The UAE Real Estate Market overview

Research | A Year in Review 2023

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Hello

In 2023, the UAE continued to demonstrate its economic resilience and its ability to adapt to challenging global economic conditions. The government remained committed to strengthening and diversifying the country's economy away from oil through numerous development plans and initiatives in the non-oil sector. The growth in the non-oil sector was reflected in the UAE Purchasing Managers' Index (PMI), which stood at 57.0 in November. This came shortly after recording the strongest reading at 57.7 since the pandemic. Looking ahead, the latest figures from Oxford Economics (OE) estimated that the GDP achieved a growth of 2.4% in 2023 and is projected to almost double to 4.8% in 2024.

A continued growth path was witnessed in the UAE real estate market across all the major asset classes. In the office market, strong demand for office space was observed in both cities. The market remained firmly in favour of landlords, as rents continued to increase due to the limited availability of quality space and rising inquiries from occupiers.

In the residential sector, developers continued to launch new projects to meet the growing demand from investors. Additionally, remarkable growth was observed in transactions in both the primary and secondary markets. The retail market saw mall operators adopt a more dynamic management strategy. Landlords focused on enhancing the customer experience to increase dwell time, leveraging experiential retail with the help of food and beverage (F&B) offerings, and transforming common spaces.

The hospitality sector maintained positive momentum throughout the year, supported by a well-balanced calendar of events. Interestingly, operators responded to the decrease in high spending traffic by implementing smarter revenue management strategies to capitalise on the changing business mix.

Office

Dubai

9.2m sq m GLA
Total stock

44k sq m GLA
Expected deliveries in 2024

Y-o-Y **15%**
Average Grade A CBD rents

Abu Dhabi

3.9m sq m GLA
Total stock

112k sq m GLA
Expected deliveries in 2024

Y-o-Y **12%**
Average Grade A rents

In 2023, approximately 92,000 sq. m. of gross leasable area (GLA) was delivered in Dubai, with the majority consisting of Grade A specifications, thereby increasing the total stock to 9.2 million sq. m. Conversely, the total stock in the capital remained unchanged at 3.9 million sq. m., with no significant new deliveries throughout the year. Looking ahead at the future supply of 2024, Dubai is scheduled to add an additional 44,000 sq. m., while Abu Dhabi is expected to introduce approximately 112,000 sq. m. of new office space.

In the final quarter, a 15% year-on-year (Y-o-Y) increase elevated average Grade A rents within Dubai's Central Business District (CBD) to AED 2,425 per sq. m. per annum. These rates set a new market record, surpassing the previous high of 2016 by nearly 6%. The leasing activity also picked up, resulting in a reduction of office vacancies within the CBD to 8%. Similarly, in Abu Dhabi, the robust demand continued to drive an impressive 12% Y-o-Y growth in average city-wide Grade A rents, amounting to AED 2,000 per sq. m. per annum. Over the same period, the city-wide vacancy rate marginally decreased to 22% in the capital.

Looking at occupiers, due to a shortage of available space within the CBD in Dubai and high rents, tenants' negotiating power was constrained when it came to lease discussions with landlords. Consequently, tenants found themselves compelled to either accept deals on less favourable terms or reassess their requirements and extend their search to secondary and tertiary areas that potentially offered lower-quality stock.

The current market presents an opportunity for commercial real estate developers to capitalise on the rising demand by initiating new projects. Recognising this potential, certain free zones in the country have taken proactive measures to expand their jurisdiction or launch new projects within their zones. Robust demand in the office market is being driven by both new market entrants and inquiries linked to expansion plans. Moreover, there is an increasing preference for high-quality office spaces, and the market continues to witness a shift towards sustainable practices. These factors collectively contribute to driving the market forward and shaping its future trajectory.

Residential

Dubai

719k units
Total stock

34k units
Expected deliveries in 2024

19% Y-o-Y
Average sale prices Nov 2023

19% Y-o-Y
Average rental rates Nov 2023

Source: REIDIN

Abu Dhabi

284k units
Total stock

8k units
Expected deliveries in 2024

5% Y-o-Y
Average sale prices

2% Y-o-Y
Average rental rates

Throughout the year, Dubai's residential market experienced a consistent influx of new supply. Over 36,000 units were delivered in 2023, with apartments comprising the majority, thereby raising the total stock to over 719,000 units. Similarly, in the capital, over 5,000 units were completed in 2023, resulting in a total completed stock of over 284,000 units. In 2024, approximately 34,000 units are scheduled to be delivered in Dubai, while around 8,000 units are anticipated in Abu Dhabi.

