Jones Lang LaSalle

Real value in a changing world

on.point

Dubai City Profile – October 2009

Dubai – Becoming more Competitive

All sectors of the Dubai market remain in the downturn phase of the cycle, with the likelihood of continued falls in average prices and rentals over the rest of 2009.

The pace of decline is easing, as sentiment among both investors and occupiers turns more positive. There is a real feeling that the worst of the crises is behind us and that markets will stabilise somewhat during 2010.

The significant re-pricing that has occurred during 2009 is likely to stimulate renewed demand from both occupiers and investors who recognise that Dubai remains the most competitive business environment in the MENA region.

The first phase of the Dubai metro commenced operations on 09/09/09. To date, it has had little direct impact on real estate prices or rentals. Over the longer term, the metro is however expected to have an increasingly important influence upon the development of Dubai and the performance of the real estate market.

Economic and Demographic Overview

Winds of Change

While the UAE economy registered strong GDP growth of 16.5% in nominal terms (6% in real terms) in 2008, forecasts for 2009 have been significantly revised downwards. The latest projections (August), suggest that the country's economy will decline by around 3% year-on-year. Unfortunately, there is a lack of GDP forecasts available at the emirate level, but it would appear that the Dubai economy will contract by more than the national average in 2009.

The major reasons for the decline in economic activity in the UAE have been the significant decline in oil revenues, the correction of both real estate pricing & construction activity, and tightening financial liquidity. The government has acknowledged the extent of the difficulties and has undertaken a number of measures to help the economy regain its footing, with the UAE National Bank injecting USD 10 billion (with another USD 10 billion to follow) to help support the Dubai economy.

With increasing evidence that the global economy is now stabilising and some major economies returning to positive growth over the summer months, there have been a number of positive local economic indicators. Important among these are the recovery of oil prices and a sustained rally on local equity markets. Although Dubai continues to face economic challenges, there is a real sense that the economy will perform more strongly over the second half of 2009 compared to the first 6 months of the year.

Dubai has become a more affordable and competitive city over the past 6 months. It is now recognised that the growth in both activity and asset prices over the past few years was simply not sustainable. With signs that the economy is now "weathering the storm", there is renewed optimism that Dubai will be able to build upon its first mover advantage to reinforce its position as the region's most competitive city.

Key Statistics

Indicator	2008	2009F*
UAE		
Population (millions)	4.8	4.9
Population Growth (Y-o-Y)	7%	2%
Nominal GDP (USD billions)	254.4	198.9
Real GDP Growth (Y-o-Y)	7.4%	3.2%
GDP per capita (USD)	53,388	40,690
Inflation (p.a.)	12.3%	0.6%
FDI (USD Billions)	13.7	6.0
Exchange Rate (USD:AED)	3.67	3.67
Dubai		
Population (millions)	1.65	1.52
Population Growth (Y-o-Y)	7.8%	-8.0%

Source: Various

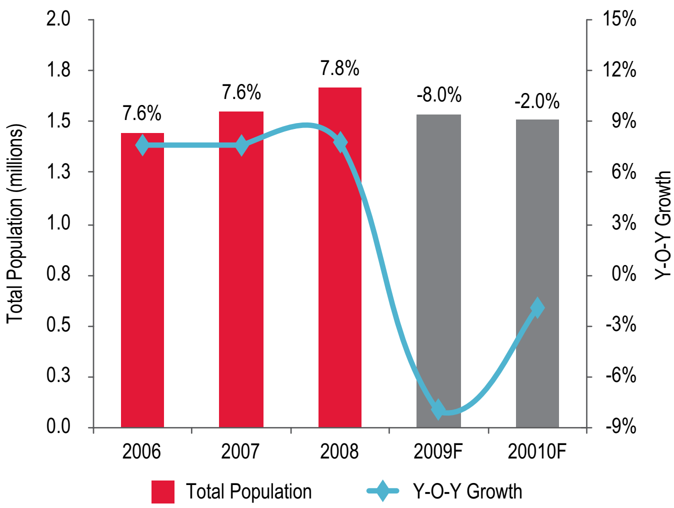
* F: Forecast

Property Markets

The real estate market mirrors many of the broader macro economic trends impacting Dubai. While it appears that the worst of the crises is now behind us, we expect to see a continued decline in rentals and values in most sectors over the remainder of 2009 in the face of significant levels of new supply entering the market.

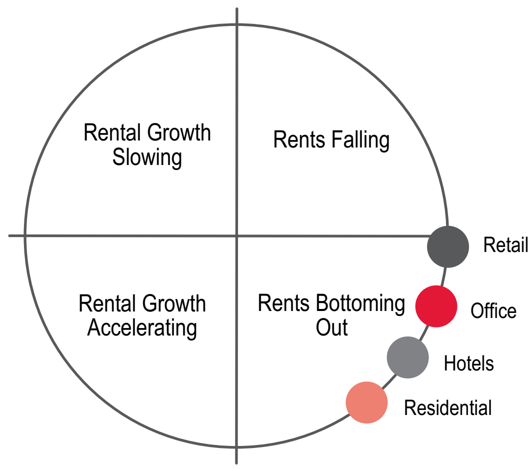
Importantly, sentiment among both investors and occupiers is starting to improve and the rate of decline in both values and rentals is slowing from that experienced over the first half of 2009. All sectors of the market are now positioned in the late downturn stage of the property cycle.

Dubai Population



Source: Historic Data – Dubai Statistics Centre
Forecasts – UBS

Dubai Property Clock – October 2009



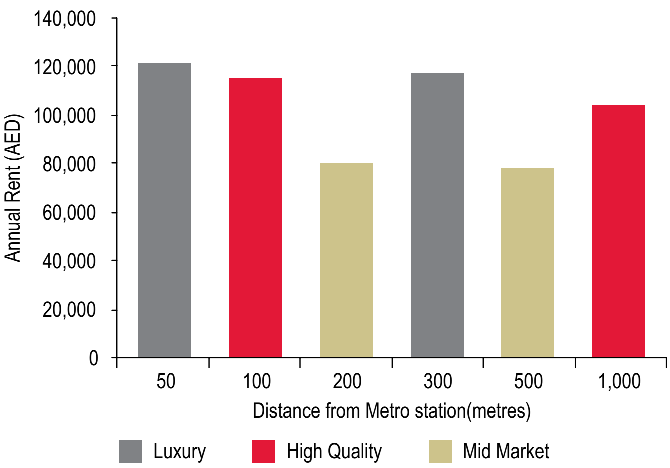
Source: Jones Lang LaSalle

Note: The property clock is an illustrative tool to indicate the relative position of the different sectors within their short term rental (RevPAR for hotels) cycle. Each sector or asset class can move around the clock at different speeds and in different directions.

Impact of the Metro on Dubai Real Estate Market

Dubai became the first GCC location to join the global group of approximately 140 cities with metros or other mass transit (MRT) systems, when the first stage of its USD 7.6bn metro system opened amid much fanfare on schedule on September 9th (09.09.09).

Average Rentals for two-bedroom unit – Jumeirah Lake Towers



Source: Jones Lang LaSalle

Limited Pre-Operating Impact

Much has been written in recent months on the potential impact of the new Dubai Metro on real estate prices. The general consensus is that locations within 200 metres of a station are likely to experience a small (5%–10%) positive impact on rental and sale prices.

To test if this uplift has been realised to date, Jones Lang LaSalle has undertaken research on the sale and rental prices achieved within six newly completed residential towers in the Jumeirah Lake Towers (JLT) project on Sheikh Zayed Road in new Dubai. These towers range from 50 m to more than 1,000 m from the two metro stations that service this project. To ensure consistency we collected data on 2-bedroom apartments located on the same floors and with similar views across each of these six towers.

We found there was no quantifiable difference in either rentals or sales prices. Units of similar quality were found to achieve similar rentals and sale prices, irrespective of their distance from the nearest station. There was also no discernable relationship between occupancy levels and distance from the metro. This finding reflects two major factors, timing and the multiplicity of influences on residential prices.

