

JLL Research Report

The UAE Real Estate Market

Q2 2019

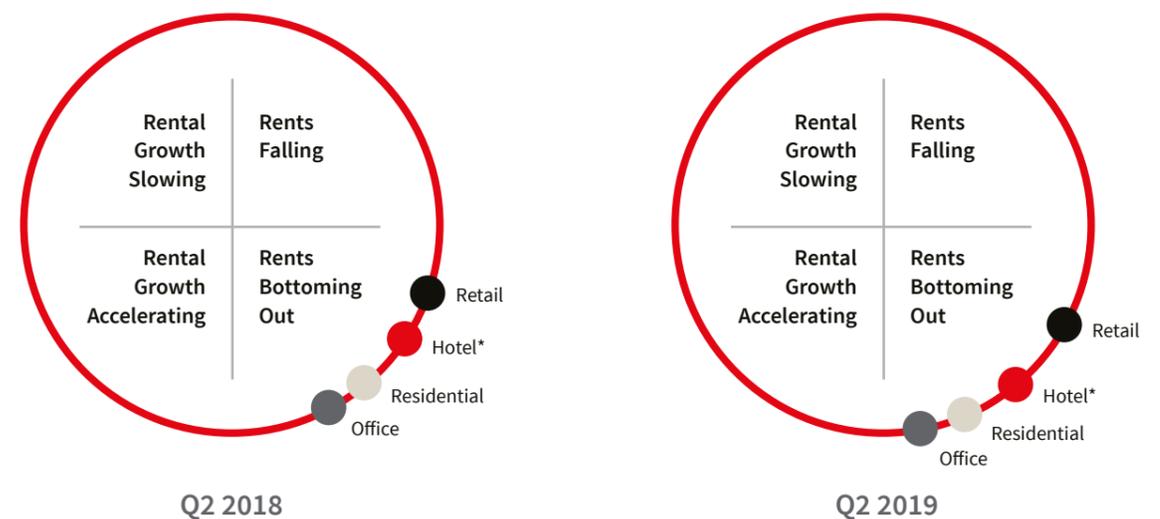
UAE

Market Summary

New Government initiatives to boost real estate demand. Building upon the visa reforms launched in late 2018, the government has started giving out long term residency permits called "Golden Card" in 2019. This scheme aims to provide long term residency for investors and for exceptional workers in the fields of health, engineering, science and art. The impact of these various initiatives on the real estate market are hard to quantify as the exact conditions for the visas are yet to be made public. While positive, their impact is likely to be limited. Until Q2 around 400 golden cards have been issued under the regulation and there is a target of 6,800 to be issued by the end of the year. Another new regulation that could have a bigger impact is the issuing of long term residency permits for executive directors earning a monthly salary of over AED 30,000. The impact of this initiative will clearly depend on how many expatriates qualify as 'executive directors'.

All the new initiatives launched to date aim to boost demand in the real estate market, with no plans to regulate or more tightly control the growing future supply. Such moves can be expected if the demand side initiatives do not prove sufficient to prevent a further softening in real estate prices and performance.

Dubai - Prime Rental Clock



* Hotel clock reflects the movement of RevPAR (Revenue per available room: ADR * occupancy rate)

Note: The property clock is a graphical tool developed by JLL to illustrate where a market sits within its individual rental cycle. These positions are not necessarily representative of investment or development market prospects. It is important to recognize that markets move at different speeds depending on their maturity, size and economic conditions. Markets will not always move in a clockwise direction, they might move backwards or remain at the same point in their cycle for extended periods. Source: JLL

Dubai

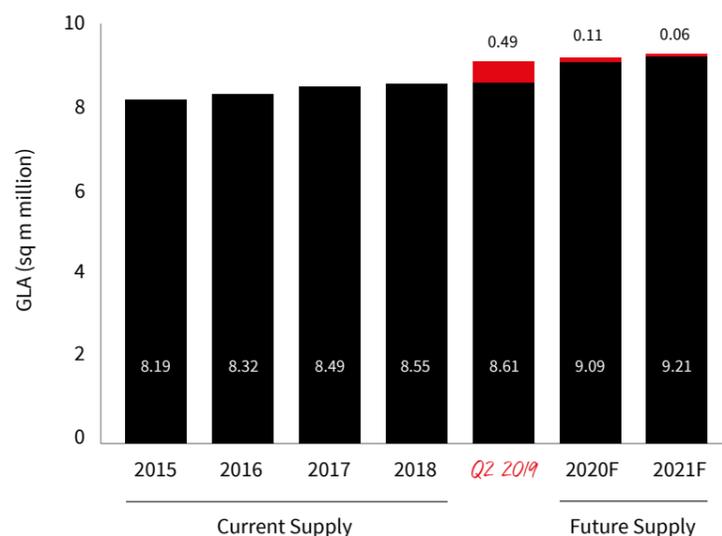
Office

Supply

Q2 2019 saw the completion of phase I of Innovation Hub in Dubai Internet City and one tower of Dubiotech Headquarters in Dubai Science Park, bringing the total office stock to around 8.6 million sq m of GLA. Looking ahead, office supply is expected to reach 9.26 million sq m by the end of 2021, with notable projects including ICD Brookfield Place in DIFC and Dubai Hills Square.

In a move to liberalise the current regulations and promote businesses, the Dubai Free Zones Council have announced a scheme called One Free Zone Passport. This initiative will allow companies registered with any single free zone to operate in other free zones in Dubai without the need for additional licenses.

Other moves to generate further employment and investment (and thereby create demand for more office space in Dubai) include the reduction of market fees imposed on businesses by the Dubai Municipality from 5.0% to 2.5% of rent for private businesses and changes to the company laws to allow 100% foreign ownership of more businesses outside of free zones.



