CUSHMAN & WAKEFIELD | CORE

DUBAI ANNUAL MARKET UPDATE

2018/2019

2019 and 2020 are critical years in Dubai's growth trajectory. Although the pace of price softening has relatively slowed, we expect a lag in sales and rental price recovery as existing vacant stock and future supply over the next couple of years is expected to outpace steady demand.

MARKET SNAPSHOT

2018 was a year of landmark reform with the UAE government announcing a number of initiatives including the new long term (ten year) visa for investors, entrepreneurs, special skill talent and outstanding students, along with retirement (five year) and short stay transit visas. These reforms are expected to have far-reaching positive impacts on business sentiment, tourism volumes, investor profile and the talent pool that UAE will attract and retain. While other demand-side indicators such as GDP, population and secondary sales volumes also display steady growth, supply-side deterrents continue to impact the market – a trend expected to linger over the near term.

2019 and 2020 are critical years in Dubai's growth trajectory. Although the pace of price softening has relatively slowed, we expect a lag in sales and rental price recovery as existing vacant stock and future supply over the next couple of years is expected to outpace steady demand.

That said, the market is highly occupier friendly due to the wide variety of options now available at very competitive prices, with higher levels of flexibility offered by both the developers in new launches and landlords in the rental market. We expect this trend to intensify market polarization with a flight to quality seen across residential and commercial asset classes.

This publication

This document was published in January 2019. 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

To date, Dubai has over 512,000 residential units across villas and apartments.

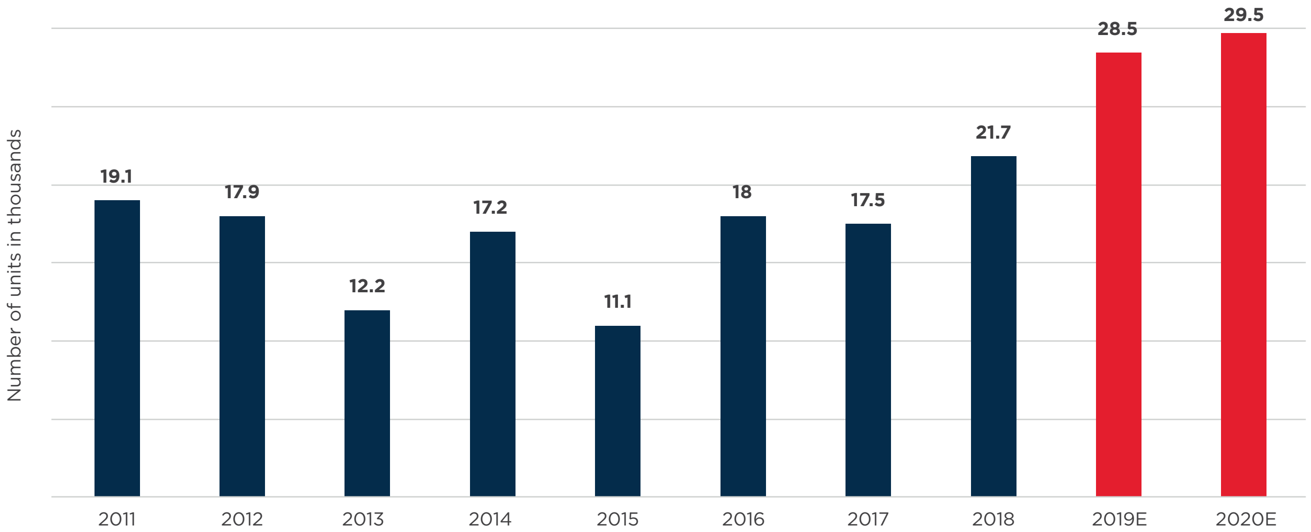
2018
In line with initial estimates published in our previous residential update, around 21,700 units were delivered in 2018, the highest number of deliveries since 2011. Interestingly, over 8,500 (40% of the total annual stock for 2018) was delivered in Q4 2018. Prominent handovers in 2018 include multiple project deliveries in Damac Hills Master Development, Hayat Townhouses, Bluewaters Residences and Oia Residences in Motor City. Around 83% of 2018 deliveries were apartments with 17% being villas

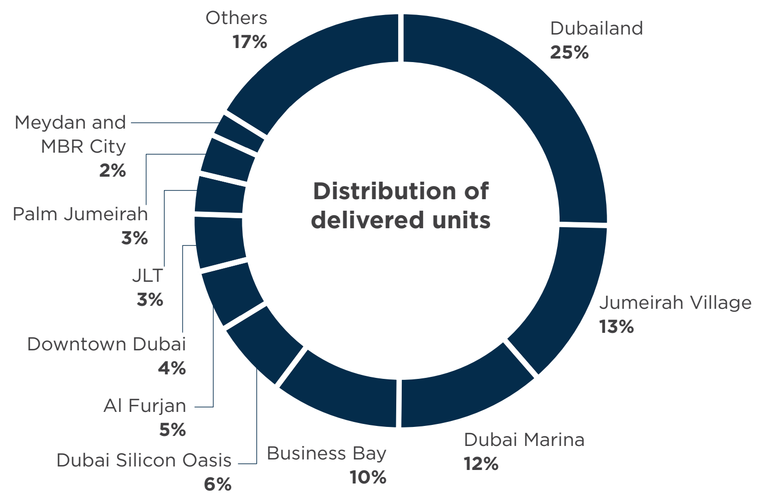
With over 25% of the total stock, Dubailand continues to see the highest number of deliveries, followed by Jumeirah Village Circle and Triangle (13%). We have also witnessed a few projects which although complete, are yet to be brought to the market by the developers for either sale or leasing. These units are excluded from our delivery calculations.

