CUSHMAN & WAKEFIELD | CORE

DUBAI MARKET UPDATE

Q1 2020

MARKET SNAPSHOT Q1 2020

We entered 2020 on a strong footing with positive economic indicators and robust market performance witnessed in both the commercial and residential markets during January and February. This was majorly led by attractive entry points, Expo2020 induced positive market sentiment and higher transaction volumes.

However, the rapidly escalating COVID-19 pandemic is causing disruption across industries and coupled with declining oil prices, the overall economy and the real estate market are expected to face strong headwinds in the near term. While the real impact is impossible to quantify and the recovery timeline unknowable, we are seeing demand drop drastically as most organizations adjust to social and travel restrictions. Limitations to physically view properties and conduct business are leading to extended transaction timelines; however, we expect technology to be used to connect parties and reduce some of the barriers to execution.

Although significant, it is still premature to predict the long-term impact of the ongoing crisis on the real estate market as the exact trajectory of the pandemic is difficult to gauge. Should the pandemic have a sustained and long-drawn impact on the broader economy, it will have a cascading effect on the overall property market.

This is a continuously evolving situation and the UAE together with the global community is showing solidarity to ongoing conditions and has taken the recent decision to request Expo2020 be postponed to 2021. The UAE government has been very proactive, quickly adapting to the ongoing crisis with unprecedented fiscal stimulus measures and policy reforms to soften the impact on businesses and consumers. We are also seeing the banking sector offering relief packages and a few large developers providing rental holidays and incentives to help navigate through these challenging times.

We expect more government reforms and policy measures to follow as the situation unfolds and solidarity efforts to continue with other major developers/landlords to also follow through across asset classes to maintain near term occupancy and business continuity. The proposed ease of access to finance for SMEs along with the increase in the loan-to-value ratio by five percentage points for first-time buyers is expected to further improve affordability and buoy demand.

As a byproduct of the defense mechanisms we are undertaking to curb the spread, we expect this current situation to create a long-term impact towards the way we live and work. We foresee remote working become an increasingly accepted workplace strategy within some industries and part of the wider office space mix along with physical spatial requirements. We also foresee increased deployment of artificial intelligence and prop-tech solutions, localised supply chains and greater penetration of online shopping as we globally adapt to these technologies in an accelerated time frame.

This publication

This document was published in April 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

Residential Supply

Dubai saw nearly 5,000 units come to market in Q1 2020, bringing total residential stock to 555,000 units. We have seen a slowing down of handover volumes compared to the same period last year. Major deliveries included Arabella 2 in Mudon Villas, District One-Phase 2 in MBR City, Boulevard Point in Downtown Dubai, One JBR in Jumeirah Beach Residences, Warda Apartments in Nshama Town Square and LIV Residences in Dubai Marina.

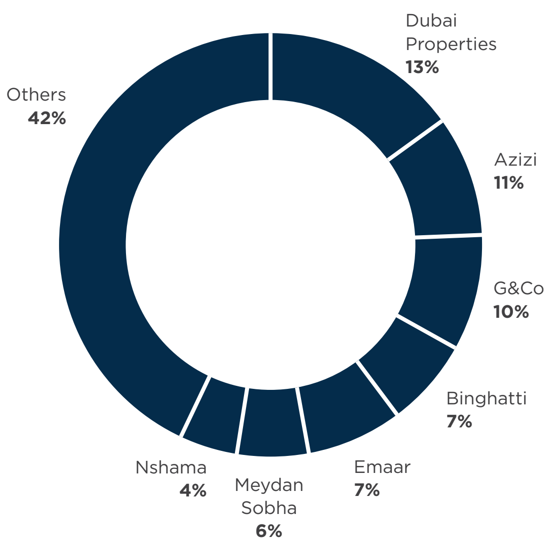
Meydan and MBR city are the leading area by number of handovers in Q1 2020, followed by Dubailand and Al Furjan.

Due to ongoing COVID-19 restrictions we expect future handover volumes to come down as construction timelines and supply chains are impacted along with softened demand. Further downward revisions are expected on supply forecasts as they will inherently depend on the period of the pandemic and the pace at which functionality returns coupled with buyer confidence as developers adjust to ongoing market conditions.