The residential market in both cities benefited from strong demand. In 2023, Dubai witnessed substantial growth in total transactions, with a 51% Y-o-Y increase in value and a 43% Y-o-Y increase in volume for the period of January to November 2023, as per data from Dubai Pulse. On the same basis, in Abu Dhabi, successful launches in the off-plan segment contributed to a significant rise in total transaction values, which surged by 102% annually, and a 77% Y-o-Y increase in volume compared to the same period last year.

Consequently, the performance of the residential sector was robust in 2023. Indeed, the capital experienced consistent growth throughout the year, with a 5% increase in sale prices and a 2% rise in rental rates on an annual basis in Q4 2023. In Dubai, both average sales prices and rental rates saw significant increases of 19% in November 2023 compared to the same period of the previous year. Notably, Dubai's average villa sale prices continued their upward trajectory, driven by heightened demand, and by November 2023, they reached a new all-time high, surpassing the previous peak of 2014 by 15%.

The positive momentum of the UAE's residential market is anticipated to continue into 2024. One key challenge for developers will be incorporating the rise in land prices and construction costs, thereby perpetuating the trend of smaller unit sizes and launches in secondary areas.

Retail

Dubai

4.8m sq m GLA
Total stock

160k sq m GLA
Expected deliveries in 2024

Y-o-Y **5%**
Average rental rates across primary and secondary malls

Abu Dhabi

3.15m sq m GLA
Total stock

19k sq m GLA
Expected deliveries in 2024

Y-o-Y **5%**
Average rental rates across primary and secondary malls

The total retail stock in Dubai reached 4.8 million sq. m., with the addition of approximately 123,000 sq. m. of retail space throughout 2023. The majority of this growth resulted from the expansion of an existing super regional mall. In the capital, during the same period, around 250,000 sq. m. of retail GLA came online, increasing the total stock to 3.15 million sq. m. In 2024, an additional 160,000 sq. m. of retail space is anticipated to enter Dubai, while Abu Dhabi is expected to introduce around 19,000 sq. m. of new retail GLA.

Looking at the performance of the retail market in the last quarter of 2023, there was an average increase of 5% in average rents for both primary and secondary malls in both cities. Additionally, robust leasing activity contributed to a reduction in vacancy rates, bringing the rate down to 16% in Dubai. In Abu Dhabi, the city-wide vacancy rate stood at 22% due to the addition of new retail stock throughout the year.

In the capital, the primary focus has been on the development of entertainment concepts and the enhancement of food and beverage (F&B) options. Earlier in the year, the city witnessed the opening of SeaWorld, which introduced a distinctive entertainment concept. Additional concepts are anticipated to debut, including TeamLab Phenomena in 2024. On the F&B front, the government launched the Abu Dhabi Culinary Investment Fund (ADCIF), a programme designed to attract upscale culinary brands to the capital.

In Dubai, there has been a focus on reoptimising retail assets to align with evolving technology and e-commerce trends. Mall operators have taken measures to adapt to these changes. Meanwhile, in smaller community and neighbourhood malls, homegrown concepts, including F&B establishments and convenience brands, have successfully carved out a niche for themselves. These local offerings have remained popular choices, effectively catering to the specific demands of the surrounding communities.

Hospitality

Dubai

153k keys
Total stock

7k keys
Expected deliveries in 2024

YT Nov 2023	
Occupancy Rate	77%
ADR's	USD179
RevPar's	USD138

Source: STR Global

Abu Dhabi

32.5k keys
Total stock

700 keys
Expected deliveries in 2024

YT Nov 2023	
Occupancy Rate	72%
ADR's	USD143
RevPar's	USD103

Source: STR Global

Dubai witnessed the addition of approximately 5,000 keys throughout 2023, with a majority representing 5-star properties. This propelled the total stock to 153,000 keys. As for Abu Dhabi, the addition of around 200 keys led to a total stock surpassing 32,500 keys. Looking ahead to 2024, Dubai has approximately 7,000 keys scheduled for delivery, while Abu Dhabi is expecting around 700 keys to be added to its inventory.

