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DUBAI MARKET UPDATE

Q3 2019

A range of demand side drivers have been announced over 2018 - 2019 such as long-term visa regulations, ease in company formation laws and smart government initiatives. Furthermore, with the recent announcement of the real estate committee, we are seeing strategic efforts to moderate supply side deterrents. This is a landmark step and it continues to show the government's impetus to provide balance and stability in the market.

MARKET SNAPSHOT

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As we near the end of 2019, Dubai is reaching a cyclical peak in supply deliveries in both the residential and commercial markets with developers aiming to handover projects before Expo 2020. However, with objectives to align stock segments with target demand, safeguard private investor interests and arrive at a strategic plan for major projects for over the next ten years, we expect ongoing government reforms to limit supply and drive demand to help absorb existing inventories – albeit, pushing sales and rental markets towards a recovery in the midterm.

Nonetheless, in the near term we expect the market to continue being highly occupier friendly, with underlying demand being met, evidenced by steady transaction volumes, particularly in the secondary sales market. The drop in rents 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.

This publication

This document was published in September 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 Market Update

Supply

As per our initial forecast at the start of 2019, Dubai is on track to deliver nearly 29,500 units by the end of 2019. Around 16,500 units were delivered YTD 2019, a significantly higher pace of deliveries than previous years, while an additional 13,000 units are expected over the remainder of 2019.

As developers push to complete projects in time for Expo 2020, we except this pace to accelerate over the next year with nearly 32,000 deliveries conservatively estimated for 2020.

Most deliveries continue to be focused in the outer areas of Dubai Land, Jumeirah Village Circle and Triangle, Meydan and MBR City. Dubai Creek Harbour and Dubai South are also witnessing a rise in handovers.

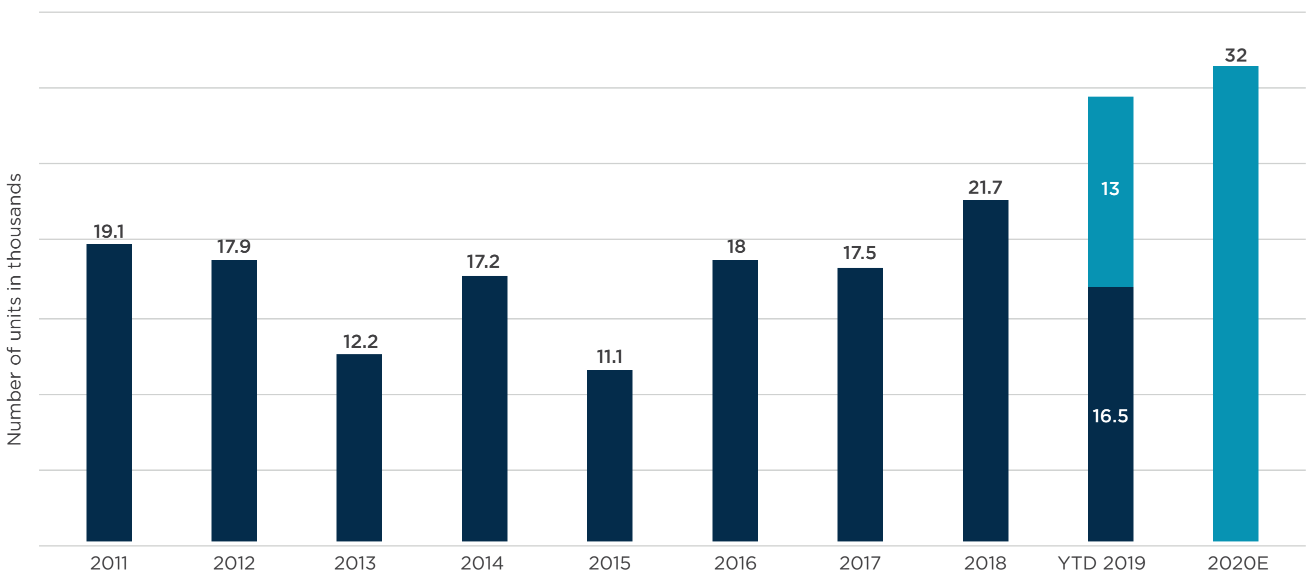
Although demand remains stable as evidenced by steady transaction volumes, particularly in the secondary market, the supply side deterrents continue to exert downward pressure on sales prices, rents and in-turn occupancies. Tenants are either climbing the property ladder with a raft of options now becoming available, both in the ready and heavily incentivized off-plan market or relocating/upgrading to units with similar or lower rents.

