

JLL Research Report

The UAE Real Estate Market

Q3 2019

UAE



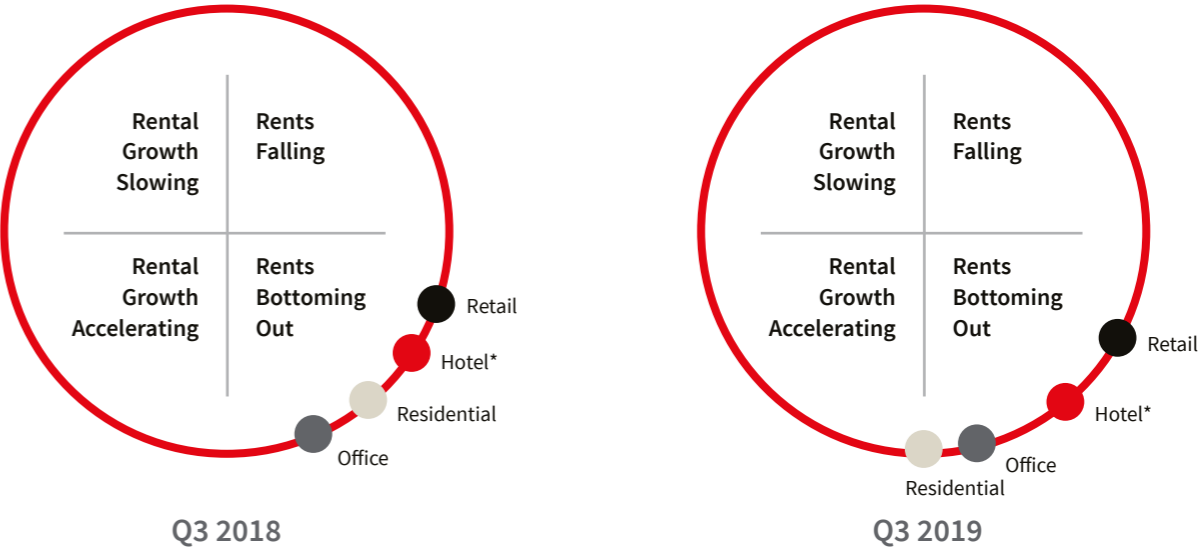
Market Summary

Following the various initiatives announced over the past year to boost demand, the Dubai government has taken steps to also limit future supply, with the announcement of a new Real Estate Planning Committee in Q3 2019. Developers are also launching fewer new projects, with activity at this year’s Cityscape Global focusing on the sale of existing inventories. Despite these trends the market is still expected to see a high level of deliveries in the short term, with potential residential completions in 2019 (36,000 units) likely to be the highest in the last 10 years.

The growth of flexible offices and e-commerce continue to disrupt the office and retail sectors, with the latter also creating opportunities for further logistics facilities in Dubai.

All sectors except residential which has reached the bottom, currently remain in the late downturn stage of their cycle, with further declines in rents and sale prices likely over the next 12 months.

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

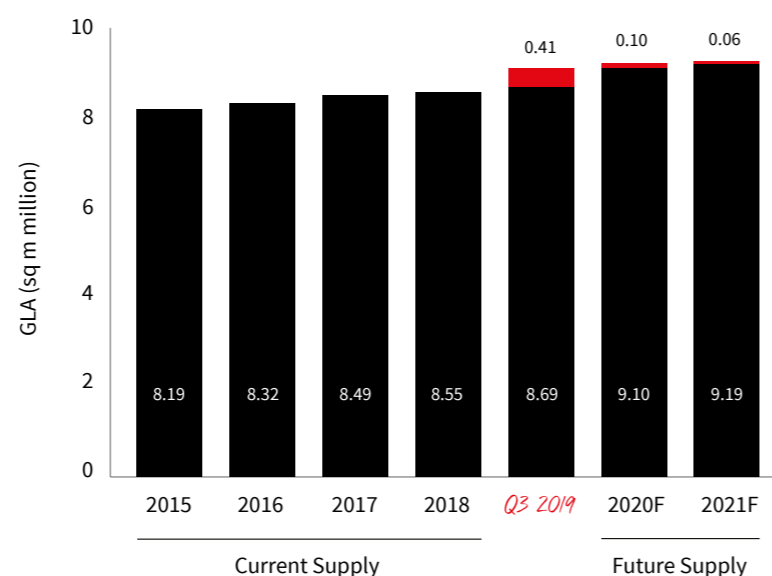
Office

Supply

Around 80,000 sq m of GLA was added in Q3 2019 with the completion of The Offices 4 and 5 in Trade Center District and the Mastercard building in Dubai Media City. These completions bring the total office stock to around 8.7 million sq m of GLA. Assuming no further delays, an additional 410,000 sq m of quality office space is expected to enter the market by end of 2019, notable projects include ICD Brookfield Place in DIFC and Amesco Tower in JLT.

Demand for office space remained weak in Q3 2019, on the back of slow business activity. The majority of demand is for small units (less than 1,000 sq m) with a preference for CAT A fit out rather than shell and core space.

A number of new initiatives have been launched to boost demand. These include the One Free Zone Passport and further moves to allow free zone companies to extend their operations to mainland Dubai. DIFC, DWTC DAFZA and DMCC are among the free zones to have signed agreements with the Department of Economic Development to offer dual-licenses.



