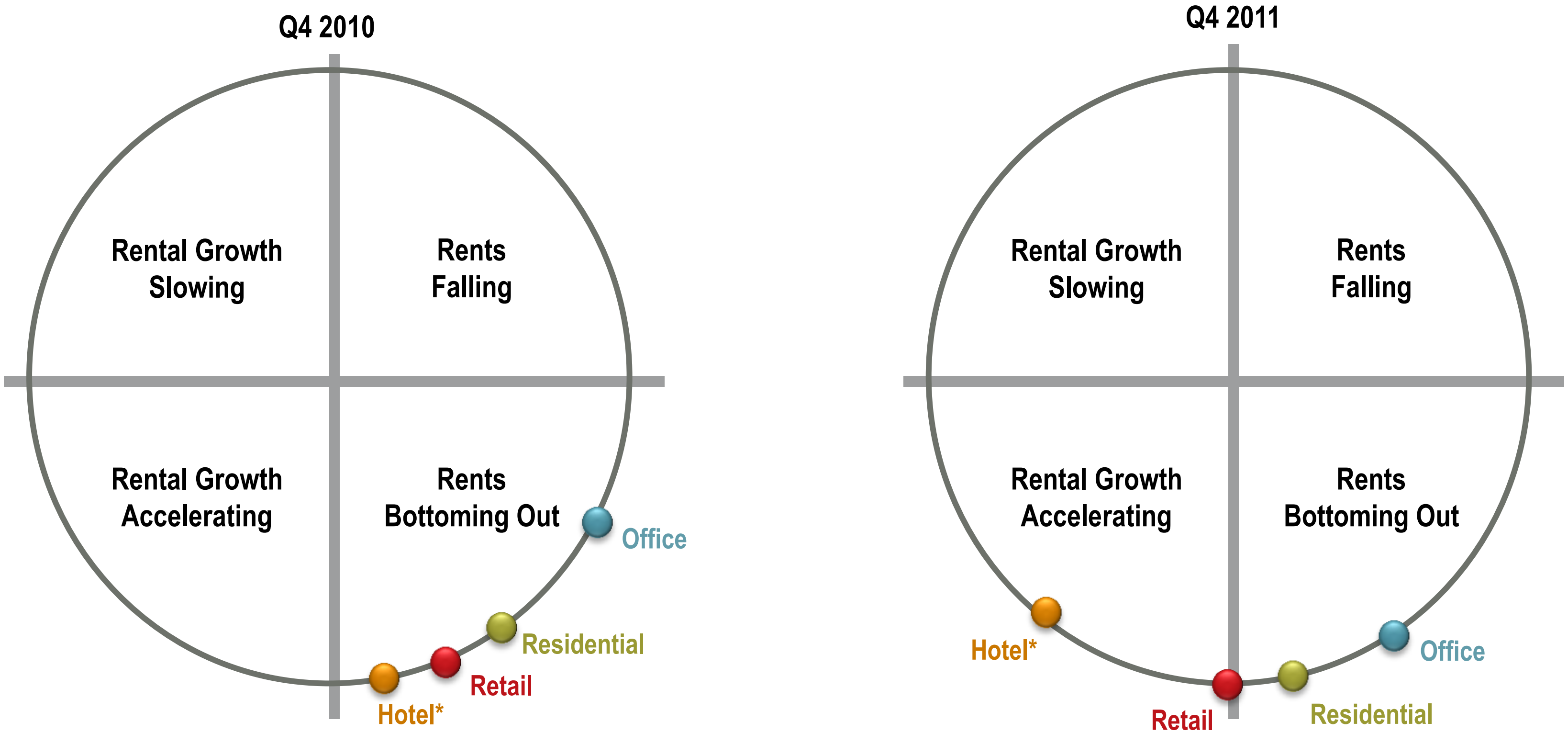
Market Highlights – Q4 2011

- The Arab Spring has continued to have a positive impact on the hotel, retail and residential sectors of the Dubai market, reinforcing Dubai's reputation as a stable, safe haven in a turbulent region throughout 2011.
- Economic worries from Europe have not impacted growth of UAE economy in 2011 but could result in less demand in 2012. IHS Global Insight forecast Real GDP Growth of 4.0% in 2012, a decrease on the 5.3% estimate for 2011.
- The Dubai investment market continues to attract interest from regional private buyers. While the level of interest from institutional buyers has been limited, the announcement of a new US$ 1 billion fund (between the government's Investment Corporation of Dubai (ICD) and Brookfield Asset Management of Canada), focussed entirely on opportunities in the Dubai market, is a positive sign.
- Despite continued investor appetite, activity levels remain minimal. Limited lending, coupled with the lack of good quality product available with strong tenant covenants, has resulted in few significant sales in the Dubai market during the second half of 2011.
- Occupier demand in the office sector continues to be restricted to single ownership buildings in established locations. Asking rents in prime office buildings remained stable over Q4 2011 but with new space continuing to enter the market during a period when many tenants are reviewing their occupancy strategies and seeking to reduce their space standards through portfolio optimisation, the market will become increasingly tenant favourable during 2012. Effective rents will fall as landlords offer greater incentives to attract and retain tenants.
- The performance of the residential sector is becoming increasingly mixed. While prime buildings in well established locations have seen improved performance during 2011, the majority of locations have seen rental and pricing declines.
- Average retail mall rents have remained unchanged over the past quarter. Prime units in the major malls have seen some improvement but older, less popular malls are suffering and will need to consider new strategies to improve footfall and retain retailers in 2012.
- There are signs that confidence is returning to the hotel sector of the market with Dubai hotels experiencing improved performance throughout 2011. Approximately 5,800 rooms are set for delivery in 2012 but occupancy levels are expected to hold up.