527,200 units
Total residential stock as of YTD 2019

16,500 units
Delivered YTD 2019

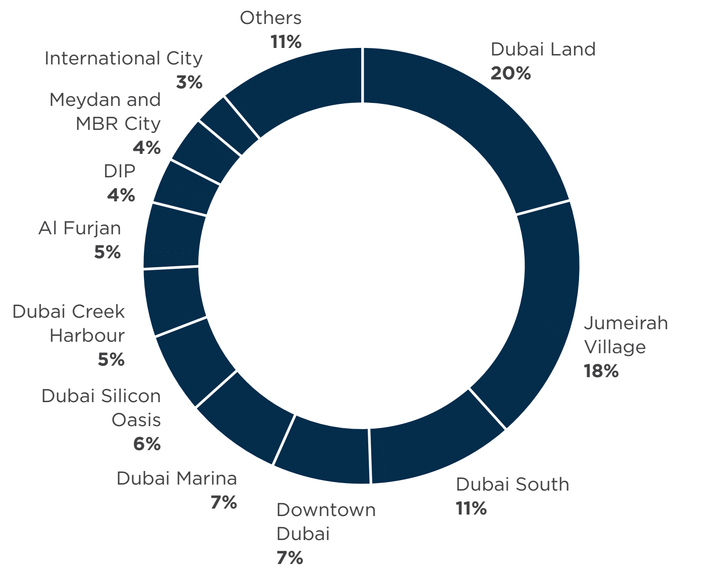
13,000 units
Further expected by remainder of the year