Source: JLL

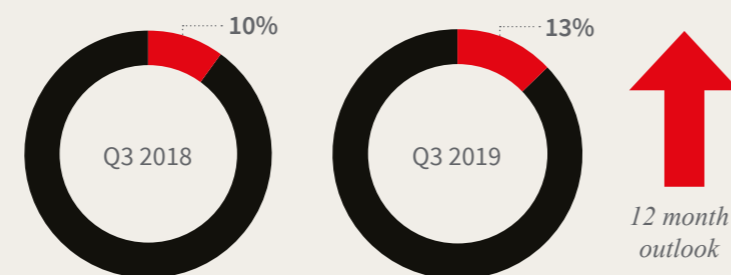
Performance

Vacancies in the Central Business District (CBD) remained stable over the quarter (at 13%). Average Grade A rents have declined by 6% in Q3 to AED 1,417, a 13% decline over the past year. With more quality office supply expected to enter the market, further downward pressure on rents and occupancies is expected over the next 12 months.

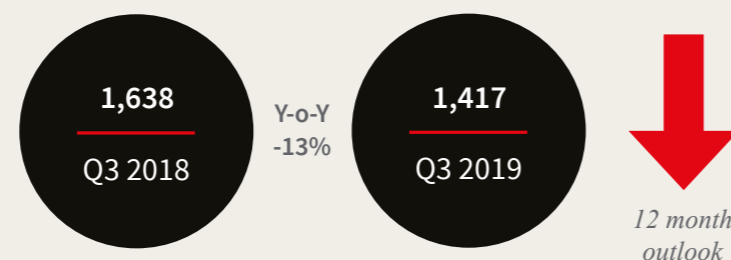
The market remains in favor of tenants and landlords continued to offer favorable renewal terms to retain existing tenants in the face of increased competition from new 'best in class' supply entering the market. Landlords are also offering lower rentals, extended rent free periods, fit out contributions and other concessions to attract new tenants.

With an increased interest in co-working and co-living spaces, developers are offering more flexible workspaces to attract both established corporates and SME's. District 2020 is one example of a project seeking to accommodate the increased demand for co-working and co-living spaces.

Vacancy Rate



Rents (AED / sq m / annum)



Source: JLL

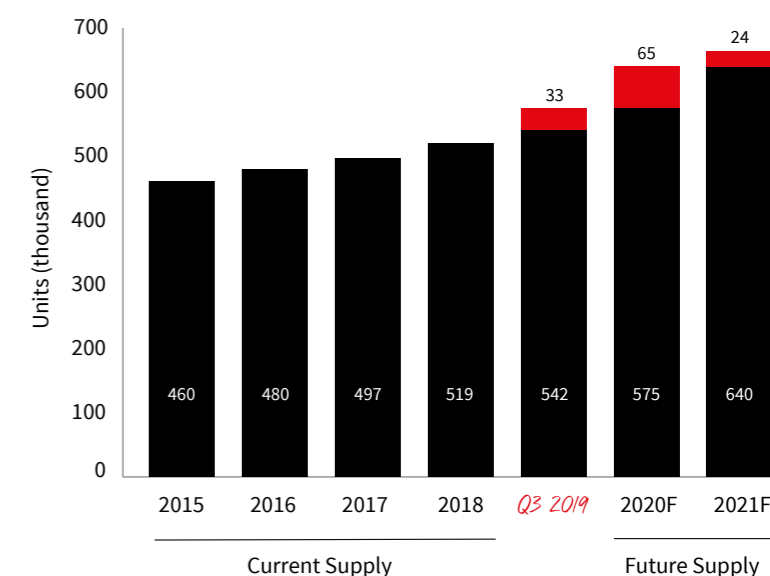
Residential

Supply

More than 6,500 units were completed in Q3, bringing completions for 2019 to around 23,000 and the total residential stock to around 542,000. Major completions in Q3 included Sparkle Towers in Dubai Marina, Sidra villas in Dubai Hills Estate and BLVD Crescent in Downtown Dubai. An additional 33,000 units are expected to enter the market by the end of the year. We remain cautious on the timely delivery of all these projects.

The first initiative addressing future supply was launched in Q3 2019, with the announcement of a new Real Estate Planning Committee. The aim of this committee is to introduce measures to improve the balance between supply and demand. The committee will also develop a comprehensive strategic vision for all major real estate projects in Dubai for the next ten years.

Developers are also responding to the need for lower levels of future supply, with the number of projects launched in 2019 to date (7,800 units) being the lowest for the past 3 years.



Source: JLL

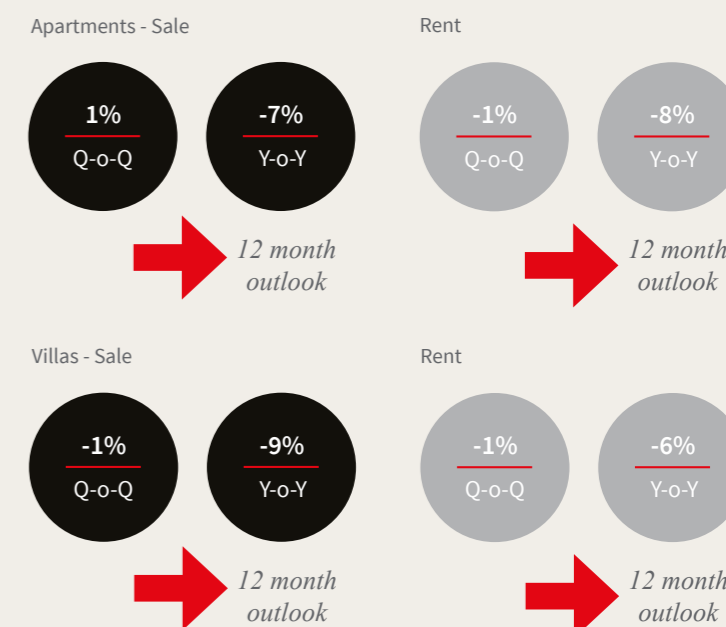
Performance

Dubai residential market is at the bottom of the cycle with marginal declines of around 1% in both apartment and villas rents and sale prices, while apartment sale prices increased slightly (by 1%) over the quarter. This brings the total decline over the past 12 months to between 9% (for villa sale prices) and 6% (for villa rents).