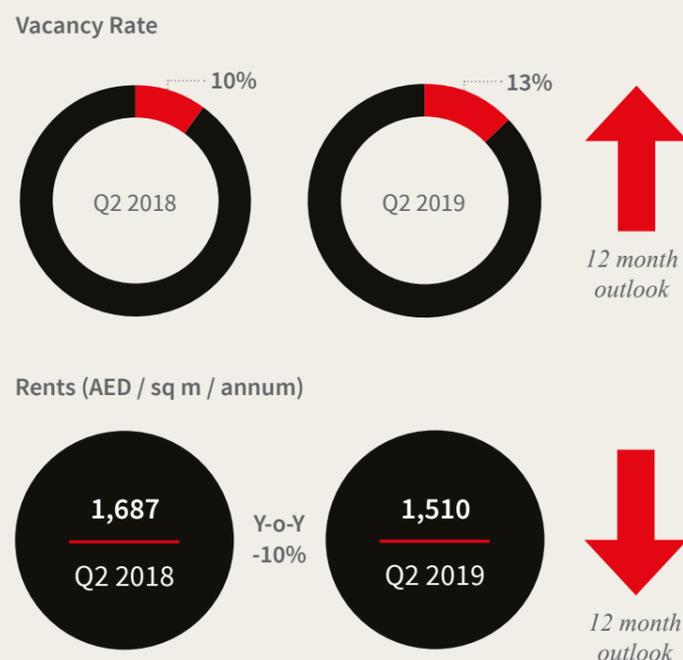
Source: JLL

Performance

Average vacancy in the Central Business District (CBD) has increased to 13% and is expected to increase further in the second half of 2019. Average Grade A rents have declined by 10% Y-o-Y to reach AED 1,510 per sq m. Downward pressure on rents and vacancies is likely to continue in 2019 given the increased availability of Grade A stock even in prime areas.

With demand remaining weak and ample choices available, tenants can expect landlords to offer appealing terms such as competitive rates, fit-out contributions, rent-free periods, active asset management and lease re-gears.

While some established businesses are downsizing and reducing their floor space requirements, there remains growth among SMEs and startups. This is stimulating growth in demand for co-working and other forms of office space. While this sector currently accounts for less than 1% of all office space in Dubai, it is expected to grow rapidly over the coming years.



Source: JLL

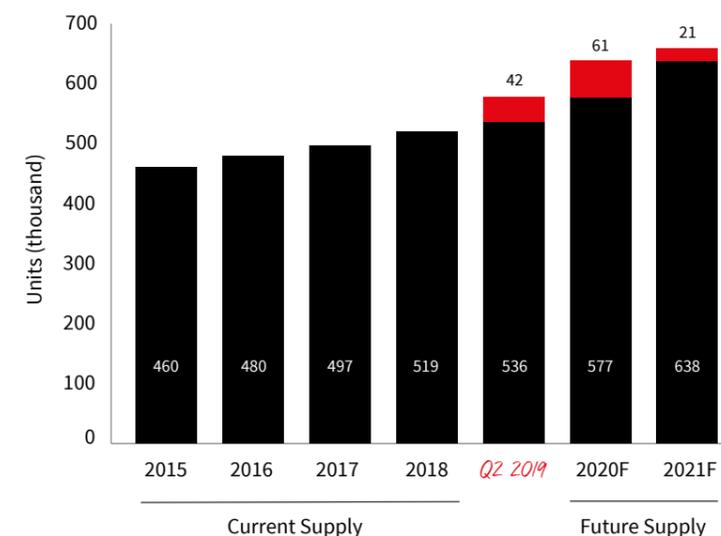
Residential

Supply

More than 6,300 units were completed in Q2 2019, bringing the total residential stock to 536,000. Major completions included multiple towers in Dubai Creek Harbour, Marina Gate Tower 2 in Dubai Marina and several villa communities within Damac Hills.

Around 42,000 units are expected to enter the market in the second half of 2019 and residential supply is expected to reach 659,000 by the end of 2021. Major projects expected to complete in the next two years include Al Habtoor City, a new development by Wasl in Ras Al Khorr and Aston Plaza in Dubiotech. We remain cautious on the timely delivery of future supply and delays can be expected.

There are a number of government initiatives to boost residential demand by encouraging highly talented/high contributing individuals to remain within the UAE on a long term basis. These initiatives seek to boost demand for residential real estate by making it easier for expatriates to become long term residents within Dubai.



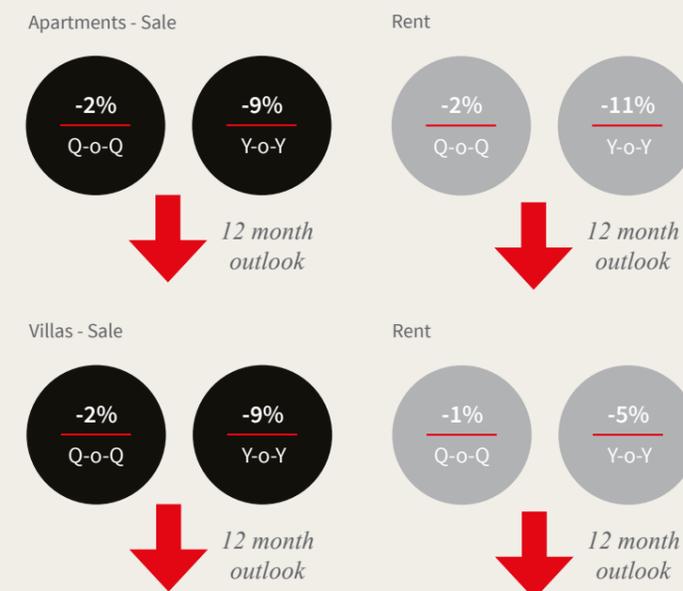
Source: JLL

Performance

Rents and sale prices continued to face downward pressure in the second quarter for both apartments and villas. Rents and sales prices for apartments decreased by around 11% and 9% respectively, when compared to the same period last year. Similar downward trend was observed in villas, with rent and sale prices decreasing by 5% and 9% when compared to the same period last year. With limited demand and ample supply, the residential market will continue to face downward pressure over the next 12 months.