Talking Points – Q4 2011

- A Dubai Urban Development Master Plan - 2020 has been approved by the Executive Council, which clearly demarcates usage of land in the emirate and allocates sites for future residential, industrial, commercial, schools, hospital and infrastructure uses. The implementation of the master plan lies with the Dubai Municipality (DM).
- The Dubai Land Department (DLD) has introduced two initiatives, Tayseer and Tanmia, to help support the real estate market. These projects aim to kick start currently stalled developments by improving their attraction for investors and injecting new financing via local banks.
- A major new investment fund has been launched by the government's Investment Corporation of Dubai and Brookfield Asset Management of Canada. Each party will inject US$ 100 million of equity into the US$ 1 bn fund that will be entirely focussed on opportunities in Dubai.
- A number of new projects have been completed and handed over to investors, which will bring increased liquidity into the Dubai market. These include Phase 2 of The Villa, in Dubailand by Dubai Properties Group (DPG) and Silverene, a twin tower residential project by Cayan Real Estate in the Dubai Marina where Select Group is in the process of delivering over 1,700 residential units in two new towers (The Torch and Bay Central).
- The redevelopment of existing projects is an increasing trend in the Dubai market with two announcements during Q4 2011. Jumeirah Beach Residence plans to redevelop a number of retail units on its plaza level into office space as dwindling sales leave stores empty. Elsewhere, Al Habtoor have announced plans to redevelop one of Dubai's oldest hotels, the Metropolitan on Sheikh Zayed Road, which opened 33 years ago.
- The hospitality market witnessed the opening of the 4 star Landmark Grand Hotel on Rigga Road in Deira as operators seek to benefit from continued high occupancy levels. This has also encouraged developers to proceed with previously delayed projects such as the Habtoor Island Resort and Spa on Palm Jumeirah which is now expected to welcome its first guests in late 2013.
- Law 13 of 2011 allows companies licensed in free zones to establish branches in non free zone locations across Dubai. This law aims to improve the attraction of Dubai to oversees companies. The impact of this relaxation in the law will be dependent upon its enforcement, as companies are still required to obtain government approval to establish branches outside of the free zone in which they are licensed.

Dubai Rental Clock Q4 2010 – Q4 2011



- Hotel sector has moved the most over the last year and is the furthest ahead in the cycle.
- Retail sector has also begun to move towards recovery during 2011.
- Although prime office and residential buildings / locations are showing signs of bottoming out, the oversupply situation and high vacancy levels continue to push averages rentals / prices down in these sectors.

***Hotel clock reflects the movement of RevPAR.**

Source: Jones Lang LaSalle
Note: This diagram illustrates where Jones Lang LaSalle estimate each prime market is within its individual rental cycle as at end of December 2011.

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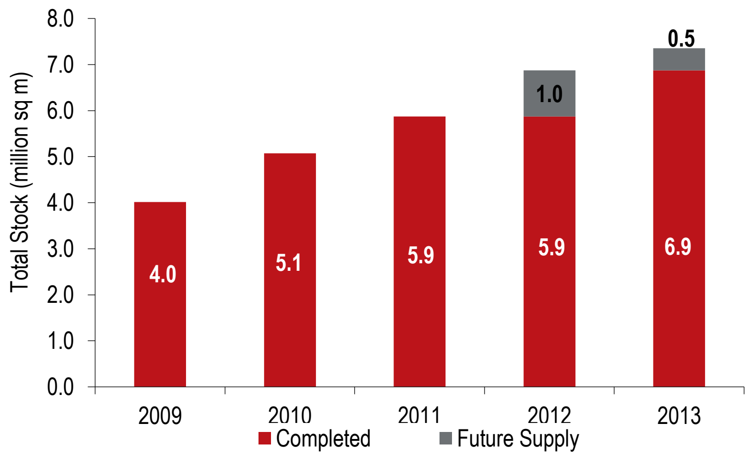
Dubai *Office* Market Overview