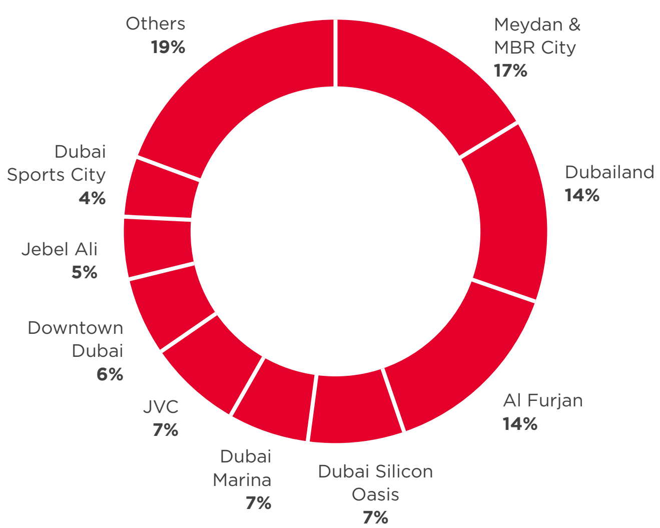
555,000 units
Total residential stock as of Q1 2020

5,000 units
Delivered in Q1 2020

Supply Delivered by Developers - Q1 2020



Supply Delivered by Area Q1 2020



Source: Cushman & Wakefield Core Research

Transaction Market Trends

Transaction volumes across both secondary market (cash and mortgage sales) and the off-plan market displayed year-on-year growth, stemming from positive market sentiment with which we entered 2020. However, these numbers are yet to reflect the impact of the ongoing COVID-19 situation, mainly because sales volumes registered in Q1 2020 had mostly been agreed during late last year and early this year.

The increase in the loan-to-value ratio by five percentage points for first-time buyers is expected to further improve affordability, however, there could be a potential drop in sales volumes in the upcoming months as buyers adopt a wait and watch approach.

On the other hand, supply handovers (-27%) and new project launches (-14%) are reflecting current market conditions with both showing notable drops in year-on-year numbers as developers calibrate inventory levels. We expect this trend to continue over the near term until a clear rebound from the pandemic is visible.

Residential Market Performance

Sales Market

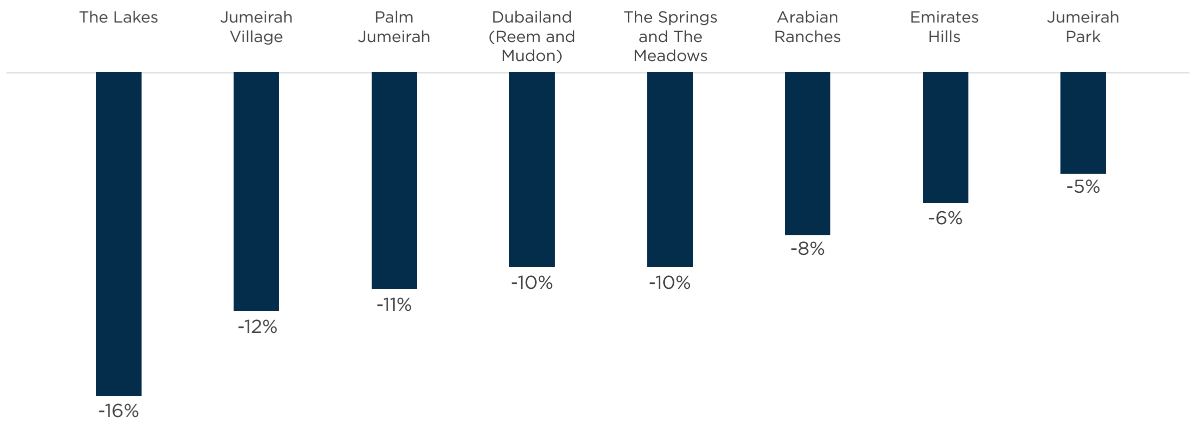
The residential sales market continues to follow a downward trajectory with almost all areas showing year on year drops and we have seen more double digit drops than previous quarters, however, transaction activity continues to be robust.