During Q3, Dubai Land Department (DLD) announced the launch of the first official house price index for Dubai. The index will be titled Mo'asher and will publish data related to sales prices and rents in Dubai. The index is due to be launched by end of October.

DLD is now responsible for registering all rental contracts in Dubai, taking over the role from Real Estate Regulatory Agency (RERA). While, DLD will regulate the relationship between landlords and tenants along with rental contracts, RERA will be responsible for regulation and overseeing real estate development escrow accounts and accrediting financial institution that are qualified to manage these accounts. RERA also remains responsible for regulating the development, brokerage and management of real estate projects in Dubai.

Residential rents and sale indices



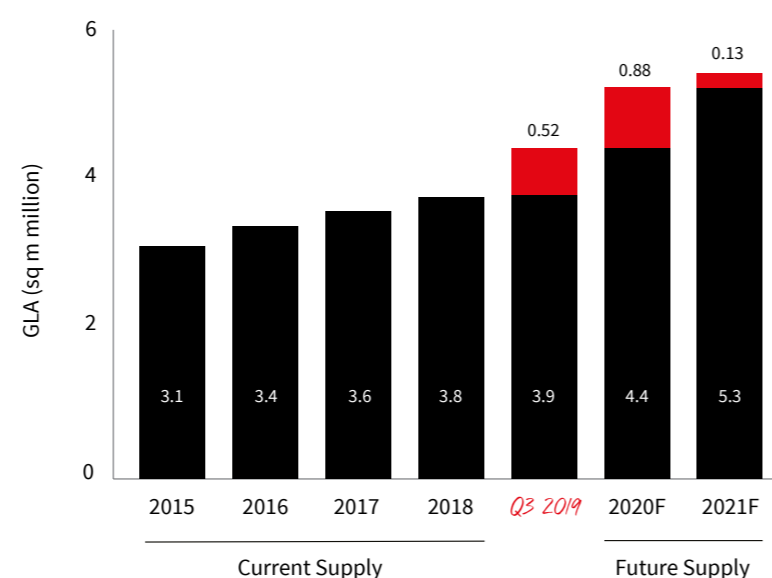
Source: REIDIN

Retail

Supply

Total mall-based retail stock reached 3.9 million sq m by the end of Q3 2019, with the completion of Gate Avenue in the DIFC. Around 515,000 sq m of retail GLA is expected to enter the market by the end of the year, with notable projects including Nakheel Mall in Palm Jumeirah, Night Souk in Deira Islands and Cityland Mall in Arjan. With the retail market facing the greatest threat of potential oversupply, we remain cautious on the timely delivery of many of these projects.

While the demand for traditional retail space has been facing downward pressure, online shopping has been gaining popularity and its introduction as a new distribution channel has been a major driver of the growth of the retail sector. As a global leader in retail and logistics, Dubai has been at the forefront of this shifting landscape, with increased demand for modern logistics space from retailers in Dubai.

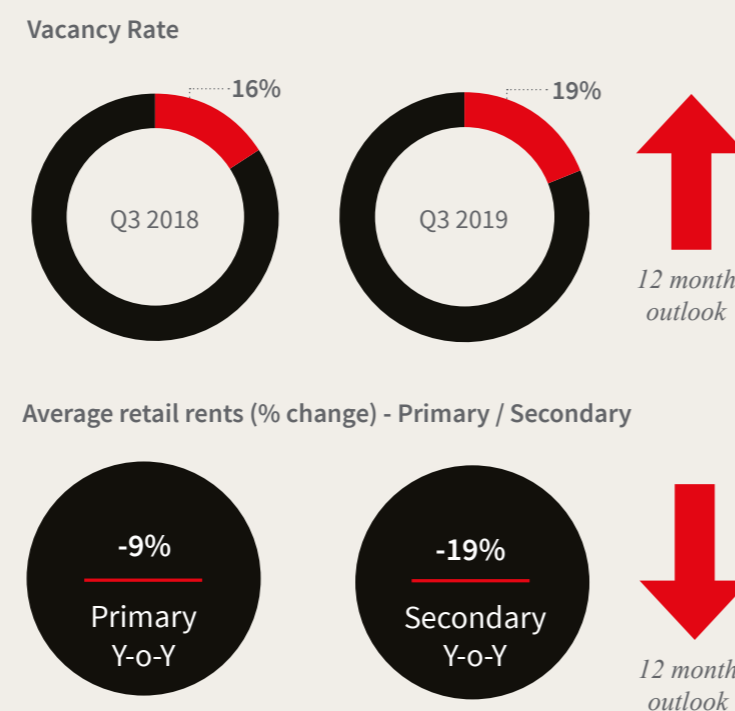


Performance

Retail rents remained stable over the quarter but softened across all mall categories compared to last year. Primary and secondary malls registered declines of around 9% and 19% respectively, when compared to the same period last year. Market wide vacancies are estimated to have increased to 19% in Q3 2019 from 16% in Q3 2018. Given the level of upcoming supply, coupled with evolving consumer tastes and the rapid proliferation of disruptive technologies, we expect rents to remain under pressure over the next 12 months.