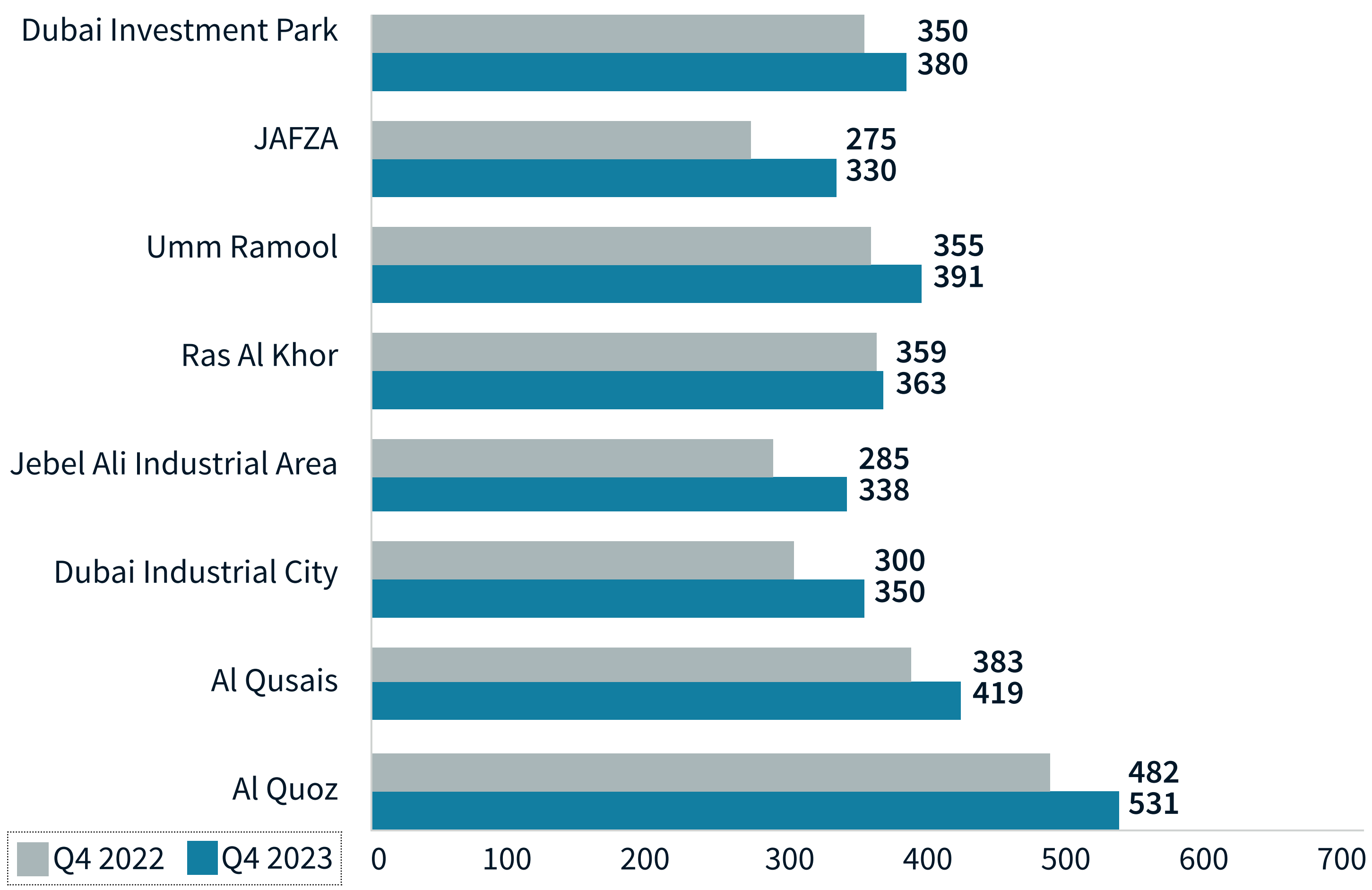
From January to October 2023, Dubai recorded a total of 13.9 million visitors, with Indian, British, Saudi, and Russian nationals representing the top source markets, as per the latest data from Dubai's Department of Economy and Tourism (DET). This marked a noteworthy 22% improvement compared to the figures observed in 2022 for the same period. Within the hospitality market, a crucial element contributing to sustained growth throughout the year has been the presence of a well-balanced calendar of events. These events played a vital role in stimulating visitor traffic and bolstering performance metrics during both low and high seasons.