Office Supply

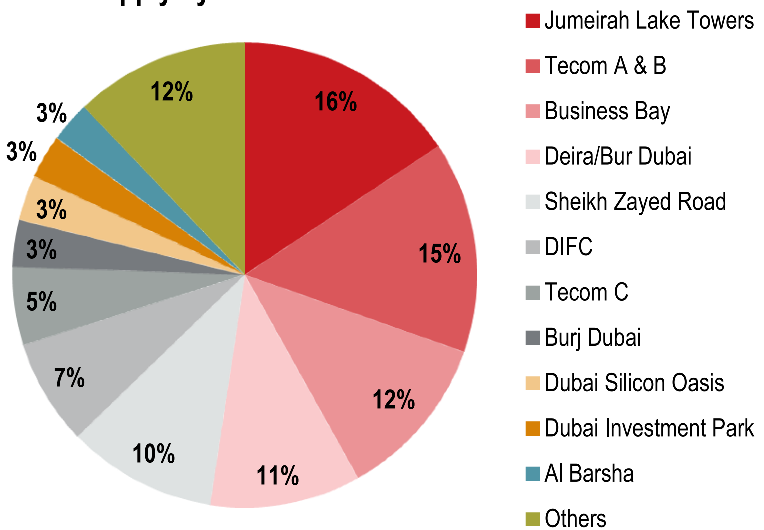
- The total city-wide office stock stood at approximately 5.9 million sq m at the end of Q4 2011. Around 135,000 sq m was added to the market during the final quarter with the major completions being Marina Plaza in Dubai Marina, along with three new towers in Business Bay.
- The majority of the existing office stock (approximately 57%) is located in onshore locations and is only available to companies licensed by the Department of Economic Development. The remaining 2.5 million sq m (43%) of the existing stock is located in free zones and is available to companies operating with offshore licenses.
- Less than 19% of the existing stock is within the CBD area (from the World Trade Centre roundabout to Downtown / Burj Khalifa). The largest concentrations of existing space lie outside of the CBD in locations such as TECOM, Jumeirah Lake Towers and Business Bay.
- While many announced projects are currently 'on hold', there remains around 1.5 million sq m of additional supply that could complete next year. In reality, the future supply pipeline is likely to be somewhat lower and we estimate 2012 completions will be closer to 1.0 million sq m.

Office Supply (2009 – 2013)



Source: Jones Lang LaSalle, Q4 2011

Office Supply by Sub-Market*

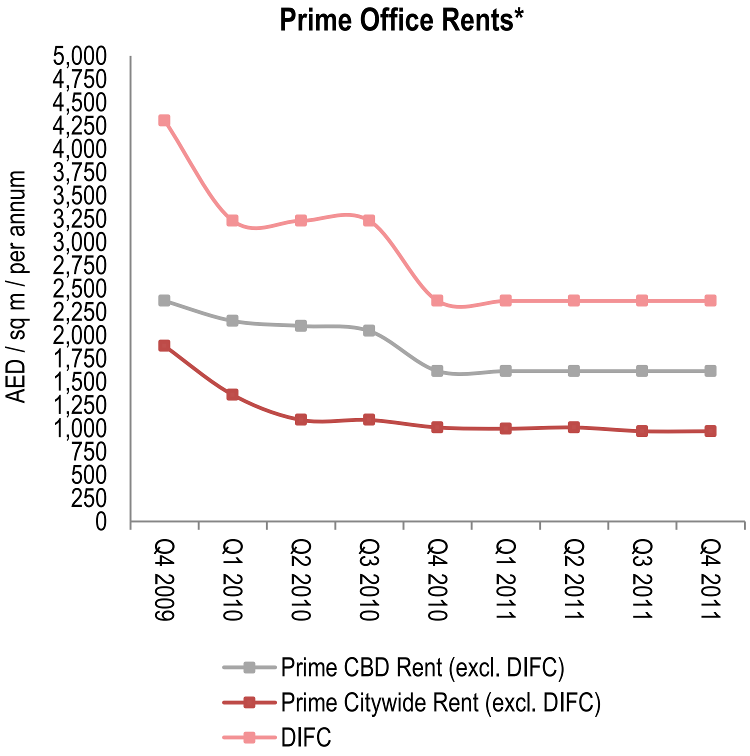


*Distribution of office supply since 2009

Expected Major Office Completions in 2012

Rental Performance

- Average asking rents for prime office buildings have remained stable over the past year. Prime rents in the DIFC remained flat Q-o-Q at AED 2,370 per sq m, with prime rents elsewhere in the CBD (excluding DIFC) remaining unchanged at AED 1,615 per sq m in Q4 2011. While rents for prime quality buildings have remained unchanged, rents for poorer quality space and buildings in secondary locations continue to decline.
- The above figures relate to asking rentals. A sign of the market moving in favour of tenants is the widening gap between the asking and achieved rentals, with landlords becoming more flexible, offering rent free periods and other incentives to attract and retain tenants. The range of prime buildings that are able to hold rents constant is therefore declining
- Vacancy rates within the CBD have seen a small increase over Q4 2011 and now stand at around 30%. City-wide vacancies continue to increase in the face of additional supply.
- In the short term (2012), average rentals are likely to face further downward pressure as further supply enters the market in a period where many tenants are optimising or rationalising their space requirements.



*Data relates to asking rentals
Source: Jones Lang LaSalle, Q4 2011

Office Market Summary

Indicator	Level	Comment / Outlook
Current Office Stock	5.9 million sq m	Includes all grades. Limited supply (less than 1 million sq m) of single ownership space in the CBD.
Future Supply (2012 – 2013)	1.5 million sq m	Assumes that 60% of the proposed supply will materialise, with some projects being delayed or postponed.
CBD Single Ownership Vacancy	30%	Although increasing at a slower pace, vacancy levels continue to rise as the oversupply situation continues.
Prime CBD Rental (excl. DIFC) **Prime Citywide Rental**	AED 1,600 / sq m AED 970 sq m	Occupier demand remains subdued and achieved rental levels continue to decline in most locations. Demand is being driven by consolidation and upgrades rather than new entrants to the market..
Average Sale Price	AED 9,700 / sq m	Limited transactional evidence but prices are estimated to have fallen by 7% over Q4 2011 based on offers received.