The impact of the new visa regulations and the Golden Card residency scheme are yet to be seen, but these are likely to boost the residential market in the medium term. In addition to the government reforms, developers are also trying to boost the residential market by offering very attractive payment plans to potential investors. One developer has even gone as far as offering European citizenship for those investing AED 5 million in its project in Dubai.

Residential rents and sale indices



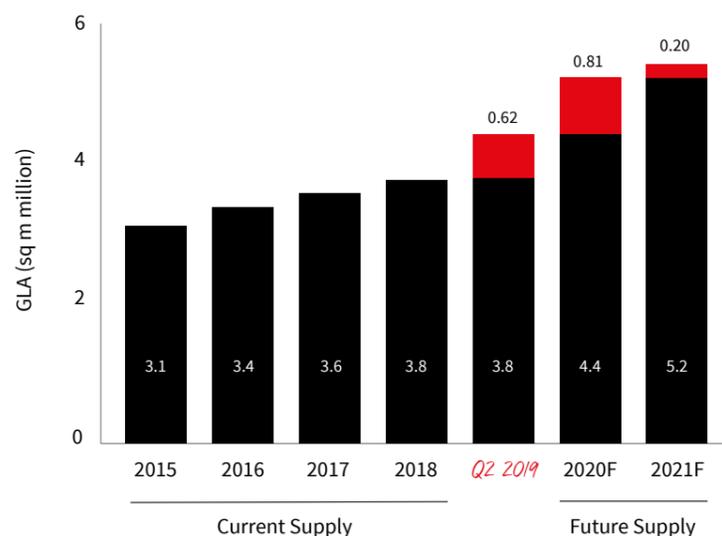
Source: REIDIN

Retail

Supply

Total mall-based retail supply was recorded at around 3.8 million sq m by the end of Q2 2019, with the Dragon Mall expansion being the only project completed during the quarter. Another 1.6 million sq m of retail space is expected to enter the market by the end of 2021 with more than 600,000 sq m of this total due to complete by the end of this year. Major future projects currently under construction include Meydan Mall, Dubai Hills Estate Mall and Nakheel Mall on Palm Jumeirah.

The retail market faces the greatest threat of oversupply of any sector, with major delays being expected and not all the announced projects actually materializing. The retail market is also under pressure from external factors such as changing consumer trends (with consumers moving away from luxury brands) and rise of online retailing in the region. To counter these concerns, mall operators are constantly looking for new strategies to boost dwell time, operating performance and the tenant mix of their projects.



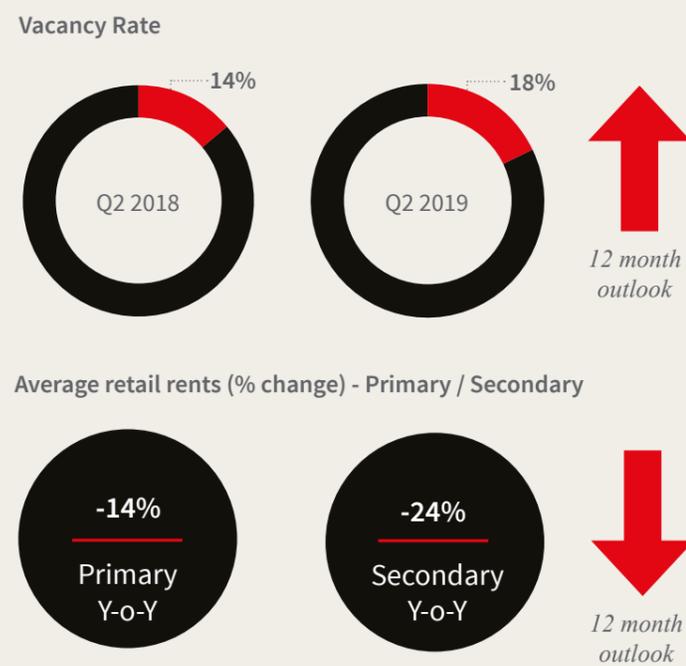
Source: JLL

Performance

The Dubai retail market is currently facing a challenging time as many retailers are limiting their expansion plans, while others are seeking to close branches. Retailers are increasingly turning to discounts/promotions to entice consumers to spend.

Market rents in primary and secondary malls have continued to decline. While it is hard to quantify due to the variety of incentives and discounts being offered by landlords, we estimate that rents have declined by around 14% and 24% for primary and secondary malls respectively, when compared to the same period last year. Market wide vacancies are estimated to have increased from 14% in Q2 2018 to 18% in Q2 2019.

A Dubai based tech firm, known as 'Mall.Global' is planning to launch its digital mall in 2020. It will provide over 2,500 brands and experiences that combines immersive technologies and operational practices like Brand Immersion, Virtual Reality, On Ground AR Cues, Micro Influencer Reviews, Product Walkthroughs, AI Machine Learning, Cross Platform Loyalty and multi Cryptocurrency acceptance.



