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Dubai Real Estate

Market Overview Q2 2012

Market Highlights – Q2 2012

- The Dubai economy is expected to grow by between 4% and 5% in 2012, according to upward revised projections by the Dubai Economic Council. The GDP growth is expected to be driven by strong trade and tourism sectors.
- A recent survey by the Department of Economic Development, shows investors' confidence is increasing. The Business Confidence Index (BCI) for Dubai reached 120.5 points as of March 2012.
- Signs of improved investor confidence have flowed into the real estate sector, with continued demand for quality, well located, income producing assets. The main transactions that took place in the first half of 2012 were the sale of Building 6 in Gate Precinct in DIFC and the transfer of the 50% Kerzner share in Atlantis the Palm Jumeirah to Istithmar World. In addition, around 11,400 sq ft of mixed use space was sold in Burj Khalifa in June.
- There has been limited new office supply entering the market over the first half of the year. Asking rents for prime office space remained flat in Q2 2012 but secondary rents have softened. Occupier consolidation remains a key focus and in line with global trends, portfolio optimisation has been noticeable in Dubai during the first half of the year. Larger companies continue to show interest in upgrading premises with more flexibility in their leases.
- The overall residential market is seeing a positive trend with the villa market continuing to outperform the apartment sector in Q2 2012. Prime residential buildings in well established locations continue to see improved performance, but secondary locations are still suffering from rental and pricing declines.
- There remains strong demand for retail space in the best performing super-regional malls (eg: Dubai Mall, Mall of the Emirates), resulting in an increase in prime rents to AED 5,400 / sq m. However the retail market is becoming increasingly two-tier and older, less popular malls are seeing weakened demand from consumers and retailers, with mall owners having to consider new marketing techniques and product positioning.
- The recovery of the hotel sector witnessed during 2011 has continued further over the first half of 2012, with occupancy levels improving to 83% from 79% in the same period last year. The growth has been mainly supported by a strong tourism sector and a very encouraging number of visitors. The recovery of Dubai hotels has been reflected by an increase in both Average Daily Rates (ADRs) and Revenue Per Available Room (RevPar) levels.

Talking Points – Q2 2012

- According to Jones Lang LaSalle's Global Real Estate Transparency Index 2012, Dubai maintained its status as MENA's most transparent real estate market. However on a global level, Dubai only ranks 47th of the 97 markets covered.
- Dubai has announced its bid to host World Expo 2020, under the theme "Connecting Minds, Creating the future". If held in Dubai, this would be the first Expo to take place in the Middle East, North Africa and South Asia. Dubai is competing with Sao Paulo (Brazil), Ayutthaya (Thailand), Izmir (Turkey) and Ekaterinburg (Russia). The winning city will be revealed in November 2013.
- A new law aiming at protecting real estate investors from delays or unilateral changes will soon be issued by the Dubai Land Department. According to the latest draft of the law, investors can cancel their contracts and get their money back in cases where developers violate the terms and conditions. The new law is expected to pressurise developers to finish their projects and increase investors confidence. It will also ensure more transparency and better regulation of the real estate market.
- The "Dubai Green Economy Partnership", a public-private programme was launched in May 2012. A number of initiatives were proposed in order to strengthen Dubai's position as a green economy and place emphasis on sustainable development.
- The Dubai International Financial Centre (DIFC) set out a two-year development programme to promote the growth and development of financial services sector. It also aims at increasing the contribution of the Centre to Dubai's GDP growth and bring it in line with other global financial centres.
- Tameer's Princess Tower has entered Guinness World Records as the world's tallest residential building. The tower, located in Dubai Marina, stands 414 meters tall and comprises 107 storeys. It is due to complete later in 2012.
- Dubai was ranked as the world's number eight tourist destination, outshining cities such as New York, Barcelona and Rome, according to MasterCard's Worldwide Index of Global Destination Cities. The index predicts visitor spending in Dubai to increase by 19% in 2012 reaching USD 8.8 billion, while visitor numbers are projected to reach 8.8 million in 2012, up 15% compared with the previous year.
- Dubai International Airport is expected to overtake London's Heathrow and become the third busiest international airport by 2020, handling 100 million passengers per annum. The emirate is investing around USD 7.8 billion as part of the expansion plan.

Dubai Prime Rental Clock Q2 2011 – Q2 2012

*Hotel clock reflects the movement of RevPAR.

Note: The property clock illustrates where Jones Lang LaSalle estimate each prime market is within its individual rental cycle as at end of relevant quarter.
Source: Jones Lang LaSalle

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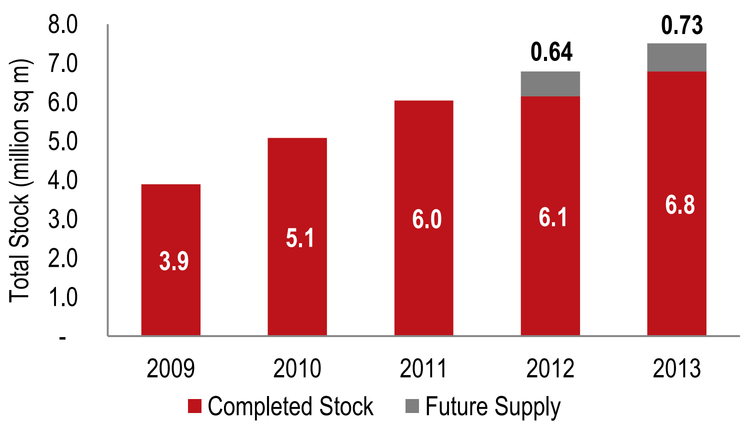
Dubai *Office* Market Overview