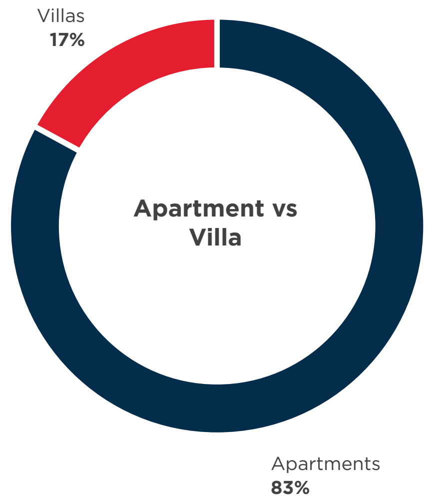
2019
While there are inflated announced figures forecast in the market, Cushman & Wakefield Core conservatively estimates over 28,500 units (against an announced number of 56,000 units) to be handed over by the end of 2019. The majority of the deliveries are in the affordable to mid-market segment in the outer areas with Dubailand and Jumeirah Village Circle and Triangle accounting for one-third of all handovers. We expect a similar number of total handovers in 2020 as developers try to align deliveries in the run up to Expo 2020. This is expected to have higher number of deliveries in 2019 and 2020 despite taking into account conservative realisation rates.

512,000 units	21,700 units	28,500 units
Total residential stock as on 2018	Delivered in 2018	Further expected by end of 2019

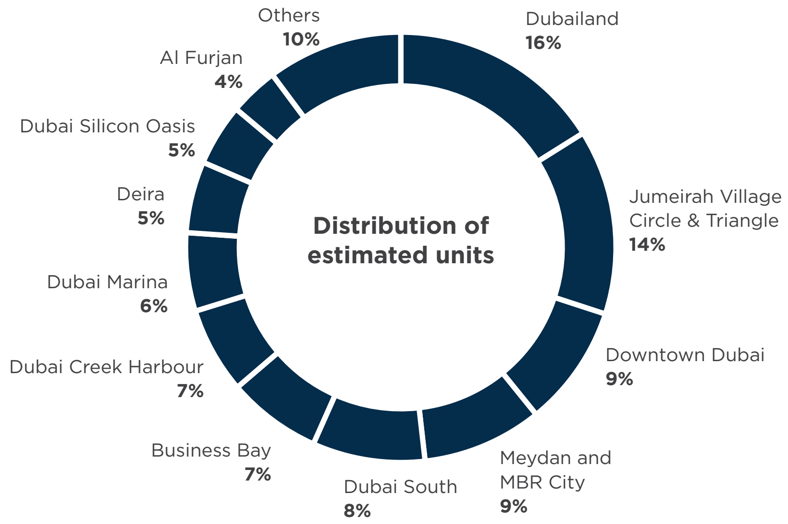
Residential deliveries in Dubai 2011 - 2018