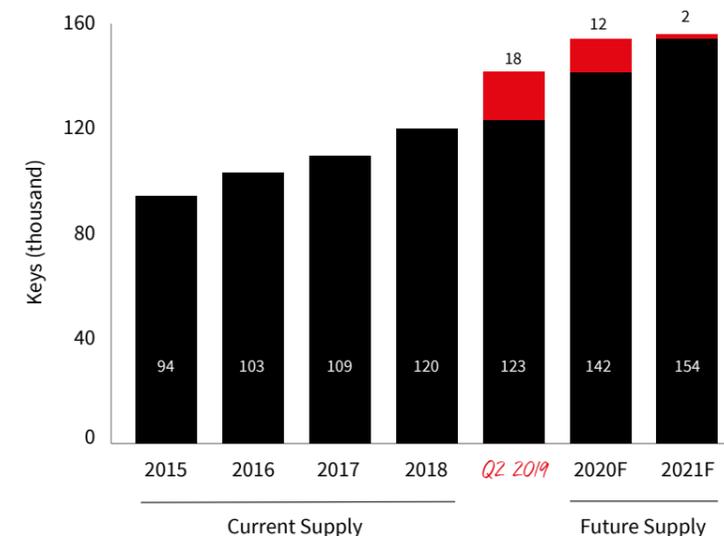
Source: JLL

Hotel

Supply

The total number of hotel and serviced apartment keys in Dubai stood at around 123,200 at the end of Q2 2019, with around 1,100 keys added during the quarter. Notable projects to complete included Rove at the Park in Dubai South and Vida Hills in the Views. Another 18,400 keys are expected to enter the market in the second half of 2019. Hotel Supply is expected to reach 155,900 keys by the end of 2021, with major projects including The Royal Atlantis in Palm Jumeirah and The Address Fountain Views in Downtown. Although developers are bringing the timing of some strategic projects forward to complete ahead of Expo 2020, we remain cautious on the timely delivery of many projects.

According to Dubai Tourism, approximately 7.16 million international tourists visited Dubai in the first 5 months of 2019, in line with the same period last year. The market is expected to witness an influx of visitors in the coming few years, particularly in 2020-2021 with the world expo expected to attract 17.5 million international visitors.

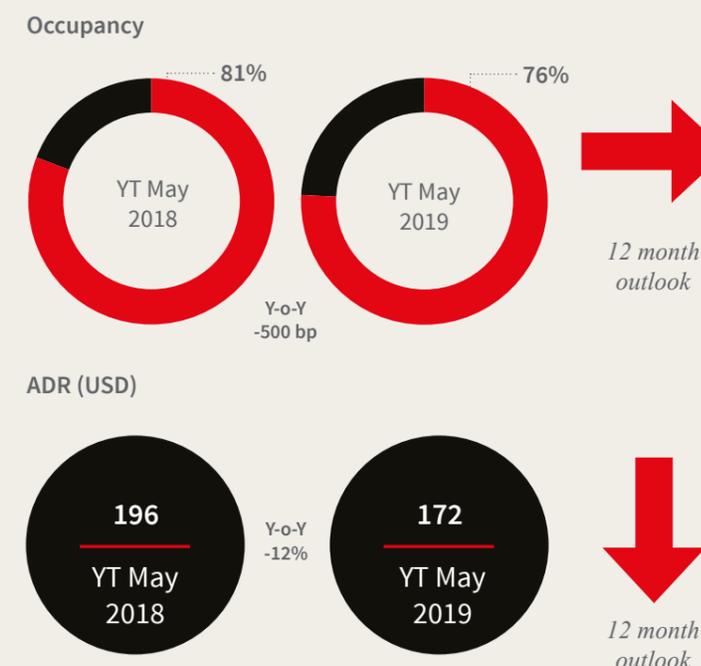


Source: JLL

Performance

The Dubai hotel market has seen a decline in performance over YTM May, with Average Daily Rates (ADR's) reducing by around 12% compared to the same period in 2018 (to reach USD 172) and Revenue Per Available Room (RevPAR) declining by around 17% (to USD 159). Occupancy levels also suffered a decline (of around 500 basis points) to 76% when compared to the same period last year. One reason for this decline was the timing of Ramadan (a quiet period for the Dubai market), in May.

To attract more tourists during the slower summer months, the government has launched multiple initiatives such as exemption on visa fees for children accompanied by parents and free sim cards to tourists on arrival. Despite these initiatives, further declines in performance are expected over the next 12 months, before the hotel market recovers on the back of strong visitor arrivals growth associated with Expo 2020.