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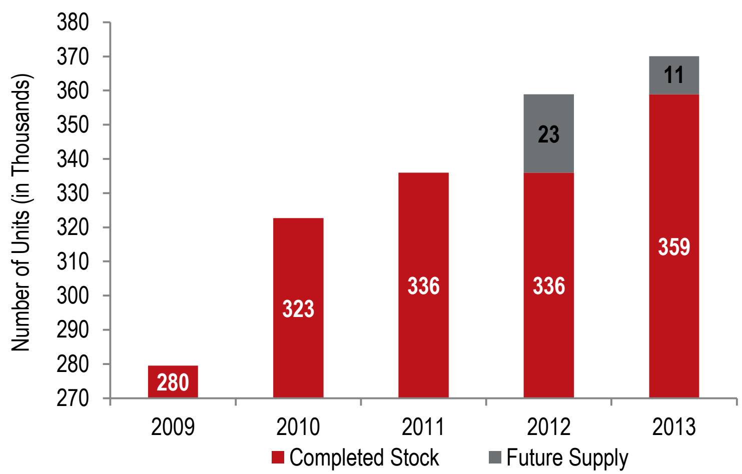
Dubai *Residential* Market Overview

Residential Supply

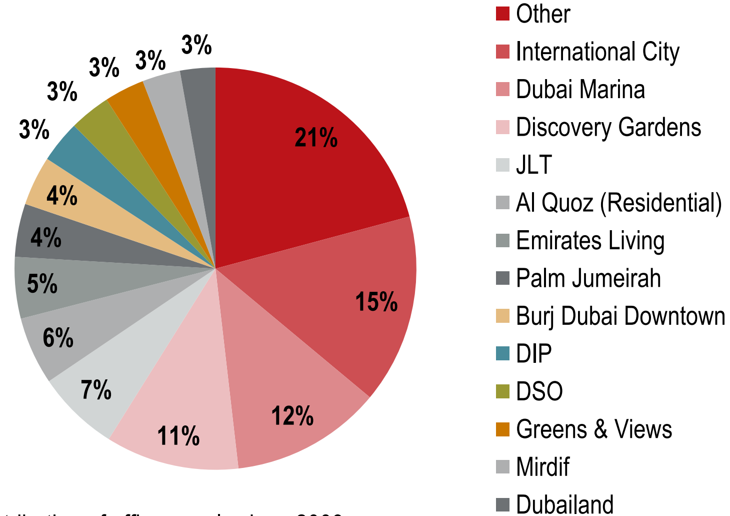
- Approximately 2,100 additional residential units were completed across Dubai in Q4 2011, bringing the total current residential stock to around 336,000 units. Around 13,000 additional units were completed throughout 2011, representing an increase of less than 4% in the total stock, far less than in 2010. Almost 90% of the completions in 2011 were apartments.
- Two thirds of the new residential supply that entered the market in 2011 is located in the 'New Dubai' precincts of Dubailand, Jumeirah Village, Dubai Marina and Business Bay. Dubailand accounts for 25% of the completions during 2011 but only 3% of total new supply since 2009.
- Almost 60% of the new supply completed in Q4 is located in Jumeirah Village, with the largest single completion being Phase 2 of Damac's Emirates Gardens apartment project. Elsewhere, Damac also completed the Park Towers project in the DIFC.
- A total of 38,000 additional units are currently scheduled to complete in 2012, which would represent an 11% increase in the current stock. While liquidity is returning into the residential market and some previously stalled projects are recommencing, we expect that approximately 23,000 units (just 60% of the total scheduled stock) will complete in 2012.

Residential Supply (2009 – 2013)



Source: Jones Lang LaSalle, Q4 2011

Total Residential Supply by Sub-Market*



*Distribution of office supply since 2009

Expected Major Residential Completions in 2012

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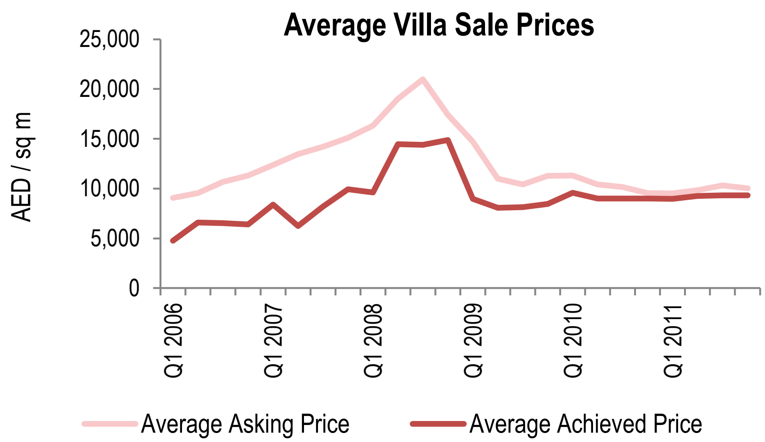
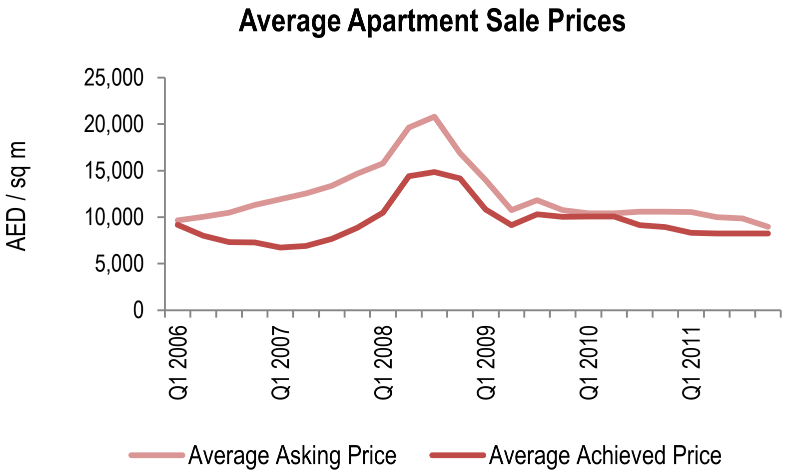
Residential Sale Prices