Office Supply

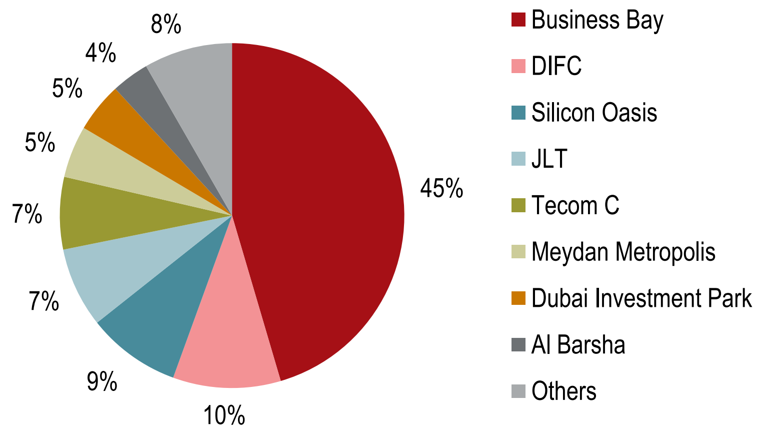
- The total city-wide office stock stood at approximately 6.1 million sq m at the end of Q2 2012. Only 58,000 sq m was delivered in the second quarter of 2012. The major completions during the quarter were the Platinum Towers in Jumeirah Lakes Towers (JLT) and The Annex, an office building annexed to Burj Khalifa in Downtown.
- Single ownership buildings account for the majority (approximately 60%) of the existing office stock while the remaining projects fall under strata ownership (approximately 40%). The majority of office supply remains concentrated in onshore locations (53%), compared with a lower proportion of the existing stock located in free zones (47%) and available to companies operating with offshore licenses.
- An additional 640,000 sq m of office supply will enter the market in the second half of 2012 if all the projects are delivered without delays. This still represents the lowest level of completions since 2007. In reality, not all the proposed space will complete in 2012, with some projects being delayed into 2013 and beyond. In addition to this supply, there is a further 2.2 million sq m which has been placed on hold.
- The majority of new office supply for the second half of 2012 will be located in Business Bay. Going forward, in 2013, more office space is expected to be delivered in Business Bay, in addition to a logistics and office park in Dubai World Central.

Dubai Office Supply (2009 - 2013)