Brookfield and Meraas formed a joint venture valued at AED 5 billion to own and operate Meraas' retail assets. This represents Brookfield's first regional investment in the retail sector.

Retailers are increasingly turning to new strategies and unique concepts to enhance customer experience and increase customer engagement. There has also been an increase in the entertainment and F & B space within many malls, with more focus on healthy food alternatives. Technology is also helping new restaurants enter the market without a large physical space through the increased use of 'dark kitchens'.

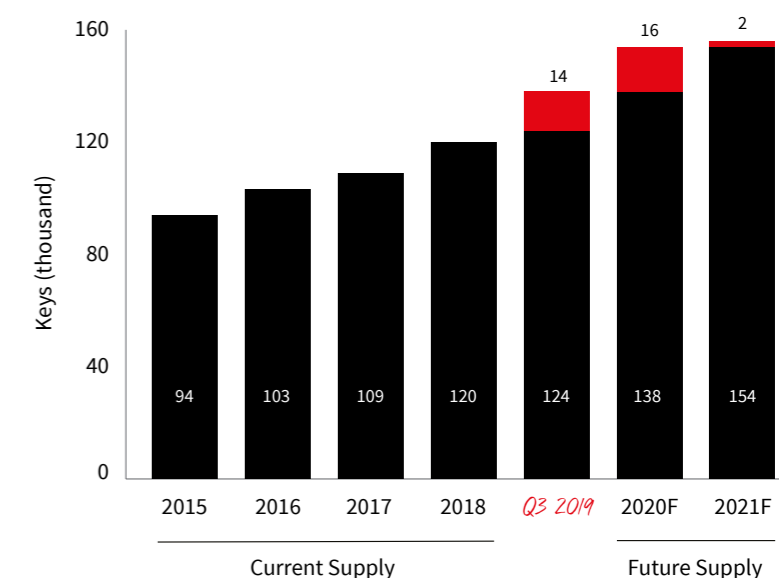


Hotel

Supply

Around 800 keys were added during Q3 2019, bringing the total number of hotel and serviced apartment keys to around 124,000 in Dubai. Major projects completed during the quarter included Radisson Blu in Sufouh Gardens and Waldorf Astoria in DIFC. An additional 14,000 keys are expected to enter the market by the end of the year, with major projects including The Address Fountain View in Downtown and Artesia in Damac Hills. While developers are bringing some strategic projects forward to complete ahead of Expo 2020 next October, we remain cautious on the ability of many projects to complete on schedule.

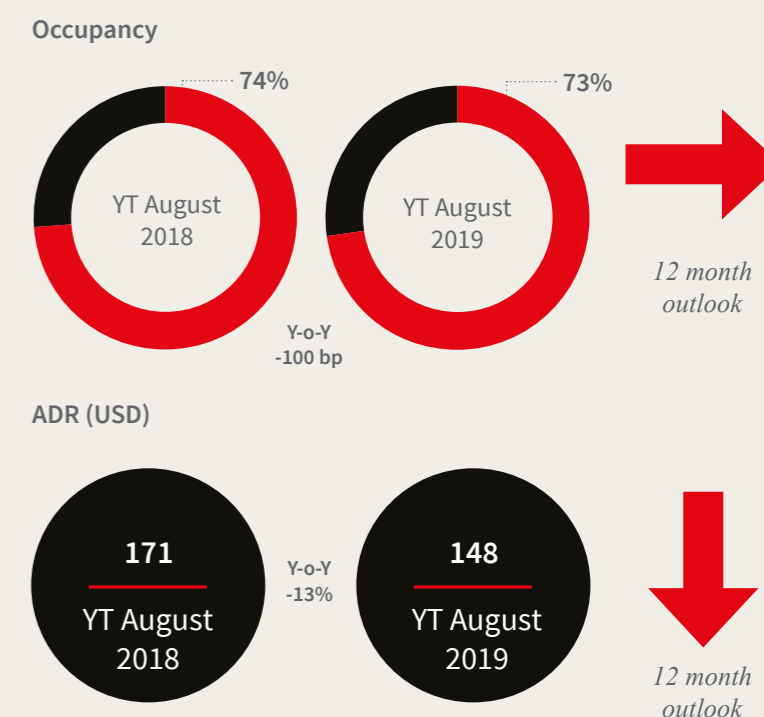
Since the relaxation of regulations on short-term rentals in Dubai, holiday homes have been increasing in popularity. Seeing this opportunity, IBC Group recently announced plans to acquire 10,000 properties to furnish and manage as holiday homes in Dubai. Emaar has also entered this market with its own digital platform called "Ease by Emaar", which will allow owners within its developments to list their properties for short-term rental.



Performance

The hotel market in Dubai continued to record decreases in performance in the YT August 2019. Average Daily Rates (ADR's) reduced by 13% to register USD 148 compared to the same period last year. Similarly, Revenue Per Available Room (RevPAR) declined by 15% (to USD 108) and occupancy levels decreased to 73% in YT August 2019 respectively. Currently ADR's and RevPAR are at their lowest levels since 2006.

Multiple initiatives had been launched by the government throughout the year to support the hotel market by increasing the attractiveness of Dubai as a tourist destination. Although further declines are expected in the performance over the next 12 months, the hotel market can be expected to recover on the back of strong visitor arrival growth associated with Expo 2020.