Residential deliveries in Dubai 2011 - 2020

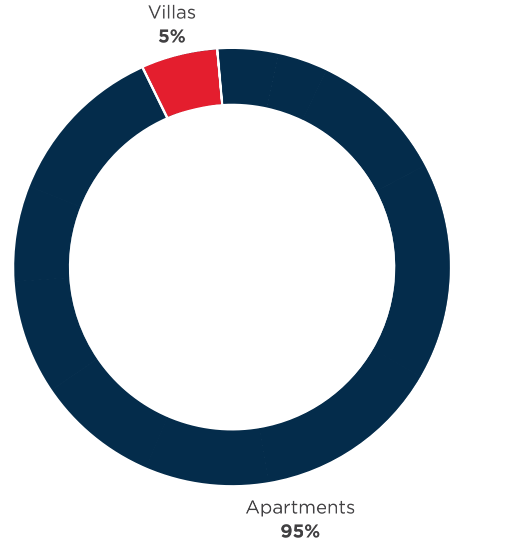


Source: Cushman & Wakefield Core Research

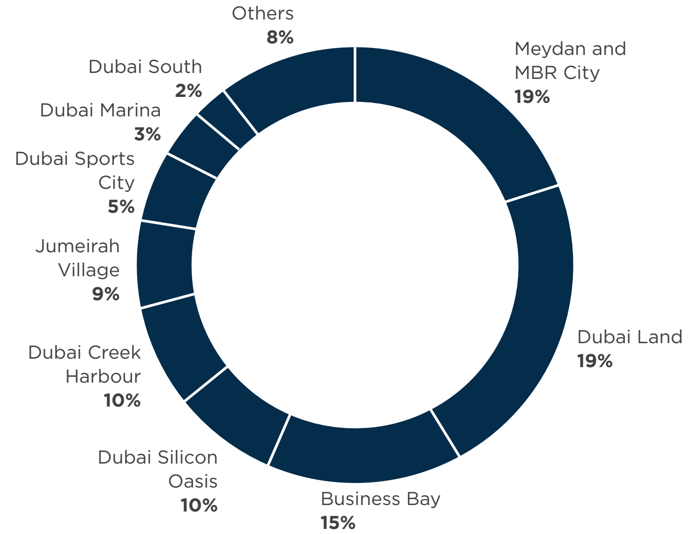
Units delivered YTD 2019



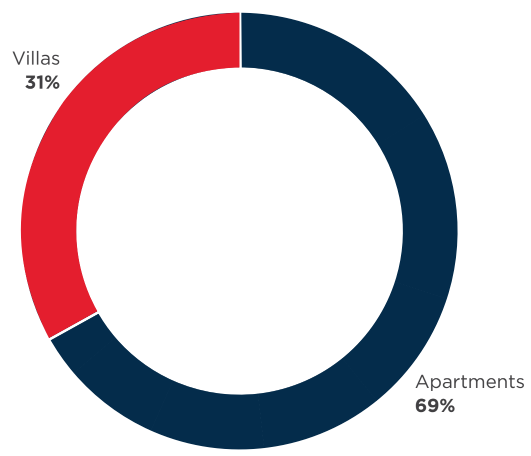
Apartments vs. Villa YTD 2019



Distribution of estimated units for remainder of 2019



Apartments vs. Villa Remainder of 2019



Residential Market Performance

Rents

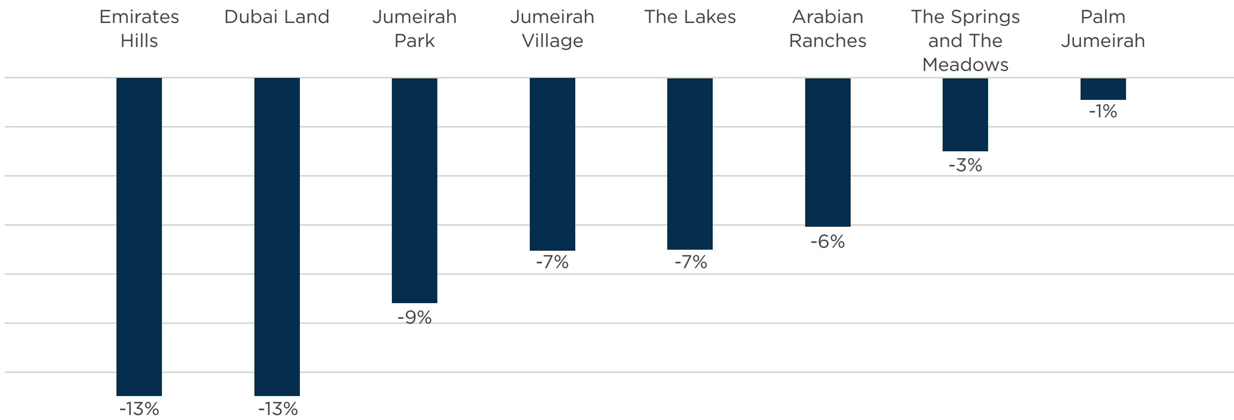
Rents have dropped across the board while we are witnessing various landlord incentives coming into play such as rent-free periods, longer contract terms, multiple cheques, refurbishing units or contributing to utilities, in order to maintain occupancy. Many tenants are looking to move by upgrading to 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.

The highest rental reductions in villa communities were witnessed in Emirates Hills (13%), Jumeirah Park (13%) and Dubai Land (-13%).

