CUSHMAN & WAKEFIELD | CORE

DUBAI ANNUAL MARKET UPDATE

2019/2020

Dubai will be at the global center stage during Expo 2020 and while we are excited to see what this year brings to the city in terms of population growth, tourism and investment inflows, we remain cautiously optimistic on the city's real estate near to midterm outlook. A positive turn around in prices and bottoming out of the market is yet to be seen, however, we expect this year to act as a catalyst towards real estate recovery as the market continues to adjust and potentially plateau over the coming years.

MARKET SNAPSHOT 2020

2020 is undoubtedly going to be a pivotal year for Dubai's economy and the real estate market. Never in the city's young history has it seen so many push and pull factors shaping its future course as it does this year.

As Dubai gets ready to welcome the world for Expo 2020, it is doing so with a positive economic backdrop including the largest ever government budget of Dh66.4 billion for 2020, a significant rise in new business licenses, growth in construction and tech industries and record high real estate transaction volumes. We are also witnessing many positive regulatory changes such as the formation of the real estate committee, long-term residency and tourism visas, potential credit checks for tenants and ease in company formation laws – all of which are significant drivers improving market sentiment.

However, we continue to witness increasing downward pressures of supply volumes (both in existing inventory and upcoming stock) across asset classes and wider global economic and regional geo-political uncertainty. It is going to be interesting to see how these drivers and deterrents shape 2020 and create a far-reaching impact on Dubai's legacy.

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This publication

This document was published in January 2020. The data used in the charts and tables is the latest available at the time of going to press. Sources are included for all the charts. We have used a standard set of notes and abbreviations throughout the document.

Residential Market

2019 in Review

Residential Supply

Dubai saw nearly 32,000 units come to market in 2019, bringing total residential stock to 550,000 units. This has been the highest number of residential handovers in the last decade and for the first time, we saw more deliveries than our conservative estimate forecast at the beginning of 2019.

Large scale deliveries include multiple projects by Emaar in Downtown Dubai, Dubai Creek Residences, Dubai Hills Estate, MBR City and Prive, Celestia, Ghalia and Damac Hills by Damac.

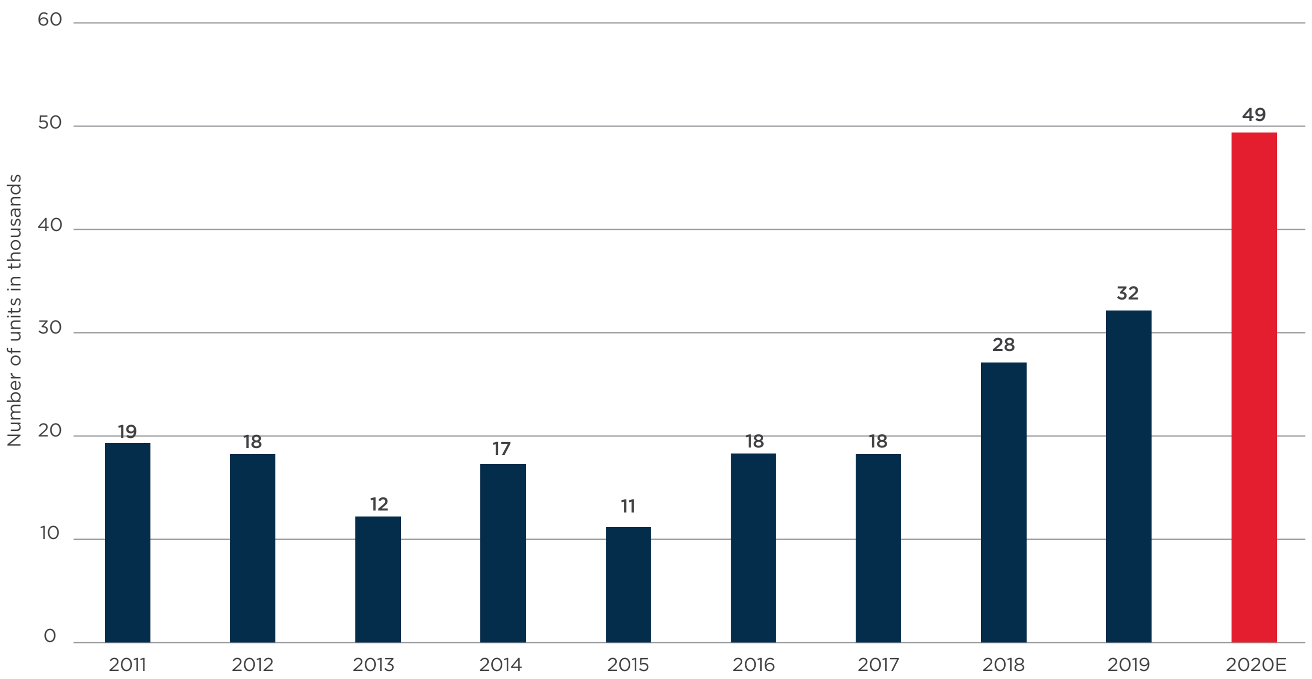
Dubai Land and Jumeirah Village Circle continue to dominate the total number of handovers, each area at 18% share of total stock delivered in 2019. This was followed by Business Bay (10%), MBR City (8%), Dubai South (6%), Downtown Dubai (6%) and Dubai Marina (6%). Looking at supply delivered by developer, Emaar had the highest number of deliveries at 21% followed by Damac (12%), MAG (3%), Select group (3%) and Nshama (3%)