Enquiry and interest levels have also been relatively steady until now as buyers are evaluating their options and doing their due diligence but with a wait and see approach while physical viewings are becoming increasingly limited, particularly for secondary market sales. We expect reliance on virtual viewing platforms and 360° videos to conduct viewings.

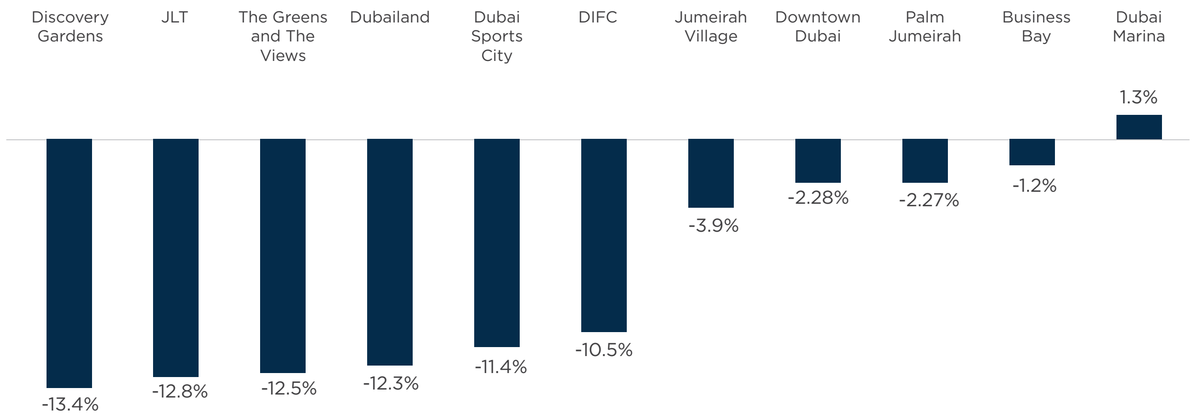
The attractive interest rates and the favourable loan-to-value ratio due to the increase of five percentage points for first-time buyers is expected to improve affordability in secondary sales mortgage market. While this is a good initiative, caution and potential contraction in disposal income levels would make some buyers delay their decision making.

That said, opportunistic purchasers are expected to take advantage of further drop in sales prices in this period of reduced liquidity.

Villa Sales Prices Q1 2020 vs. Q1 2019



Apartment Sales Prices Q1 2020 vs. Q1 2019



Source: Cushman & Wakefield Core Research

Rental Market

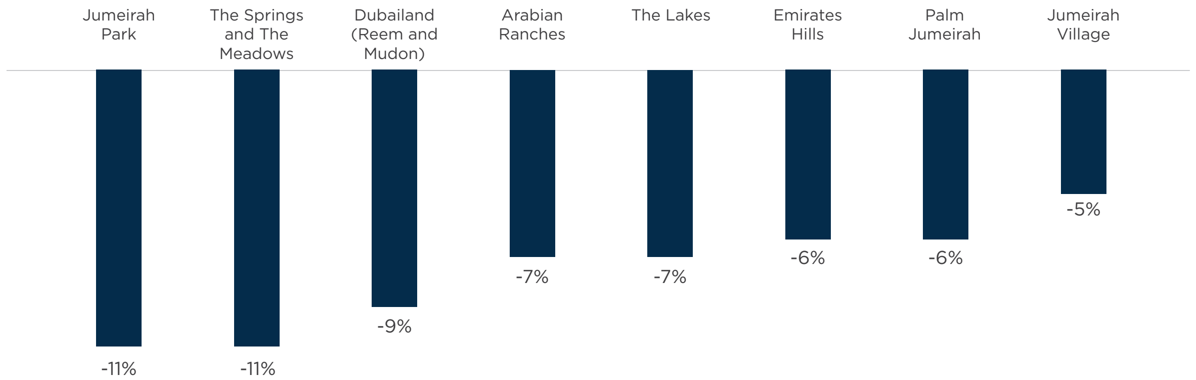
In the rental market, we continue to see enquiries and online searches as tenants are either looking to find the current rental value of their property to help them negotiate with their landlords or to relocate and reduce their rental outflow. However, we anticipate limited movement over the coming weeks as most tenants are expected to negotiate with their current landlords, particularly those with immediate rent renewals.