Timing: Despite the location of the stations being known for around four years now, purchasers and tenants appear to be unsure how much additional benefit will be derived from proximity to the metro. This is consistent with findings overseas, which show that the value of such proximity is only fully recognised once the system is up and running fully. This situation is compounded by the partial opening of the metro in Dubai which makes it difficult to assess its full impact on travel patterns and modal preferences. Neither of the stations serving the JLT project are yet open and it is likely that some differentiation in pricing will emerge once they are open and patterns of metro usage become more clearly established.

Bundling of Influences: Connectivity to a metro station is also only one of a large number of factors that potential owners and tenants will consider in selecting a suitable unit. This makes it very difficult to isolate the impact of just one factor and our research on JLT suggests that distance from the metro is not (as yet at least) an important influence on its own. The extent to which this emerges as a more important factor in the future will depend upon the success of the RTA in reaching its objective of increasing the use of public transport in Dubai from its current 6% to its target of 30% of all trips.

Greater Longer Term Impact

While the immediate or pre-operating impact of the metro on sale and rental prices has been limited, the development of a comprehensive public transit system based on an enlarged metro network is likely to have a much more significant impact in shaping the direction of the Dubai real estate market over the next 5–10 years. This impact will be felt at both the micro (individual project) level and also at the macro (citywide) level.

At the micro level, the metro offers the hitherto unachievable potential to create Transit Oriented Developments (TODs) in Dubai. TODs can be broadly defined as integrated mixed use real estate developments focused on transit hubs. They usually involve high density development immediately adjacent to the metro station or other transit hubs, with densities declining in line with distance from the station. TODs aim to provide pedestrian-friendly environments and incorporate features to encourage transit ridership.

Integrating development with the metro offers the opportunity to create a new form of urban lifestyle hub where people can live, work and play in an auto-free environment. As such they represent much more than just a new form of real estate development, but provide a potential catalyst for broader demographic and lifestyle changes.

The extent to which this will happen in Dubai is unclear. There are currently no real TODs being built around the metro stations. Once there is more evidence of the metro influencing occupiers locational preferences, the development community is likely to respond by creating more integrated transit / land use projects. Evidence from overseas would suggest these projects will generate attractive financial returns for real estate developers / investors.

At the macro (citywide) level, the metro will have a significant influence on the pattern of urban development and potentially create a more sustainable city. Abu Dhabi has recognised the importance of creating a more sustainable city, with the world leading Masdar initiative. The completion of the metro provides Dubai with a real opportunity to move in the same direction and reduce the current high level of auto-based carbon emissions.

Outlook

The full benefits of the Metro will only be realised if it is seen as one component in a more integrated approach to transportation and land use planning. This has been recognised in a number of overseas markets where metro-based public transport systems form the basis for more flexible land use planning systems aimed at promoting new lifestyle patterns (closer interaction of live / work / play), revitalising run-down neighbourhoods (by introducing new land uses), reducing traffic congestion / pollution and creating higher development densities.

It is clearly too early to determine the extent to which Dubai will be able to build upon its successful delivery of the GCC's first metro to create a more sustainable, attractive and liveable C21st city. While the pre-operating impact on the city's real estate market has been modest, the Metro is likely to have a much more significant influence in the years ahead – watch this space!

Increasing Employment is Key to Market Recovery

One of the most commonly asked questions in respect of the Dubai real estate market is “where will all the people come from” to fill the significant levels of new supply now being delivered. The simple answer to this question is that they will need to continue to come from outside the Emirate, as Dubai has a relatively small local population of around 300,000 Nationals. Dubai’s future growth will therefore be dependent upon a continuation of the current strategy of attracting large numbers of expatriates to live and work in the city.

Given that most of the expatriate population is attracted to Dubai by the prospect of employment, maintaining and building upon the city’s position as a competitive business location will be critical to attracting the additional expatriates required to underpin the future of all sectors of the local real estate market.

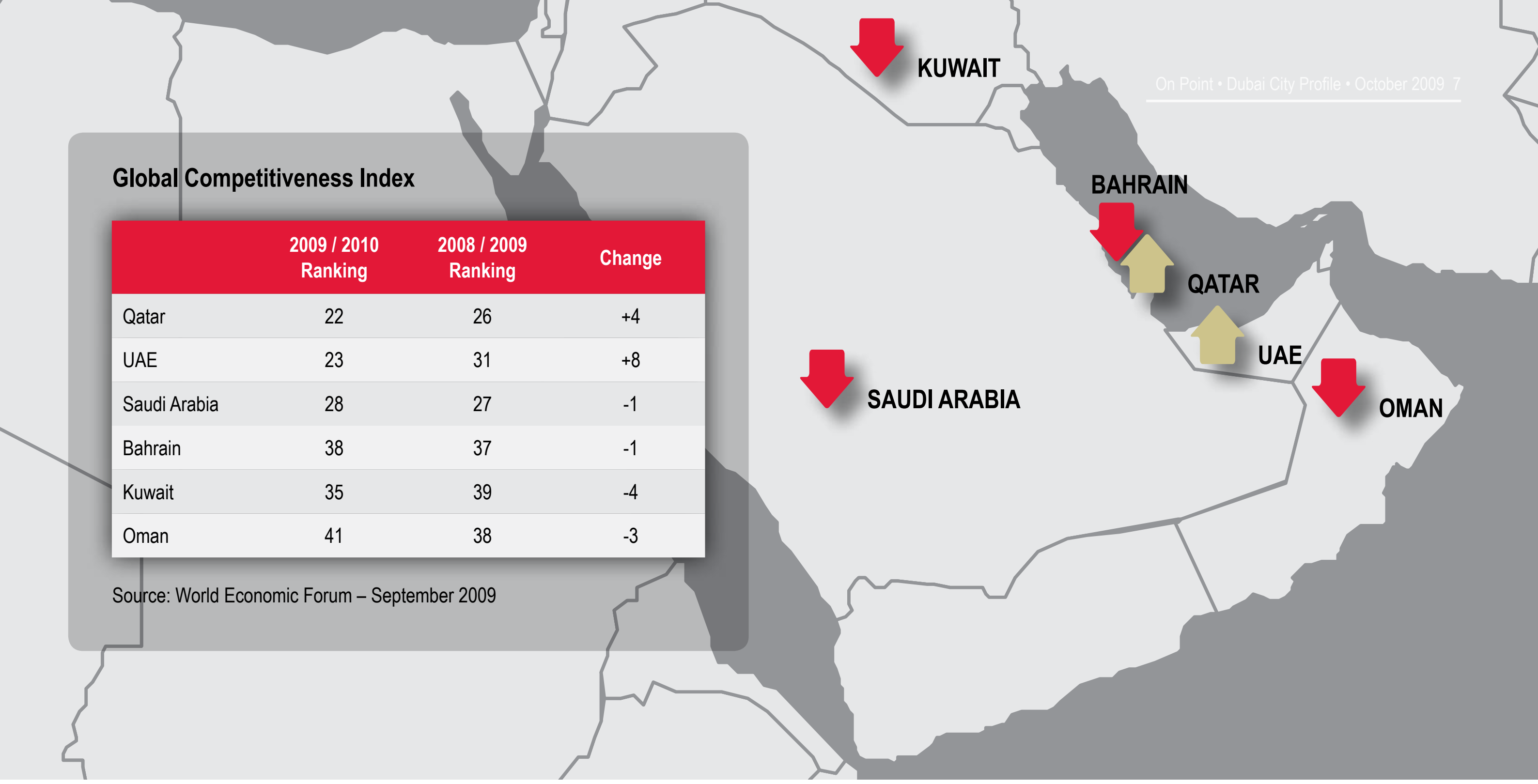
The recently released Global Competitiveness report for 2009/10 shows that the UAE has been one of the big improvers in the Middle East region, improving 8 places in the global rankings to 23rd position. The improvement in the UAE’s position reflects an upgrading of institutions and infrastructure capacity. This article looks at what could be done to further improve Dubai’s competitive position and thereby attract additional foreign investment and employment.