550,000 units
Total residential stock as of 2019

32,000 units
Delivered in 2019

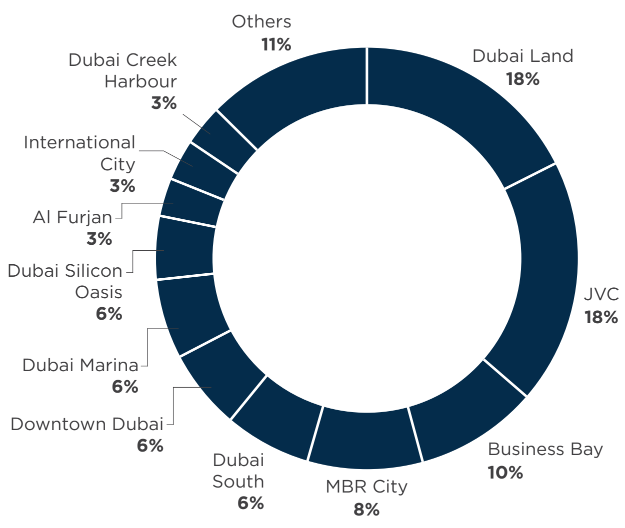
49,000 units
Further expected by the end of 2020

Residential deliveries in Dubai 2011 - 2020

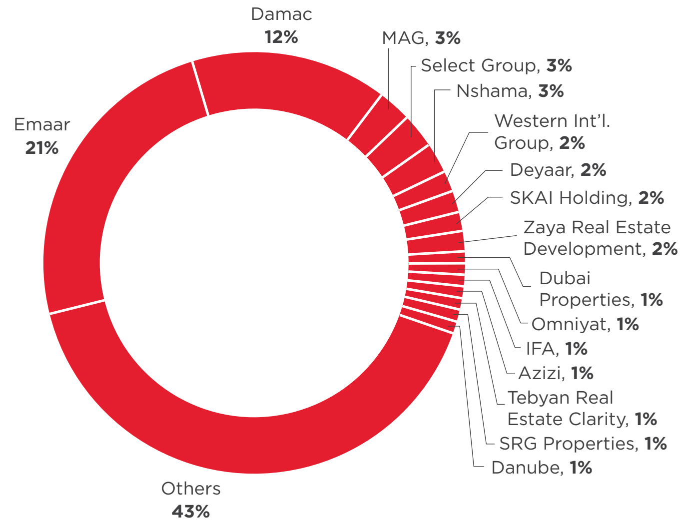


Source: Cushman & Wakefield Core Research

Supply delivered by area 2019



Supply delivered by developers - 2019



Source: Cushman & Wakefield Core Research

Transaction Market Trends

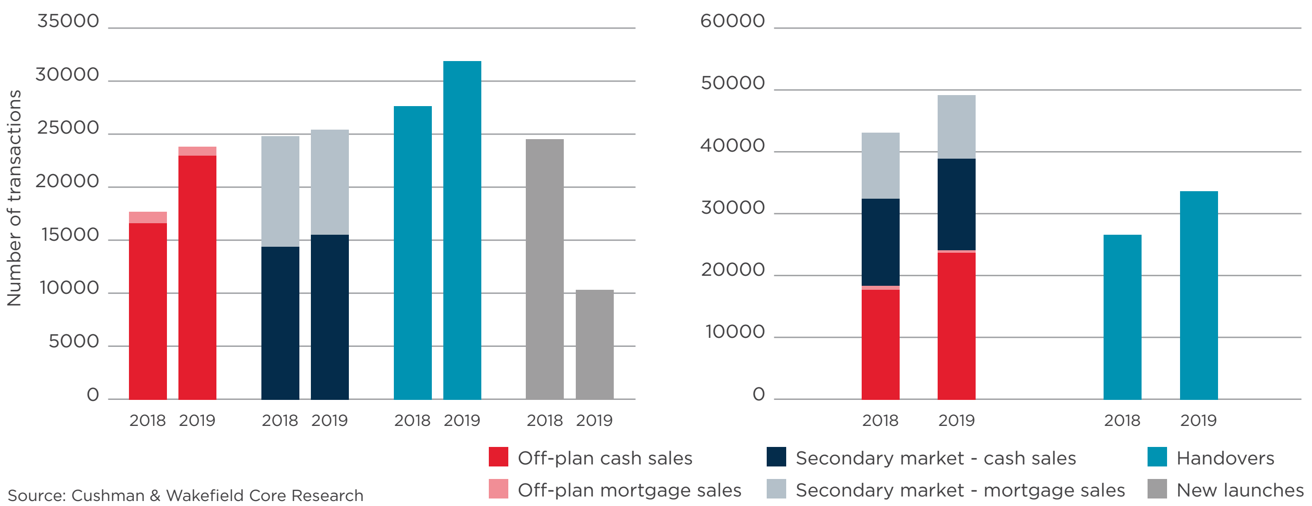
The secondary sales market saw transaction volumes remain steady over the last two years while off-plan activity saw a 32% increase year on year on the back of heavily incentivised payment plans and lower entry points.

On the other hand, 2019 saw a limited number of new launches, dropping by 58% year on year as developers increasingly adjust to market conditions and focus on absorption of existing inventories. Most of the new projects launched in 2019 were by government backed developers as compared to previous years where private developers constituted a higher share.

Assessing Demand

The total number of residential transactions (across the ready and off-plan market) are over 1.5 times the total number of residential handovers in 2019. This translates into a positive sentiment that although supply volumes are witnessing a strong spike, transaction volumes have also mirrored the same trajectory, keeping demand and absorption levels steady. However, going into 2020, we expect supply to outstrip demand, negatively impacting absorption in the near term.