- Anecdotal evidence suggests the market is seeing increased demand for villas in established communities and prices in these locations have increased over the year. This is however not reflective of the wider market with prices and rentals continuing to soften in less established locations.
- The villa market has generally outperformed the apartment sector in 2011. The average asking price for 3 bedroom villas in the projects monitored within Palm Jumeirah, Arabian Ranches and The Springs have increased marginally over the year at 5%, 8% and 1% respectively. Palm Jumeirah remained the most expensive villa location with an average asking price of AED 15,160 sq m in Q4 2011.
- Apartment prices saw further declines over the year with average asking prices falling -9% Y-o-Y to AED 8,960 sq m in Q4 2011. Burj Dubai Downtown and Dubai Marina apartments saw the most significant falls in asking prices, both declining -11% over the year.
- In a market that is now stabilising, the gap between asking and achieved prices is likely to have narrowed to between 10% and 15% in established locations.



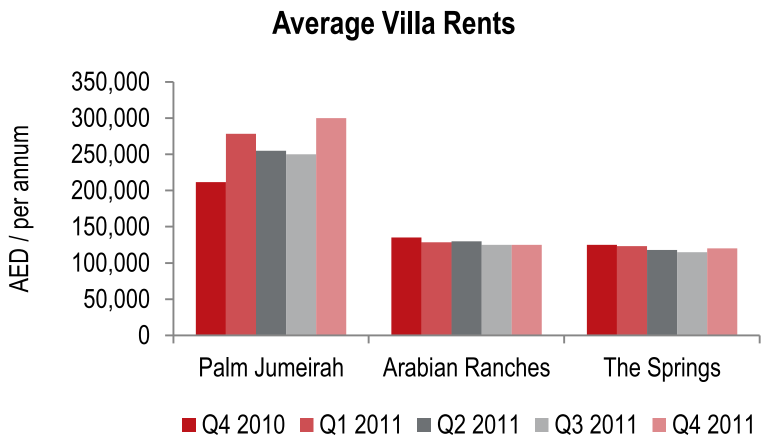


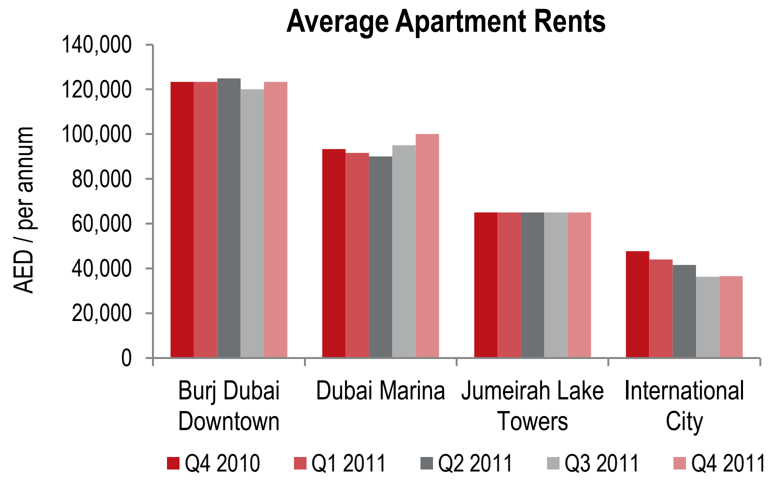
Note: Prices relate to 3 bed villas and 2 bed apartments

Source: Jones Lang LaSalle, Q4 2011

Residential Rentals

- The rental market has generally performed better than the sales market during 2011, with asking rents having stabilised and now improving, particularly in respect of villas in established communities. There is an increasing difference in rentals within the same project and even within the same building as the residential market sees a flight to quality.
- Average asking villa rents increased 11% Q-o-Q in Q4 2011, and were 16% higher than in Q4 2010. Average asking apartment rents were 3% higher Q-o-Q but have seen an overall -1% decline over the year since Q4 2010.
- In less established and partially completed locations such as Business Bay and Jumeirah Village, asking rents remain stable but achieved rentals are still declining as more landlords are offering rent free periods (13 or 14 months for the price of 12) and other incentives, rather than dropping asking rentals. Secondary locations and buildings continue to suffer as tenants upgrade to better quality projects.