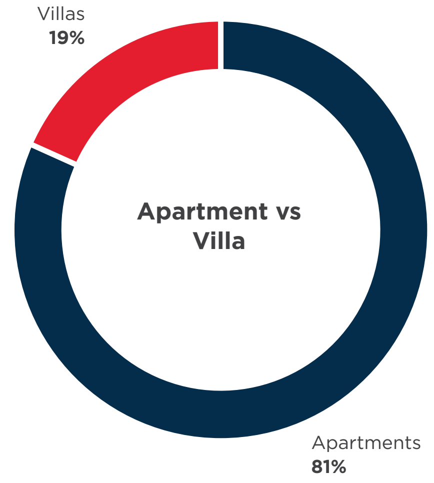






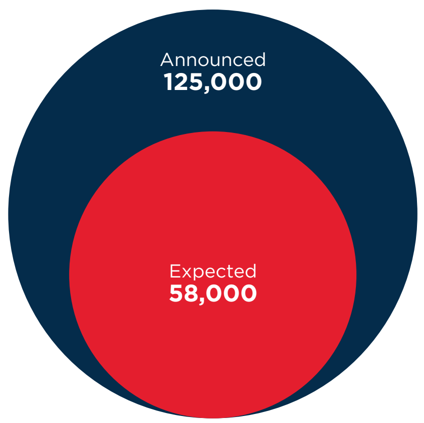
2018

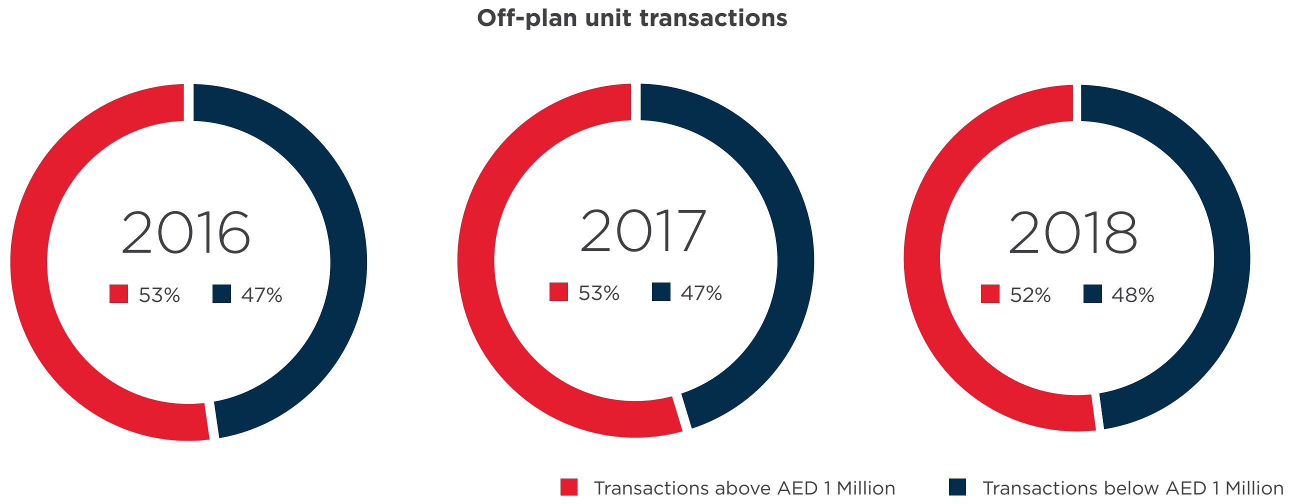


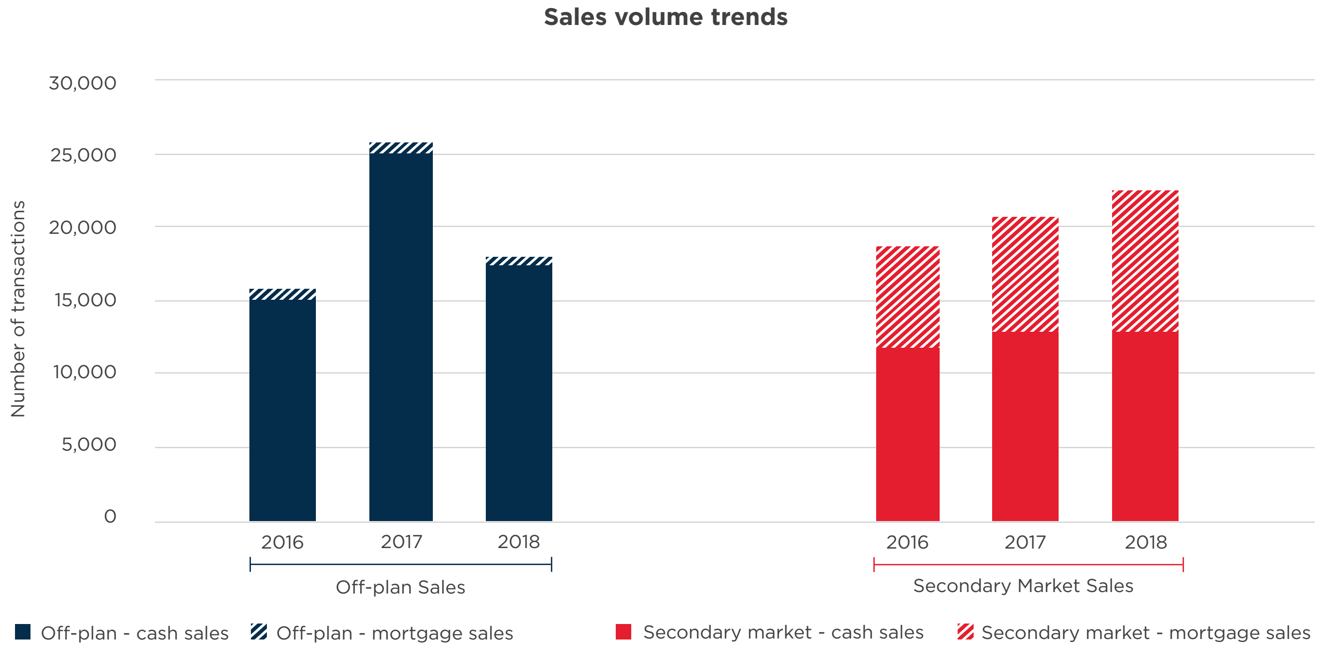


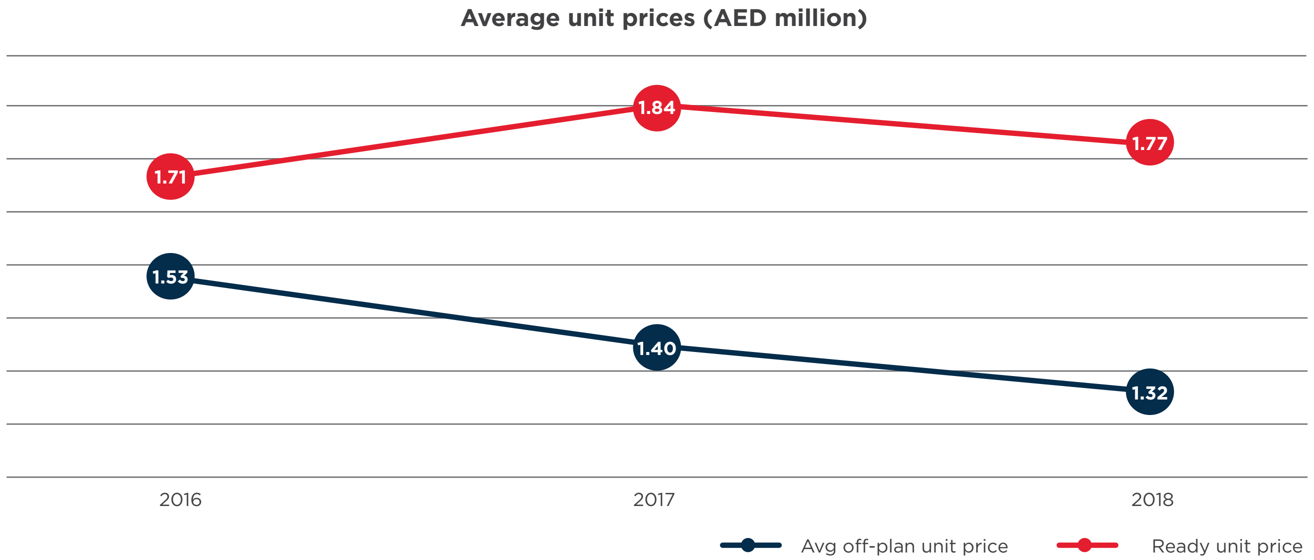
2019

Residential supply 2019 - 2020









Residential Market Trends

While off-plan transactions increased significantly between 2016 and 2017, reflecting a large number of developments that were launched and absorbed over the years, off-plan transaction volumes witnessed 30% reduction from 2017 to 2018.