Residential sales transactions trends / **Number of transactions vs. supply**

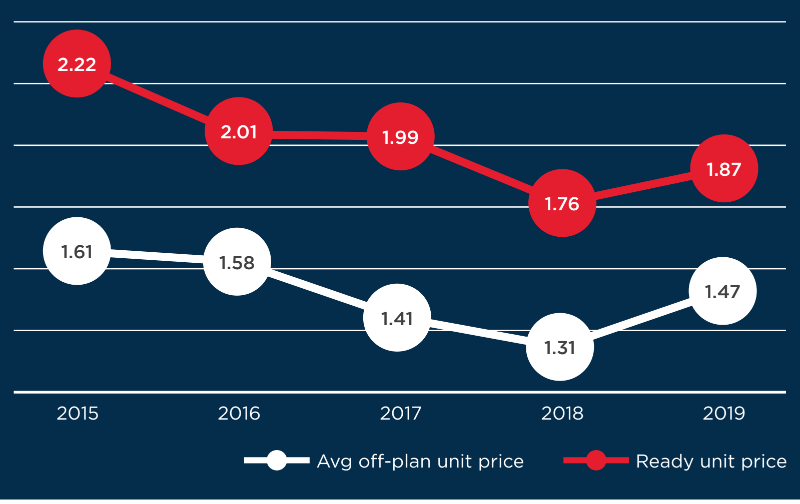


Source: Cushman & Wakefield Core Research

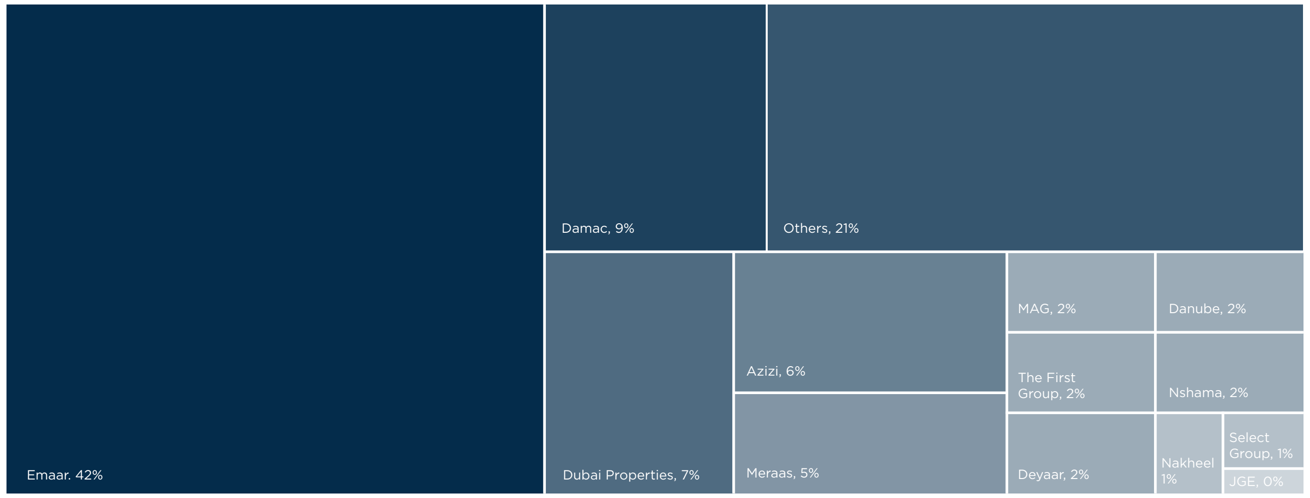
Average unit price trends

The average unit price for both the secondary market and off-plan market as seen a downward trajectory over the last few years due to softening sales prices coupled with smaller unit sizes. However, in 2019, both market segments saw a significant spike in average unit prices due to a higher number of mid to upper midmarket transactions taking place.

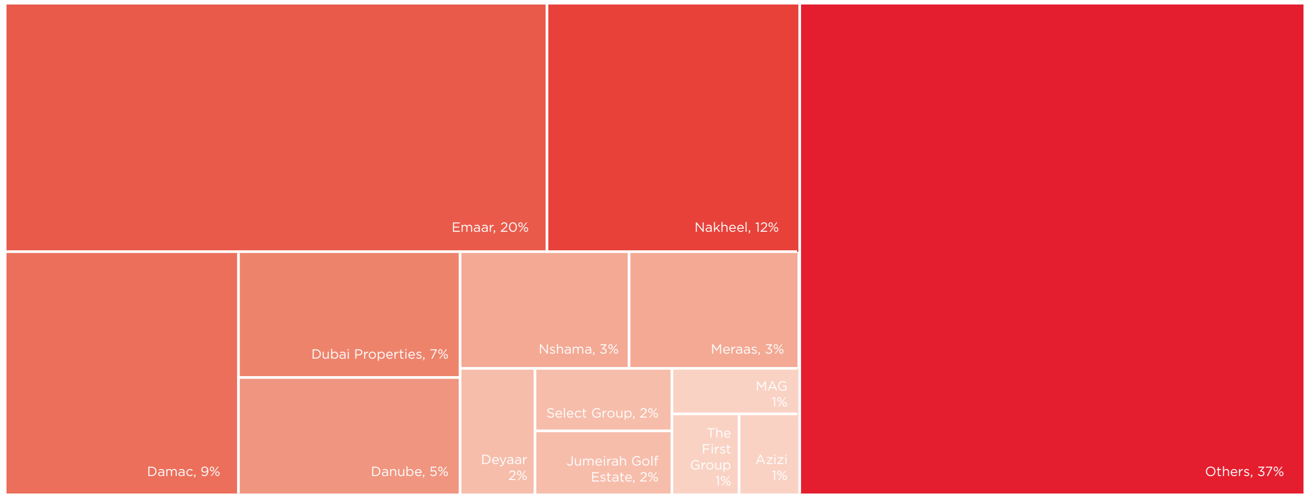
Average unit prices (in AED million)



Off-plan sales transactions by developers - 2019



Ready market sales transactions by developers - 2019



Source: Cushman & Wakefield Core Research

Residential Market Performance

2019 was the fourth consecutive year of continued price softening across asset classes, with the total drop in residential sales and rental prices from 2014, peak to 2019 and trough at 29%.