Foreign investment and employment will continue to form the basis of the growth of the Dubai economy (and therefore its real estate market). This could be driven by the organic growth of existing companies or the entry of new businesses. The establishment of free-zones (allowing 100% ownership by the investing party and a simple registration and immigration process for employers) has been a critical component of the successful economic development strategy pursued by Dubai over the past 20–30 years.

The number of new multi-nationals entering the various free zones established in Dubai to serve the Media, Logistics, IT, Finance and other sectors, which initially demonstrated significant growth, has begun to stagnate. A new strategy is therefore required to encourage new business formation, employment and thus demand for the large volumes of both commercial and residential real estate now being delivered to the Dubai market.

A key part of this strategy should be the active promotion of small and medium businesses (SME’s) which have been a key component of economic growth strategies overseas. While MNC’s may have the largest employment on a per company basis – employing upwards of 300+ employees, the number of SME’s that employ 20–100 people creates an overall larger employment base. In Hong Kong for example, 40% of employment is attributable to MNC’s while 60% is attributable to SME’s. 98% of total business establishments in Hong Kong are in the SME sector.

While current demand from SME’s is depressed, in planning for the global economic recovery, Dubai must address “what can we do to encourage SME’s to relocate to and expand within our markets”.



Global Competitiveness Index

	2009 / 2010 Ranking	2008 / 2009 Ranking	Change
Qatar	22	26	+4
UAE	23	31	+8
Saudi Arabia	28	27	-1
Bahrain	38	37	-1
Kuwait	35	39	-4
Oman	41	38	-3

Source: World Economic Forum – September 2009

Some initiatives may include:

- **Government stimulus** – The government needs to continue to create economic stimuli to help offset the impact of the global economic slowdown in the short term. The previous policy of stimulating economic activity through real estate and infrastructure development needs to be expanded to other (non physical) areas of nation building.
- **Regulatory relaxation** – The need to allow businesses to operate freely in the market, removing the requirement for local partnerships and sponsors and implicitly creating a full free zone status across the market has been recognised and lies at the heart of a new business law that is expected to be issued by the end of 2009.
- **Business incubators** – Another potential real estate initiative could involve the creation of environments where new and small businesses can grow until they reach independence: these incubators could include shared office space, business support, financing, employment / registration set up etc.

The guiding factor in each of these recommendations remains the requirement for Dubai to attract new businesses that will establish and grow. Creating a platform from which these companies can flourish will ensure their long-term commitment to the local market and create employment growth and stability in the medium to long term.

Generating additional employment is perhaps the single most important factor to increasing occupancies and therefore rental returns in the real estate market. Once these criteria have been met, foreign and regional institutional investors will return and the recovery of the Dubai real estate market will have reached the next stage.

Emerging Demographic Patterns: A Tale of Two Markets

Population Decline

After years of strong population growth, Dubai now faces the prospect of a falling population as many expatriate workers have lost their jobs and returned home over the past 9 months. While difficult to quantify, job losses have been commonplace in many sectors of the economy. With nationals accounting for less than 20% of the total population, and most expatriate visas tied to work permits, it is no surprise that thousands of expatriates who have been made redundant have had to leave the country.

The extent of this expatriate exodus has been the source of much speculation. While the Dubai Statistics Centre is still predicting population growth, the consensus of the various private sector reports that have been released is that Dubai will see its first annual decline in population in 2009. The absence of accurate and up to date statistics makes it difficult to forecast the exact extent of this decline. Despite notable legislative improvements over the past few years, Dubai still suffers from a lack of timely demographic data on which to base population forecasts.

The Indian embassy has announced that over 200,000 Indian nationals returned home from the UAE over the first half of 2009, unfortunately no breakdown is available of this data between Emirates or between 'blue collar' and 'white collar' expatriates. Anecdotal evidence from school enrolments and removal companies supports the view that while expatriate numbers are down, the summer months have not seen the scale of exodus expected in some of the more negative forecasts. Our own assessment of the available data leads us to assume a consensus figure of a -7% to -10% decline in population for 2009.

Forecast Population Change – 2009

Source	Population Change
Dubai Statistics Centre	5%*
EFG-Hermes	-17%
UBS	-8%

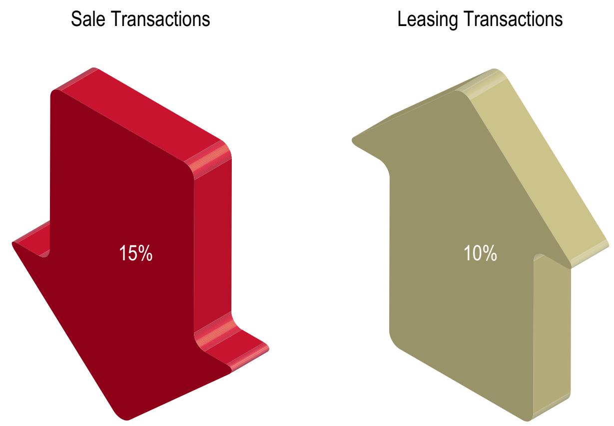
* Year to date (September 2009)

Residential Market Activity

Declining population numbers have been just one factor driving the major adjustment in residential pricing in Dubai over the past 12 months. Sale prices have declined by 40–60% and rents by 30–50% in the areas that we monitor across the city. While the market has moved decisively in the tenant / purchasers favour over the past year, we are now experiencing quite different trends between the sales and leasing sectors of the market. Sales activity has decreased significantly due to not only the outflow of expatriates, but also the low investor sentiment and lack of liquidity, which have reduced transactional volumes by around 55% since Q2 2008.

While sales transactions have declined, the volume of leasing transactions has increased since Q1 2009 as a result of relocations to Dubai from other emirates, upgrades in living accommodation and a decrease in household size.

Residential Market Activity – Q1 2009 to Q3 2009



Source: Jones Lang LaSalle

Relocation to Dubai

There has been increased demand for rental properties in International City and Discovery Gardens over the past few months. These two Nakheel projects, located on the outer peripheries of Dubai, have benefitted from demand from those previously living in Sharjah and Abu Dhabi who can now afford to live in Dubai. As residential rents in Dubai soared in 2007/2008, a considerable proportion of the working population in Dubai was forced to live in Sharjah due to cheaper rents. This trend is now reversing as average rents in International City have decreased by more than 30%, making it more affordable and attracting people back to Dubai.

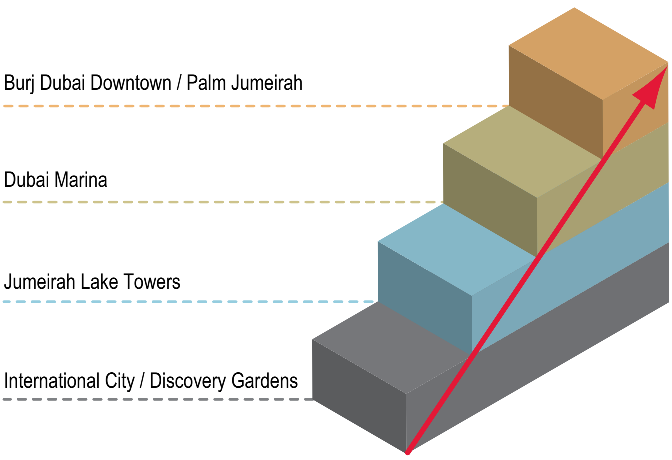
Rents in Abu Dhabi are now significantly higher than those in Dubai due to the Capital's lack of affordable new supply. A typical two bedroom apartment in Abu Dhabi would currently command an annual rent of between AED 180,00–200,000 while the same type of unit in Dubai would rent at approximately 30–40% less. For this reason, many of those working in Abu Dhabi have opted to shift to Discovery Gardens and other projects to be south of Dubai where they can pay a lower rent and still commute to and from Abu Dhabi relatively quickly.

Upgrading to better quality units

Residents are also taking advantage of lower rents to upgrade to better quality housing units within Dubai. For example, those previously living in Discovery Gardens are now able to lease apartments in Jumeirah Lake Towers or Dubai Marina. Similarly, residents of Dubai Marina are now able to upgrade to units located on Palm Jumeirah or in Downtown Burj Dubai.