This slowdown in off-plan transactions reflect two trends, the first being that there were fewer off-plan launches in 2018 compared to previous years, due to market strengthening regulations. Secondly, developers prefer to sell inventories closer to the actual date of delivery to gain higher traction from both investors and end users. This trend is re-affirmed with transaction volumes in the secondary sales market (both for cash and mortgage transactions) witnessing a steady increase over the last three years. Interestingly, despite overall softening sales prices, the average unit price in the secondary sales market has also shown relative resilience.

On the other hand, average unit prices in the off-plan market continues to contract, reflective of both lower price per sq. ft. and smaller unit sizes resulting in lower ticket prices. Most off-plan inventories are now firmly focused on the affordable and low to mid-market options, as seen in both area of deliveries and transaction price point.

While there are lucrative deals to be had in the off-plan market, the recent slowdown in off-plan sales also shows a higher preference for buyers opting for ready units or units reaching completion, as buyers prefer immediate occupation.

Residential Market Performance

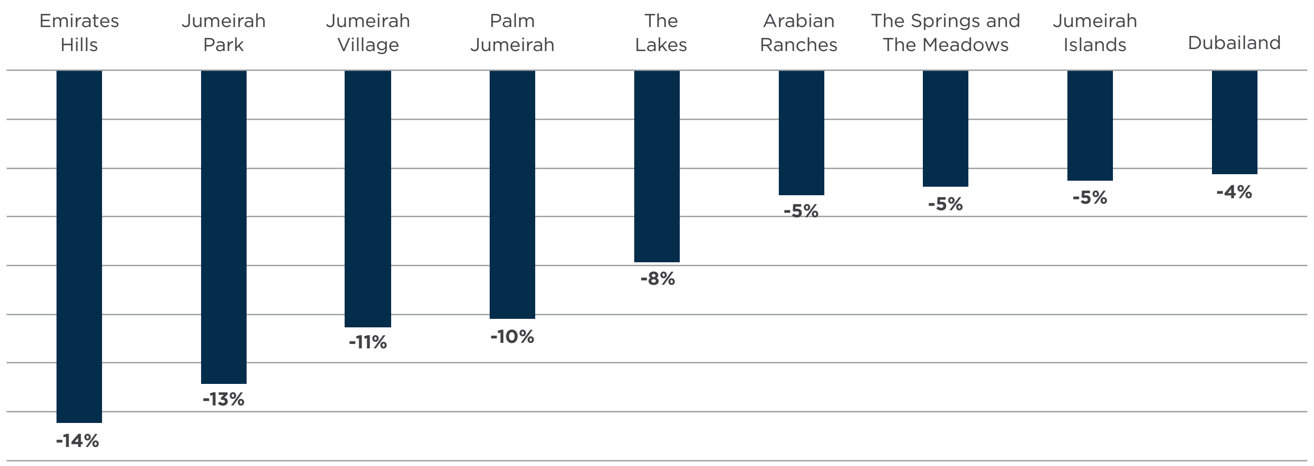
Rents

The highest rental reductions in the villa communities were witnessed in Emirates Hills (14%), Jumeirah Park (13%) and Jumeirah Village Circle and Triangle (11%). Dubailand saw the lowest level of drop (4%) due to the already low barriers of entry, which also led to higher occupancies as occupiers shifted from other villa communities for newer and larger villa options now becoming available in Dubailand.

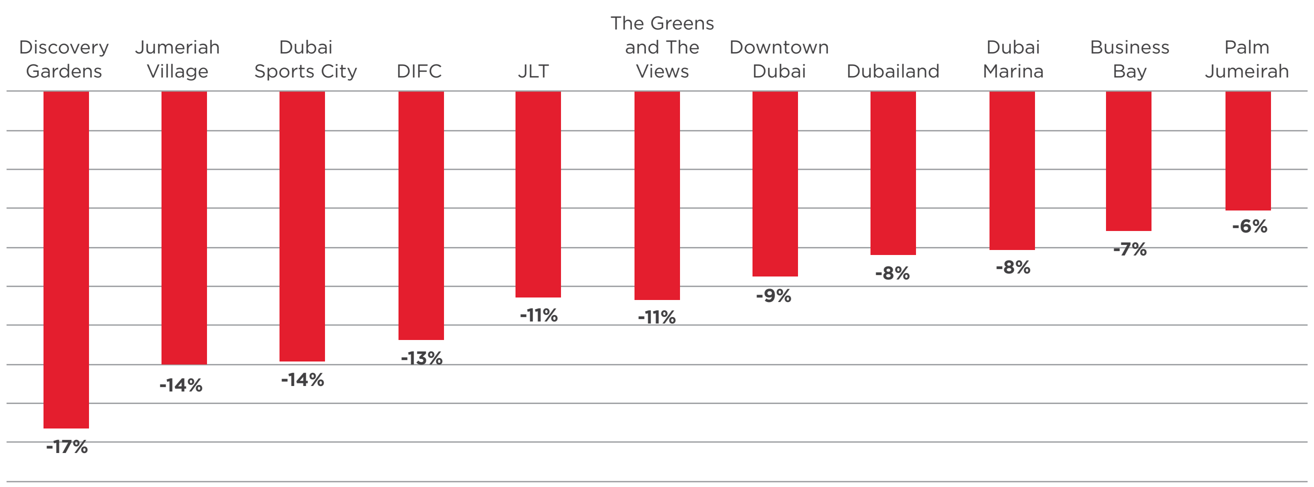
The weakest performing apartment districts in terms of rental reductions were Discovery Gardens (17%), Jumeirah Village (14%) and Dubai Sports City (14%), as competition intensifies in the lower end of the market with more options becoming available, either within the community or in nearby communities. On the other hand, centrally located districts such as Dubai Marina, Downtown, JLT, The Greens and The Views have observed relatively lower levels of rental falls when compared to outer areas.

