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Dubai City Profile

A Review of the Dubai Property Market

February 2009

Vacancies in the Dubai's office market have doubled to around 16% over the past 6 months, the highest rate ever recorded. The market has been impacted by both deteriorating demand (in line with the global economic downturn) and significant levels of new supply.

More than 50% of the announced residential and commercial projects due for completion between 2009 and 2012 have now been either put on hold or cancelled. This reflects the lack of available funding and projections of declining population along with continuing job cuts.

The hospitality market reports the lowest occupancy rate in five years with an average of 79%. This has been brought about by declining visitor arrivals and the release of new rooms into the market over the past 6 months.



Economic and Demographic Overview

Key Statistics

Indicator	UAE	
	2008	2009F*
Population (millions)	4.50	4.62
Population Growth (Y-o-Y)	2.8 %	2.6 %
Real GDP (USD billions)	170.42	172.98
Major Contributing Sectors of GDP	Oil, Gas, Manufacturing	Oil, Gas, Manufacturing
Real GDP Growth (Y-o-Y)	6.0%	1.5%
GDP per capita (USD)	51,550	44,631
Inflation (pa)	13.1%	4.75 %
FDI (USD Millions)	11.15	6.0
Exchange Rate (USD:AED)	3.67	3.67

*F: Forecast

Source: Global Insight / UNCTAD/ EIU

Economic Review

2008 can be seen as a year of two distinct halves, with strong growth continuing over the first half of the year, followed by a significant correction in the second half in respect of both Dubai and the broader UAE economy.

The UAE registered strong GDP growth of 16.5% in nominal terms (6% in real terms) in 2008 while forecasts for 2009 continue to be revised downwards. The latest projections as of January 2009, suggest the economy will continue to expand, albeit at a slower rate, achieving real growth of 1.5% this year. This is in stark contrast to the negative growth now forecast at the global level and in many of the world's largest economies.

Equity markets across the globe have been negatively impacted by the slowing in economic and consequent decline in corporate performance. Dubai has been no exception with the benchmark DFM index declining from a record high of 6,290 points in early January 2008, to its present level of below 1,500 points (a decline of almost 80%).

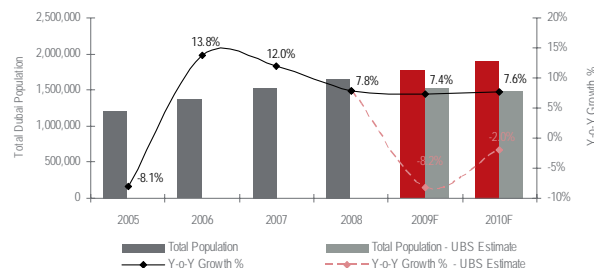
The turmoil in the global economy is continuing to cause volatility and uncertainty in the Dubai real estate market. The major economic influences on the market include the significant slowing of economic activity, falling employment levels and a severe tightening of credit. On a more positive note, the economic slowdown has resulted in the easing of inflationary worries, with CPI forecast to increase by less than 5% in 2009 (down from over 13% in 2008).

Demographic Commentary

As at the end of 2008, Dubai's population stood at 1.65 million, an annual increase of approximately 7.8% from 2007. The population has been boosted by an influx of working age expatriates in recent years, with around 55% of the population in the 25-39 age group.

Dubai has one of the worlds highest ratio's of expatriates to locals (around 90%:10%). Given that residency status remains closely tied to employment in the UAE, the downturn in the job market has significant consequences for future population levels. Analysis by UBS (Union Bank of Switzerland) suggests that the total population of Dubai could fall by 8% in 2009 and a further 2% in 2010 (assuming construction related employment declines 20% in 2009). This suggests that the total population of the Emirate by end of 2010 could be some 160,000 fewer than at December 2008, compared to the Ministry of Economy's forecast of a 193,000 increase.

Dubai Population & Growth



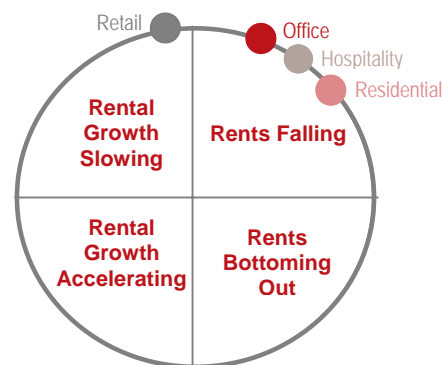
F: Forecast

Source: Dubai Statistics Centre, UBS

Property Clock

Rents saw a sharp increase across all sectors of the real estate market during the first half of 2008. Since this time, the rate of growth has stalled and rentals have started to decline in some sectors. The residential sector was the first to react with average rents declining in Q4/2008, while the office and retail markets are likely to record falling rentals in the first half of 2009.