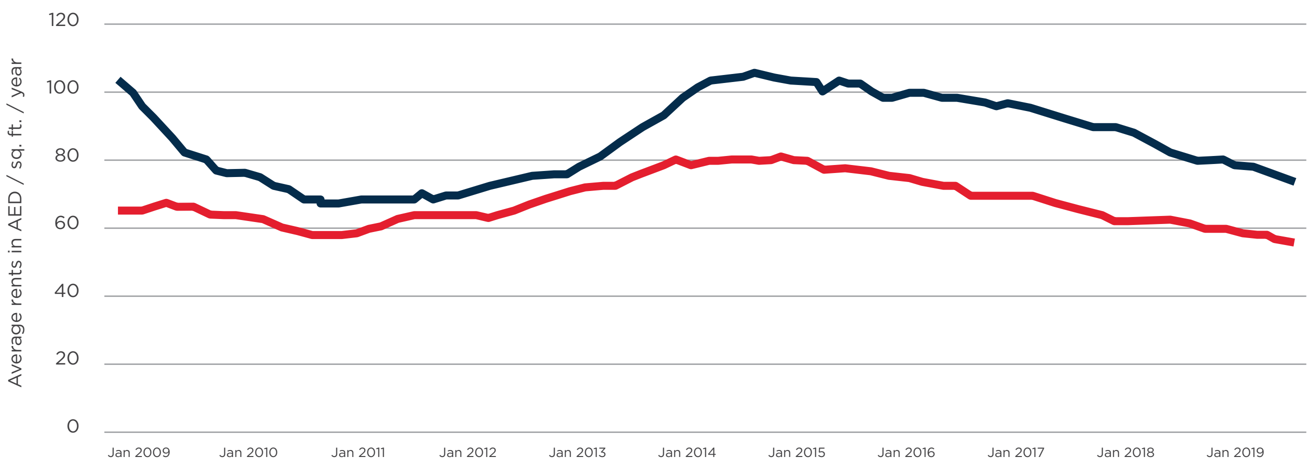
However, price drops decelerated in 2019 with record high transaction volumes across the off-plan and secondary market due to continued soft market conditions spurring investor and end-user interest.

While widespread softening has been witnessed across both rental and sales markets, rents have dropped at a faster pace than sales prices, resulting in yield contraction.

Rental Market

Rents have dropped across the board while landlord incentives are firmly in place in order to maintain occupancy, including rent-free periods and longer contract terms, refurbishing units or contributing to utilities. We are also witnessing 12 cheques increasingly becoming the norm, particularly in the lower to mid-market segment where tenants are price sensitive and barriers to relocation are low. We see increased movement in the rental market with many tenants looking to relocate by upgrading to bigger and newer developed projects for similar or lower rents. Tenants who aren't relocating are negotiating during rent renewals and mostly achieving rent reductions, as tenant retention becomes increasingly challenging for landlords.

Average Dubai apartment and villa rental trends



Source: Cushman & Wakefield Core Research, REIDIN

Sales Market

The secondary sales market continues to be negatively impacted by surplus handovers. The weakest performing areas are unsurprisingly where the most amount of stock has been handed over, such as Dubai Land (18% year or year), Discovery Gardens (14%) and Jumeirah Village Circle (13%).

Interestingly, apartments in Palm Jumeirah and Business Bay saw an uptick in average sales prices as newly developed projects in these areas are in the higher price range, thus elevating the area average whilst the older stock continues to show a subdued performance.

The secondary sales market saw transaction volumes remain constant over the last two years while off-plan activity saw a 32% increase year on year on the back of heavily incentivised payment plans and lower entry points.

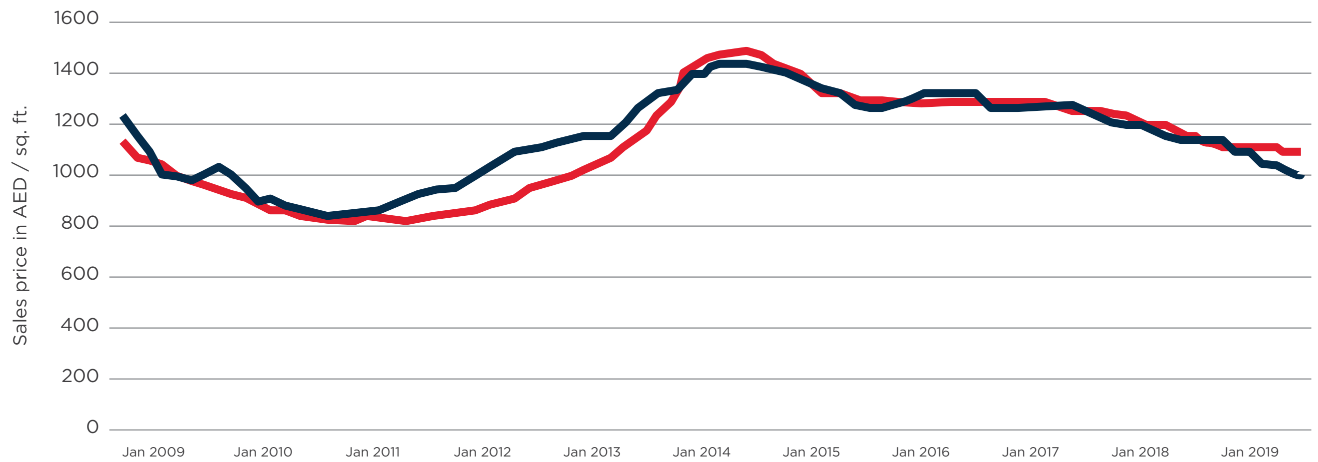
-29% Total change in residential sales and rental prices from 2014 peak to 2019 trough

6.7% Average apartment yield - 2019

-8% Average change in year on year (2018 vs. 2019) residential sales and rental prices