Source: STR Global



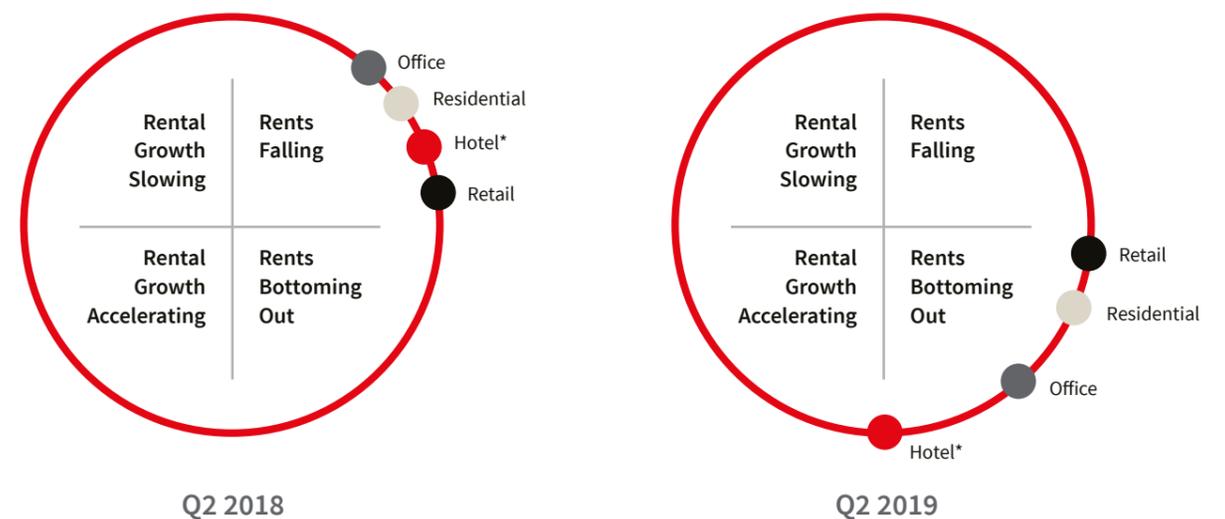
Market Summary

The long-awaited freehold law was finally enacted in Q2, allowing foreigners to own land and property within Abu Dhabi's investment areas on a freehold basis for the first time. The new law aims to stimulate foreign investment and provide investors with more certainty. Another attraction is that registration fees for freehold properties have been set at 2% (in comparison to 4% for leasehold properties).

As part of the 'Ghadan 21' programme, the government has announced new initiatives to boost growth in the SME sector. Most notably, it includes instant business licenses, industrial tariffs, credit guarantees for SMEs, and ecotourism incentives promoting tourism into Abu Dhabi. This is the latest in a series of measures the Abu Dhabi government has taken to boost the overall economy and improve the current weak real estate market conditions.

According to the Department of Urban Planning and Municipalities, Abu Dhabi's real estate sector witnessed a significant amount of transactions valued at 31 billion during the past quarter indicating a strong performance in investor sentiment notably in Reem Island, and a promising outlook with the launch of the freehold law.

Abu Dhabi - Prime Rental Clock



* Hotel clock reflects the movement of RevPAR (Revenue per available room: ADR * occupancy rate)

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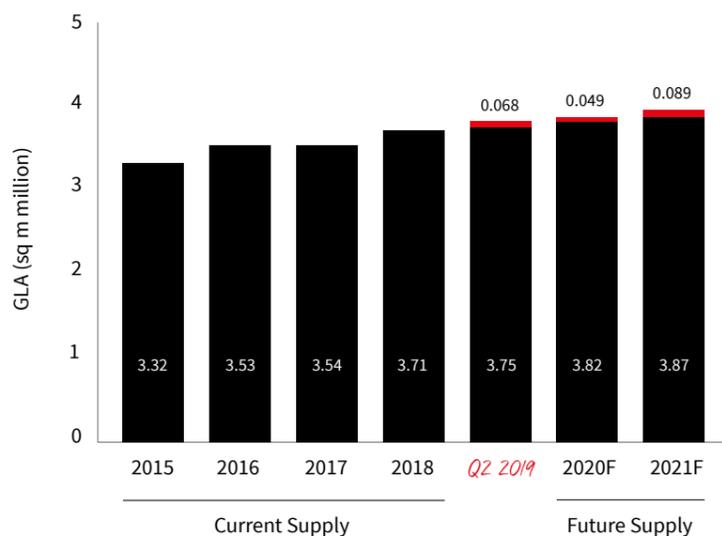
Office

Supply

The completion of the Saleem building in Al Raha beach and Ali & Sons building in Rawdhat has increased the total office stock to around 3.75 million sq m of GLA. An additional 68,000 sq m of GLA is scheduled for delivery by year end, with notable projects including a new Grade A office building in Zayed City. However, developers remain cautious with projected deliveries due to current market conditions, and we can expect delays.

Demand remains weak as companies continue to be cost conscious. However, there remains demand for smaller sized units as global corporates are focusing on occupancy metrics to enhance employee productivity by eliminating wasted space.

As part of the government's economic stimulus package, a new business incubator has been announced. Hub71, located on Al Maryah Island, is targeting the technology sector and aims to stimulate demand from start-up companies by offering support and strong partnerships with global companies.



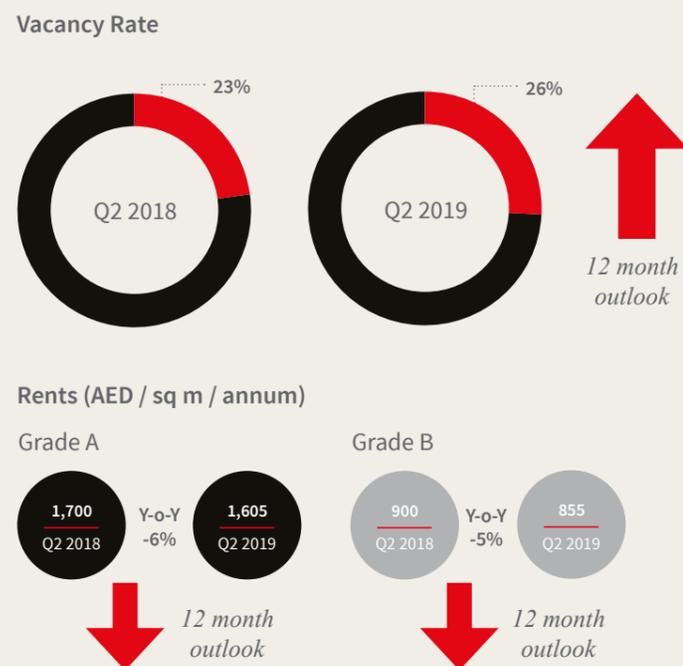
Source: JLL

Performance

Given limited demand, the office market has continued to face downward pressure with further declines in rentals for both Grade A and Grade B space. The headline rentals for shell and core offices (exclusive of service charges) dropped 6% to average AED 1,605 per sq m for Grade A, while Grade B rent dropped 5% to average AED 855 per sq m. While the rate of decline is slowing, the market remains in favor of tenants with landlords continuing to offer incentives such as rent-free periods to attract and retain tenants.