Dubai Property Clock – February 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.

Office Market

Supply

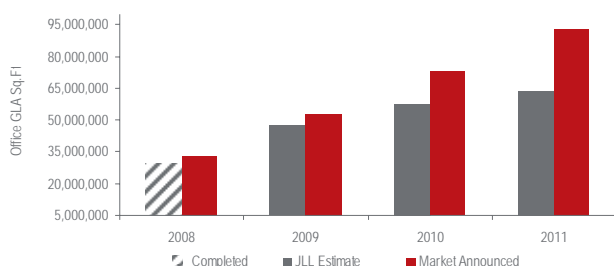
An additional 4.7 million sq.ft of office space was released into the market in the second half of 2008, bringing the total stock to approximately 29.5 million sq.ft; an increase of almost 20% over six months. Projects completed within this period include The Galleries at Jebel Ali, Cayan Business Centre, Executive Heights, and Grosvenor Business Tower within TECOM, and the Reef, HDS, Tamweel and Silver Towers at Jumeirah Lake Towers (JLT).

There has been a major correction in future supply levels over the second half of 2008, with approximately 50% of the proposed supply for 2009-2011, now considered unlikely to come forward over this period. As a result we have reduced our estimate of total additional supply over the next 3 years from 70 million sq.ft to around 34.6 million sq.ft.

Projects announced as recently as October 2008 (e.g. Meraas's Jumeirah Gardens and Nakheel's Tall Tower) have already been scaled back, delayed or phased over a much longer period in view of the prevailing market conditions.

Work on many developments already under construction in projects such as Jumeirah Lake Towers and Business Bay has been placed on hold and few projects where construction is not already underway are unlikely to commence in the current environment.

Estimated and Announced Future Supply



Source: Jones Lang LaSalle

The lack of liquidity is likely to especially impact small, single asset developers. This is expected to result in better delivered quality as a consequence of the heightened competition amongst the remaining large, well established players in the market.

Demand

Active demand for new office space has weakened over the past six months. Many companies have delayed previously announced expansion plans, while others have reduced the size of their existing operations.

With the completion of an additional 4.7 million sq.ft of office space in H2 2008, the overall vacancy rate across the Dubai market has doubled from 7% in July to around 16% at the end of 2008. This headline figure does not, however, reveal the full story. Because of the barriers to entry into free zones, there are pockets of higher vacancy in areas such as TECOM and JLT/DMCC.

While demand has definitely slowed, there were a number of notable leasing transactions completed with the Boston Consulting Group (BCG) occupying around 25,000 sq.ft within The Office Park at TECOM

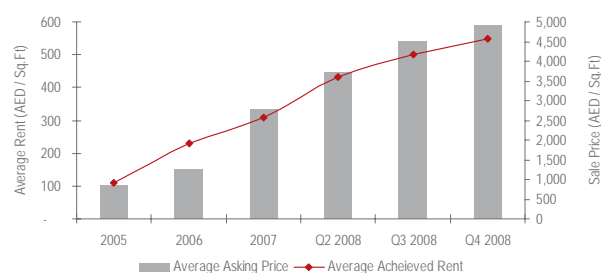
and Areva leasing 75,000 sq.ft within the Acico Business Park in Garhoud, over the past six months.

Performance

There has been a growing divergence in rentals between prime and secondary locations over the past 6 months. Average prime net rents in the CBD recorded an increase of approximately 10% over the last six months of 2008, rising to circa AED 550 per sq.ft per annum. This increase was recorded mainly in Q3, with a minimal change in average rentals in the final quarter in the CBD. Conversely, average rents for Grade A space in secondary locations, such as TECOM, Jumeirah Lake Towers and Jebel Ali decreased by approximately 20% over the second half of 2008.

The average asking price for prime freehold office property increased over the past six months by around 32% to AED 4,900 per sq.ft, however the quarterly increase from Q3 to Q4 was minimal at roughly 5%. Landlords have however become much more flexible in negotiating transacting prices, with the gap between asking and actual prices widening to around 30% to 40%. As a result actual prices for prime office space declined over the second half of 2008 and this trend has continued into 2009.