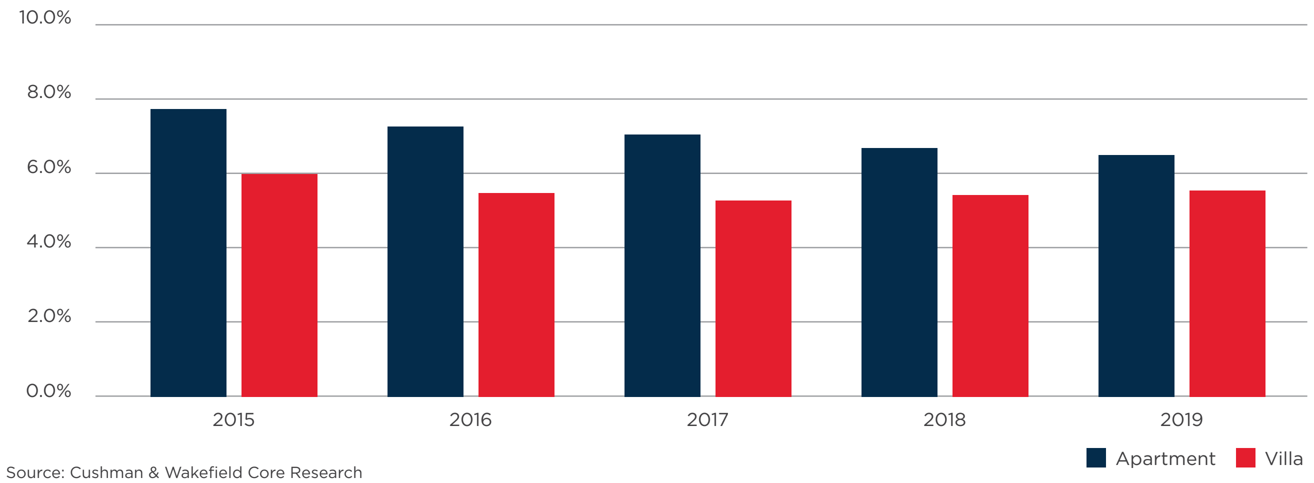
5.4% Average villa yield - 2019

Average Dubai apartment and villa sales price trends



Source: Cushman & Wakefield Core Research, REIDIN

Residential yields



Source: Cushman & Wakefield Core Research

2020 Forecast

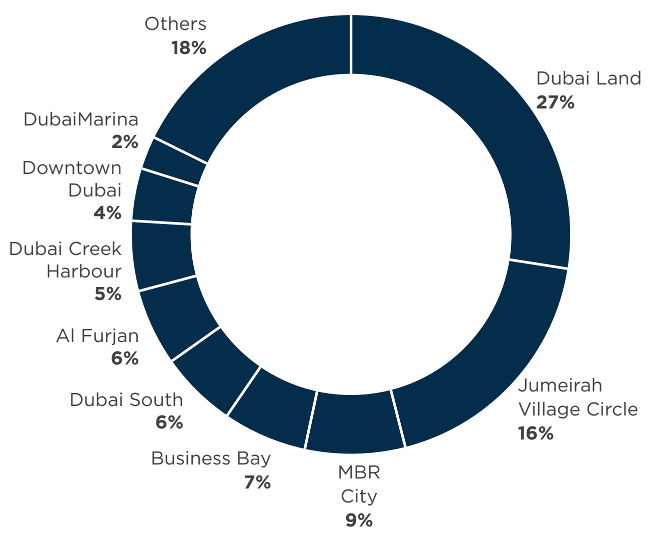
Supply Forecast

Dubai is reaching a cyclical peak in supply deliveries with most developers aiming to handover projects before Expo 2020, with over 49,000 units conservatively estimated to be delivered in 2020.

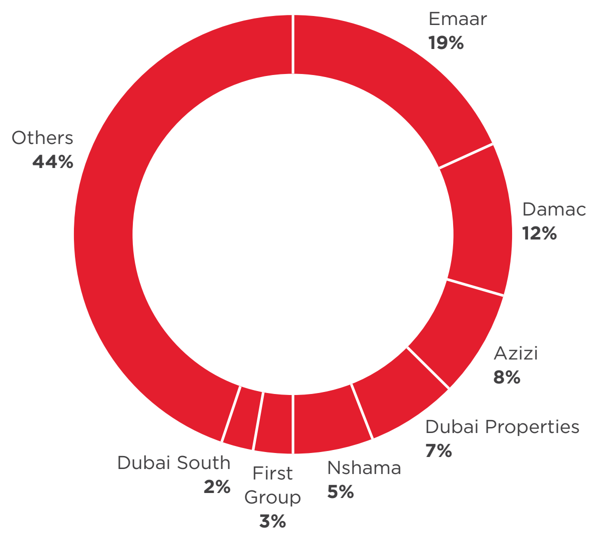
Dubai Land(27%) continues to be the area where most number of handovers are expected, followed by Jumeirah Village Circle(16%), MBR City(9%), Business Bay (7%) and Dubai South (6%).

Emaar is expected to be the top developer by number of handovers (with projects mainly in Downtown Dubai, Dubai South, Dubai Creek Harbour, MBR City and Dubai Marina). Damac ranks second, and is expected to continue the phased delivery of units in Akoya Oxygen, while more deliveries are expected by other major developers such as Azizi, Dubai Properties, Nshama, First group and Dubai South.

Supply expected by area 2020



Supply expected by developer 2020



Source: Cushman & Wakefield Core Research

Residential Market Outlook for 2020

In 2020, we expect the market to continue being occupier friendly, with underlying demand being met, evidenced by a steady increase in transaction volumes. We expect the impact of Expo 2020, regulatory reforms, continued budget spends, increase in population and tourism volumes to improve sentiment and provide upward pressure on rent and sales prices. However, it may still not be enough to push towards a recovery, as the market continues to adjust to the downward cycle. With existing inventory and future stock brought to the market over 2020 and beyond, sales prices are forecast to remain under pressure in the foreseeable future.

The drop in rent and sales prices across asset classes has made Dubai increasingly attractive to live and work and service a wider demand base. Landlords and developers are expected to continue deploying strategies to absorb existing inventories and offer higher levels of flexibility to maintain occupancies, while a flight to quality is witnessed across residential and commercial asset classes.