Source: Jones Lang LaSalle, Q2 2012

Breakdown of Expected Completions in 2012 by Sub Market



Source: Jones Lang LaSalle, Q2 2012

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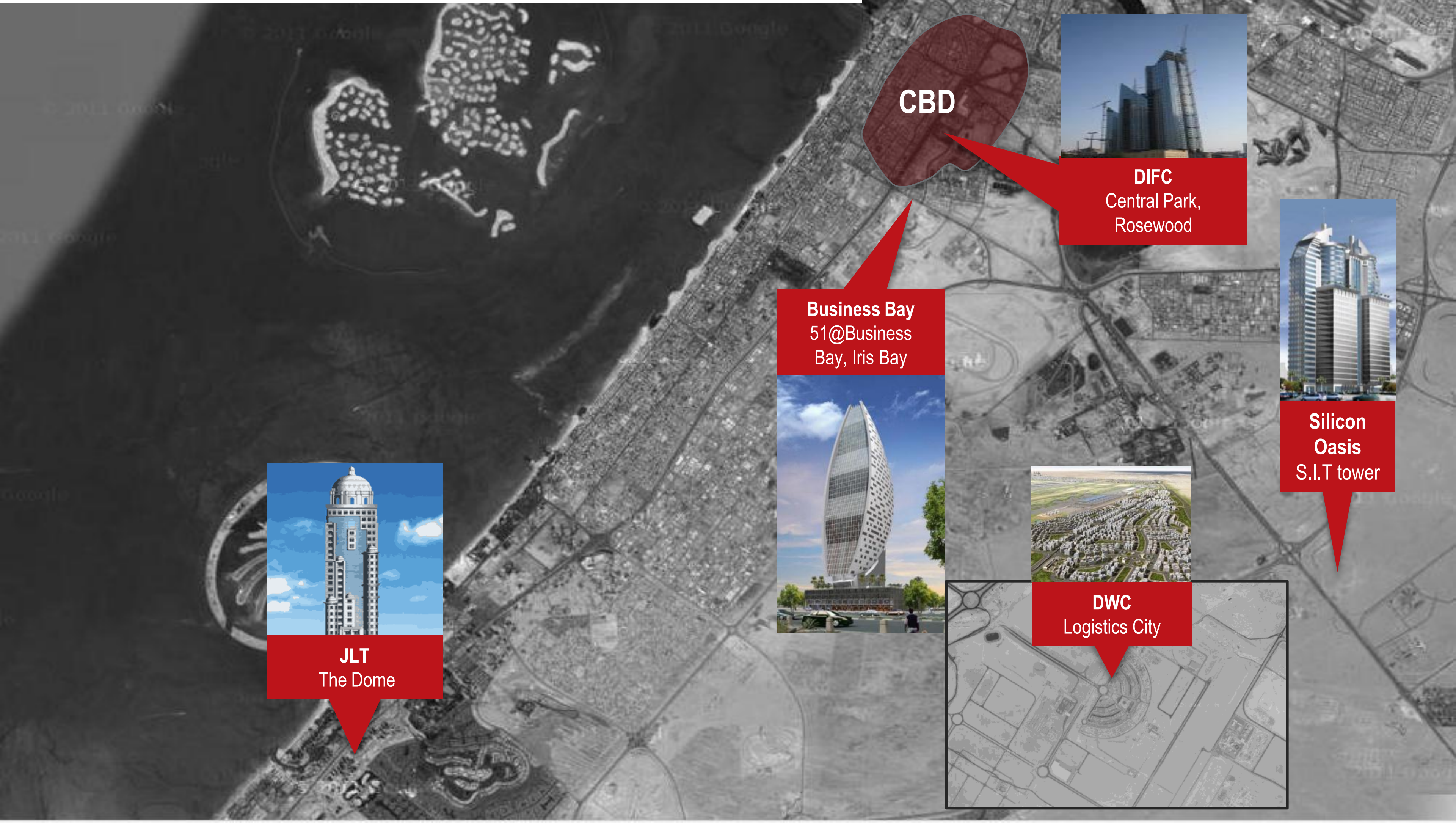
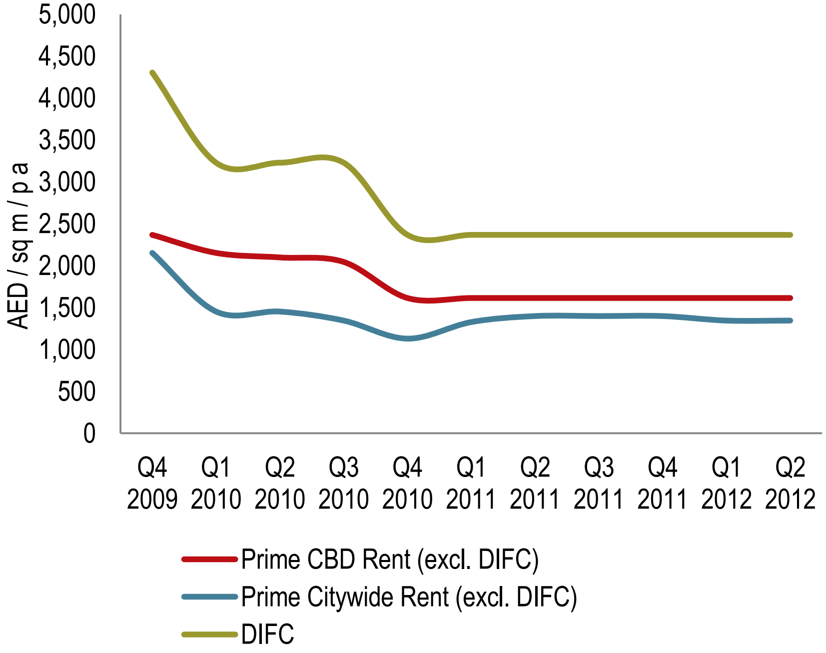
Expected Major Office Completions in 2012



Rental Performance

- Average asking rents for prime office buildings have remained unchanged over the past year. Prime rents* in the DIFC stabilised at AED 2,370 per sq m, while prime rents elsewhere in the CBD (excluding DIFC) remained flat at AED 1,615 per sq m in the second quarter of 2012. Prime quality buildings in areas such as TECOM, SZR and Burj Downtown continue to be popular locations for corporates and are witnessing stabilising rents, but poorer quality space and buildings in secondary locations continue to see rental decline.
- With limited supply entering the market, vacancy rates within the CBD remained stable at around 35%. While well-established buildings in DIFC such as The Gate enjoy high occupancy rates, other areas still suffer high vacancy rates, and this trend is not expected to change soon, especially with the approach of the quieter summer months. Business Bay for example, has a vacancy rate of around 80% due to limited demand and a substantial pipeline supply of new projects.
- Although prime buildings are witnessing stable rental levels, secondary locations are expected to see further rental decline in the second half of 2012 due to the large new supply and weak tenant demand that is further exacerbating the supply-demand imbalance and the two tier nature of the Dubai office market.

Dubai Prime Office Rents (Q4 2009 – Q2 2012)



Source: Jones Lang LaSalle, Q2 2012

* Prime Office Rent represents the top open-market rent that could be expected for a notional office unit of the highest quality and specification in the best location in a market, as at the survey date Data relates to effective rents that are exclusive of service charges.

Office Market Summary

Indicator	Level	Comment / Outlook
Current Office Stock	6.1 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)	1.4 million sq m	Assuming that all pipeline supply tracked by Jones Lang LaSalle quarterly survey will complete. In reality, some of the proposed projects may be delayed beyond 2013.
CBD Single Ownership Vacancy	35%	CBD vacancy levels were stable in Q2-2012. Some areas outside the CBD continue to experience much higher vacancies.
Prime CBD Rental (excl. DIFC) **Prime Citywide Rental**	AED 1,600 / sq m AED 1,300 / sq m	Rental levels stabilised in Q2 2012 as the new supply is limited and occupier demand remains subdued.
Average Sale Price	AED 9,600 / sq m	Prices have remained stable in Q2 2012 as the market did not witness any significant transactions and investors' sentiment remained unchanged. New supply is likely to push pricing down in 2013.