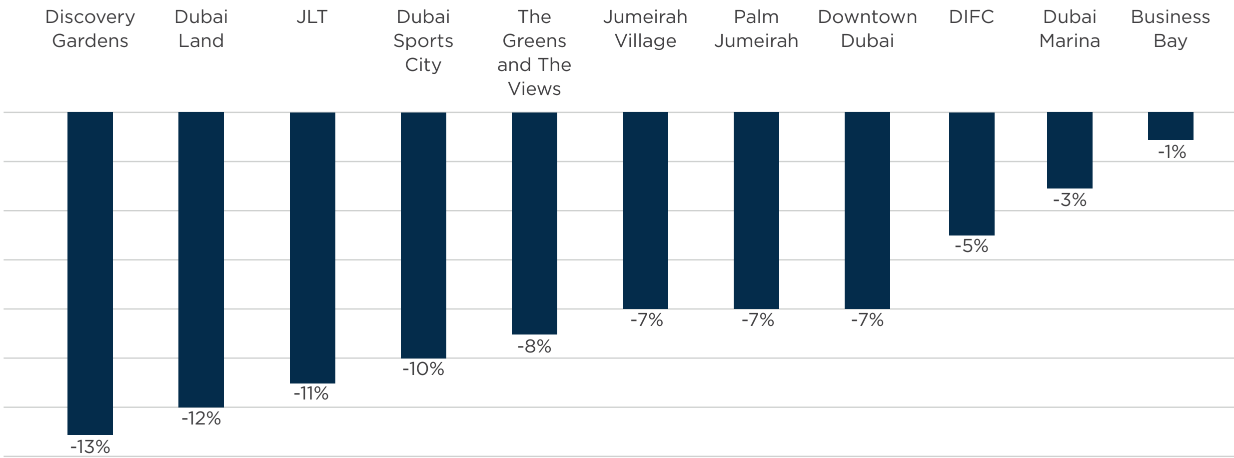
The weakest performing apartment districts in terms of rental reductions were Discovery Gardens (13%), and Dubai Land (12%), as competition intensifies in the affordable market segment with more options becoming available, either within the community or in nearby areas.

On the other hand, centrally located districts such as Business Bay, Dubai Marina, and DIFC have observed relatively lower levels of rental falls when compared to outer areas. We expect rental prices to remain under pressure in 2019/2020 and the rental market to continue being tenant friendly.

Villa rents Q3 2019 vs. Q3 2018



Apartment rents Q3 2019 vs. Q3 2018



Source: Cushman & Wakefield Core Research

Sales

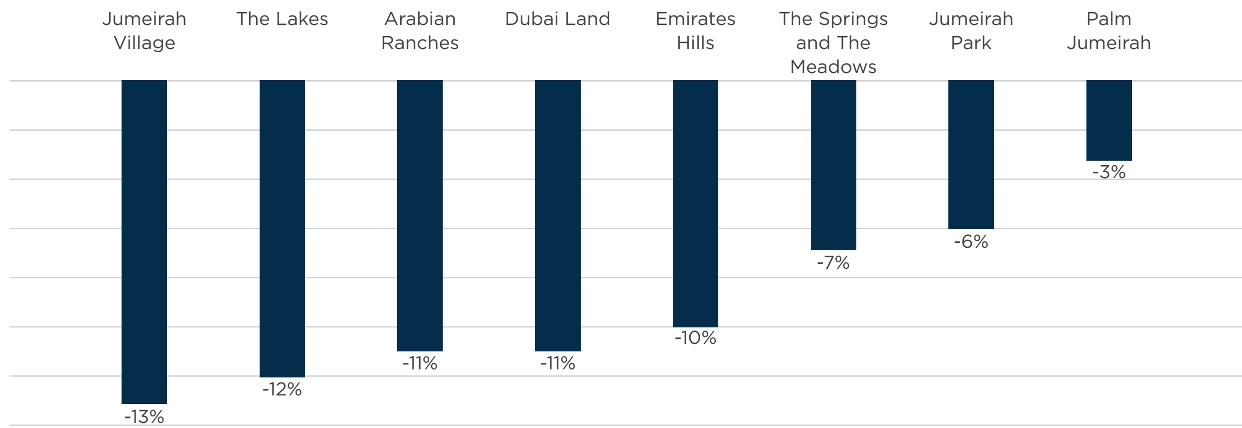
Sale prices softened across most of the districts, with villas in Jumeirah Village (-13%) and apartments in Dubai Land (-19%), Discovery Gardens (-15%) and Dubai Sports City (-15%) witnessing the sharpest drops in the last 12 months.