We expect rental prices to remain under pressure in 2019 and the rental market to continue being tenant friendly, with landlords reducing rents during renewals to retain tenants and maintain occupancies, with many open to multiple cheque payments. Unsurprisingly, we are seeing larger villa and apartment units seeing higher levels of rental drops while studios and 1 beds display relative resilience.

Villa rents Q4 2017 vs Q4 2018



Apartment rents Q4 2017 vs Q4 2018



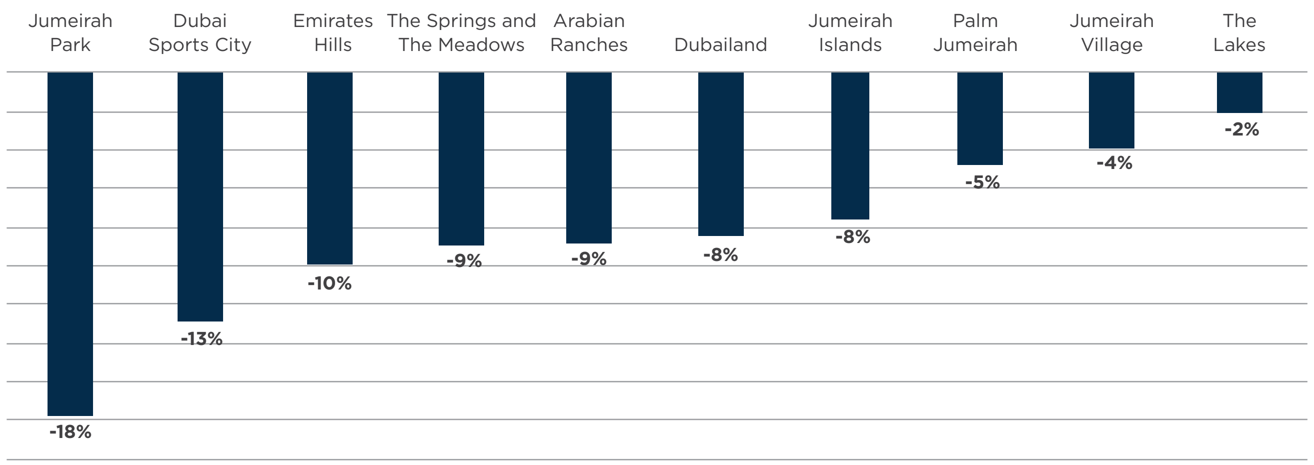
Sales

Sale prices have softened across the board with villas in Jumeirah Park (-18%) and apartments in Dubailand (-15%), Discovery Gardens (-14%) and Dubai Sports City (-13%) witnessing the sharpest drops in the last 12 months. As displayed in the rental market, prime areas such as Palm Jumeirah (-3%) and Dubai Marina (-8%) have seen a lower decrease and exhibited relative resistance, while Downtown Dubai (-12%) continues to be under pressure from existing and upcoming stock.

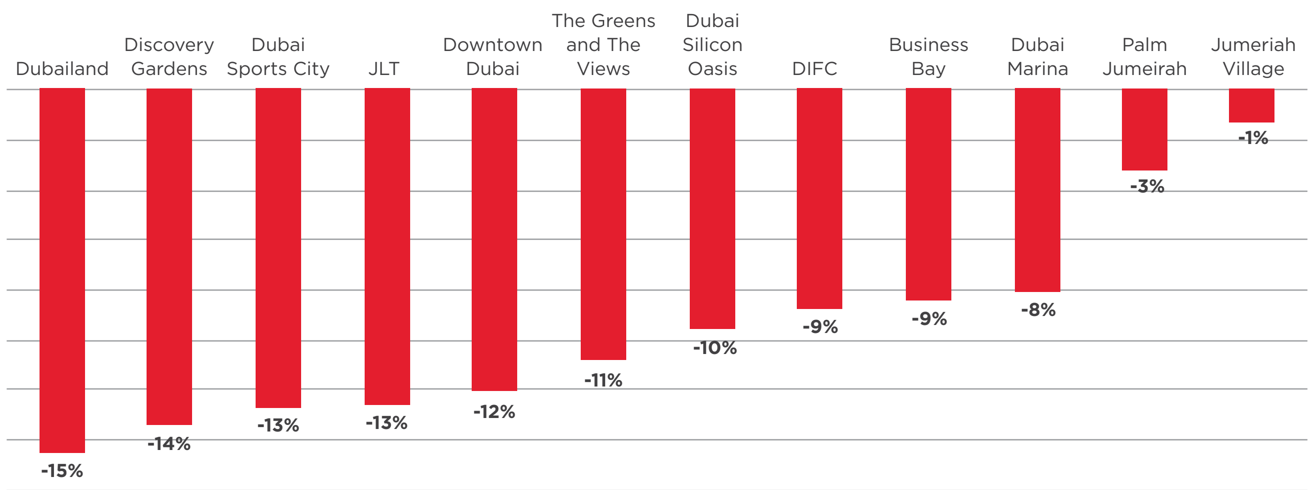
The positive offset of the ongoing softening of the sales market is that it is definitely a buyers' market with both individual property owners and developers being very flexible and in line with market conditions. The secondary sales market, mainly the mortgage market has seen a robust uptick over the last three years. This reflects maturity in the secondary market where offer and demand are finding an equilibrium, and more buyers opting for ready units instead of off-plan units as buyers look to either transition to ownership and save on rents or look for immediate rental yields.