We also foresee in some cases rental incentives to be provided by landlords such as partial rent waivers, higher number of cheque payments, extended rent free periods and contribution to utilities in order to help tenants while also maintaining occupancy of their unit.

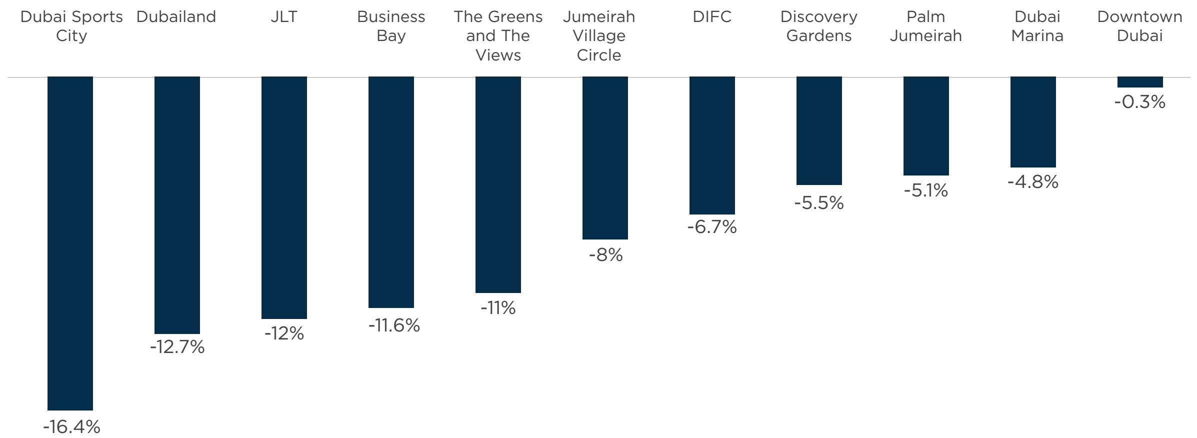
However, as we come back to normalcy once the outbreak subsides and movement restrictions are lifted, we foresee a surge in pent up demand for rental relocations.

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 and lower returns.

Villa Rents Q1 2020 vs. Q1 2019



Apartment Rents Q1 2020 vs. Q1 2019



Source: Cushman & Wakefield Core Research

Commercial Market

Office Market Performance

After robust performance witnessed at the start of 2020, March saw the impact of COVID-19 on enquiry and leasing activity with many transactions being deferred as tenants take a wait and see approach. Tenants are taking their time to search the market and perform their due diligence.

Of the transactions going ahead, we are seeing Q3 start dates, extended rent-free periods (2-4 months for fitted options and 9-12 months for shell and core options), capital contribution to fit-outs and shorter notice periods with limited or zero penalty on early break clauses being discussed in on-going negotiations. With the current uncertainty, we see landlords being increasingly adaptable, willing to accept lower headline terms in negotiations to ensure leases are executed and long-term revenue is preserved.

In existing leases, we are seeing many tenants asking for rental freezes. As tenant retention becomes critically important in the current climate, many landlords are giving April 2020 as a rent-free month and agreeing to evaluate this option on a monthly basis. We are also seeing some tenants talk about early exit clauses as potential downsizing activity is foreseen with occupancies expected to remain under pressure in the near-term.

While most sectors are witnessing disruption due to COVID-19, some sectors are seeing visible boosts to businesses such as logistics, super-markets, FMCG, pharmacies and online retail with surging demand for recruitment and space.

Furthermore, we are noticing a growing trend of landlords, who earlier managed their own inventory, appoint third-party property managers to oversee their portfolio. Many banks which are financing such properties are enforcing the landlord to appoint bank panel approved property managers rather than in-house managers to maintain the services and increase occupancy and rental collections. This trend is of further importance to enable consistent safety, security, community hygiene and wellness measures and is expected to enhance property management. This will further reinforce flight to quality among tenants.