Vacancy rates have increased by 300bp over the past year to 26% mainly within Grade B offices as Grade A offices maintain adequate occupancy levels.

With the office supply under control and government initiatives set to stimulate the economy we expect the office market to experience limited further declines in rent over the rest of 2019 before stabilizing in 2020.



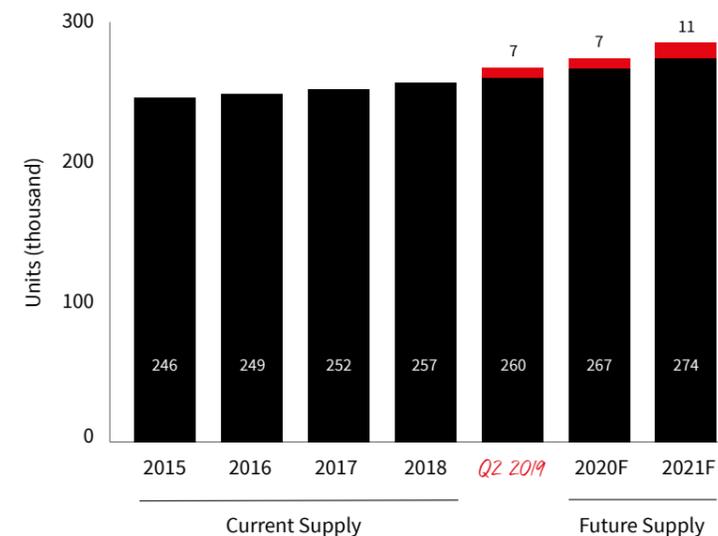
Source: JLL

Residential

Supply

Q2 2019 saw the delivery of approximately 720 units bringing the total stock to 260,000 units. Major completions included residential buildings in Al Raha Beach, Leonardo in Masdar City, and part of Zone K West Yas villas. Another 7,250 units are currently scheduled for delivery over the remainder of the year, mainly within major master plans such as Reem Island and Al Raha Beach.

Given the unanticipated appetite for residential land plots catering to the mid-market segment, Aldar released Al Reeman II solely for UAE nationals to design their own villas within approved standards following the rapid sale of land plots in its two previous developments Al Reeman and Lea. The new residential freehold law formalizing foreigners' rights to own land and property within Abu Dhabi's investment areas, could ultimately stimulate additional demand for properties in Al Reeman and elsewhere within the investment zones.



Source: JLL

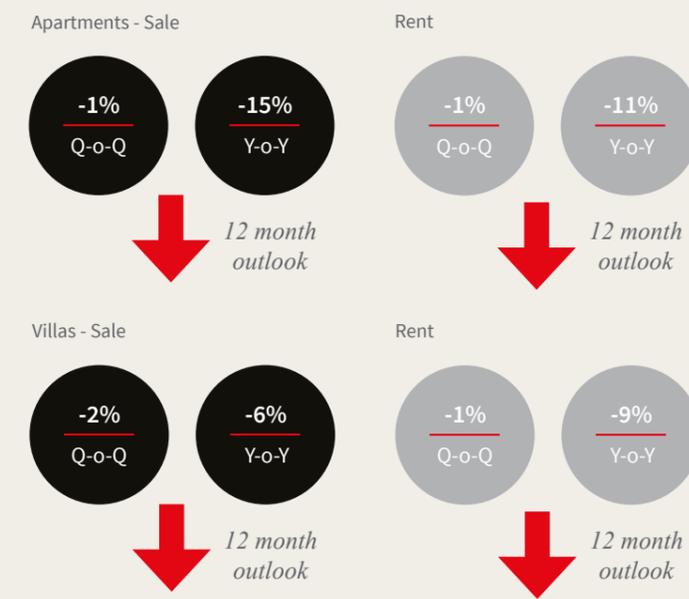
Performance

Apartment rents declined by 1% Q-o-Q and 11% Y-o-Y, to register AED 116,200 per annum. As more supply is expected to materialize towards the end of the year, residential vacancy rates are anticipated to increase particularly within prime developments where demand has been negatively affected by job losses, exerting further pressure on rental rates. Villa rents also decreased by 1% Q-o-Q and by 9% Y-o-Y.

Residential sale prices for prime villas declined by 2% Q-o-Q and 6% Y-o-Y, whereas prices for apartments recorded a 1% decline Q-o-Q and 15% decline Y-o-Y to reach approximately AED 10,050 per sq m for both apartments and villas respectively.

The softening market conditions have resulted in both homebuyers and tenants having more bargaining power with negotiating terms and conditions, rental rates, and sales prices. Looking ahead, the expected delivery of 14,000 residential units over the next two years (2019-2020) coupled with subdued demand is likely to continue exerting pressure on rent and sales prices.