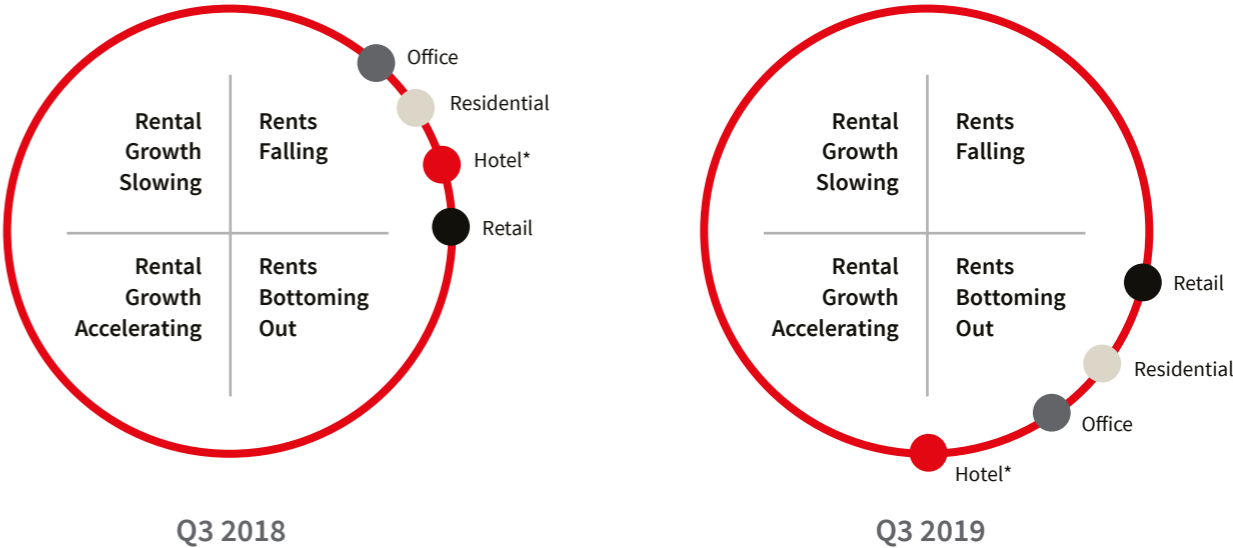




Market Summary

The performance of the real estate market in Abu Dhabi remained sluggish in Q3 2019. Slow commercial activity weighed on the performance of the office market as rental rates continued to decline despite no new office space being delivered to the market. Demand remains restricted to small and serviced office spaces. In turn, the residential market registered mixed performance as apartment sale prices and rents continued to decline, while the performance of villas remained relatively stable. The retail market saw the delivery of The Galleria Al Maryah Island, adding approximately 131,000 sq m of GLA to Abu Dhabi’s quality stock retail. Performance across the hotel sector remained positive. Average daily room rates and revenues per available room increased 8% and 9% respectively in the YT August 2019 versus the same period last year. The government initiatives to promote tourism through hosting various events such as the Abu Dhabi Showdown week, have reflected positively on the hotel sector.

Abu Dhabi - 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

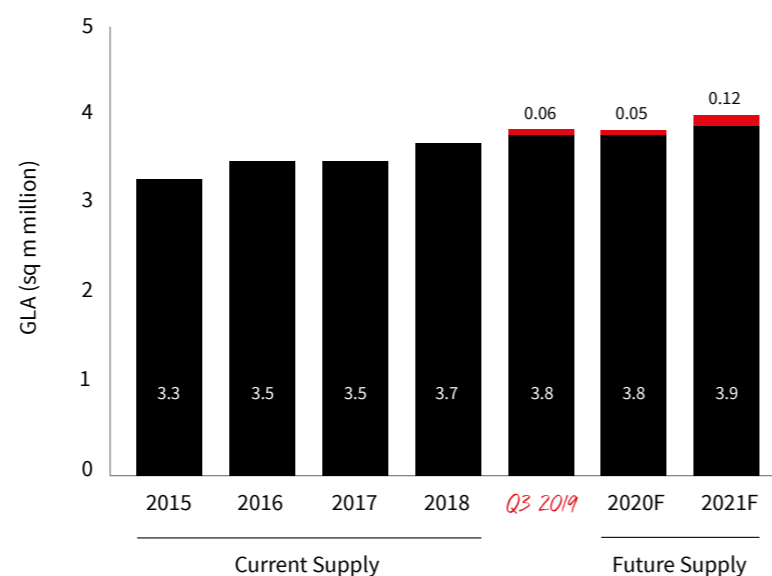
Office

Supply

Demand for office space in Abu Dhabi remains limited as occupiers continue to focus on consolidating their operations and downsizing their space to smaller units. As a result, there remains active demand for smaller sized units less than 100 sq m, and serviced office space, primarily for licensing purposes.

In terms of supply, no new deliveries were handed over in Q3 2019. This keeps the total office stock in Abu Dhabi at approximately 3.8 million sq m of GLA. Looking ahead, a small number of office buildings are scheduled for delivery over the remainder of the year in Masdar City and Zayed City. However subdued market conditions could delay the handover of future projects.

In the long-run, various government initiatives aimed at promoting the commercial sector are expected to stimulate demand. This includes the AED 4 billion fund set up to enhance and support companies that invest in research and development in Abu Dhabi.