Top 10 residential trends to watch out for in 2020

Expo 2020
Expo 2020 and its positive impact on jobs, tourism, retail and overall economy, spurring residential demand

Rise in short-term rentals
With the launch of the five-year tourism visa for all nationalities, we expect a considerable rise in short-term rentals and the holiday homes market

Payment plans
Innovative post-handover payment plans are expected to dominate, along with heavily incentivized broker fees deployed by most developers to aid inventory absorption

Real estate committee and its impact on limiting supply

Limited new launches
New launch volumes were at the lowest level in 2019 compared to the last 7 years. This trend is expected to linger on as developers re-strategize future projects

Re-purposing of existing building use and land use to adapt to changing market needs

Rising interest in community living

Rise in rent to own schemes

Rise in Proptech, access and transparency to real estate data

Potential credit check on prospective tenants

Commercial Market

Dubai Office Market

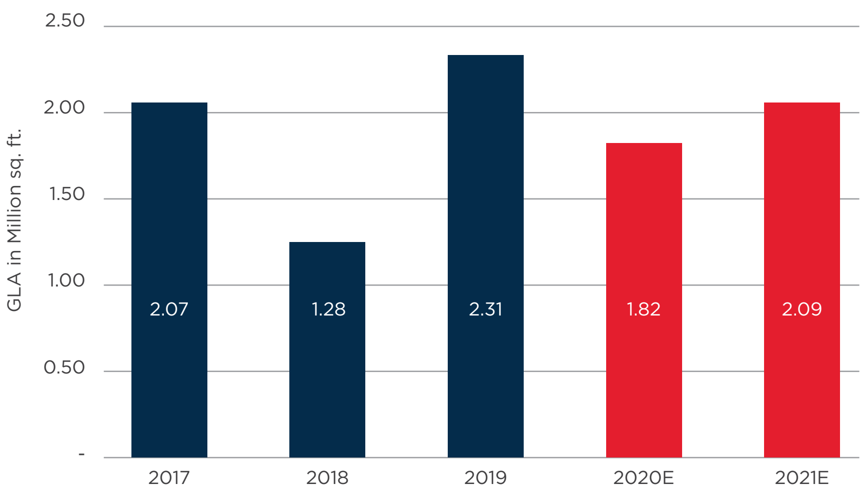
Office Market Performance

A large portion of demand for office space continues to stem from relocation and consolidation activity, with tenants taking advantage of softer market conditions. Many international tenants, who were locked in at relatively higher headline rents are looking at lowering rental outflow and optimising footprint when approaching the end of their lease term. They are either relocating/consolidating into more competitively priced units with substantial savings on headline rents or upgrading to superior built premises at similar rents as previous lease terms.

We are also seeing many large occupiers consolidating into purpose-built offices, with HSBC and Huawei moving into their respective premises while MasterCard, Mashreq Bank and Flydubai offices are soon to be handed over. However, most of these purpose-built premises also have available space for sub-letting to third party tenants, as the anchor occupiers gradually grow into occupying the complete footprint.

With a significant rise in new Grade A supply and vacancies created in prime existing office premises in the wake of relocations, tenants now have a variety of options to choose from. Although relocation involves capital expenditure and fit-out costs, many tenants are partially offsetting these expenses through landlord incentives, rental savings and operational efficiencies achieved, whilst others are negotiating during rent renewals.

Dubai office supply 2017 - 2021



Source: Cushman & Wakefield Core Research

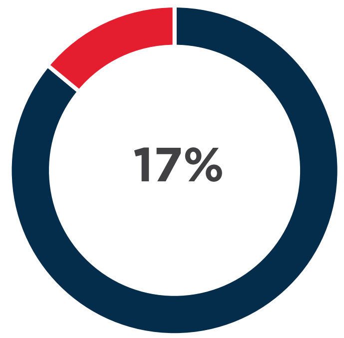
Office Supply

2019 saw a spike in office supply, led by the delivery of over 2.31 million sq. ft. of office space. Prominent handovers included One Central Offices 4 and 5, Emaar Business Park at Dubai Hills, Silicon Park at Dubai Silicon Oasis and other smaller Grade B offices, bringing current total office stock to 103 million sq. ft. Furthermore, many prominent projects are nearing completion with handovers spread over 2020. These include ICD Brookfield Place and purpose-built headquarters for Mashreq Bank. There are also many smaller low-rise developments across Sheikh Zayed Road (between the Second and Fourth interchange) also being handed over. Later in 2020, major deliveries include DAFZA 9W and The Court in Business Bay. Post Expo 2020, we also expect over 1.5 million sq. ft. of legacy space to be converted to office space.

Dubai office market in numbers

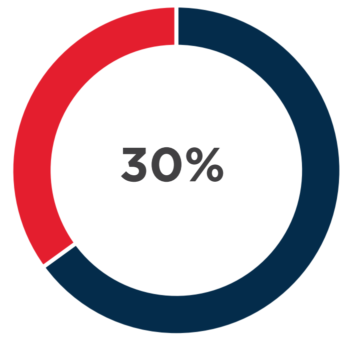
103 million sq. ft.
Total office stock

32.4 million sq. ft.
Prime office stock



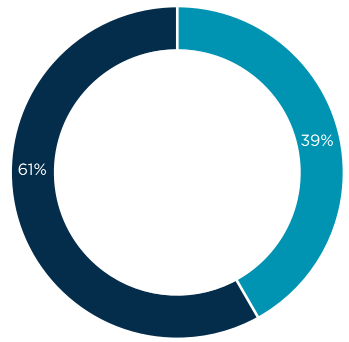
Average prime office vacancy levels

70.6 million sq. ft.
Grade B & C office stock



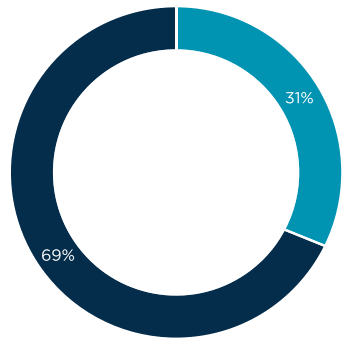
Grade B & C vacancy levels

Office stock delivery by grade 2018 - 2019



Grade A Grade B and C

Total Dubai office stock



Grade A Grade B and C

	Project name	Location
2019	M Square	Mankhool
	One Central (Offices 4 and 5)	DWTC
	Dubai Hills Estate Business Park	Dubai Hills Estate
	Silicon Park	Dubai Silicon Oasis
2020E	ICD Brookfield Place	DIFC
	Mashreq Bank HQ	Downtown Dubai
	The Court	Business Bay
	DAFZA 9W	DAFZA