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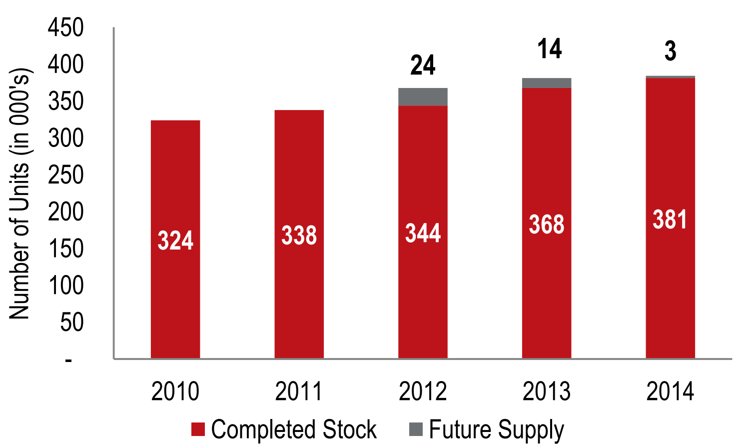
Dubai *Residential* Market Overview

Residential Supply

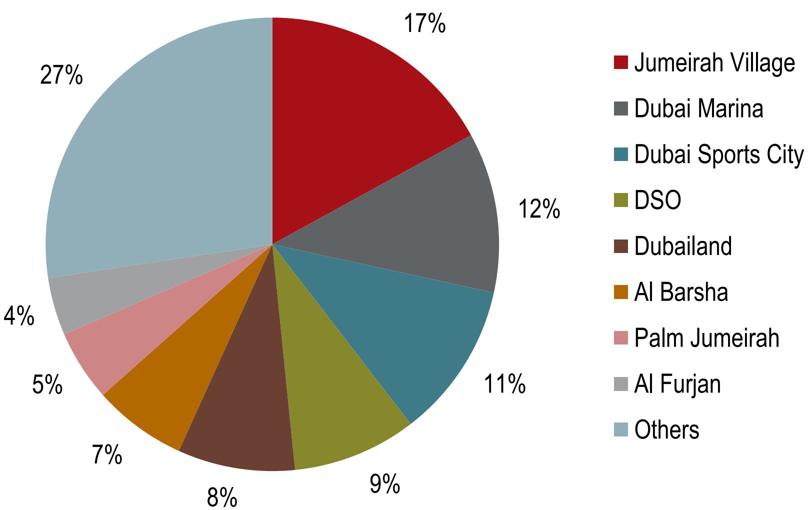
- In the second quarter of 2012, approximately 3,000 additional residential units were added to the market, bringing the total current residential stock to around 344,000 units. The majority of the completions were apartments. Notable projects handed over this quarter included The Villa- phase three in Dubailand, two towers in Dubai Marina, three buildings in Dubai Silicon Oasis and a complex of 26 buildings in International City.
- International city has the largest proportion (16%) of residential supply completed since 2009. Dubai Marina, Discovery Gardens, JLT are other submarkets which have witnessed increases in residential stock .
- According to developers, a total of 24,000 additional units are currently scheduled to be delivered in the second half of 2012. The main locations that are expected to see new completions in the coming six months are Al Furjan (4,000 units expected to be delivered), Jumeirah Village (approximately 3,400 units), Dubai Marina (2,300 units), Dubai Sports City (2,200 units) and Dubai Silicon Oasis (1,800 units). In reality, some of the proposed projects might be delayed beyond their schedule date.
- Additional units in Dubai Sports City and Jumeirah Village are projected to be delivered in 2013 and 2014.

Dubai Residential Supply (2010 - 2014)