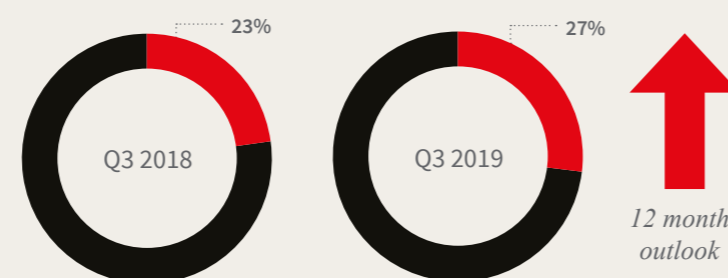


Performance

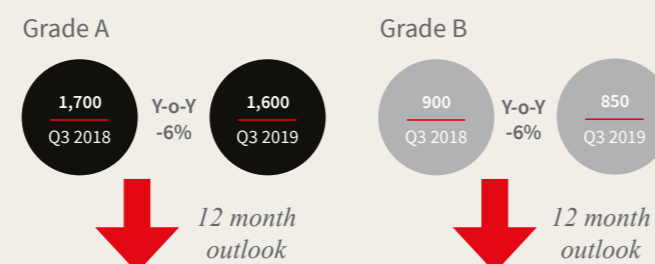
Given subdued demand, the office market continues to see declines in rentals for both Grade A and Grade B space. Headline rents for shell and core offices (exclusive of service charges) dropped 6% Y-o-Y to average AED 1,600 per sq m for Grade A, and AED 850 per sq m for Grade B respectively. While the rate of decline is slowing, the market remains in favor of tenants, with landlords offering strong incentives and displaying flexibility in lease terms in order to retain existing tenants. We expect rentals to decline further over the next 12 months.

With some large occupiers significantly down-sizing their office space, vacancy rates continued to increase over the past year to average 27% and are expected to rise further particularly within Grade B offices.

Vacancy Rate



Rents (AED / sq m / annum)



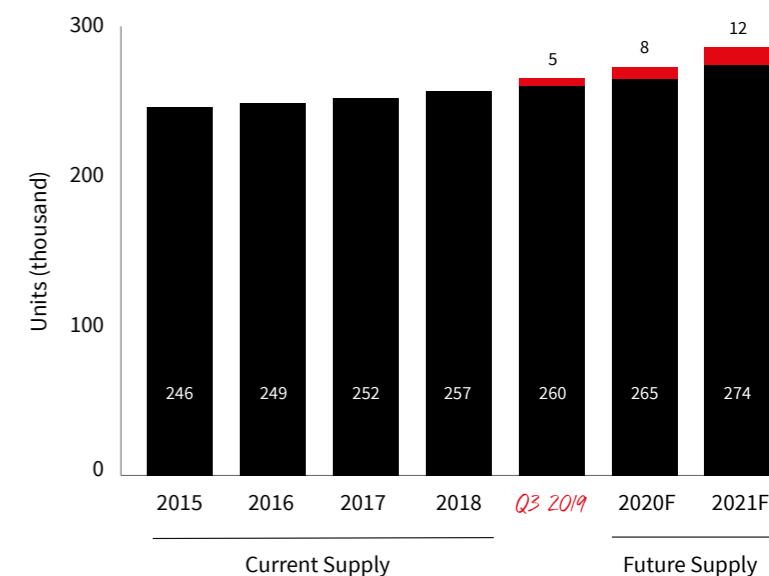
Source: JLL

Residential

Supply

Approximately 380 residential units were completed in Q3 2019, bringing the total residential stock in Abu Dhabi to 260,000 units. Completed projects included two residential buildings located in the Shams district on Al Reem Island, and a residential tower in Al Khalidiyah, Corniche. An additional 5,400 units are scheduled for delivery by year end, mainly within master planned communities such as Al Reem Island, Al Raha Beach, and Saadiyat Island.

Following the success of three residential land plot sales catering to the mid-market segment, Aldar has recently launched Saadiyat Reserves located on Saadiyat Island. With the recent freehold law enabling foreign buyers to own land in investment zones, this project could attract further investment in the Emirate at affordable prices. In addition, Aldar has announced attractive offers on 10 of its developments, consisting of discounted sale prices, reduced registration fees, and various other benefits.



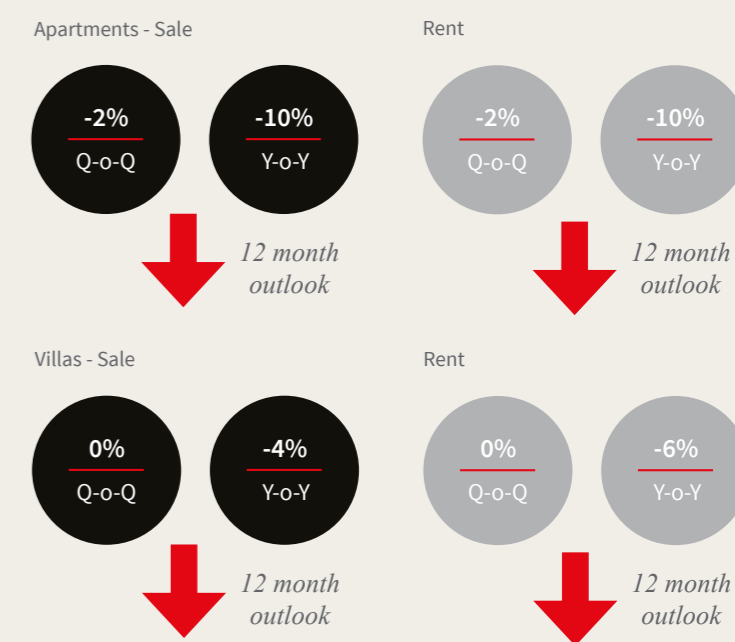
Performance

Apartment rents declined 2% Q-o-Q and 10% Y-o-Y, to register AED 114,000 per annum in quality master planned communities. However, villa rents stabilised at the same levels seen in the previous quarter as most villa developments maintained healthy occupancy rates. As further supply is expected to be delivered by year end, particularly within investment zones, residential vacancies are expected to increase further, exerting further downward pressure on rental rates.