Regarding hotel performance, the city-wide occupancy in Dubai reached 77% for the year-to-date (YT) period of November 2023. Although there was a decrease of 2% in average daily rates (ADR), resulting in an ADR of USD 179, the overall increase in tourist arrivals contributed to maintaining a healthy revenue per available room (RevPAR) of USD 138. Operators continued to apply effective revenue management strategies to adapt to the evolving demand mix and to remain competitive in the market.

During the same period, Abu Dhabi sustained robust occupancy levels of 72%, while ADR reached USD 143, marking a notable increase of 20% compared to the same period last year. Moreover, RevPAR experienced a significant annual improvement of 25%, reaching USD 103. The ongoing development of new tourism destinations, such as Saadiyat and Yas Island, combined with the introduction of new entertainment concepts, will serve as positive catalysts for the hospitality sector and is anticipated to contribute to long-term growth in the capital.

Industrial

Average Rental for Warehouses in Dubai (AED per sq. m. per annum)



The UAE industrial market is known for its resilience and stability, as the country has strategically focused on trade, tourism, and transportation to diversify its economy.

Traditionally in Dubai, established onshore areas like Al Quoz, Al Qusais, and Ras Al Khor continued to dominate the market, remaining popular and commanding higher rents and occupancy rates, despite the overall lower quality of their existing stock. However, new industrial areas such as Dubai Investment Park (DIP) and Dubai Industrial City (DIC) are rapidly gaining prominence, particularly among international occupiers. Their appeal stems from the superior quality of their industrial facilities and their convenient proximity to the new airport (Dubai South) and the Jebel Ali sea port.

The majority of upcoming Grade A stock in Dubai is concentrated within Free Zones, but there has also been notable construction of built-to-suit warehouses in other industrial areas. These developments reflect the increasing demand for modern industrial spaces catering to various requirements across the country.