Source: Jones Lang LaSalle, Q2 2012

Breakdown of Expected Completions in 2012 by Sub Market

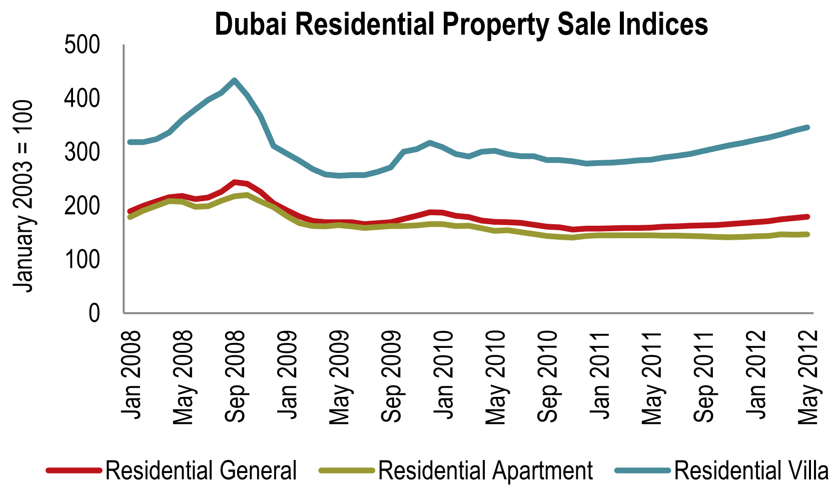


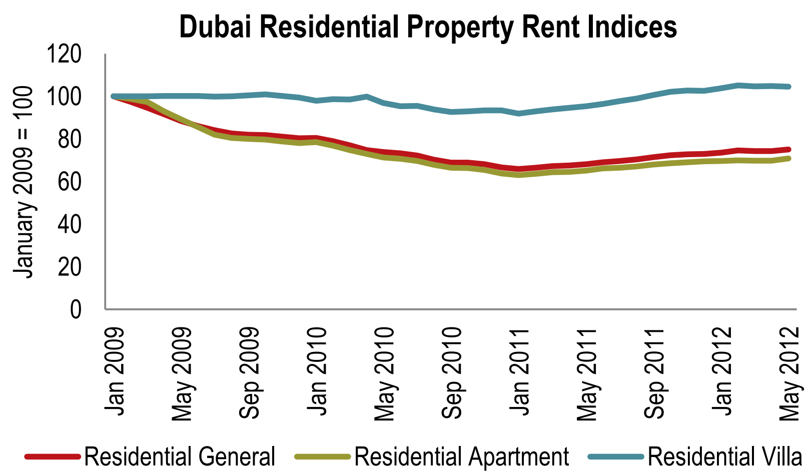
Source: Jones Lang LaSalle, Q2 2012

Expected Major Residential Completions in 2012

Residential Performance

- The REIDIN Residential Sale Indices show that overall, the residential market looks to have bottomed out, with prices for both villas and apartments increasing since the start of 2012.
- The villa market began to see some uptick towards the end of 2011 and this trend has continued into 2012. As of May 2012, villa sale indices have increased by 21% Y-o-Y and are now 9% higher than early 2008 levels. Apartment sale indices have remained stable (up by 1% Y-o-Y) but remain however 18% lower compared to January 2008.
- REIDIN Rent Indices show virtually no change since the beginning of 2012 for both villas and apartments. Rents for both segments have increased by around 10% Y-o-Y. Whilst villa rents have increased 5% compared to the levels of January 2009 and are almost back to their peak levels, apartments are 30% lower relative to January 2009 levels.
- The villa market is expected to continue to outperform the apartment sector and whilst prime residential assets in well established locations continue to see improved performance, secondary buildings and locations are still suffering from both rental and pricing declines.





Note: REIDIN.com RPPIs use monthly sample of offered/asked listing price data and land registry price data (transaction data). Dubai sales/ rent index series are calculated monthly and cover 7 city-wide, 8 main districts and 4 major communities/ projects.

Source: REIDIN, Q2 2012

Residential Market Summary

Indicator	Level	Comment/Outlook
Current Residential Stock	344,000	Around 3,000 units were added to Dubai's residential stock inventory in Q2 2012.
Future Supply (2012 – 2014)	41,000	Assuming that all supply tracked by Jones Lang LaSalle's quarterly survey will complete. In reality, some of the proposed projects may be delayed beyond their scheduled date.
Apartment Rent	↗	Asking rents went up by 9% Y-o-Y in established locations and are expected to increase further in the coming months of 2012.
Apartment Sale Price	→	Apartment sale prices have remained flat in prime buildings within established locations year-on-year.
Villa Rent	↗	Villa rents have increased in Q2 2012 by 10% Y-o-Y in prime established locations and this trend is likely to continue. Asking rents in less established prime locations expected to remain stable in 2012.
Villa Sale Price	↗	Prime prices for villas have increased by 21% year-on-year and are expected to continue their upward trend during the remaining of 2012 in well established prime areas.

Note: Direction arrows are based on the performance of the REIDIN monthly index.

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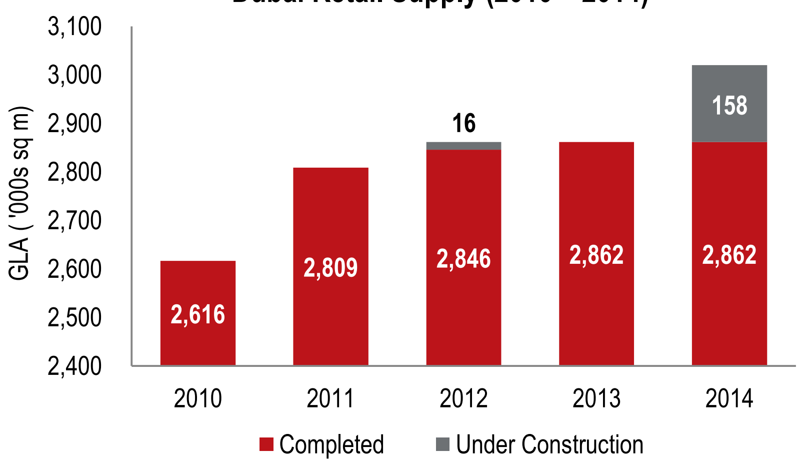
Dubai *Retail* Market Overview