Sale prices for prime villas have remained stable over the past quarter at approximately AED 9,000 per sqm, whereas prices for apartments recorded a 2% decline Q-o-Q and 10% decline Y-o-Y to average approximately AED 11,000 per sq m. Despite the freehold law allowing expatriates to buy land and property within investment zones, we expect sale prices to reduce slightly further within prime villa developments over the next 12 months.

While sale prices have remained relatively stable in recent months, the subdued market conditions have encouraged developers to offer more flexible and attractive payment schemes to attract buyers, such as Aldar's rent-to-own scheme for West Yas villas.

Residential rents and sale prices



Source: JLL

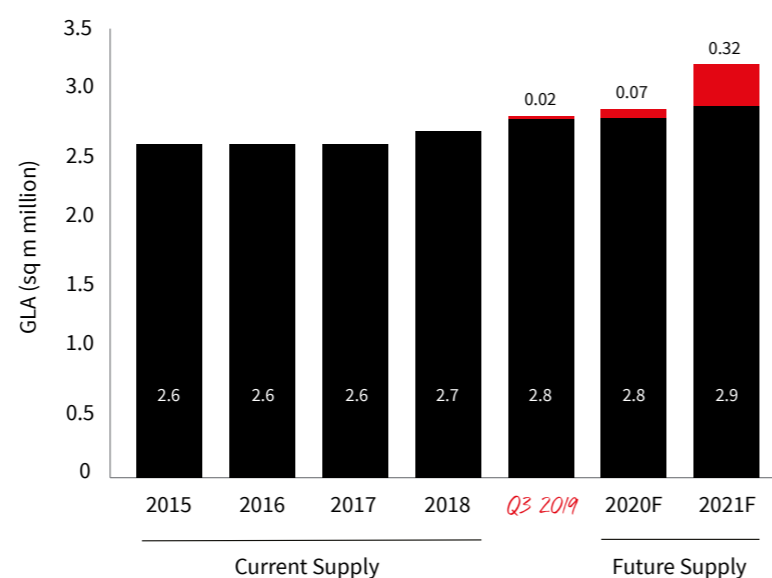
Retail

Supply

Q3 2019 saw the opening of The Galleria Al Maryah Island, representing the first major quality retail addition since the opening of Yas Mall in 2014 consisting of an extension to the current mall. This increased the total stock of retail space to 2.8 million sq m of GLA. An additional 20,000 sq m of GLA is scheduled for delivery over the last quarter of the year.

Notable upcoming developments to be completed by 2021 include the digitally enabled Reem Mall and a waterfront retail concept located in Bain Al Jesrain, Al Qana. This could increase the total retail supply to approximately 3.2 million sq m by the end of 2021, but we remain cautious on the delivery of future projects within the specified timelines.

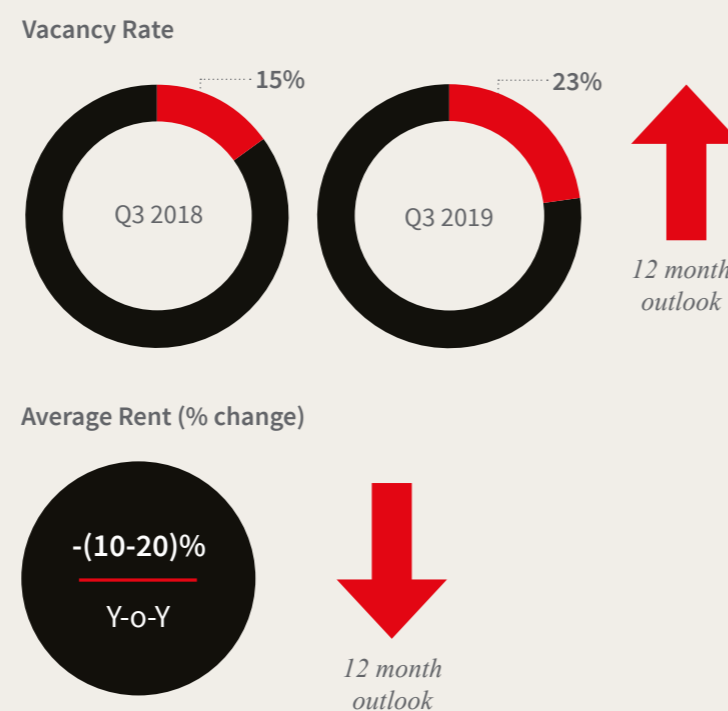
Given the current slowdown in the retail sector, the market is focusing on innovative entertainment opportunities. Dalma mall has recently opened a new entertainment hub featuring an array of simulator and technology driven gaming experiences. The upcoming Al Qana development will include a variety of F&B and entertainment concepts.



Performance

Average retail rents have declined by -10% to -20% Y-o-Y but remained stable on a quarterly basis. However, market sentiment is softening with landlords continuing to offer flexible incentives such as extended fit out periods, rent free periods, break option clause, revenue share rents, and short lease terms. Average vacancies across major malls increased significantly (800 basis points) over the past year to reach 23%, largely due to Galleria Mall opening with a number of vacant units.

Rents and vacancies are expected to experience further pressure over the remainder of 2019 and could soften further on the back of the significant new supply due to enter the market during 2020. Retailers are seeking to benefit from the additional choice of potential outlets by diversifying their business models to include omni-channel models to generate further sales and improve user experience.