Residential rents and sale prices



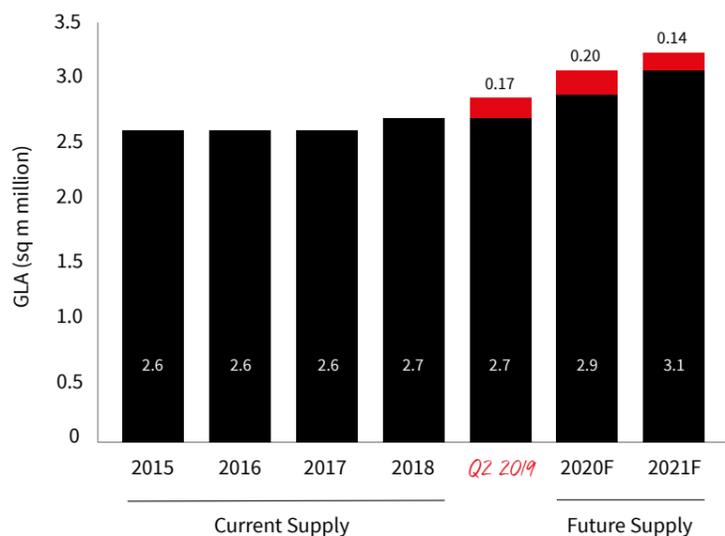
Source: JLL

Retail

Supply

Q2 2019 witnessed the delivery of the region's most sustainable community mall, My City Centre in Masdar City adding 18,800 sq m of GLA to the total retail stock registering approximately 2.7 million sq m of GLA. The Galleria Al Maryah is due to open in September 2019 and represents the first major addition of quality retail since Yas Mall opened in 2014. With Al Reem Mall due to complete in 2020, the total retail supply will increase to approximately 3 million sq m by the end of 2020. However, as with all sectors, we remain cautious on the timely delivery of future projects. Al Reem Mall is seeking to fully integrate traditional bricks and mortar stores with e-commerce, making it a unique digitally enabled mall.

Given Abu Dhabi's challenging economic conditions, with more residents facing job uncertainties, consumers have changed their spending habits, shifting away from luxury brands to more value brands. Tenant demand remains weak, despite the increased incentives being offered by owners.

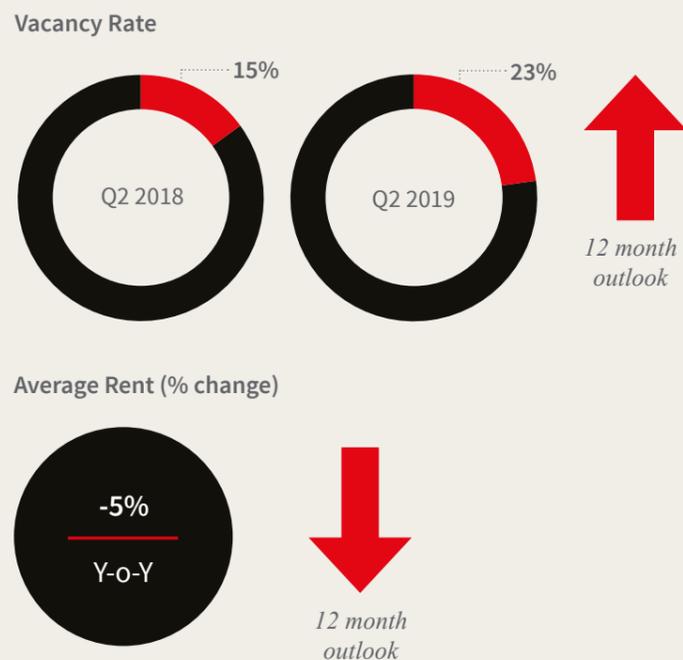


Source: JLL

Performance

Average retail rents have continued to decline (by 5% Y-o-Y), as vacancy rates increased by 800 basis points over the past year. Landlords are increasingly offering tenant favorable leases with negotiable rental rents, rent free periods, and higher levels of capital expenditure contributions.

Rents and vacancies are expected to remain under continued pressure due to the large supply scheduled to enter the market during the rest of 2019. With increasing vacancies throughout the market, mall owners are investing in new technologies to increase retail sales, offering temporary events and significant promotions to increase footfall.



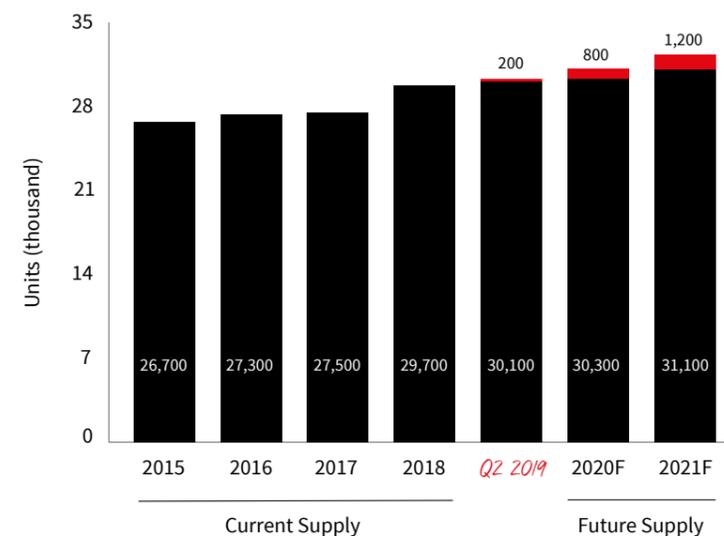
Source: JLL

Hotel

Supply

No major completions took place during Q2, with the total hospitality stock remaining stable at approximately 30,100 keys. Park View (a serviced apartment project on Saadiyat Island) is the only major addition to supply scheduled for delivery over the second half of this year. A further 800 keys are scheduled for delivery in 2020, increasing the total stock of hotel and hotel apartment keys to around 31,100, mostly falling within the upper scale segment. Some hotel projects scheduled for delivery during 2019 have been delayed in response to the current market conditions.