Retail Mall Supply

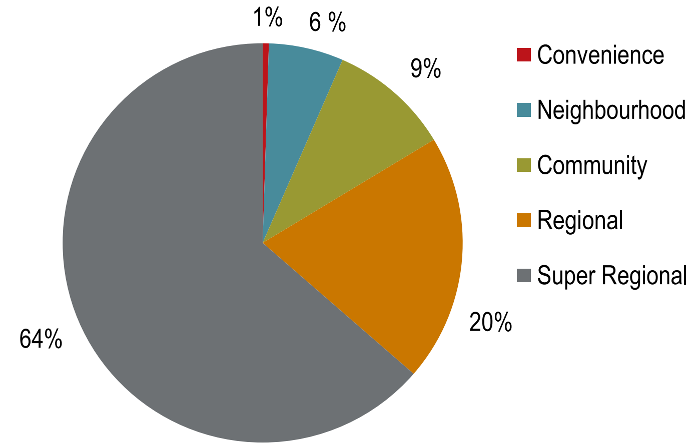
- The only major retail completion in the first half of 2012 was the Madina Mall in Muhaisanah 4, with Carrefour as a main anchor tenant. In the second half of the year, around 16,000 sq m is scheduled to be delivered with the Phase 1 of Meraas The Avenue retail project.
- There have been a number of new retail announcements made during last quarter. Meraas announced two projects, the second phase of The Avenue in Satwa and a smaller development in Dubai Marina. Nakheel revealed The Pointe on Palm Jumeirah while other retail projects have been announced as part of Dubai Sports City.
- With the construction of Mall of Arabia currently on hold, the next significant retail completion in Dubai is likely to be the 158,000 sq m extension to Dragon Mart in International City which is due to be delivered to the market in 2014. The Dubai Pearl Shopping Mall is due to complete in 2015.
- Dubai's retail market remains dominated by large Super Regional Centres. These currently account for 64% of mall based retail space however this percentage is likely to decline in the coming years as the retail market sees increased emphasis on smaller Community Centres.

Dubai Retail Supply (2010 – 2014)



Source: Jones Lang LaSalle, Q2 2012

Breakdown of GLA by Type of Mall



Source: Jones Lang LaSalle, Q2 2012

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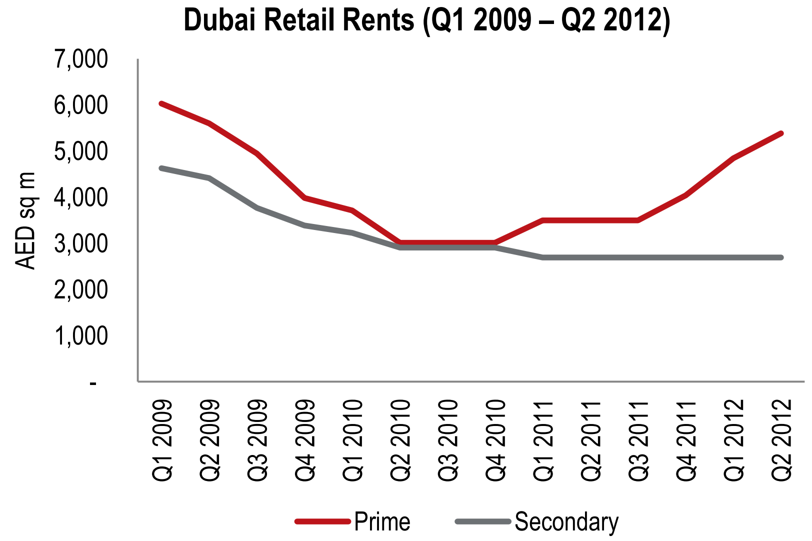
Rental Performance – Estimated Rental Value (ERV)

- The top open market net rent for a notional standard shop in prime super regional centres has continued to move upwards in Q2 2012. Demand for premium retail space in the large malls has been buoyed by the entrance of a number of UK retailers in the market. Secondary rents remain stable resulting in an increasing differential between prime and secondary product.
- Although there has been no recent data released on total retail spend, airport arrival numbers and high hotel occupancy rates suggest the retail sector is performing well and will continue to do so.
- Deira City Centre and Mall of the Emirates are almost 100% leased and continue to outperform the industry in sales densities and occupancy. The Dubai Mall is seeing an increase in its occupancy rates with more retailers looking to be based in one of the biggest shopping centres in the world, which attracted 54 million visitors in 2011.
- However, like other sectors, the retail market is becoming more two-tier and older, less popular malls are seeing weakened demand from consumers as retailers compete for a presence in the best quality centres. Increasingly, mall owners are needing to consider new marketing techniques and product positioning.

AED / sq m	Q2 2012
Super Regional	4,850 - 5,900
Regional	2,150 - 3,200
Community	1,200 - 1,600
Neighbourhood	1,350 - 1,600
Convenience	850 - 1,200
Boutique	1,850 , 2,350



Note: Chart shows mid-point ERV for an in-line store in Prime and Secondary Super Regional shopping malls. The rent quoted reflects a notional “standard” line store unit of 100 sq m.
Source: Jones Lang LaSalle, Q2 2012

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Retail Sector Summary

Indicator	Level	Comment / Outlook
Current Retail Space (GLA)	2,846,000 sq m	Limited additions to mall based retail space in Q2 2012.
Future Supply (2012 – 2014)	271,000 sq m	The next significant retail completion in Dubai is likely to be the 158,000 sq m extension to Dragon Mart which is due to be delivered to the market in 2014.
Prime Retail Rents **Secondary Retail Rents**	AED 5,400 / sq m AED 2,700/ sq m	Prime units in better performing centres are likely to 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 regional and super regional centres.