Note: Data relates to asking rentals, achieved rents may be somewhat lower
3 bed villas, 2 bed apartments

Source: Jones Lang LaSalle, Q4 2011

Residential Market Summary

Indicator	Level	Comment / Outlook
Current Residential Stock	336,000 units	Only 2,100 additional completions in Q4, bringing total completions in 2011 to around 13,000 or 4% of existing stock.
Future Supply (2012 – 2013)	34,000 units	Assumes that only 60% of the proposed supply will materialise, with some projects being delayed or postponed.
Average 2 Bed Apartment Rent	AED 81,000 p.a.	Asking rentals have been relatively stable in established locations in Q4 and are expected to increase in 2012.
Average 2 Bed Apartment Sale Price	AED / 8,900 sq m	Marginal decline in Q4 and expected to remain stable in prime buildings within established locations during 2012.
Average 3 Bed Villa Rent	AED 180,000 p.a.	Villa rents have increased in Q4 in prime established locations and this trend is likely to continue. Asking rents in less established locations expected to remain stable in 2012, with falls recorded in achieved rentals in new locations.
Average 3 Bed Villa Sale Price	AED / 10,000 sq m	Prices expected to increase in well established areas in 2012, while prices in the less established locations will continue to decline.

Note: Data and direction arrows relate to asking prices / rentals in a sample of established locations, achieved prices / rentals and those in less established locations may differ

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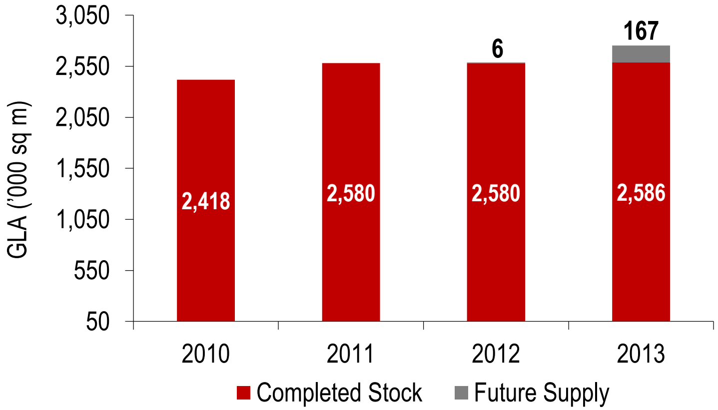
Dubai *Retail* Market Overview

Retail Mall Supply

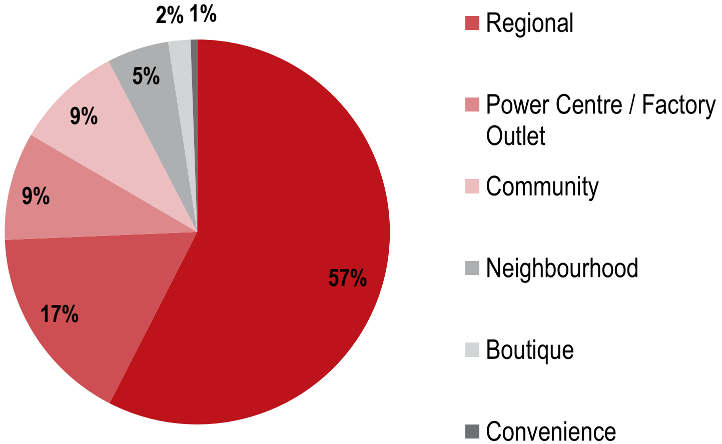
- There were no major retail completions in Dubai in Q4 with the only addition to stock being a small extension of 2,800 sq m in Deira City Centre, increasing the total existing stock to some 2,580,000 sq m by the end of 2011.
- Completions for 2011 amounted to just 162,000 sq m, an increase of around 6%, which is much lower than in previous years.
- There is currently very little additional retail supply under construction in Dubai, with only 5,700 sq m scheduled for completion in 2012.
- With the construction of Mall of Arabia currently on hold, the next significant retail completion in Dubai could be the Arena Mall in Sports City, but there remains uncertainty about the expected delivery of this project in 2013.
- Dubai's retail market remains dominated by large Super Regional Centres. These currently account for almost 60% of all mall based retail space however this percentage is likely to decline in the coming years as the retail market sees more emphasis on smaller Community Centres.

Retail Supply (2010 – 2013)