Average Net Rents and Asking Prices – Year Ending 2008



Source: Jones Lang LaSalle

Market Outlook

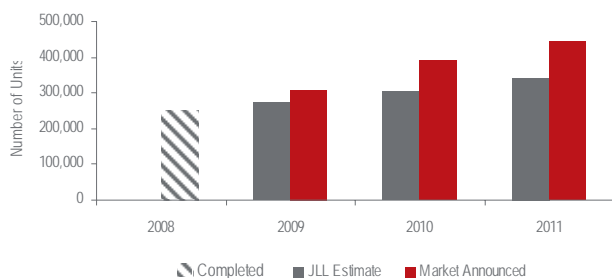
- Market dynamics will continue to shift in favor of tenants as more new stock enters the market in 2009.
- Rents are likely to decline in most locations over the first half of 2009.
- While the future supply will continue to decline, completions are likely to exceed demand in 2009, resulting in a further increase in vacancies, particularly in poorer quality buildings and those in secondary locations.
- Rising vacancies are likely to result in the emergence of rent free periods and other leasing incentives, with a resulting gap between face and effective rentals.
- Reduced demand from speculative buyers will result in a fall in both transaction levels and sale prices.

Residential Market

Supply

Approximately 32,000 new residential units were completed in 2008, bringing the total residential stock across Dubai to around 253,000. The majority of completions were in major projects including new clusters at Discovery Gardens, International City, and the Marina Promenade.

Residential Supply



Source: Jones Lang LaSalle

If all the announced residential supply between 2009 and 2011 were to complete on schedule, an additional 190,000 new units would enter the market. Declining demand, tight liquidity and reduced financing options are, however making it increasingly difficult for developers to complete announced projects on time. Project delivery schedules have been revised and several iconic residential developments such as Palm Deira and Jumeirah Gardens have either been delayed or put on hold indefinitely.

JLL estimates that cancellations and construction delays will reduce total announced supply by more than 50%, with around 90,000 additional units entering the market between 2009 and 2011.

Demand

The global financial crisis has also deeply impacted demand dynamics, forcing most speculators out of the Dubai residential market in the second half of 2008. The lack of mortgage finance and reduced loan-to-value ratios (down from 90% to 60-70% over the last six months) have resulted in a major shift towards end users over the second half of 2008.

The past six months saw a drastic drop in the volume of sales transactions as speculators and investors have been largely absent from the market. Data from the Dubai Lands Department show that the number of sales of residential units across Dubai has declined by almost 40% between October 2008 and January 2009.

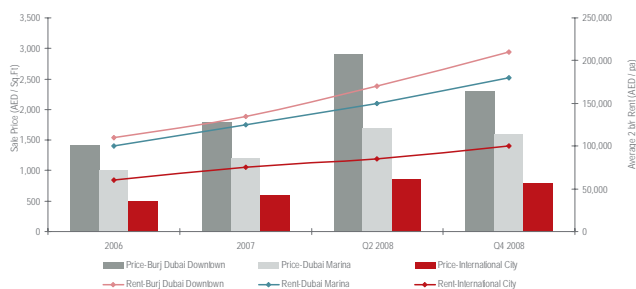
Performance

The market is currently undergoing a price correction; since the third quarter 2008 asking prices for both villas and apartments have seen an average decrease of 10% to 20%. Prices of villas have declined by less than those of apartments, given their more limited supply. Given the absence of speculators and the inability of end users to raise finance, it is not surprising that transactional prices have declined even further over the past six months, with transaction prices typically 30% to 50% below asking prices.

Rental rates registered an average increase of around 20% for both villas and apartments in Q3, but have decreased (by 4% to 8%) in Q4. Rental rates are expected to drop further in the first half of 2009.

We estimate that market-wide physical occupancy currently averages around 70% for residential units that have been completed and handed over, although this figure is significantly lower in some projects.

Rents and Asking Prices – Q4 2008



Note: Sale figures reflect asking prices

Source: Jones Lang LaSalle

Market Outlook

JLL expects activity in the residential sector to slow further in the first half of 2009. Nervous investor sentiment coupled with lower rental rates will encourage residents to lease rather than buy as investors continue to adopt the "wait and see" approach. Landlords are also becoming more flexible with payment terms and are accepting cheques on a quarterly or even monthly basis.

The Government is taking various measures to try and alleviate the effect of the global financial crisis. These include:

The rental cap has been replaced by a rent freeze. Rents can only be increased where they are significantly below the average as set out in RERA's recently launched index of market rents across various residential areas in Dubai.

A number of options are being considered to increase the level of mortgage finance available in the market. One possible option involves the potential merger of the UAE's two largest mortgage providers (Amlak and Tamweel).

While these moves may have some positive impact, more radical measures such as a removal of the current link between employment and residency status and a clarification of the law providing for residency for expatriate purchasers of residential units may be required to provide a floor to the market.