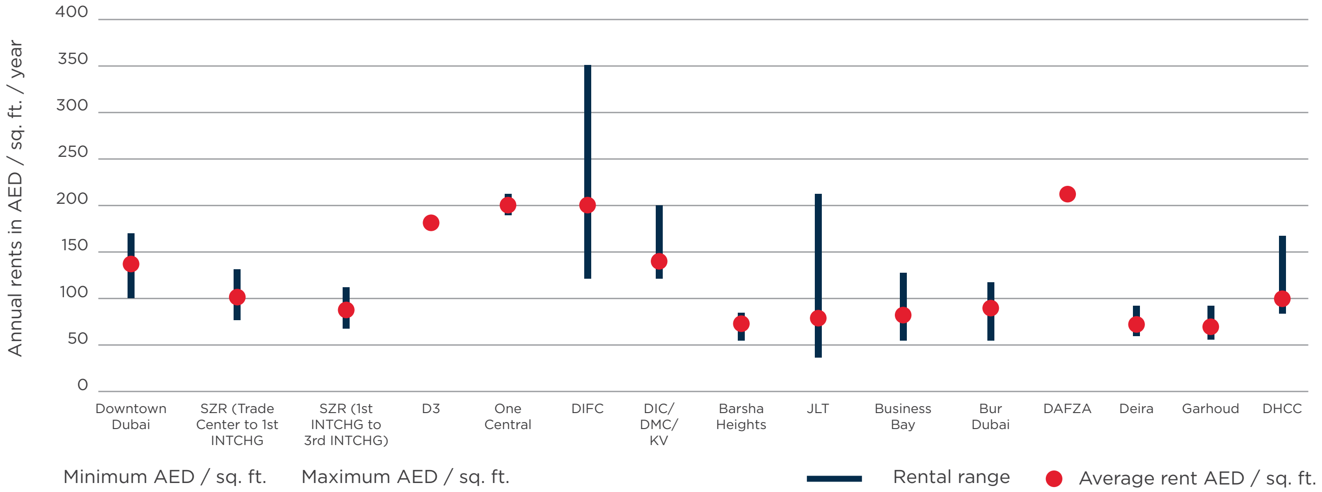
Source: Cushman & Wakefield Core Research

Office Demand

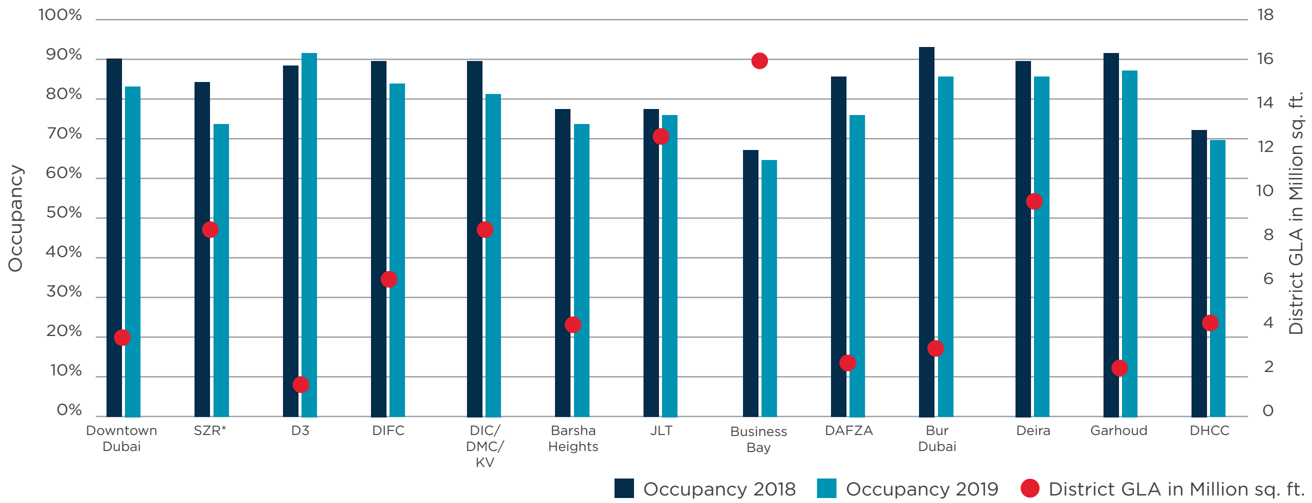
Rentals have contracted across the board, except the more in-demand freezones such as D3, One Central (DWTC) and DAFZA. We have seen secondary market locations such JLT, Business Bay and older Dubai districts (Deira, Bur Dubai, Garhoud and DHCC) witness significant year on year drops as relocation activity intensifies and landlords struggle to maintain occupancies. Occupancies have dropped in eleven of the twelve districts we track, with D3 being the only submarket witnessing a rise. Districts with larger amounts of stock such as JLT and Business Bay continue to be at lower occupancy levels compared to other smaller submarkets. We are also witnessing landlords become increasingly flexible during new leases and rent renewals in order to maintain occupancies. The number of cheques is limited to one to four cheques while the trend for fitting out units and extending rent-free periods is increasing. Clients continue to prefer fitted and plug and play offices and this has seen a rise in co-working and serviced office spaces, both with corporate and SME clients. We are seeing large single owned assets offering smaller, fitted and micro office options within their portfolio to cater to this rising demand segment.

We also foresee the trend for purpose built facilities to subside due to the significant rise of Grade A and LEED certified stock. Large corporate tenants who couldn't find investment grade stock until recently now have more options across on-shore and freezone areas to choose from. New stock such as One Central, ICD Brookfield Place and Innovation Hub etc allow blue-chip corporates superior built stock, large floor plates and contiguous floors to operate from – aiding consolidations across the city and region, while providing flexibility to expand and downsize.

Dubai office rents 2020



Office occupancy 2018 vs. 2019



Source: Cushman & Wakefield Core Research

Office Market Outlook for 2020

With ample new and secondary supply coming into the Grade A market, blue-chip corporate occupiers have considerable inventory to choose from - with large floor plates across contiguous floors, smaller fitted offices and strong F&B presence, with a few projects offering dual licencing and LEED certification as well. On the downside, rents and absorption are expected to remain under pressure in this segment as demand, although steady, is spread over various projects. As competition intensifies in Grade A stock, Grade B stock will see further drops in occupancies due to tenants either undertaking a flight to quality or relocating to more cost-effective units. We anticipate the market to continue being tenant friendly in the near term until the supply and absorption levels reach an equilibrium.