Interestingly, apartments in Palm Jumeirah, Jumeirah Village 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.

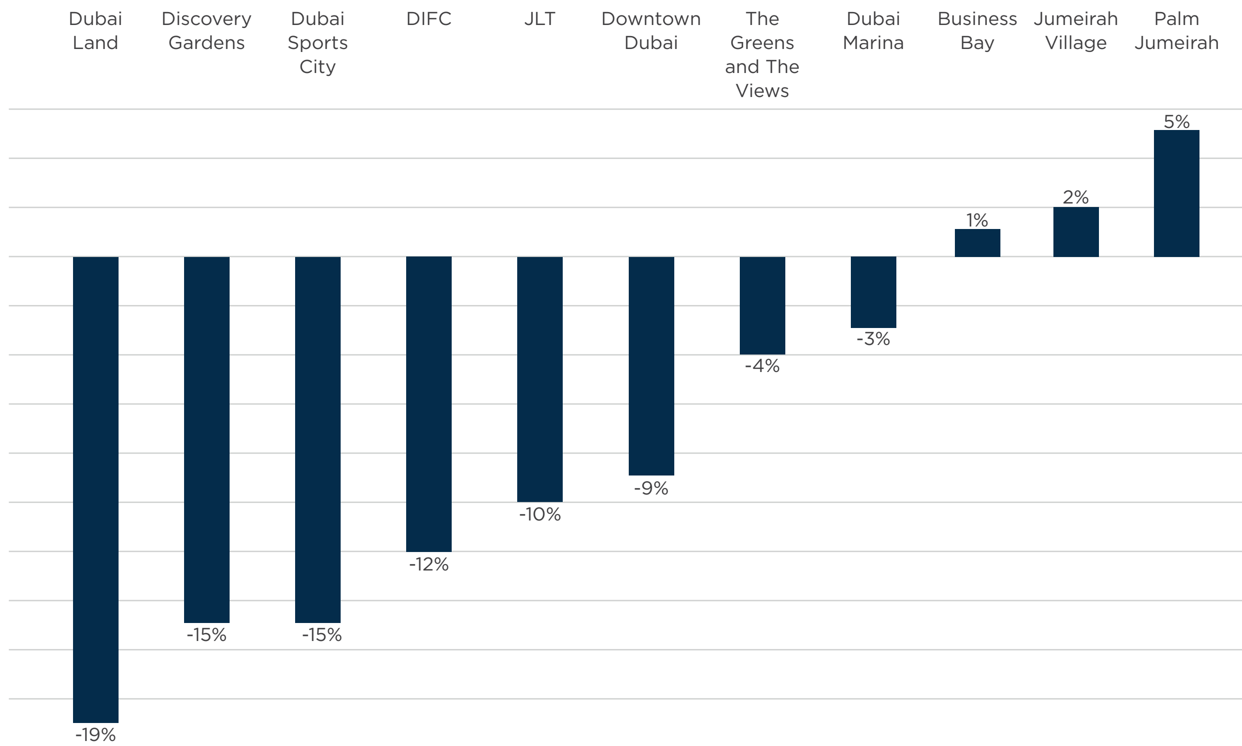
The positive offset of the ongoing softening of the sales market is that it is definitely a buyers' market with both individual property owners and developers being flexible and in line with market conditions. The secondary sales market, mainly the mortgage market has seen an uptick over the last three years, reflecting that the sales market is increasingly being driven by end-users.