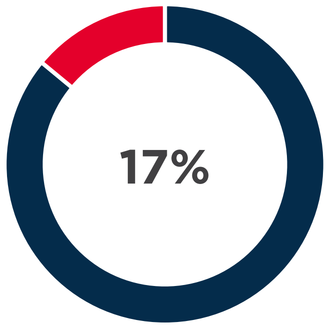
As we deal with this unprecedented public health crisis, we are thankfully supported by a very proactive government which is quickly responding with measures to mitigate risks on the public health front and support business continuity through various fiscal and human resource measures. As the situation unfolds we expect more reform and policy measures to follow through in the coming weeks.

> "In the retail market many developers are showing immense solidarity with relief packages and rental incentives to reduce the financial burden faced by retailers. Particularly noteworthy is Nakheel which is offering free rental periods for retail and hospitality partners who operate within the Nakheel Malls portfolio. This will take effect when the malls-currently closed under government directives-reopen."

Dubai Office Market in Numbers

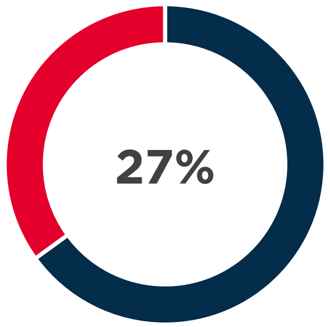
103 million sq. ft.
Total office stock

33.1 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

Remote Working and Digital Solutions in the Wake of COVID-19

The onset of COVID-19 has pushed organisations to adopt digital solutions at an unprecedented pace in recent weeks, with the pandemic acting as a catalyst and expected to change the way we live and work in the future. Even if the widely adapted remote working is an interim arrangement, it will have a long lasting impact on future workplace and staffing/ occupancy strategies as the outbreak is fast tracking the adoption of remote working and investment into collaborative technologies. While remote working has been around for a while, never has it been adopted in such a large scale across almost all sectors in such an accelerated time frame.

However, not all sectors can sustain it for the long-term. Although tech sectors are primed to adopt remote working as a mainstream workplace option, sales and businesses which depend highly on personal interactions to gain trust and form relationships are less likely to prefer working remotely. While home/remote working holds many advantages for both the enterprises and its employees, it can never fully become a replacement for the physical office. Though some studies suggest that working from home increases employee productivity while reducing employee turnover and leasing costs per employee, other studies have found that working from home can increase the feeling of isolation and impact team connectivity and service levels.

That said, in the future we expect occupiers in certain sectors seeking new office space to likely require less dedicated space per head, with workplace strategy shifting to more flexible, collaborative spaces and meeting rooms. We shall also see a growing need for many sectors to further adapt automation and rely less on human interactions, particularly in warehouses, distribution centres and last mile deliveries.

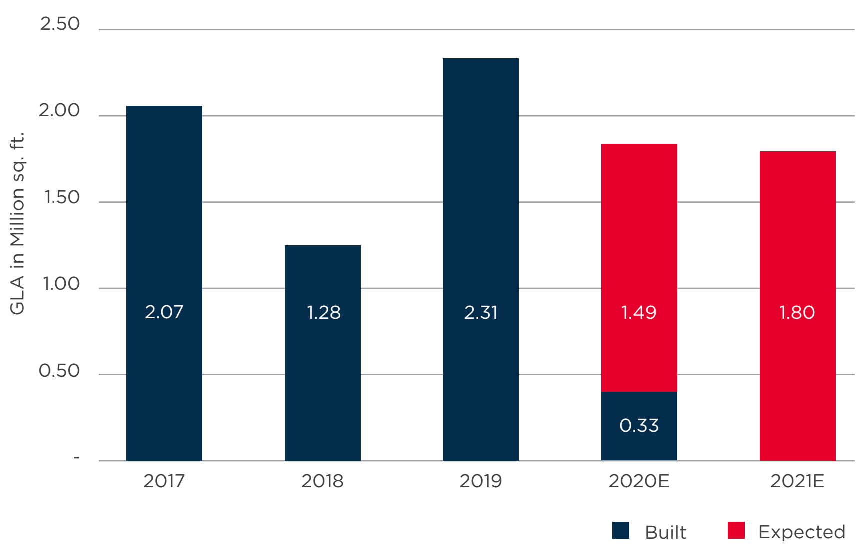
With social distancing measures being applied globally, we are seeing demand for office space drop drastically. While this has a heightened impact on open plan co-working spaces, such layouts only make up for a small percentage of the organized serviced office market portfolio.