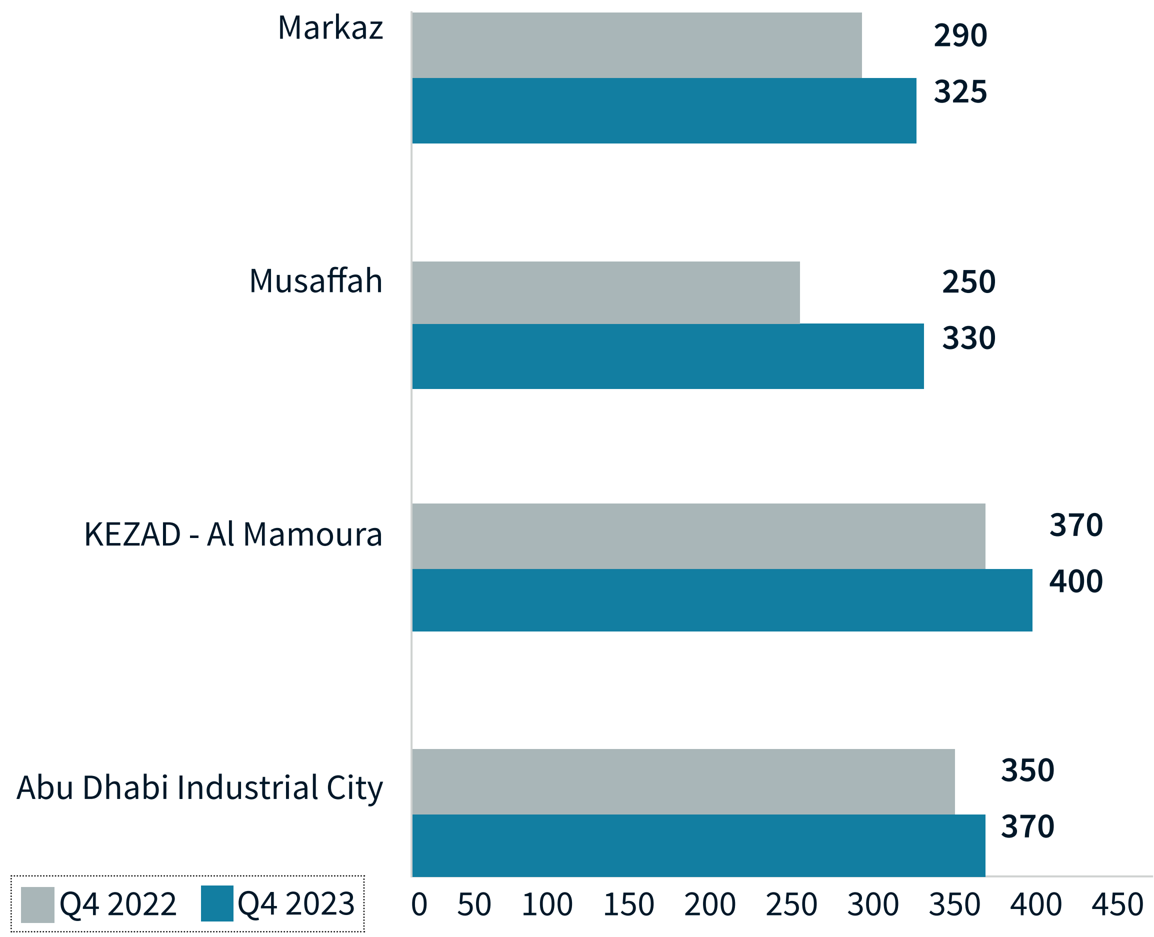
In Abu Dhabi, the industrial supply is more segmented compared to Dubai, where the majority of the stock is situated outside the city centre in areas such as Musaffah, KEZAD, and Abu Dhabi Industrial City.

There is a strong demand for high-quality logistics and warehousing solutions in the industrial sector. This was clearly illustrated through the completion of Phase 1 of JAFZA Logistics Park, a 52,200 sq. m. warehousing facility located within Jebel Ali Free Zone (JAFZA). Majority of this facility was pre-leased before its completion.

Looking at the overall performance in Dubai, warehouse rentals witnessed an increase across most of the industrial areas in the last quarter of 2023. Notably, JAFZA, Jebel Ali Industrial Area, and Dubai Industrial City stood out with significant Y-o-Y increases of 20%, 19%, and 17%, respectively. The robust occupier market is being fueled by various government initiatives which support the growth of the logistics and e-commerce sectors.

Industrial

Average Rental for Warehouses in Abu Dhabi (AED per sq. m. per annum)



Similarly, in Q4 2023, warehouse rents in the capital experienced notable increases, driven by a surge in demand. Indeed, warehouse rents in Musaffah and Markaz rose by 32% and 12%, respectively, when compared to the same period last year.

Dubai has been the favoured choice for industrial and logistics occupiers, with a significant surge in demand. However, over the past few years, demand has outpaced supply, particularly for Grade A spaces. The high occupancy rates witnessed in Dubai's Grade A warehousing facilities have led occupiers to explore alternative locations, including Abu Dhabi.

Prominent industrial areas like KEZAD have become highly attractive to tenants due to their exceptional connectivity and the presence of top-quality Grade A developments. As a result of the increasing demand, the total leased warehouse area in KEZAD witnessed an impressive 66% Y-o-Y growth. Moreover, the Free Zone is actively pursuing the establishment of specialised hubs catered to the emerging sectors of metals, automotive, and food/agtech.

With the availability of Grade A supply and key governmental initiatives, such as the Abu Dhabi Channel Partners initiative, more traction from occupiers is anticipated in Abu Dhabi. This initiative aims to boost the growth of the industrial sector by offering 100 investment opportunities valued at AED 123.3 billion (USD 33.5 billion) by 2027. Such initiatives demonstrate the commitment of the government to create a favourable environment for industrial development and further attract investors to Abu Dhabi.