Moving companies are benefitting from the increased turnover (churn) within Dubai itself as well as from the inflows from Abu Dhabi and Sharjah. However, the number of international moves has declined, with interviews with removal companies revealing only around 10% of moves are from outside of the UAE.

Dubai Residential Areas – Trading Up



Source: Jones Lang LaSalle

Patterns in Leasing Demand

Unit Type	Demand Change
Studio	
1 Bedroom	
2 Bedroom	
3 Bedroom	

Source: Jones Lang LaSalle Research

Decreasing Household Size

The third positive factor driving activity in the leasing market has been a significant reduction in the average household size during 2009. According to the last population census (2007), the average household size in the Dubai urban area was 4.14. Given the high number of single expatriates that have moved into Dubai over the past few years, this figure was declining even before the fall in rental rates in 2009 stimulated more sharers to form their own household unit.

With rental rates having fallen as much as 50% during 2009, more individuals have moved out of shared accommodation, generating strong demand for smaller (studios and 1 bedroom) units. Before the financial crisis, many single people were forced to share two or three bedroom apartments as a cheaper alternative to renting their own studio or one bedroom apartment. Tenants are now taking advantage of affordable rents and opting out of shared accommodations to live on their own.

Based on surveys undertaken by Jones Lang LaSalle, we estimate that the average household size in Dubai has fallen from 4.1 in 2007 to between 2.5 and 3.0 today.

The reverse holds true in the sales market where two and three bedroom apartments that are ideal for end-users and families are in higher demand than studios or one bedroom apartments. This is different from the past when buyers were mostly speculators looking for short-term investments and interested in flipping studios and one bedroom apartments that required a lower capital outlay.

Outlook

A combination of improved affordability and falling household size will naturally increase residential demand. At the same time, construction delays and project cancellations will help ease the potential oversupply situation. If these current supply/demand trends continue into 2010 as expected, the residential market is likely to stabilise next year. We are however unlikely to witness a return to the pricing levels experienced in the real estate boom (from 2007 up until mid 2008) in the near future.

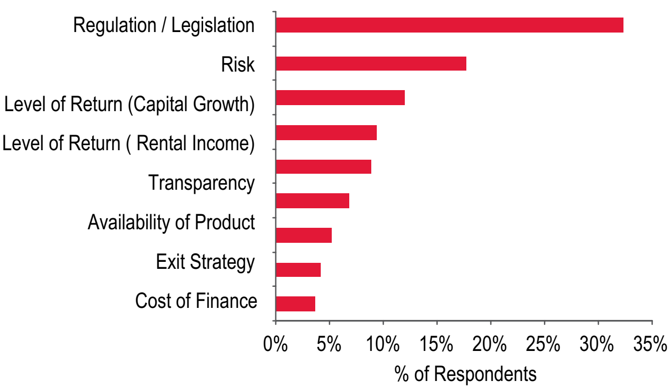
The Need for Improved Transparency & Regulation

The global economic downturn has resulted in a more critical examination of the real estate regulatory environment in Dubai. In these circumstances steps to provide more accurate and timely market information, increase transparency and introduce clearer legislation will play a major part in rebuilding confidence and stimulating more investment in the real estate sector.

In the current uncertain economic climate, investors are understandably more worried about risk. Increased transparency and clearer real estate regulations will help ease investors' nerves and allow them to make better informed and more calculated decisions.

Jones Lang LaSalle's most recent Real Estate Investor Sentiment Survey (October 2009) reflects these tends. Investors ranked regulation/legislation and market risk as the two most important factors influencing their investment decisions.

Major Influences on Real Estate Investment Decisions



Source: Jones Lang LaSalle

The Importance of Transparency

Improved transparency is important for both tenants and investors. For occupiers, transparent markets allow for easier comparison of occupation costs and provide more options for strategic action (e.g. the execution of sale and leasebacks is easier in transparent markets) and improved market data raises the efficiency of transactions.

For investors, transparent markets allow for better risk management and the establishment of suitable risk premiums, the assessment of likely future investment returns through performance benchmarks. They also provide for enhanced decision-making through better information and the development of more robust and informed investment strategies and target allocations.

Less transparent markets are likely to perform better in periods of boom than more mature markets. However, most serious long term real estate investors are currently looking at opportunities in more mature and stable markets. Central London is currently the 'flavour of the month' among Middle eastern investors, accounting for the vast majority of Middle Eastern investment

in overseas real estate during the first half of 2009. This capital has been attracted to London by the perception that prices have adjusted the furthest and the openness and transparency of the market, which makes it relatively simple to establish value and create a more suitable exit strategy than in less mature or transparent markets like Dubai.

Although the Dubai Lands Department (DLD) has introduced a database (REIDIN) to track investment within the city, as well as a rental index, there are few statistics tracking supply or demand. With so much development occurring in such a short space of time, the need for a greater understanding of future supply levels is a necessity.

Improving real estate legalisation will also increase transparency and investor confidence. At present, it is difficult to get a judgement on a real estate court case and the legal process can be confusing, time-consuming and in many instances, fruitless. Despite recent attempts to provide clarity, the law concerning residency status for freehold purchasers remains unclear. The need of the hour is for clear policy, which is fair, open and adhered to across the board.

Real Estate Indices

The establishing of real estate market indices tracking the performance and valuations of assets within the markets would undoubtedly aid Dubai's market transparency. Whether transaction or valuation based, such an index would improve investor confidence.

RERA's current real estate index is a spot value updated each quarter. This could be taken to the next level and used as the basis of a representative index of real estate pricing and values. A benchmarking service which gives owners an objective measure of their real estate performance against relevant yardsticks could also form a useful tool in improving the transparency of the Dubai market.

Successful indices rely heavily on institutional investors and valuers to provide the necessary information required to track performance and values on a timely basis. At present, Dubai is yet to see a significant institutional investment market develop. To reach such a level of maturity requires all real estate professionals (owners, valuers, brokers, regulators) to step up the call for further improvements in transparency.

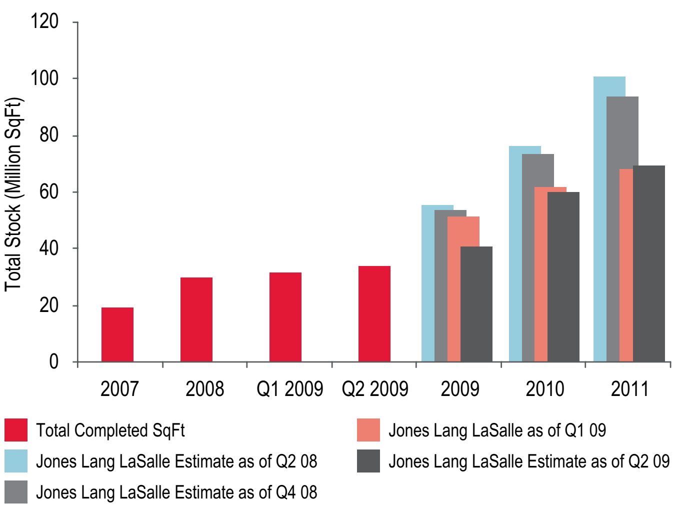
Office Market

Supply

The total stock of completed office space amounted to around 34 million sq ft as at the end of Q2 2009. Our figures suggest an additional seven million sq ft is likely to be completed by year end. This would take the total stock to around 41 million sq ft – a doubling of the city's office stock over a two year period.

Development pipeline figures from the middle of last year indicated that upwards of an additional 100 million sq ft could have been delivered by the end of 2012 as 'mega-projects' such as Jumeirah Garden City, Downtown Jebel Ali, Nakheel Tall Tower and Waterfront were planned. Such 'mega-projects' have since been substantially scaled back, delayed or cancelled as a result of the worldwide economic situation, ensuring that the huge potential over-supply situation previously envisaged will not be as great.