Commercial trends to watch out for in 2020

Rise in co-working and flexi-space options

We expect current and future demand in this segment stemming from the agile requirements of both corporate and SME clients. Consolidation and market differentiation are both to be seen as co-working/serviced office entities compete for tenants in an over-supplied office market.

Rise in retail logistics

With the rise in the region of Amazon, Noon, Landmark group (recently launched Dh1 bn Dubai distribution center) and greater online market penetration, retail logistics is a burgeoning segment.

Rise of technology clients

Globally, technology and allied sectors are the new major landlords, superseding the BFSI and service industries. We are also seeing rising volumes of technology clients and take-up in Dubai.

Fitting out shell and core spaces

As most enquiry levels are for fitted/plug and play offices, we expect landlords to increasingly convert their shell and core assets to CAT A fit-out (raised floor and ceiling) to aid absorption.

Repurposing building use

With some of the older stock underperforming, developers and landlords are looking at refurbishing office units or repurposing retail/mixed use into office space to optimise weaker performing asset classes and footprint.

Grade A supply performance

With over 61% of new supply coming in the Grade A segment (2018 - 2020), most of the market activity is expected to be in this segment in the next few years.

The Rise of Coworking and Flexible Workspace

With WeWork coming into the region with its first launch in Abu Dhabi's Hub71 in 2019 and soon to be operational premises in Dubai at One Central - DWTC, the co-working trend is gathering pace in the UAE.

Undoubtedly, co-working/ serviced offices and other flexible real estate solutions are disrupting and reshaping the global office market. Over the last decade, areas under co-working has risen exponentially across global markets, particularly in mature office markets such as New York, London and San Francisco, with co-working stock expected to account nearly one-third of total office stock in the next decade. That said, consolidation among operators is expected as the coworking market matures and becomes an established office segment.

In cities such as New York and London, where WeWork is amongst the largest landlords, it has created a far-reaching impact on the office market and acted as an economic multiplier in neighbourhoods they operate out of. WeWork and other operators such as Knotel are unlocking flexibility for entrepreneurs, freelancers and small businesses along with adapting to large corporate requirements by providing solutions in markets where the norm was at lower vacancy levels, longer lease terms (10 - 15 years) and higher conventional rental outflows.

However, it is not the same case with Dubai. With high levels of supply, flexible, shorter lease terms and longer rent-free periods, conventional offices in Dubai are extremely competitive compared to other global markets. Nonetheless, as the way commercial real estate evolves over the next decade and with the advent of technology, mobile/ remote working, workplace strategies are also expected to evolve, creating the need for dynamic workplaces.

Another major driver for co-working is the change to international financial reporting standards by the International Accounting Standards Board (IASB) is IFRS 16. Effective since January 2019, occupiers will be required to account for all leases on their balance sheets. We expect this regulatory shift to globally drive occupiers into more agile leases, with preference for shorter terms (less than 1 year) and flexible workspace.

Currently in Dubai, although there are more than 80 co-working centers operated by over 50 operators, co-working accounts for just over 1.5% of total office stock. It is expected to take up a larger share of the pie in the coming years as we foresee current and future take-up in the flexi-workspace segment catering to the agile requirements of both corporate and SME clients with landlords and independent operators increasingly incorporating co-working options in their commercial portfolios.

With consolidation and footprint optimization being the biggest driver for office absorption, Dubai is primed to take advantage of the co-working trend as downsizing activity, subsequent expansions and dynamic spatial demand along with faster occupation timelines from tenants requires agile work-place solutions.

We look deeper into this trend and the wider impact it has on the office eco-system for all stakeholders.

Why should tenants consider co-working?

- **Location:** WeWork and other large operators provide superior location and connectivity.
- **Agility:** Ease and speed at which one can downsize or expand spatial requirements compared to conventional leasing methods.
- **Competitive costs:** Cost per seat in coworking spaces are competitive, bearing in mind the value added by shared resources and services.
- **Brand and positioning:** Smaller SME, start-ups and corporate firms entering the region gain the option of having access to upscale facilities in CBD areas without having to maintain fully-fledged offices.
- **Quicker occupation timelines:** Due to the plug and play nature of co-working spaces and readily available infrastructure, tenants benefit from immediate occupation timelines. With a significant portion of tenant enquiries coming for fitted, plug and play offices, this is a big incentive for potential tenants.
- **Productivity and collaboration:** Peer learning, collaboration and knowledge sharing with professionals from other fields can help employees stay updated on market trends. The risk of IP protection can be mitigated by providing dedicated spaces for corporates who have reached a certain footprint.
- **Shared services** (e.g., printing, internet, concierge, etc.)
- **Design, aesthetics and built environment**
- **Recruiting, access to talent**
- **Benefits and vendor partners**
- **Events, creative, entrepreneurial environment**
- **Community, connection to other members**

Why should freezones, developers and landlords consider co-working?

Large Landlords and freezones are increasingly incorporating flexible space in their buildings/ portfolios. By doing this, they are aiming to improve the micro-community and build a pipeline of future tenants. Landlords broadly practice three types of flexible space strategies: leasing space to a third-party operator, partnering with operators, or self-operate. Below are the value additions:

- **Anchors and economic multipliers:** Large co-working operators such as WeWork generally take a large footprint and are anchor occupiers in buildings/developments, becoming an economic multiplier resulting in higher spending in surrounding retail and communities, creating direct and indirect jobs and growth opportunities in the premises they occupy.
- **Flexibility:** Depending upon expected clientele in a location, the owner/operator can decide on the best suited combination of open desks, closed cabins, meeting rooms, etc.
- **Pipeline for future tenants:** As smaller tenants occupy co-working space and expand over near to mid-term and reach a critical mass and opt for conventional leasing methods, they tend to prefer existing premise/development to make the expansion.

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