Going forward, we expect transaction volumes to remain resilient, particularly in the secondary market as demand drivers such as steady oil prices, continued government spending and investor/occupier friendly regulations help absorption. That said, with existing inventory and future stock brought to the market over 2018 - 2020, sales prices are forecast to remain under pressure in the foreseeable future as the market gradually adjusts to supply and demand dynamics.

Villa sale prices Q4 2017 vs Q4 2018



Apartment sale prices Q4 2017 vs Q4 2018



Commercial Market

Office Market Update

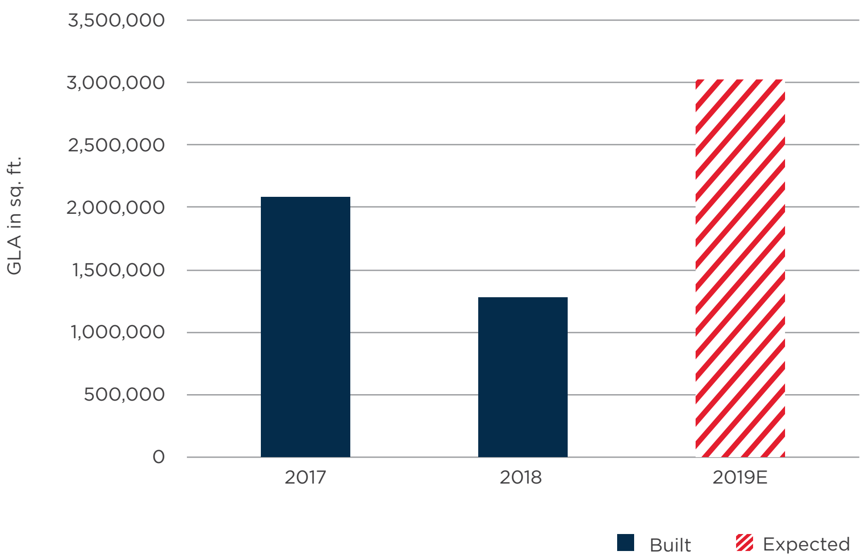
Market overview

Dubai's office market saw an increase in relocation and consolidation activity over 2018, with many international occupiers consolidating their portfolio either into purpose-built facilities or more competitively priced office premises, exerting downward pressure on prime office occupancy levels and net absorption.

According to the Emirates NBD Dubai Economy Tracker, private firms reported increase in output for the year as a whole in 2018, however this has come on the back of consistent and continued price discounting in a very competitive environment, despite rising input costs.

Going into 2019, we foresee an uptick in market sentiment, backed by sustained oil prices, government accelerator plans, with a focus on infrastructure and smart government initiatives. Despite job growth gradually gathering momentum, we anticipate a pause on spatial expansion for most firms, as near-term resource growth is expected to be managed within existing portfolios, or by consolidating multiple offices into a central location.

Dubai new office supply 2017-2019



Office supply

Supply growth continued to visibly outpace demand, led by the completion of a number of large commercial developments including Innovation Hub Phase One (Tecom), The Opus (Business Bay), The Exchange (DIFC), Dubai Science Park Headquarters, Motorsport Business Park and Zayed 2 (Sheikh Zayed Road), adding 1.3 million sq. ft. to the market and bringing total existing stock to 101 million sq. ft. With retention an ongoing concern for landlords, supply of secondary units to the market is expected to mechanically increase over 2019.

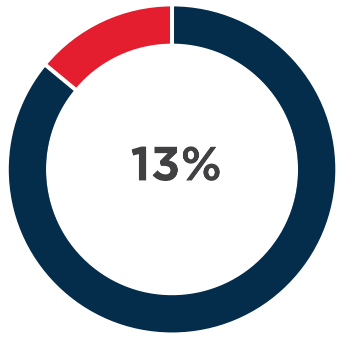
New additions to Dubai's office market supply this year are largely concentrated in the Grade A segment. Prominent deliveries in 2019 include ICD Brookfield Place (DIFC), The Court (Business Bay), Dubai Hills Estate Business Park, Mashreq Bank Headquarters (Downtown Dubai), remainder offices in One Central (DWTC), AW Rostamani Mankhool Offices (Mankhool) and Zayed 1 (Sheikh Zayed Road).

Over 2017 - 2019, nearly 6.3 million sq. ft. of new office stock is anticipated. These additions are expected to alleviate some of the pressure seen in prime office districts, which currently see relatively high rents. Nevertheless, as a number of occupiers are likely to relocate from buildings within neighbouring areas, occupancy levels remain somewhat stagnant. Tenants continue to prefer fitted, 'plug & play' options, citing that reduction in capital expenditure allows for agility and flexibility. Landlords are now addressing the shift in occupier preferences by adding flexible solutions to their portfolio. Central Park and Index Tower for example, are presently converting more floors into fitted space, adapting to occupier preferences.