That said, with existing inventory and future stock brought to the market over 2019 - 2020, sales prices are forecast to remain under pressure in the foreseeable future as the market gradually adjusts to supply and demand dynamics on the back of ongoing reforms.

Villa sales prices Q3 2019 vs. Q3 2018



Apartment sales prices Q3 2019 vs. Q3 2018



Commercial Market

Office Market Overview

A large portion of demand for office space in Dubai 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.

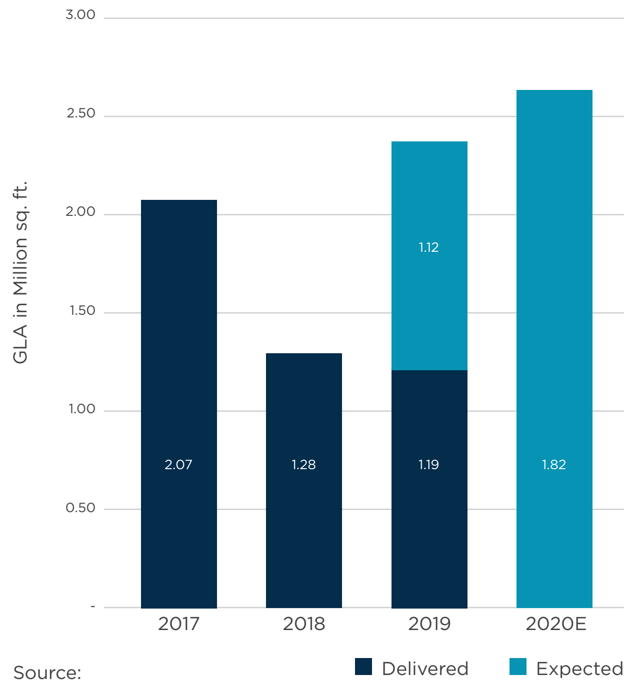
We are also seeing many large occupiers consolidating into purpose-built offices, with HSBC and Huawei moving into their respective premises while MasterCard, Mashreq Bank and Flydubai offices are currently under construction.

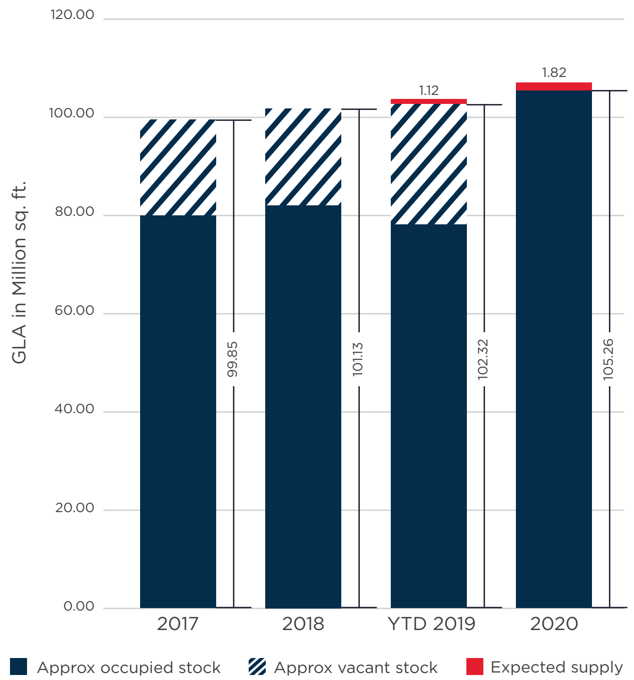
With a significant rise in new Grade A supply and vacancy created in prime existing office premises in the wake of relocations, tenants now have a variety of options to choose from. Although relocation involves capital expenditure and fit-out costs, many tenants are partially offsetting these expenses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

According to Emirates NBD Dubai Economy Tracker Index, employment indices remained flat, while new business activity in the non-oil private sector has seen a significant rise over the last few months. We anticipate new work and growth in business activity to be absorbed by the current workforce as firms continue to be cautious in hiring. That said, anecdotal evidence suggests that global technology firms are looking to expand their existing resource pool in Dubai. Most spatial expansions are expected to be limited as restructuring and resource growth is likely to be absorbed within existing portfolios.