The Department of Culture and Tourism (DCT) has announced a set of initiatives and marketing efforts to promote tourism and improve Abu Dhabi's hotel market. As part of these initiatives, DCT is planning a series of events, exhibitions, and temporary activation schemes within existing developments. In a separate move, Miral has partnered with Abu Dhabi Global Market's (ADGM) new travel and hospitality platform, Plug and Play, aiming to boost and diversify tourism in Abu Dhabi.

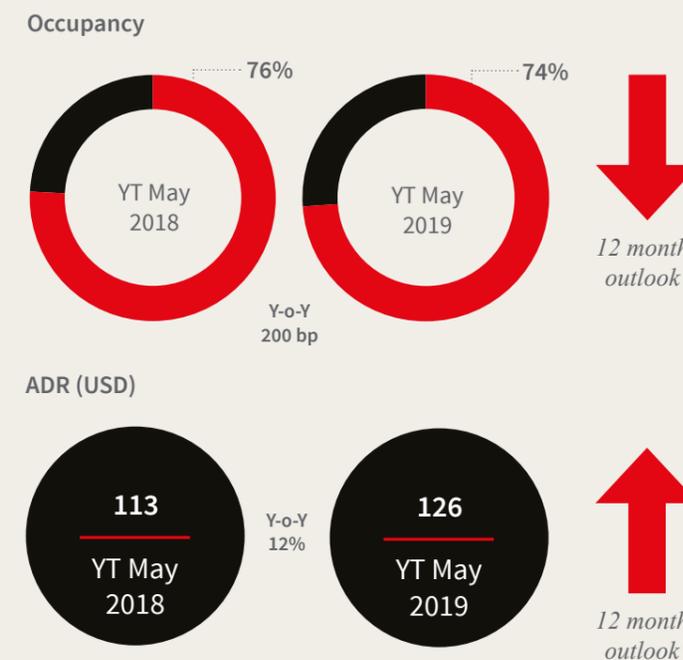


Source: JLL

Performance

The Abu Dhabi hospitality market has performed strongly over the first half of 2019. Although occupancy levels reduced to register 74% YTD May 2019, Average daily rates (ADR's) increased by 12% in comparison to Q2 2018 to reach USD 126. As a result, revenues per available room (RevPar's) increased by 9% over the same period to register USD 94. Tourism numbers have been increasing, partly due to a strong calendar of events during Q2. These included a popular program of family-entertainment activities on Yas Island during Eid Al Fitr, including a gaming festival catering to all ages.

Looking ahead, we expect the hotel sector to perform better by year end (in comparison to 2018) but the market has not yet moved into a period of sustained recovery.



Source: STR

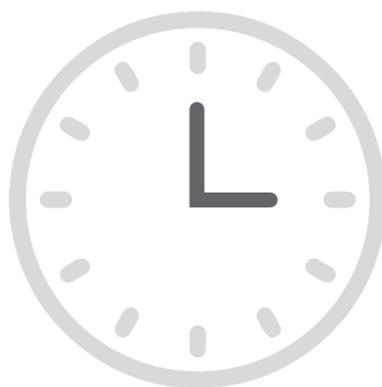
Property Clock

12 O'clock

12 o'clock indicates a turning point towards a market consolidation / slowdown. At this position, the market has no further rental growth potential left in the current cycle, with the next move likely to be downward.

9 O'clock

9 o'clock indicates the market has reached the rental growth peak. While rents may continue to increase over coming quarters the market is heading towards a period of rental stabilisation.



3 O'clock

3 o'clock indicates the market has reached its point of fastest decline. While rents may continue to decline for some time, the rate of decrease is expected to slow as the market moves towards a period of rental stabilisation.

6 O'clock

6 o'clock indicates a turning point towards rental growth. At this position, we believe the market has reached its lowest point and the next movement in rents is likely to be upwards.

Definitions

Definitions

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 materialisation rate.

Office

Supply. The current supply of completed office GLA is based on a comprehensive list of office buildings in Dubai and Abu Dhabi 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.

In Dubai the Central Business District (CBD) includes the Dubai International Financial Centre (DIFC), Downtown Dubai, Dubai Trade Centre District (DTCD) and Sheikh Zayed Road up until Interchange 1.

Performance. The weighted average rent (WAR) in Dubai and average rent in Abu Dhabi 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 in Dubai and average rate across a basket of selected buildings defined as superior in the current market in Abu Dhabi.

Grade A buildings are defined as high quality office spaces, well located, with good access to infrastructure and amenities including F&B and retail.

The WAR and average rents of Grade A buildings represent 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.

Vacancy rate is based on estimates from the JLL Offices and Business Space team. It reflects the weighted average rate across a basket of buildings in the CBD in Dubai, that make up approximately 70% of the CBD supply and 13% of the total current supply. For Abu Dhabi, it reflects the average rate across all office buildings in the project list.

Residential

Supply. The current supply of completed residential buildings is based on a comprehensive list of residential units that have been handed over for immediate occupation. Our project list excludes labour accommodation. Our project list also excludes Emirati housing in Dubai. 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 prices and rental data and transactions data.

Q-o-Q data for Dubai, compares March 2019 Vs May 2019 and Y-o-Y compares May 2018 Vs May 2019.

Data on residential performance in Abu Dhabi is based on the asking prices and rents of a basket of selected developments.

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 in Dubai and Abu Dhabi 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 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.

Vacancy rate is based on estimates from the JLL Retail team. It reflects the average rate across a basket of super regional and regional centers in Dubai and Abu Dhabi.

Hotels

Supply. The current supply of hotel rooms is based on data from the Dubai Tourism and Commerce Marketing (DTCM), Abu Dhabi Tourism and Culture Authority (ADTCA) and 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.



*Achieve
Ambitions*

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