Dubai office market in numbers

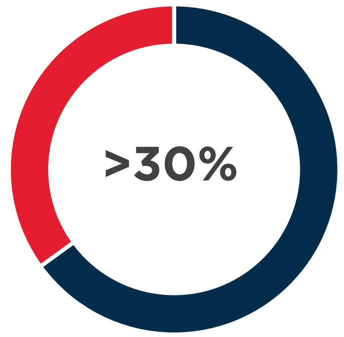
101 million sq. ft.
Total office stock

31 million sq. ft.
Prime office stock



Average prime office vacancy levels

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



Grade B & C vacancy levels

	Project name	Location
2017	Park Lane Tower	Business Bay
	Tamani Arts Tower	Business Bay
	Onyx Tower	The Greens
	Duja Tower	Sheikh Zayed Road
	One Central	DWTC
2018	Dubai Science Park HQ	Dubai Science Park
	Innovation Hub - Phase 1	Tecom
	The Opus Tower	Business Bay
	Gate Village 11	DIFC
	HSBC Tower	Downtown Dubai
	Motorsport Business Park	Motor City
	Zayed 2	Sheikh Zayed Road
2019	AW Rostamani Mankhool Offices	Mankhool
	ICD Brookfield Place	DIFC
	Mashreq Bank HQ	Downtown Dubai
	One Central (Offices 4 and 5)	DWTC
	Zayed 1	Sheikh Zayed Road
	Dubai Hills Estate Business Park	Dubai Hills Estate

Office Market Trends

Although VAT implementation had marginal impact on the office market, the effect was mostly absorbed, as landlords and tenants adjusted to the administrative requirements of tax. The absorption of VAT by the market was most likely accelerated as any increase in business costs were levelled off by a decline in rents. On the other hand, upcoming secondary and tertiary tier stock is likely to continue to weaken rents, while maintaining slow absorption. In response, landlords are gradually increasing incentives to attract new tenants inline with more mature office markets, resulting in a significant number of cyclically opportunistic occupiers.

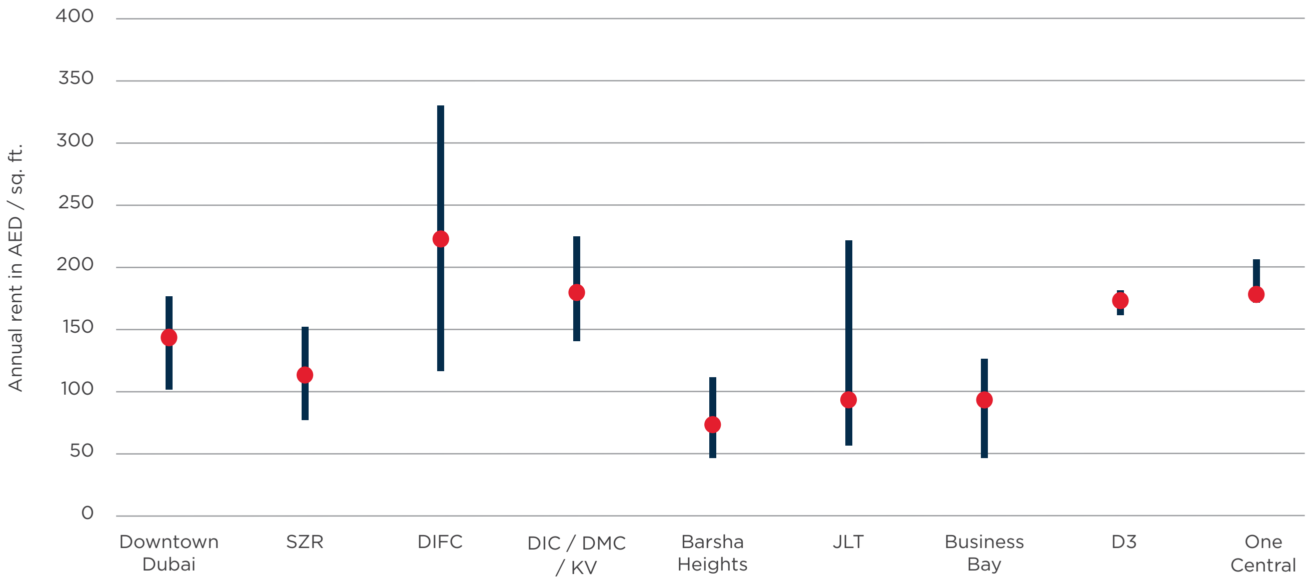
With over 20 freezones in Dubai, we are witnessing rising levels of competition, as barriers to entry based on the industry/sector are increasingly becoming blurred.

A number of freezone authorities have also introduced 'dual licensing' capabilities, allowing companies to be registered (with distinct legal entities), in both off-shore as well as onshore jurisdictions, whilst also reducing fees and charges to attract new business. We are also witnessing the trend of DED offering licenses on desk space (co-working) in a few approved locations.

Going forward, market sentiment is expected to improve given the implementation of various policy initiatives to reduce business costs and streamline business processes, in addition to allowing 100% ownership for certain types of onshore entities. The long-awaited law is designed to make the country more attractive for investors while limiting the impact on local businesses.