Likewise, Dubai aims to leverage its world-class infrastructure, strong connectivity, and the support of government initiatives to propel the growth and development of the industrial sector. By capitalising on these advantages, Dubai seeks to position itself as a leading economic force within the industrial landscape.

The outlook for the industrial market remains optimistic, with steady leasing activity expected to persist throughout 2024. Key drivers of this activity are anticipated to include e-commerce, 3PL players, the oil and gas industry, and the manufacturing sector.

Definitions and methodology

Future Supply

JLL estimates of future supply is updated on a quarterly basis and is based on primary research (physical inspections) and secondary research (discussions with developers). The future supply is reflective of projects actively under construction. It excludes projects that have been announced, where ground works have not started. We remain cautious of the ability of some projects to meet their stated completion deadlines, with significant delays in project delivery leading to a low materialization rate.

Office

Supply

The current supply of completed office GLA is based on a comprehensive list of office buildings that have been handed over for immediate occupation. This includes standalone office buildings and office space within mixed-use buildings. Our project list excludes government owned and wholly occupied buildings.

Performance

The weighted average rent (WAR) is based on estimates from the JLL Offices and Business Space team. It reflects the WAR across a basket of Grade A buildings in the CBD which includes the DIFC.
Grade A buildings are defined as high quality office spaces, well located, with good access to infrastructure (metro) and amenities including F& B and retail.
The WAR of Grade A buildings represents the top open-market, net rent (exclusive of service charge and incentives) for a new lease that could be expected for a notional office unit.

Residential

Supply

The current supply of completed residential buildings is based on quarterly surveys of the entire Abu Dhabi and Dubai metropolitan areas. It is reflecting residential units that have been handed over for immediate occupation. Our project list excludes labor accommodation and local Emirati housing. Our definition of residential units includes apartments, villas, and townhouses.

Performance

Data on residential performance in Dubai is based on the **REIDIN monthly index.** The REIDIN Residential Property Price Indices (RPPIs) uses a monthly sample of offered/asked listing price and rental data and transaction data.

Data on residential performance in Abu Dhabi is based on **a basket of buildings.**

Industrial

Performance

The data on warehouse rentals is derived from a calculation that considers an average of new and renewed leases. These lease records are sourced from various reliable sources, including client interactions, third-party sources, and discussions with market intermediaries. It is important to note that the scope of this report focuses on warehouses larger than 350 sq. m. in size. The rental transactions analysed encompass a range of grade A, B, and C, as well as fitted and purpose-built spaces. The rates for rental contracts longer or shorter than one year are uniformly annualized.

Retail

Supply

The classification of retail centers is based on the **Urban Land Institute (ULI)** definition and based on their **Gross Leasable Area (GLA)**:

Super Regional Malls have a GLA of above 90,000 sq m
Regional Malls have a GLA of 30,000 - 90,000 sq m
Community Malls have a GLA of 10,000 - 30,000 sq m
Neighborhood Malls have a GLA of 3,000 - 10,000 sq m
Convenience Malls have a GLA of less than 3,000 sq m

The current supply of completed retail GLA is based on a comprehensive list of mall-based retail that have been handed over for immediate occupation. Our project list excludes street retail and retail within mixed-use buildings.

Performance

Average rents are based on estimates from the JLL Retail team. It reflects the rents across a basket of primary and secondary retail centers.
Primary and secondary retail centers are identified based on their turnover levels. **Primary Malls** are the best performing malls with highest levels of turnover. **Secondary Malls** are the average performing malls with lower levels of turnover.
Average rents represent the top open market net rent expected for a standard in line unit shop of 100 sq m in a basket of regional and super regional centers. Given the variation in rentals, we quote percentage change for retail rents rather than actual figures.

Hotels

Supply

The current supply of hotel rooms is based on data from our quarterly surveys, reflecting hotel rooms that have been handed over for immediate occupation. Our project list includes all graded supply and includes serviced apartments.

Performance

STR performance data is based on a monthly survey conducted by **STR Global** on a sample of international standard midscale and upscale hotels. **Average Daily Rates (ADR)** and **Revenue Per Available Room (Rev Par)** are the key performance metrics.

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