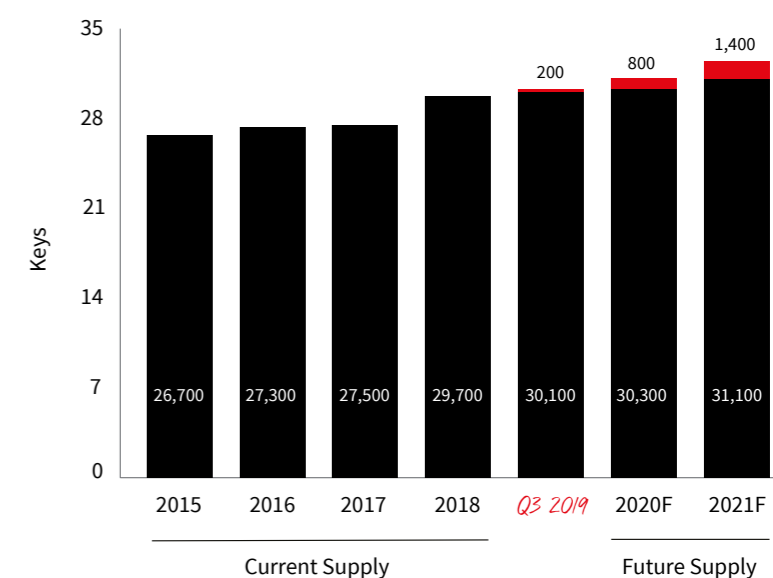
Hotel

Supply

The total stock of hotel keys remained stable at 30,100 keys at the end of Q3 2019. The only notable project scheduled for delivery by year end is a serviced apartment development on Saadiyat Island, Park View, consisting of 217 keys. Hotel supply is expected to reach approximately 32,500 keys by the end of 2021, with the majority of developments falling within the upper scale segment. Major future projects include Fairmont Marina, Hilton Hotel and a themed hotel on Yas Island.

The Abu Dhabi Department of Culture and Tourism (ADDCT) has launched a 'significant events fund' focused on attracting world-class entertainment and business events. As part of the 'Ghadan 21' economic programme, this fund aims to form partnerships with global entertainment organizers to invest in events in Abu Dhabi.

The eighth annual MeetChina conference, attracted a large increase in Chinese visitors into the Emirate. Organized by Yas Island's promotion arm, Entertainment Hub, with the goal of providing global recognition for Yas Island within the rapidly growing Chinese market.

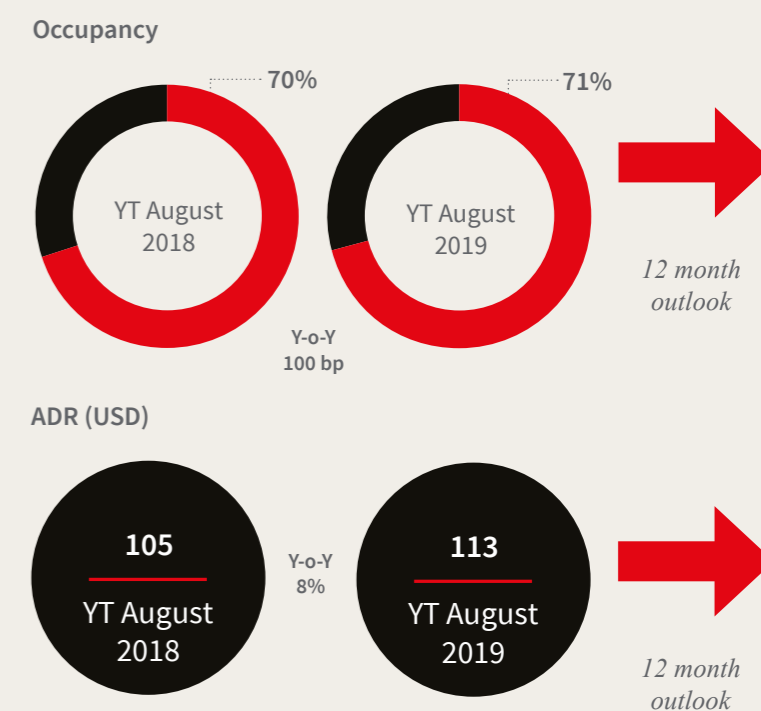


Performance

The Abu Dhabi hotel market maintained healthy performance levels over the past quarter. Occupancy levels increased by 100 basis points registering 71% in the YT August 2019, average daily rates (ADR's) increased by 8% from the same period last year to reach USD 113. As a result, revenue per available room (RevPar's) increased by 9% over the same period to register USD 80.

The government initiatives to promote tourism within the Emirate have resulted in strong demand from both domestic and overseas markets. This was particularly highlighted by the UFC themed Abu Dhabi Showdown Week, which offered a series of entertainment events focused on health and fitness. There is currently a significant variation between hotel room rates in Dubai (USD 148) and Abu Dhabi (USD 113), which has generated additional business in the capital from UAE residents.

Looking ahead, we expect the hotel sector to continue to perform strongly by year end, particularly due to the upcoming annual Formula 1 event and government planned events intended to boost tourism in Abu Dhabi.



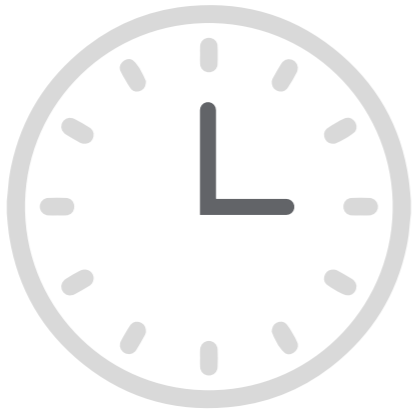
Property Clock

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 June 2019 vs August 2019 and Y-o-Y compares August 2018 vs August 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.

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