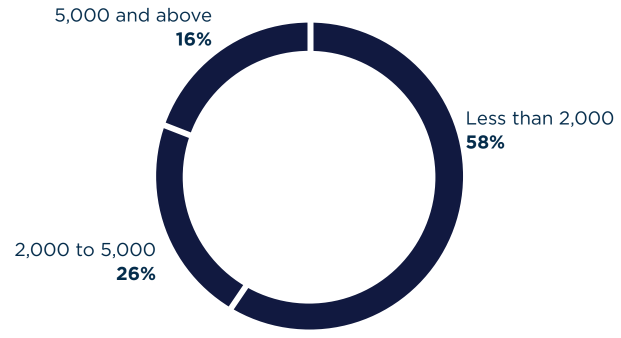
Foreign companies seeking to establish an entity onshore in the UAE would previously have to team up with a UAE national, who was required to own 51% of the shares of the company. While there are a few sectors on a 'negative list' which are restricted from 100% ownership such as oil exploration and production, military, BFSI (banking, financial services and insurance) etc, a separate 'positive list' covers sectors open to greater foreign investment. However, the new law allows the cabinet to add or remove sectors on each list at a later date. Details of sectors on the positive list are not mentioned in the new law, but are expected to include the manufacturing and service industries.

Dubai office rents - 2018

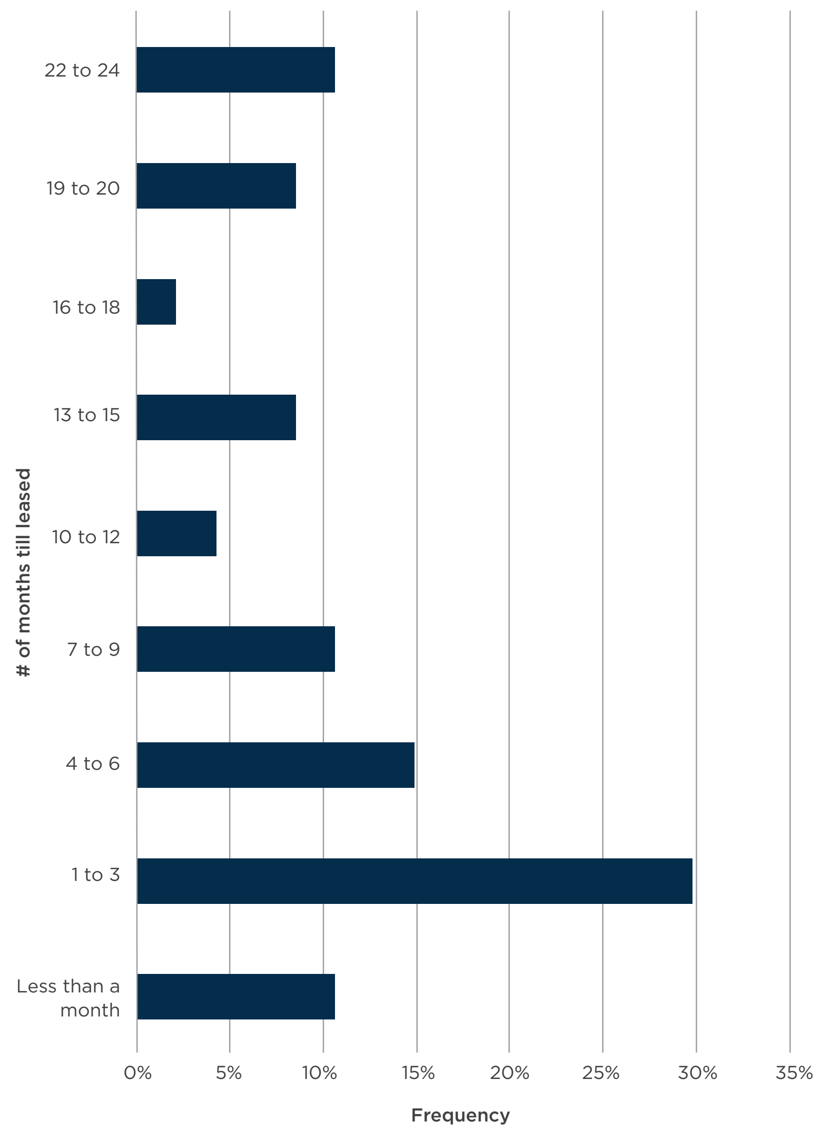


Source: Cushman & Wakefield Core Research

Dubai office enquiries by size (sq. ft.) - 2018



Months a property is listed before being leased in 2018



* All Cushman & Wakefield Core office listings across the Dubai market (freezones and onshore areas)

Source: Cushman & Wakefield Core Research

We see a rising preference, particularly from occupiers with smaller spatial requirements, for furnished/ plug & play offices with immediate occupation time-lines.

Market sentiment

Current market conditions continue to be tenant favourable across most grades, particularly in the Grade B & C segment. The decline in rents across key districts has had an impact on initial yields, forcing strata landlords to choose between leasing at lower rents, or incurring opportunity cost for extended vacancy periods.

Although office transactions take longer to execute than residential transactions, over 11% of office listings are leased within the first month, and an additional 30% of the units are leased within the next one to three months, noticeably in contrast to most major international markets.

This robust absorption figure represents the significant supply of strata stock in the Dubai market, with characteristically smaller transaction sizes and higher volumes, and landlords who are progressively adapting to market conditions.

We continue to see landlords of Grade A space deliver CAT A conditions, with most Grade B and C premises being partially or fully fitted to aid faster absorption. Shell and core units have unsurprisingly seen slower take-up, higher discounts or incentives from landlords, including capital contribution.

HEAD OFFICE
Ground Floor, Building 6,
Emaar Square, Downtown Dubai,
Dubai, UAE

+971 4 245 2100

DMCC OFFICE
Ground Floor, Indigo Tower
Jumeirah Lakes Towers,
Dubai, UAE

+971 4 245 2100

ABU DHABI OFFICE
Office No. RU 04, Abu Dhabi National
Exhibition Centre (ADNEC), Al Khaleej
Al Arabi Street, Abu Dhabi, UAE

+971 2 556 7778