Declining Future Supply Pipeline



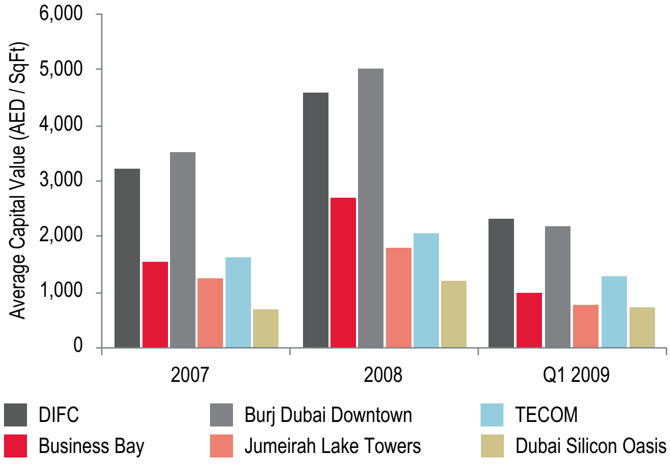
Source: Jones Lang LaSalle

While the proposed development pipeline has almost halved since the same time last year, the pipeline remains significant. A further 20 million sq ft is still expected to be delivered before the end of 2011.

A two tier market is developing with large pockets of completed stock in outlying areas such as Jumeirah Lake Towers, TECOM (Dubai Internet City, Dubai Knowledge Village and Dubai Media City) and along Emirates Road. Vacancy rates in these areas are significant, reaching a new high at circa 25% by the end of H1 2009 and have now risen to over 30% with supply outstripping demand at a rapid rate. Free zones have reacted to the large amount of office space available within their jurisdiction, particularly at TECOM where the free zone authority has given consent for up to 1.5 million sq ft to be offered to "on-shore" tenants.

By contrast, good quality, centrally located office space in completed areas/districts remains relatively scarce. Business Bay will provide the largest area of new supply in the CBD over the next 18 months. A number of the properties in this location are complete but are still awaiting DEWA connection dates.

Average Sale Price – Dubai Office Market



Source: Jones Lang LaSalle

Demand

The stabilisation of the global economy and the significant price correction have fuelled occupier activity over Quarter three. The previous hesitancy is slowly fading away, with a larger number of occupiers entering the market with a willingness to commit to new deals. As the balance of power in negotiations has switched form the landlord to tenants, occupiers are looking for more security through longer term leases. Lease terms of 3–5 years or more are becoming more commonly implemented in new contracts and some owners are now even willing to consider longer term leases of up to 10 years for major occupiers.

The majority of occupiers seeking office space are looking to relocate while retaining a cash neutral position. Consequently the majority of demand is for well located, fitted out space offered at reasonable rents.

Performance

As at the end of 2008, prime rents outside of DIFC stood at around AED 550 per sq ft per annum. As market dynamics started changing in 2009, rents saw a 45% drop reaching AED 300–AED 325 per sq ft per annum as at the end of Q2 2009. A further decrease of 25% has been experienced in Q3 2009, bringing prime rents (excluding DIFC) to circa AED 225–AED 250 per sq ft per annum.

Rents are likely to decline by a further 15% before the end of 2009, closing the year at around AED 200 per sq ft per annum. This would represent a drop of around 65% over the full year.

Asking prices for strata units have also continued to decline, falling by roughly 50% from their 2008 peaks by the end of Q2 2009.

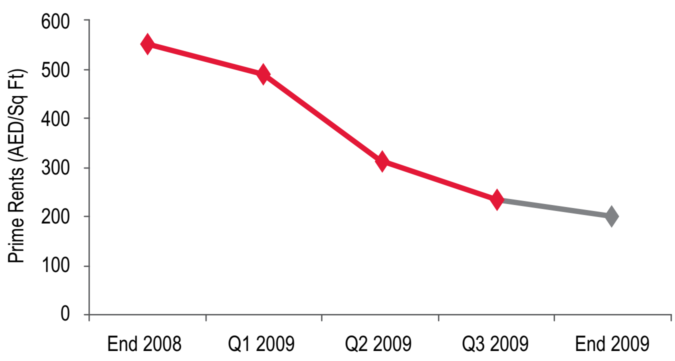
Market Outlook

Although the market is starting to witness tentative signs of improvement (with tenant activity beginning to pick up and rental decrease slowing down), the office market faces an uncertain time as a result of the future supply of new stock. This is likely to increase the already high vacancy rate and put additional pressure on rents.

As more new supply is continuously released onto the market and additional areas of second-hand space become available, the market is expected to continue to shift in favour of tenants. Occupiers will become increasingly meticulous when closing deals, given the wider range of available options. Landlords will have to provide incentives such as rent free periods in an increasingly competitive market.

Notwithstanding the above, selective shortages are emerging in the most sought after space categories – good quality, well located, fitted out units of sub 10,000 sq ft at reasonable rents.

Average Prime Office Rents (Dubai excluding DIFC)



Source: Jones Lang LaSalle

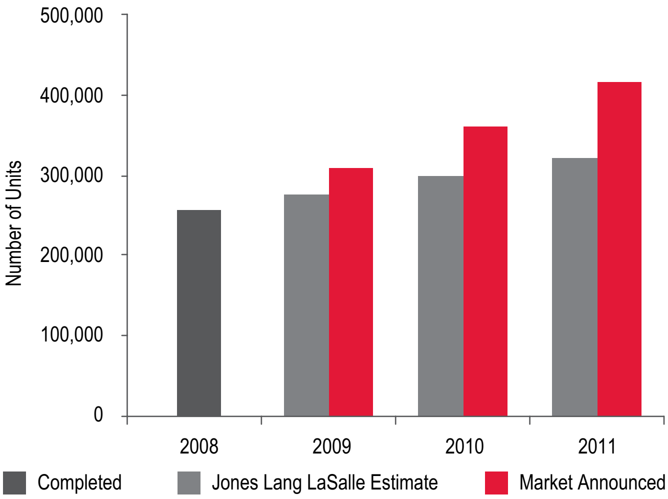
Residential Market

Supply

Approximately 20,000 new residential units are expected to be handed over in 2009, bringing the total residential stock across Dubai to around 276,000. The majority of new supply comprises units located on the Palm Jumeirah, Business Bay, Motor City, and Jumeirah Lake Towers.

As of September 2009, approximately 75% of the expected supply for 2009 has been completed, although not all of these units have been released into the market due to handover delays. Those expected to be completed in Q4 2009 are also likely to experience similar delays and a rollover of supply into Q1 2010 is anticipated. Our current forecast of 20,000 completions for 2009 has been reduced from our previous estimate of 22,000 in Q2 2009, given the delivery delays being experienced.

Residential Supply (2008–2011)



Source: Jones Lang LaSalle

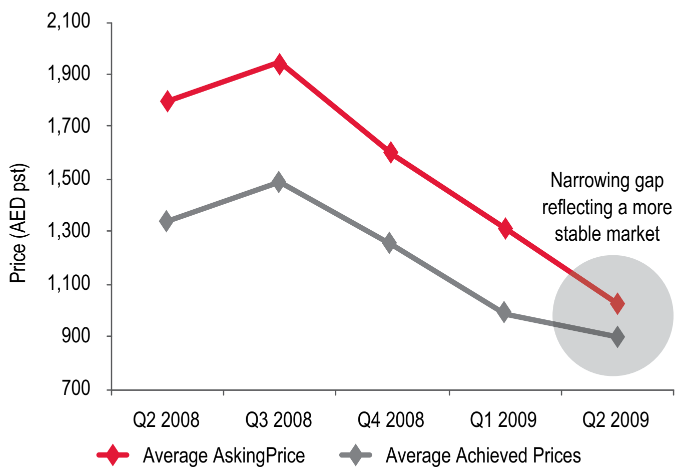
In February 2009, Jones Lang LaSalle estimated 90,000 residential units would enter the market between 2009 and 2011, which was less than half of the market announced figures. Projects continue to be delayed, put on hold, or cancelled. According to ProLeads, approximately USD 24 billion worth of residential projects have been either put on hold, or cancelled across Dubai. Such conditions have resulted in a further 27% downward revision in our supply estimates. We now foresee 66,000 units being released into the residential market over the next three years.