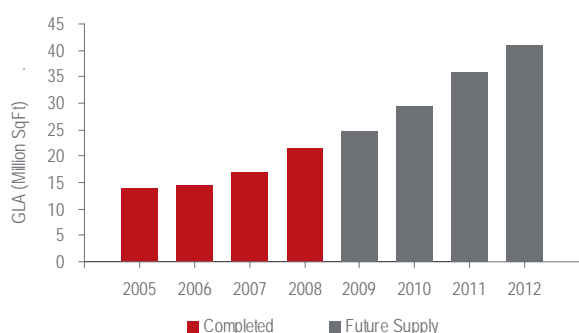
Retail Market

Supply

The total stock of retail floor space in enclosed malls across Dubai stood at approximately 21.4 million sq.ft Gross Leasable Area (GLA) at the end of 2008. This represents an increase of around 28% over the year. Major new malls to open over the second half of 2008 include the Dubai Mall (3.7 million sq.ft) and Dubai Marina Mall (390,000 sq.ft)

Supply is expected to increase to almost 30 million sq.ft by the end of 2010, due to the completion of new malls, including Mirdiff City Centre (1.9 million sq.ft) and the first phase of the Mall of Arabia with 3.4 million sq.ft of leasable retail space.

Retail Mall Supply



Source: Jones Lang LaSalle

Increased supply will lead to heightened competition in the tier two retail sector. Older, small-scale retail malls are likely to be most impacted by increased competitiveness and will need to adjust accordingly to maintain their appeal to the market.

As tenants become more selective, quality design and access to surrounding road networks will play a crucial role in retaining clientele. Larger malls with a strong tenant mix integrated with various leisure and entertainment amenities will be better placed to overcome the testing times ahead.

Demand

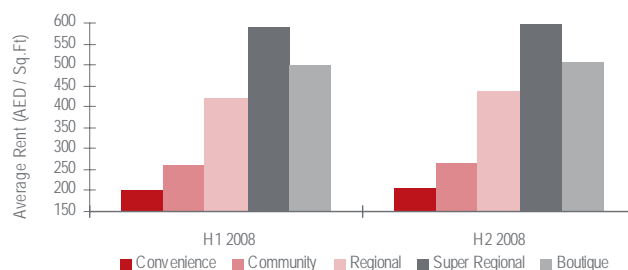
Demand for retail space exceeds available supply, although to a lesser extent than in the first half of 2008. While some units remain to be fitted out in recently completed malls, most of this space has been pre leased, with many centres continuing to report waiting lists of tenants seeking space.

Consumer confidence remains relatively optimistic according to a recent MasterCard worldwide survey, with the UAE avoiding the significant declines witnessed in economies like US and the UK in the past 6 months. The UAE index stood at 75.4 in December 2008 slightly down on the 78.5 reported in December 2007. Conversely, the outlook on employment saw a much greater drop (from 85.6 in December 2007 to 57.0 in December 2008), the lowest score since 2004. This highlights potential future challenges to retail demand and hence take up, especially in light of the weakening population growth and declining visitor arrivals.

Performance

Average rental levels continued to increase in the second half of 2008, albeit at a slower pace of 2% to 5% in contrast with the 6% to 9% range experienced during the first half of 2008.

Average Net Asking Rents in Retail Malls - H1 versus H2 2008



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

Source: Jones Lang LaSalle

With further developments in the pipeline, a weaker economic growth outlook, and the likelihood of increased vacancies, we expect average retail rentals to fall during 2009.

Market Outlook

- A combination of tightening credit standards, coupled with a lack of job security, an increase in consumer saving (between 11%-40% in the next 12 months according to MasterCard) and a decline in both immigration and tourism are likely to result in a challenging retail market in Dubai during 2009.
- The market dynamics will start shifting in favor of tenants as rents soften and we see an increase in vacant units in some centres.
- The Dubai Shopping Festival (January - February 2009) will be a good indicator for the rest of the year. While no official data has been released, it appears that visitor arrivals and retail sales are well down on previous years, due to a combination of decreasing discretionary spending and the steep discounting by distressed retailers in many overseas markets.
- Cancellation and delays are expected to impact projects in the planning stage, reducing future supply levels.
- Competition to deliver higher quality and better standards of retail space will heighten, with the emergence of 'winners and losers' among retail centres.

Hotel Market

Supply

Over the second half of 2008, approximately 3,245 new rooms were added to the stock of quality hotel rooms in Dubai, with the largest completion being the Atlantis hotel on Palm Jumeirah. This brings the total to approximately 40,000 rooms, (represents an increase of circa 10% from the first half of 2008).