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Dubai Hotel Market Overview

Hotel Supply

- The second quarter of 2012 saw the opening of one major internationally branded hotel – Melia in Bur Dubai, which marked the entrance of a new operator in the Dubai hospitality market.

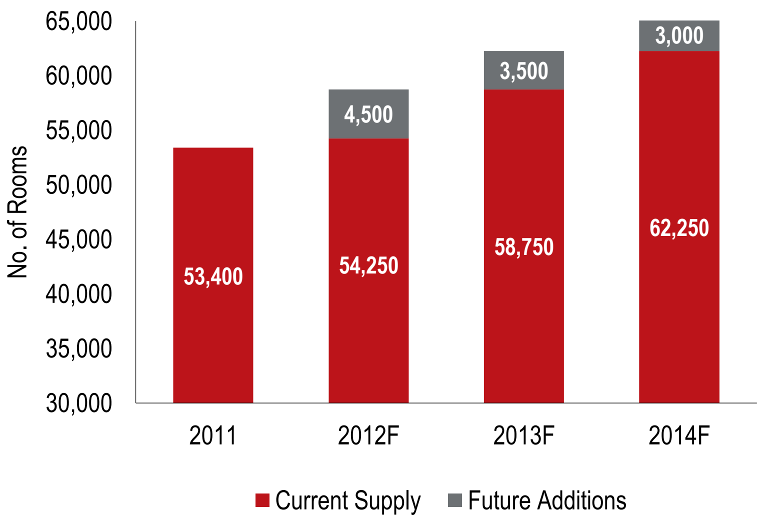
- The first half of 2012 has witnessed an addition of about 850 branded hotel rooms in the city. The bulk of the major openings are scheduled in the second half of the year, mostly leaning towards the end of the year after Ramadan.

- Approximately 4,500 additional guest rooms are expected to be completed in 2012 with major projects including JW Marriott Marquis (Business Bay), Al Khor Rayhaan (Al Ghurair City), Fairmont The Palm and Conrad Sheikh Zayed Road.

- The positive upswing in tourism volumes in Dubai has raised confidence levels and following a slowdown witnessed in the last couple of years, there has been an increase in the number of announced projects in the city including the Four Seasons Dubai, three hotels (St. Regis, Westin and W) at the Metropolitan site and some midscale properties in the Bur Dubai / Deira area.

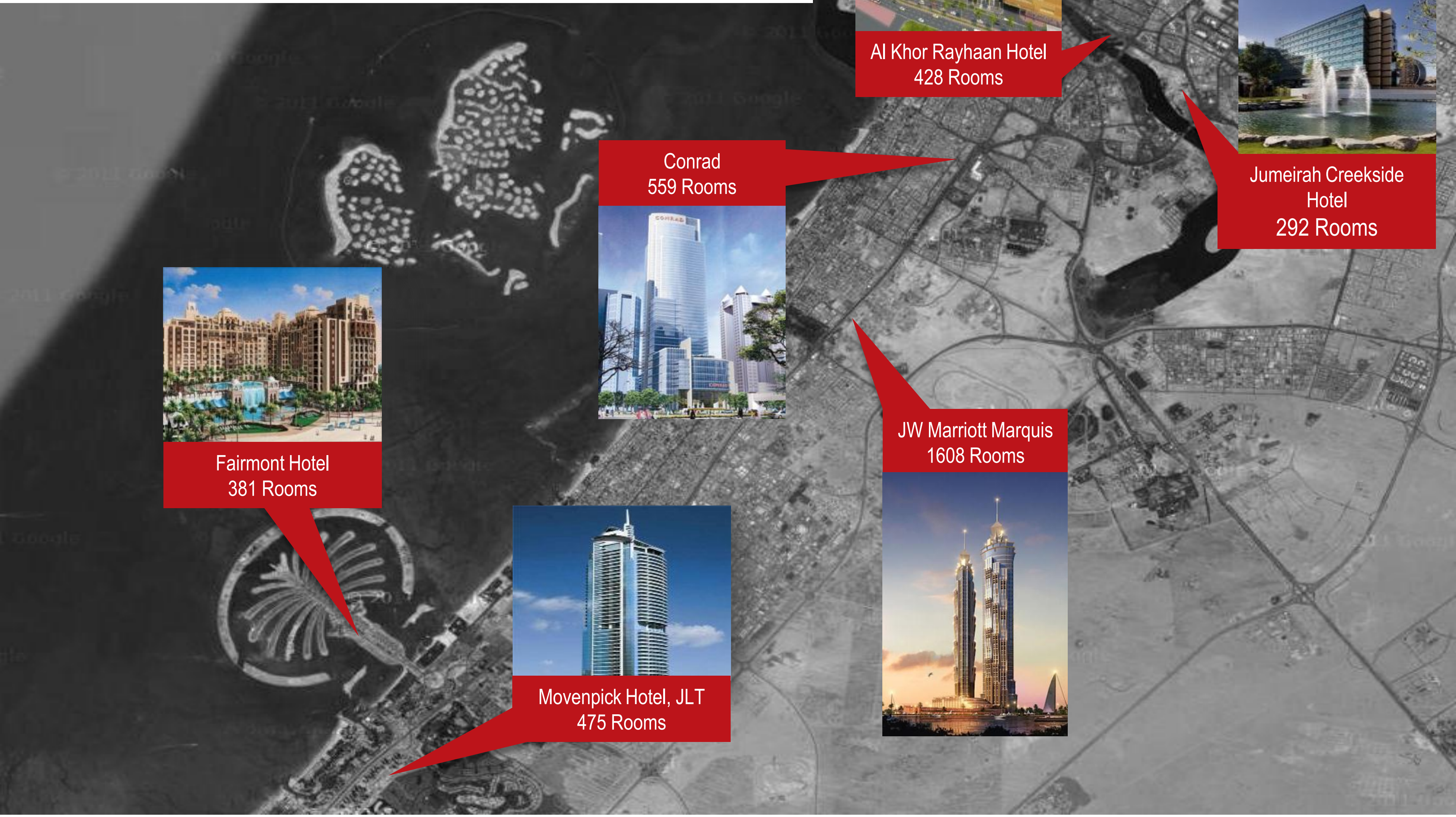
- Additionally, several major established hotels are undertaking renovation programs to refresh their products in order to match the new supply and cater to increased demand (e.g. Pullman Deira City Centre Hotel).