Demand

With speculative buyers almost entirely out of the market, demand for residential property is currently being driven by end-users and long-term investors. Banks and a select number of mortgage lenders have eased financing restrictions, yet the majority of potential buyers are still unable to purchase property. Cash buyers are able to find good deals since they can negotiate down prices considerably. Most sales transactions are taking place for completed units as demand for off-plan property is close to nil, given the uncertainty surrounding project cancellations.

Data from the Dubai Lands Department reveals a 55% decrease in transactional volume between Q3 2008 and Q3 2009. Transactional volumes have however began to stabilise, with only a modest decline (-9%) reported during Q3 2009, pointing to a possible return of confidence among investors. This may not result in any real improvement in market conditions as many potential buyers remain constrained by the lack of available mortgages (although some easing of lending has been reported in recent weeks, with some banks now willing to finance multiple unit purchases again).

Asking vs. Achieved Prices (Q2 08–Q2 09)



Source: Jones Lang LaSalle, Reidin

Performance

There have been reports of prices stabilising and even increasing in some selected locations in recent months. However, our data suggests a continued decline in average prices in respect of both apartments and villas during Q3. While the market is continuing to undergo a price correction, the rate of decline has slowed. Another sign of stabilisation is that asking prices and achieved prices have started to converge. Since Q2 2008, achieved prices have typically been around 20% lower than asking prices, but this gap narrowed to 7% in Q2 2009.

Asking prices have fallen an average of 49% from their peak in Q3 2008, and are currently AED 900 sq ft, whereas achieved sale prices are down by approximately 40% from their peak to AED 800 sq ft. The rate of decline appears to have eased in Q3, with transactions data released by the Dubai Lands Department for August and September suggesting an average decline of around 10% between Q2 2009 and Q3 2009.

Rental rates have declined by less than sale prices during 2009 as the leasing market has remained relatively active. One major real estate broker has reporting that August 2009 has been their busiest ever month.

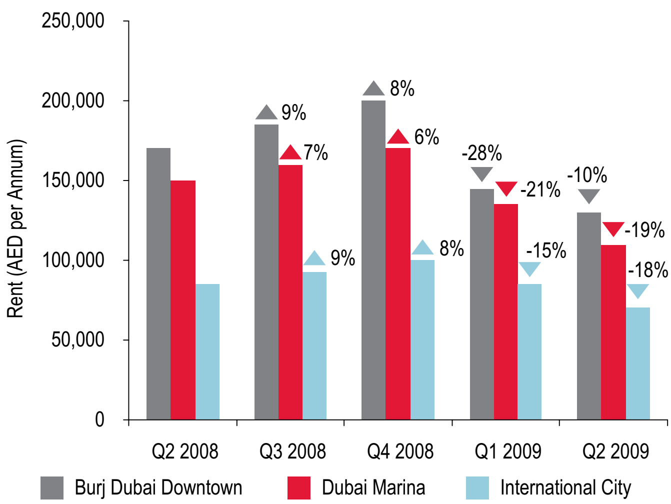
The average rent for a typical two bedroom apartment in selected residential areas declined by around 15% in Q2 2009 compared to 22% in Q1 2009. Apartment and villa rents declined by an average of 35% from Q4 2008 to Q2 2009 and saw a quarterly decline of 18% from Q1 2009 to Q2 2009.

Market Outlook

Transactional activity and pricing have continued to decline in the Dubai residential market but the rate of decline has definitely eased, suggesting the market is approaching stability. There are however significant levels of new supply likely to enter the market over the final quarter of 2009 which we expect to place further downward pressure on prices over the rest of the year.

Dubai's residential market is already becoming more competitive as both buyers and tenants have a large pool of projects to choose from. Even if all of the expected units for 2009 are not completed and handed over in time, Dubai's residential market will experience something of a supply overhang and prices are not expected to recover before the second half of 2010 at the earliest.

Average Residential Rents (Q2 08–Q2 09)



Source: Jones Lang LaSalle

Retail Market

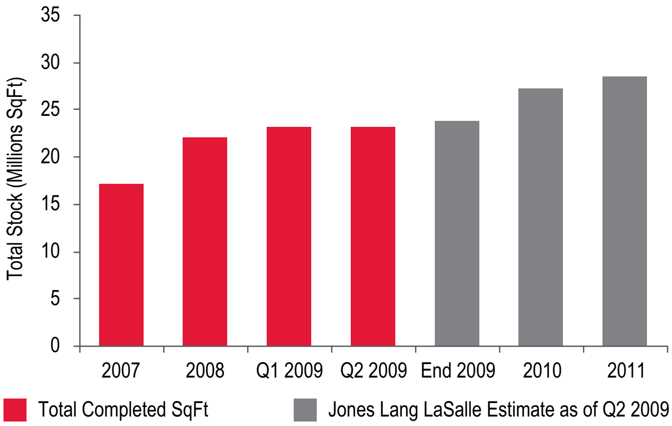
Supply

As of Q2 2009, total mall retail supply across Dubai was approximately 23.1 million sq. ft (GLA). This figure has changed little over Q3 as there were no major completions over the quarter. Total stock of mall retail in Dubai is expected to reach over 26 million sq. ft by 2010 with the major new mall to open next year being the Mirdiff City Centre (1.9 million sq. ft).

The retail supply pipeline has started to significantly tail off with delays being expected on several of the currently planned projects. This will give the sector some breathing space, potentially reducing the length of time it will take before the supply and demand gap narrows.

There is a higher percentage of 'regional' and 'super regional' malls in Dubai, compared to 'neighbourhood', 'community' and 'convenience' malls. Super regional and regional malls currently account for 71% of total mall based retail space and are likely to continue to dominate the Dubai retail scene over the next few years.

Retail Mall Supply – Dubai (2007–2011)



Source: Jones Lang LaSalle

Demand

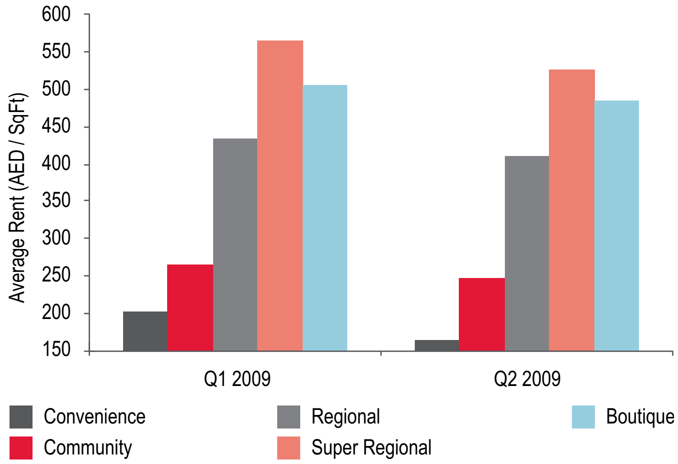
Retail sales have dropped significantly in Dubai during 2009 – by up to 25% according to the Dubai Shopping Malls Group. This has resulted in some retailers approaching mall owners to renegotiate leases.

Falling retail sales are also reported in a recent survey of 18 leading retailers reported in Emirates Business 24x7 (29th September), which found that consumer spending had declined by around 20% since the beginning of 2009. Around 25% of the retailers polled found that spending had fallen by more than 20%.

However, there may be some light at the end of the tunnel for retailers. According to the latest Consumer Confidence Index conducted by YouGov, the region's consumers feel the "economic pressures may be lifting", with the first recorded positive shift in a year. The index has moved up by 15.9 index points indicating consumer confidence is improving.

There continues to be demand for retail space in quality malls, although to a lesser extent than in early 2008, as many retailers' expansion plans have been scaled back or delayed. With occupancy rates in the super regional and regional malls remaining above 95% and increasing vacancies in the less desirable centres, a two tier market continues to emerge.

Average Net Asking Rents (Q1 2009–Q2 2009)



Source: Jones Lang LaSalle

Note: The graph represents the average asking rents for line stores

Performance

Average rental levels have continued to soften through Q2 2009 in all categories with the average rent for retail space standing at AED 330 sq ft at the end of Q2 2009 as opposed to AED 351 sq ft at the end of Q1 2009. Anecdotal evidence suggests that rentals have continued to decline in Q3. The shift in power from landlords to tenants will result in increasing incentives for tenants such as rent free periods and break clauses. Coupled with tenants achieving shorter leases, this will negatively affect rental incomes, but may benefit owners through allowing them to retain tenants that would otherwise close stores in the face of falling footfall and turnover.