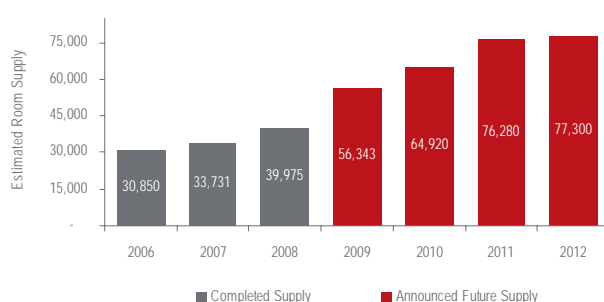
The following table lists the major new hotels which opened during H2 of 2008.

New Hotels Open in H2 2008	Number of Rooms
Atlantis	1,539
Crown Plaza Festival City	316
Holiday Inn Barsha	310
Premier Inn – DIP	308
Four Points Sheraton	269
The Address Downtown	196
The Monarch	183
Golden Tulip Barsha	125
Total	3,246

Although announced supply could add a further 40,000 new rooms to the market (doubling the current total) by 2012, it is likely that the future supply will be considerably less than the announced pipeline due to the impact of the prevailing credit crisis on the financing of many projects, especially those that are still in the planning stages.

Most of the announced new supply is currently under construction and is expected to enter the market in 2009 and 2010. There remains a continued over representation in the Upper Upscale category (accounting for 36% of proposed additional supply).

Hotel Room Supply, 2006-2012



Source: Jones Lang LaSalle

Demand

Visitor arrivals to Dubai over the first half of 2008 were up by 8.5% on the same period in 2007 according to Dubai tourism and Commerce Marketing (DTCM). Although no official results have yet been released

for the second half of 2008, anecdotal evidence suggests tourist arrivals have slowed down significantly.

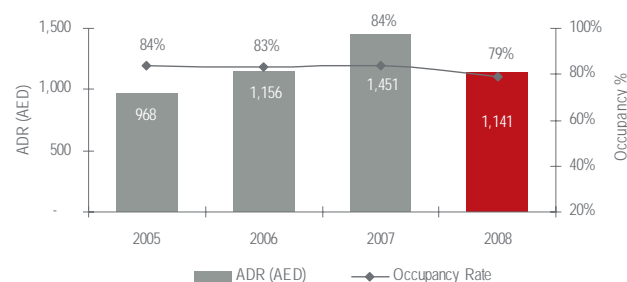
Over the period between July and December 2008, occupancy rates fell by approximately 7%. This came as a result of the new supply in the market, as well as the softening in demand from key European source markets brought about by the dollar appreciation and the financial crisis

The occupancy rate of 79% experienced in 2008 is the lowest recorded in the Dubai market since 2004.

Performance

Over the second half of 2008, Average Daily Rates (ADR's) were marginally higher than the same period in 2007 at AED 1,027. However, Revenue Per Available Room (RevPARs) was slightly lower at AED 782. Market wide RevPAR's grew roughly by 4% in 2008 compared to 15% in the previous year. However, RevPAR decreased in the months of September, November and December 2008 by 27%, 12% and 18% respectively, marking the lowest results in 5 years.

Hotel Average Daily Rate (ADR) & Occupancy



Source: STR Global

Market Outlook

The outlook for 2009 is expected to be less optimistic than previously anticipated, with visitor arrivals well below the DTCM target of 13% annual growth.

Hotels most at risk are those in the Upper Upscale category, as European tourists cut back their travel budgets along with the appreciation of the US Dollar. The mid-market and budget segments are expected to perform relatively better in 2009.

The financial downturn has caused delays in many projects, especially those in the early planning and start phase. However, most projects under construction for scheduled delivery in 2009 and 2010 are expected to reach completion, adding a significant number of rooms to a market already facing challenges.

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	
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

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 on commercial and residential leases.

- 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.
- As of January 2009, RERA has 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.
- While the scheme is not legally binding, it is designed to act as an indicator for landlords. This initiative aims at improving transparency over rent rates for each area at the same time helps investors to prepare their strategies.
- The Land Department is encouraging tenants and landlords to register all rental contracts in the emirate as of the first of January 2009. A new website called "Ejari" has been created, facilitating the registration of contracts online.
- As of January 2009, RERA has ordered developers and banks to stop collecting payments exceeding 20% of the cost of properties, until construction begins.
- 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 assist RERA in defining and ascribing both technical and ethical criteria that valuers should adhere to.
- There is considerable confusion surrounding the apparent withdrawal of residency rights for foreign nationals purchasing real estate in UAE. A clear reinstatement of this right would provide a major boost to the Dubai residential market.

Real Estate Laws, Guidelines & Initiatives 2008

- 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.



Real value in a changing world

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