Source: Jones Lang LaSalle, Q4 2011

Breakdown of GLA by Type

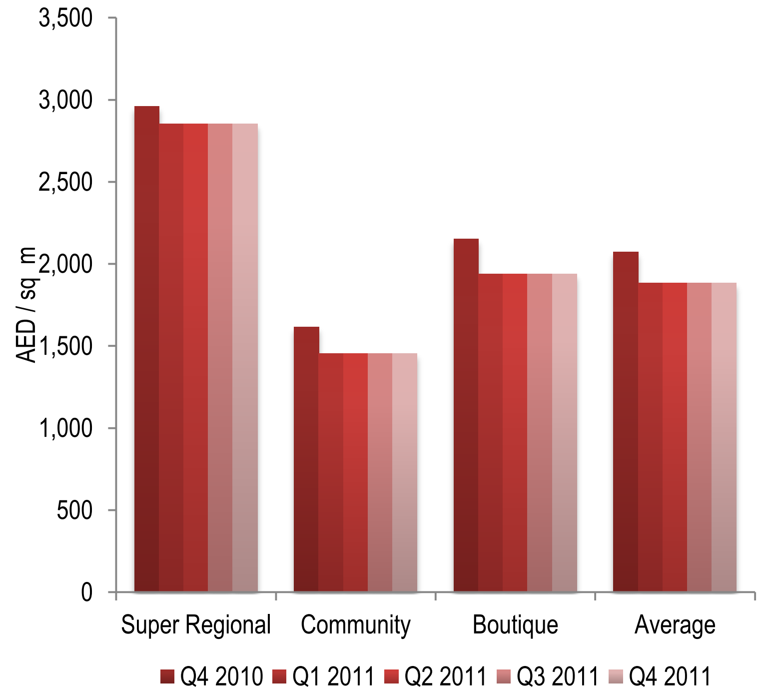


Total Retail Mall GLA is **2,580,000 sq m**

Rental Performance – Estimated Rental Value (ERV)

- Average Estimated Rental Values (ERVs) remained unchanged across all mall types in Q4 2011 with the average line store rent stable at AED 1,885 per sq m. Poorer quality centres have seen falling rentals while those in better performing malls have increased marginally in 2011. These trends are expected to continue into 2012.
- The market is witnessing the increased use of turnover rentals that align the interests of tenants and mall managers. Mall owners are now accepting percentage rental deals with a lower base rent. The lower base rent has an impact on the overall average for rental levels achieved. When sales are high, revenues also increase.
- The lack of new supply and higher tourist numbers have helped support the sector in 2011 but the Dubai retail market remains tenant favourable and landlords may become increasingly competitive.
- Deira City Centre and Mall of the Emirates are almost 100% leased. These two malls continue to outperform the industry in sales densities and occupancy. However, other malls are struggling to retain retailers and overall, Dubai's retail vacancy rate is estimated at around 20%.

Average Retail Rents*



* Asking rents for a typical in-line store
Source: Jones Lang LaSalle, Q4 2011

Retail Sector Summary

Indicator	Level	Comment / Outlook
Current Retail Space (GLA)	2,580,000 sq m	No major additions to mall based retail space in 2011.
Future Supply (2012 – 2013)	173,000 sq m	Supply over the next two years will be mainly from smaller Community Centers.
Average Estimated Rental Value	AED 1,885 / sq m	Better performing centres could see some rental growth in 2012 but this will be offset by declining rental levels in poorer performing centres.
Average Regional Mall Vacancy	20%	Citywide retail vacancy remains relatively high despite strong occupancy levels in several major centres and in prime locations.

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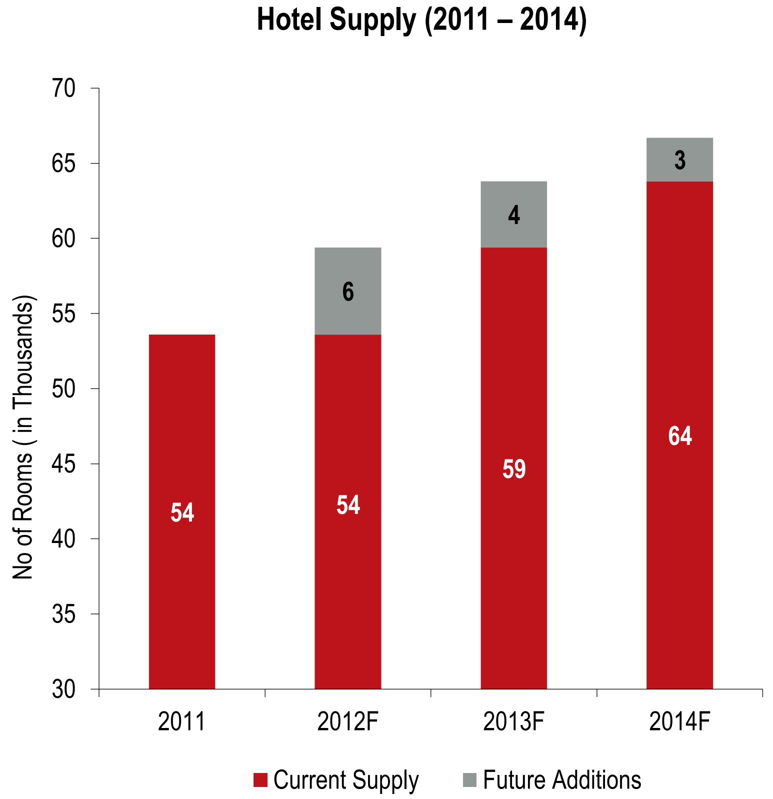
Dubai *Hotel* Market Overview

Hotel Supply

- At the end of 2011, the total hotel supply in Dubai stands at approximately 53,600 rooms.
- About 2,500 branded rooms were added to the Dubai hospitality market in 2011, representing a growth of 5% in the overall city inventory.
- There were no major completions in Q4 2011 except the opening of the four star Landmark Grand Hotel in Deira. Several projects expected to open at the end of the year have been delayed into 2012.
- Approximately 5,800 additional guest rooms are expected to be completed in 2012 with major projects including Al Khor Rayhaan (Al Ghurair City), Doubletree By Hilton Al Barsha, Fairmont The Palm, Jumeirah Creekside Hotel and Movenpick Jumeirah Lake Towers amongst others.
- Increased confidence in the market is reflected by recommencement of work on a number of previously stalled projects including Al Habtoor project on Palm Jumeirah.