Market Outlook

While average rents have declined since the peak at the end of 2008, the rate of decline is significantly below those witnessed in other sectors. It is clear that rents will vary between individual centres as well as within the centres themselves.

As the market shifts into a period of uncertainty, retailers are likely to opt for shorter term leases. We also expect to see an increase in incentives for tenants such as break clauses and rent free periods. Some tenants have signed a lease and then walked away without commencing fit out / trade.

Pre-letting has been very common in the UAE retail sector, but the current climate would suggest that pre-lettings are less likely to happen in the future as tenants wait to see how centres are trading before committing to new stores.

Hotel Market

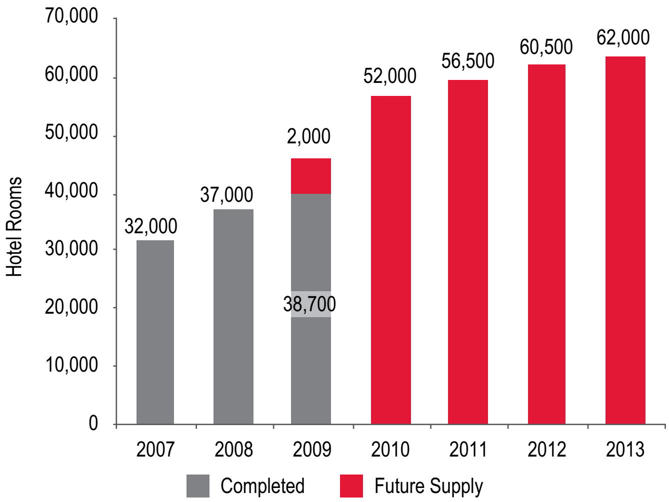
Supply

Over the first half of 2009, hotel supply in Dubai increased to approximately 38,723 rooms. As a result of the current economic conditions, the expected future supply has been reduced significantly. Despite this reduction, the existing market could see a 46% increase in room supply (with about 17,837 hotel rooms) planned for delivery before the end of 2011.

The influx of new supply over 2008 and first half of 2009 has placed considerable downward pressure on occupancy and room rates, coming at a time when the global economic slowdown has impacted tourism in most parts of the world. However, hotel performance in Dubai varies considerably and properties in more established business and tourist locations and with recognised branding and referral systems continue to trade at strong occupancy levels.

About 47% of the total hotel supply pipeline for the next five years is currently scheduled to enter the market in 2010. However, some projects are expected to experience delays and postpone completion.

Hotel Room Supply, 2007–2013 (Historical & Projected)

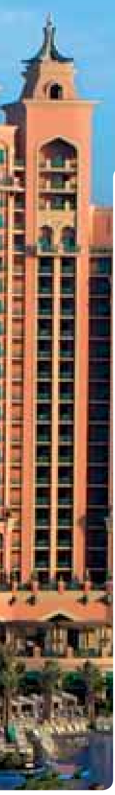


Source: Jones Lang LaSalle Hotels

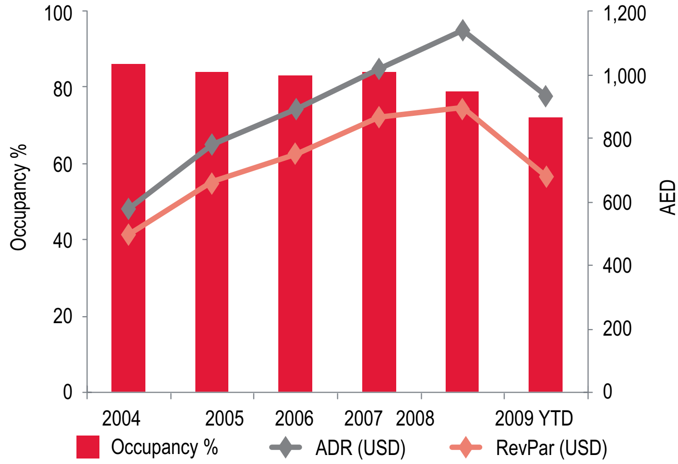
Major Openings in H1 2009 (Internationally Branded Hotels)

Hotel	Affiliation	Rooms
Royal Tulip Bur Dubai	Golden Tulip	120
SuiteHotel Mall of Emirates	Accor	180
Ibis Mall of Emirates	Accor	205
Premier Inn Dubai Silicon Oasis	Whitbread	230
The Address Dubai Mall	The Address Hotels & Resorts	245
Bonnington Towers	Bonnington Group	270
Ibis Al Barsha	Accor	480
Total		**1730**

Source: Jones Lang LaSalle Hotels



Hotel Performance – Dubai (2004–2009)



Source: STR Benchmark

Note: The graph shows the Year-To-Date hotel performance in Dubai until June 2009

Demand

Despite the global economic slowdown, visitor arrivals to Dubai increased by 5% in the first half of 2009 over the same period last year according to Dubai Tourism and Commerce Marketing (DTCM).

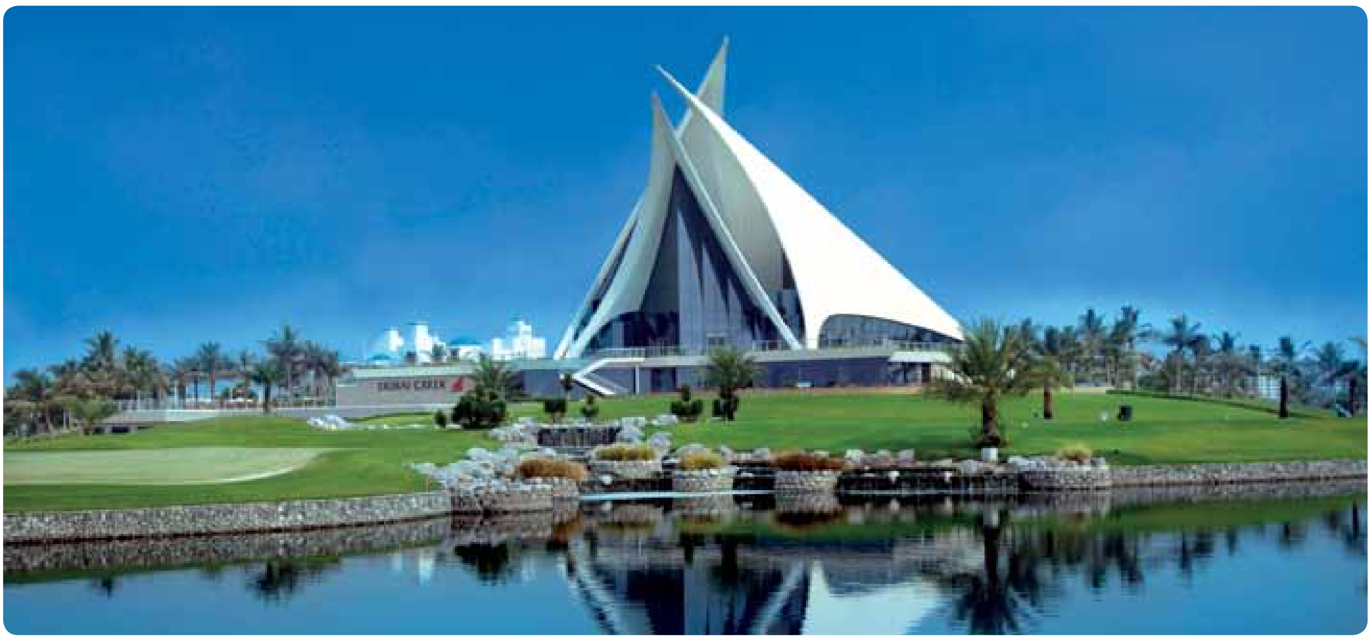
Hotel occupancy levels contracted by about 12% in the first half of 2009 compared to the same period last year. The decline in occupancy began in the last quarter of 2008 was a result of new supply entering the market as well as a softening demand from key European source markets. This also resulted in a reduction in hotel rates in order to stimulate further demand.