Furthermore, this will be mitigated by demand from businesses which need to relocate temporarily as a result of the outbreak while also requiring value-added services such as IT support to provide resilience and allow remote working arrangements. Post recovery from the pandemic, the ability to contract or expand while keeping agile lease terms will be of critical importance, particularly for SMEs and demand for co-working/ shared workspaces is expected to persist in the mid to long term.

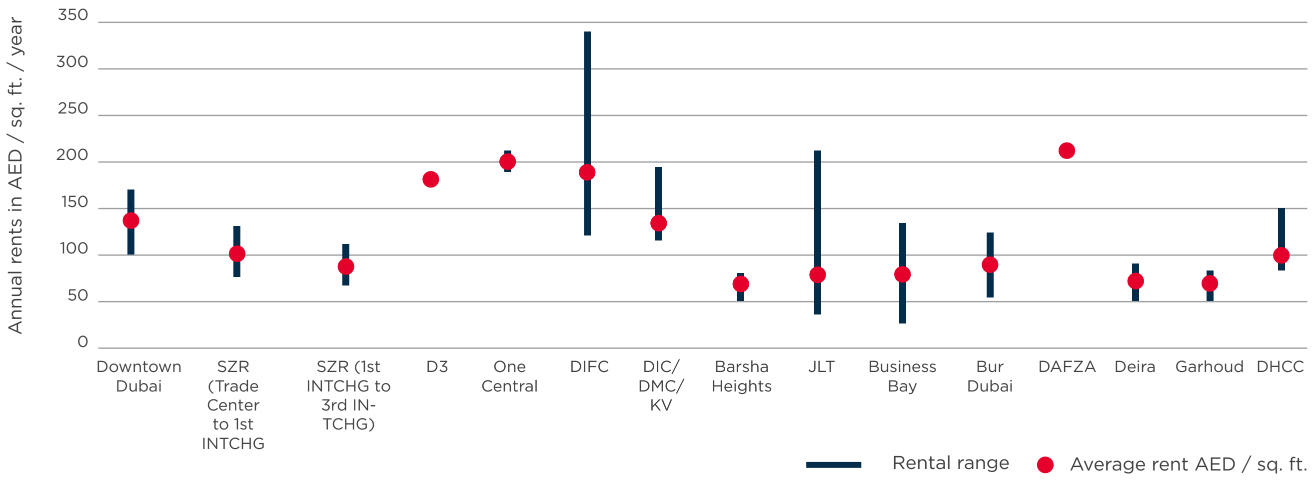
Office Supply

Office supply in Q1 2020 stood at 103.7 million sq. ft. with the only major delivery being the purpose-built headquarters for Mashreq Bank in Downtown Dubai. It is predominantly expected to be leased to third party tenants with over one third of the office space dedicated to Mashreq Bank. Other prominent deliveries nearing completion include ICD Brookfield Place in DIFC adding nearly 1 million sq. ft. of space.