Source: Jones Lang LaSalle Hotels, Q4 2011

Expected Major Hotels Completions in 2012

Trading Performance

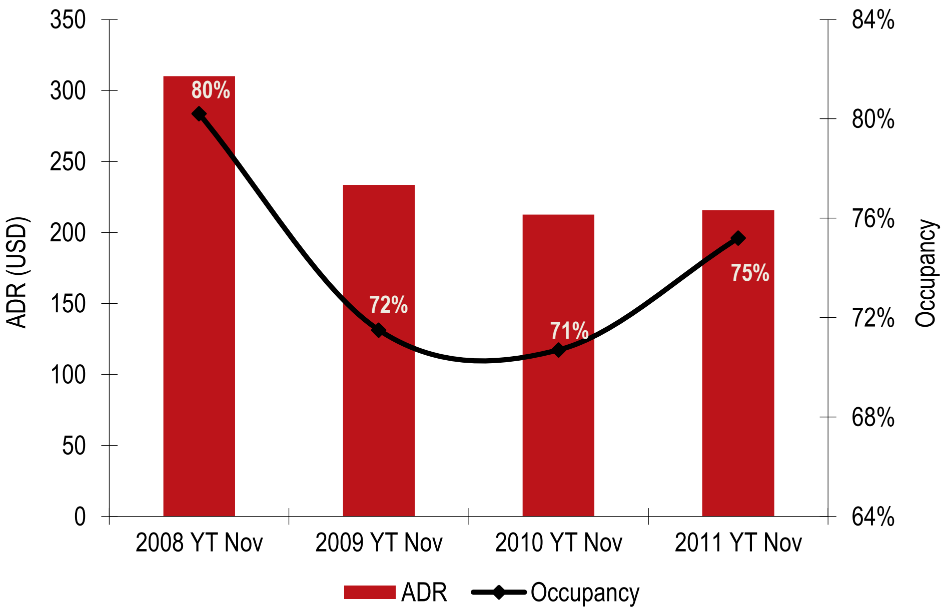
- After experiencing a significant decline in 2009 and 2010, performance levels have witnessed an improvement in 2011.

- Occupancy rates as at YT November 2011 have increased by 4 percentage points over the same period in 2010, reaching 75% on city-wide basis.

- After a period of nearly two years, average rates showed first signs of stabilisation, with no change in ADR levels during the YT November 2011. Several sub-markets have witnessed improvement with 5% - 10% increases in ADR levels in 2011.

- As a result RevPAR levels showed an 8% growth, reaching USD 160 in YT November 2011 over the same period in 2010. City centre hotels have registered a double digit RevPAR increase of 15% - 20% in 2011.

Hotel Performance (YT Nov 2008 – 2011)



Source: STR Global

Hotel Market Summary

Indicator Q4	Level	Comment / Outlook
Current Hotel Supply	53,600 rooms	About 2,500 rooms were added in 2011, including notable openings on the Palm Jumeirah. There were no major openings in Q4 2011.
Future Supply (2012 – 2014)	13,100 units	As delays continue to impact the completion and opening of hotel properties, several projects intended to open towards the end of 2011 have been pushed to 2012.
2011 YTD Occupancy	75%	Increase in YTD levels of occupancy with resurgence witnessed across the various sub-markets.
2011 YTD ADR	USD 216	Average rates show signs of stabilisation, with improvement in ADR levels witnessed in several sub-markets of the city including CBD and beach hotels. As a result of resurgence in occupancy and stabilisation in ADRs; RevPAR levels have increased by 8% on a city-wide average basis.

Definitions and Methodology

Residential:

- The supply data is based on our quarterly survey of 37 sub markets, starting from 2009.
- Completed building refers to a building that is handed over for immediate occupation.
- Based on the historical difference between proposed and actual supply, and the market prospects, we have assumed that 60% of the announced supply pipeline for 2012 and 2013 will materialise.
- The performance data is based on our quarterly survey of 3 sub-markets namely Burj Downtown, Dubai Marina, Jumeirah Lake Towers and International City for 2 bed Apartments and Palm Jumeirah, Arabian Ranches and The Springs for 3 bed Villas.

Retail:

- Classification of Retail Centres is based upon the ULI definition as published in *Retail Development, 4th Edition published by ULI.*

Office:

- The supply data is based on our quarterly survey of 30 sub markets, starting from 2009.
- Completed building refers to a building that is handed over for immediate occupation.
- Central Business District includes DIFC, DTCD, Sheikh Zayed Road, Burj Khalifa Downtown.
- Free Zone areas include Jumeirah Lake Towers, DIFC, Tecom, Dubai Silicon Oasis, DWC, Dubai Outsource Zone and IMPZ.
- Based on the historical difference between proposed and actual supply, and the market prospects, we have assumed that 60% of the announced supply pipeline for 2012 and 2013 will materialise.

Hotels:

- Hotel room supply is based on existing supply figures provided by DTCM as well as future hotel development data tracked by Jones Lang LaSalle Hotels. Room supply includes all graded supply and excludes serviced apartments.
- STR performance data is based on monthly survey conducted by STR Global on a sample of more than 32,000 rooms across Dubai.

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