Hotel Performance

Since the beginning of 2009, both ADR and RevPAR have been declining from previous year levels. After registering positive ADR growth from 2004 until 2008, ADRs in the city decreased by around 26% in the first half of 2009 to AED 926. March and May recorded a 33% decrease in ADR across the Dubai market. Market wide RevPAR for the first six months of 2009 decreased by around 33%.

Market Outlook

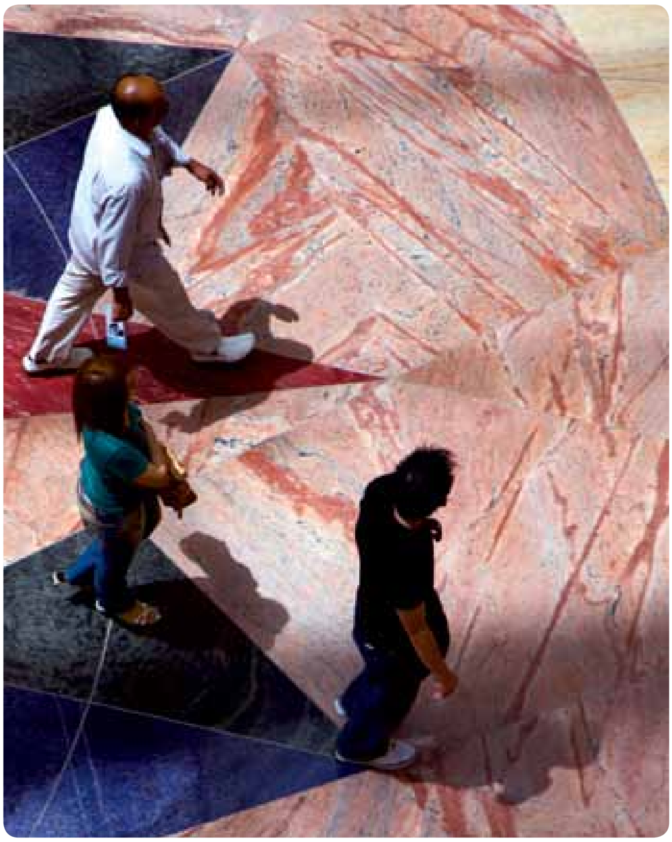
Whilst the short term outlook for visitor arrivals is expected to remain positive and above 2009 levels, there will be continued pressure on hotel occupancy and ADR levels as the market absorbs strong supply increases over the next two to three years.



Market Practices

Property Ownership Regulations

There is no distinction between UAE and GCC nationals with respect to ownership of property in Dubai. Foreigners, (non-GCC nationals) have the right to purchase property in designated freehold areas:



Freehold Ownership Terms

Freehold Ownership Terms	
Foreign individual / companies	Right to freehold (or long term leasehold up to 99 years) in certain designated areas developed by companies such as Emaar, Nakheel or Dubai Properties
GCC nationals / companies	No restrictions
UAE nationals / local companies	No restrictions

Source: Jones Lang LaSalle

Leasing Practices – Office sector

Leasing Practices	
Typical Lease Length	1–3 years / Small Space 3–10 years / Large Space
Frequency of Rent Payable (in advance)	Annually
Rent Deposit	Variable: 5–10% or Fixed AED 10,000
Termination Notice	3 months
Statutory Right to Renewal	No
Basis of Rent Increase	Market
Frequency of Rent Increase	Every 2 years

Service Charges & Repairs	
Cleaning of Leased Area	Tenant
Fit Out	Tenant
Internal Maintenance and Common Areas	Landlord
External / Structure	Landlord
Taxes & Insurance	
Stamp Duty	Not Applicable
Municipality (Local Property) Tax	5% of rent

Source: Jones Lang LaSalle

Real Estate Laws, Guidelines & Initiatives

- A new decree has been established abolishing the minimum amount require to set-up an LLC (Limited Liability Company). This is an amendment to Federal Law No. 8 of 1984.
- The Dubai rent decree (Decree No. (1) of 2009) is part of RERA's push towards streamlining rents and as per existing rents in 2008, only allows a certain percentage increase for both residential and commercial properties. While the scheme is not legally binding, it is designed to act as an indicator for landlords. This initiative aims at improving transparency of rents for each area, at the same time helping investors with their strategies.
- As of January 2009, RERA launched a residential property rental index which defines the average annual rents for studios, one, two and three-bedroom apartments in addition to villas in compounds and single villas and the Land Department is encouraging tenants and landlords to register all rental contracts in the emirate prior to this date to help effect this process.
- As of January 2009, RERA has ordered developers and banks to stop collecting payments exceeding 20% of the cost of properties, until construction begins.
- Law No. (13) of 2008 concerning Real Estate Registration in Dubai. This law regulates sales of real estate units under construction. Developers may not implement any project or sell any property prior to obtaining the required title deeds and obtaining all necessary approvals. This law also addresses the consequences of any default by the purchaser.
- Law No. (14) of 2008: This law applies to the mortgage of property and property units as security for debt. It also regulates the procedures to be taken by banks (or any other creditor) in case the mortgagor fails to meet the monthly payment schedule.
- Law No. 8 Strata Title Law — the strata title law in Dubai came into effect earlier in 2008. It seeks to provide certainty to owners of units in apartment buildings of their rights to ownership and easements (i.e. it confirms that they may sell, lease or mortgage their unit). This law also provides for the establishment of management associations and outlines the developers' liability relating to various construction defects and the right to charge service fees.
- RERA and the Dubai Department of Economic Development (DED) have signed a "Co-operation pact" to facilitate all licensing procedures related to the real estate sector.
- RERA plans to introduce a Realty Agent Trust Account to boost the confidence and transparency in the market and create a strong professionalism within the brokerage industry.
- RERA has signed a MoU with the Royal Institution of Chartered Surveyors (RICS), aimed at improving the quality of real estate professionals in Dubai and enhancing the standards of expert regulation. The RICS will also assist RERA with a Code of Measuring Practice so as to streamline the process within Dubai.
- Despite recent attempts to clarify the situation, there remains considerable confusion surrounding the residency rights for foreign nationals purchasing real estate in UAE.

Jones Lang LaSalle

Real value in a changing world

Jones Lang LaSalle MENA Offices

Dubai
Emaar Square
Building 1 Office 403
Sheikh Zayed Road
PO Box 214029
Dubai, UAE
Tel: +971 4 426 6999
Fax: +971 4 365 3260

Abu Dhabi
Al Niyadi Building
10th Floor, Offices 1003/4
Airport Road
PO Box 36788
Abu Dhabi, UAE
Tel: +971 2 443 7772
Fax: +971 2 443 7762

Saudi Arabia
Al Hoshan Building
Western Tower Level 3
Al Ehasa Street
PO Box 9629
Riyadh, Saudi Arabia
Tel: +966 1 472 8309
Fax: +966 1 472 9478

For more information on how Jones Lang LaSalle can assist you, please contact:

Graham Coutts
Advisory Services
graham.coutts@jll.com

Andrew Charlesworth
Corporate Finance Advisory
andrew.charlesworth@jll.com

Ian Ohan
Investment Transactions
ian.ohan@jll.com

Matthew Hammond
Agency Services
matthew.hammond@jll.com

Jalil Mekouar
Hotels
jalil.mekouar@jll.com

Blair Hagkull
Managing Director
blair.hagkull@jll.com

Authors:

Craig Plumb
Head of Research – MENA
craig.plumb@jll.com

Bhavish Patel
Senior Market Intelligence Analyst – Retail Sector
bhavish.patel@jll.com

Rahul Ahmad
Senior Market Intelligence Analyst
rahul.ahmad@jll.com

Amr Elnady
Hospitality Analyst
Amr.elnady@jll.com

Nida Mian
Market Intelligence Analyst – Residential Sector
nida.mian@jll.com

www.joneslanglasalle-mena.com