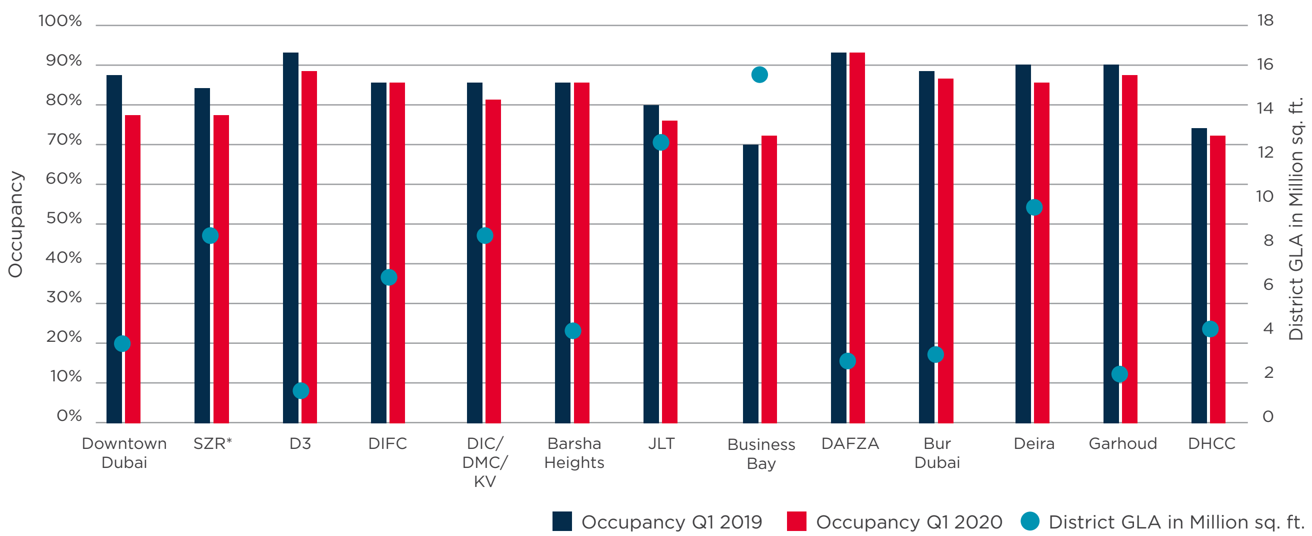
Dubai Office Supply 2017 - 2021



Dubai Office Rents Q1 2020



Office Occupancy Q1 2019 vs. Q1 2020



Source: Cushman & Wakefield Core Research

Sector Performance and Outlook

While all sectors are being disrupted by COVID-19, the impact is quite varied. Asset classes that are dependent on travel, tourism and human interaction are being the hardest hit while the sectors which are essential for keeping operations going and aiding business continuity by providing essential services are relatively resilient.

HIGHEST IMPACT

HOSPITALITY

- Reduced personal and business travel impacting the sector.
- Occupancy and revenue per available room both being effected with many closing operations for the interim due to significant reduction in demand.
- The magnitude of the impact will depend on the duration of the outbreak and counteracting measures. A potential for a rapid rebound in H2 2020 as activity resumes although caution would continue.

RETAIL (BRICK AND MORTAR)

- Most brick and mortar stores are highly impacted, particularly luxury and discretionary ones.
- Increased risk of store closures in an already challenging retail market.
- High growth in some sectors such as food deliveries, E-commerce, FMCG, pharma and groceries.

OFFICE AND CO-WORKING

- Remote working expected to become a more permanent feature of our work culture going forward.
- Many occupiers seeking new office space in certain sectors to likely require less dedicated space per head due to a greater shift towards hot-desks and remote working.
- Co-working may have a mixed impact with short-term open desk space requirement negatively impacted due to social distancing. However, flexibility to contract or expand while keeping value added digital services will be an advantage.

RESIDENTIAL

- Downward pressure across the residential rental market to persist.
- However, some of the impact is expected to be absorbed with reduced interest rates and the much-needed increase in the loan-to-value ratio by five percentage points for first-time buyers.

INDUSTRIAL

- Governments are enforcing robust measures to mitigate risks and keep supply chains active and the industrial sector is also supporting by manufacturing essential goods.
- However, in the future, we expect these challenges in global supply chains to lead to more locally sourced manufacturing.

WAREHOUSING & RETAIL LOGISTICS

- Although supply chains are disrupted, the exponential reliance on e-commerce led retail logistics is expected to keep the asset class resilient.
- We foresee increased use of automation and robots in warehousing facilities and less reliance on human interactions.

HEALTHCARE

- While being impacted the most in terms of increased hospitalisations, requiring recruitment, beds and infrastructure, this sector is expected to see considerable influx of capital in the near term.

LOWEST IMPACT

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