Dubai Hotel Supply (2012 – 2014)



Source: Jones Lang LaSalle Hotels, Q2 2012

Expected Major Hotels Completions in 2012



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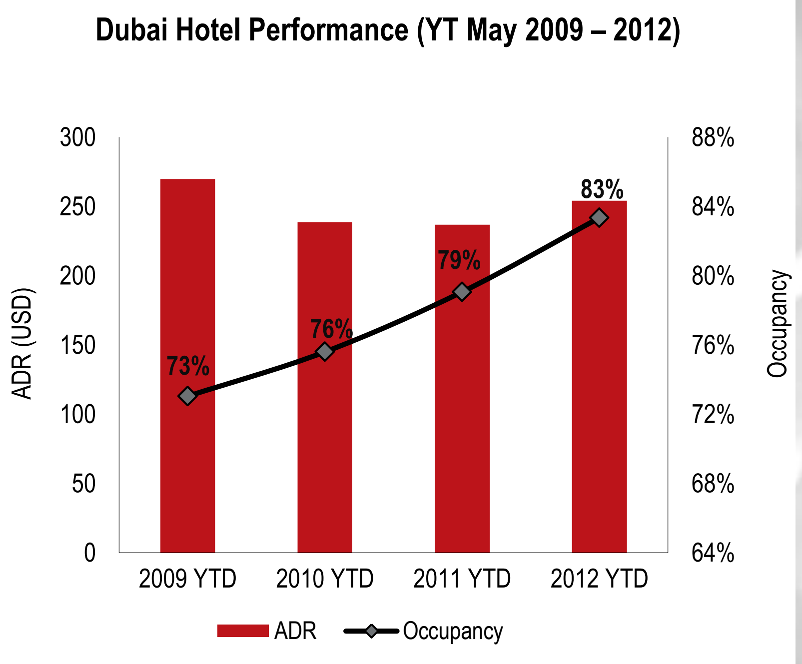
Trading Performance

- The first five months of 2012 have upheld the recovery trend in the Dubai market. The city received around 2.6 million tourists in the first quarter of 2012.
- Occupancy rates as at YT May 2012 have increased by 4% points over the same period in 2011, reaching 83% on city-wide basis.
- After a period of two years, average rates showed an increase of about 7% during the first five months of 2012 as compared to the same period in 2011. The beach hotels have witnessed an improvement exceeding 10% in ADR levels in January – May 2012.
- As a result of higher occupancies and ADRs, RevPAR levels showed an impressive 13% growth, reaching USD 212 in YT May 2012 over the same period in 2011.



Source: STR Global

Hotel Market Summary

Indicator	Level	Comment / Outlook
Current Hotel Supply	54,300 rooms	About 850 rooms were added in the first half 2012, including one major opening in Q2 with Melia Dubai.
Future Supply (2012 - 2014)	11,000 units	Bulk of the major openings in 2012 are scheduled for the second half of the year, post Ramadan. The city has a significant committed supply pipeline over the next two – three years.
2012 YTD Occupancy	83%	Increase in YTD levels of occupancy with improvement witnessed across all sub-markets.
2012 YTD ADR	USD 254	As a result of higher occupancies and ADRs, RevPAR levels have witnessed a double digit increase by 13% 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.
- Residential performance data is based on the REIDIN monthly index. REIDIN.com Dubai Residential Property Price Indices (RPPIs) use monthly sample of offered/asked listing price data and land registry price data (transaction data). Index series are set at 100 starting at the beginning of each data set.

Retail:

- Classification of Retail Centres is based upon the ULI definition as published in *Retail Development, 4th Edition published by ULI.*
- Prime Rent Shopping Centre represents the top open market net rent that could be expected for a notional standard in line unit shop situated in a specified shopping centre - preferred in a inner city location -, as at the survey date (normally at the end of each quarter period). The rent quoted reflects a notional "standard" unit of 100 sq m.

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.
- Prime Office Rent represents the top open-market rent that could be expected for a notional office unit of the highest quality and specification in the best location in a market, as at the survey date (normally at the end of each quarter period). The rent quoted normally reflects prime units of over 500 sq m of lettable floorspace, which excludes rents that represent a premium level paid for a small quantity of space. The Prime Rent reflects an occupational lease that is standard for the local market. It is a face rent that does not reflect the financial impact of tenant incentives, and excludes service charges and local taxes.

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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