While supply side deterrents continue to exert downward pressure, we are witnessing a raft of demand side drivers by the government such as the recent announcement of a single freezone passport. This move is aimed to ease current regulations and allow companies registered with any single freezone to operate in other freezones without the need for additional licenses. The new long-term visa regulations and changes in company ownership laws are also expected to aid demand. Further details are awaited on these regulations, nonetheless, these positive moves by the government are expected to boost sentiment and demand.

Dubai Office Supply 2017 - 2020





Source:
Cushman & Wakefield Core Research

Office Supply

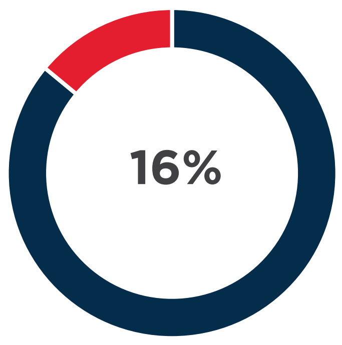
We are witnessing a spike in office supply, led by the delivery of several projects including Innovation Hub Phase One, One Central Office 4 and 5 and other smaller Grade B offices, bringing current total office stock to 102.32 million sq. ft.

Furthermore, many prominent projects are nearing completion with handovers spread over Q4 2019/Q1 2020. These include ICD Brookfield Place and Dubai Hills Business Park. There are 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 Mashreq Bank headquarters, DAFZA 9W and The Court in Business Bay. From Q4 2019 until end of 2020, we forecast nearly 3 million sq. ft. of office space to be handed over, taking the total Dubai office stock to over 105.26 million sq. ft.

Dubai office market in numbers

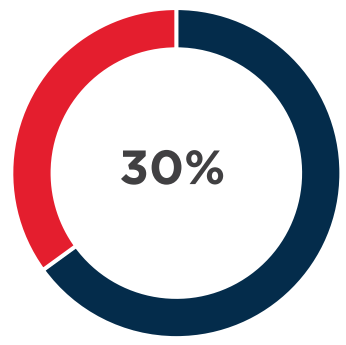
102.3 million sq. ft.
Total office stock

31.7 million sq. ft.
Prime office stock



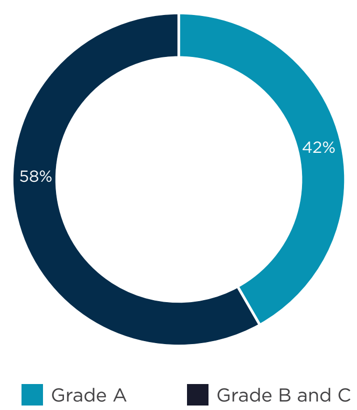
Average prime office vacancy levels

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

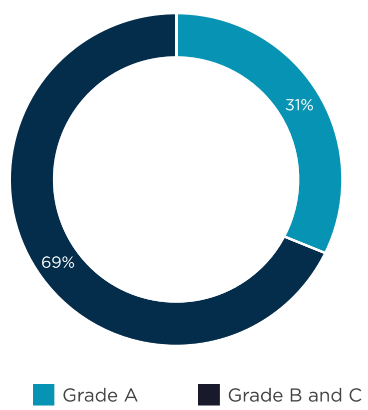


Grade B & C vacancy levels

Office stock delivery by grade 2017-2020



Total Dubai office stock



Upcoming office deliveries

Q4 2019/2020

Project name	Location
ICD Brookfield Place	DIFC
Dubai Hills Business Park	Dubai Hills
DAFZA 9W	DAFZA
Silicon Park	Dubai Silicon Oasis
Mashreq Bank Headquarters	Downtown Dubai
Flydubai Headquarters	Warsan
The Court	Business Bay

Office Demand

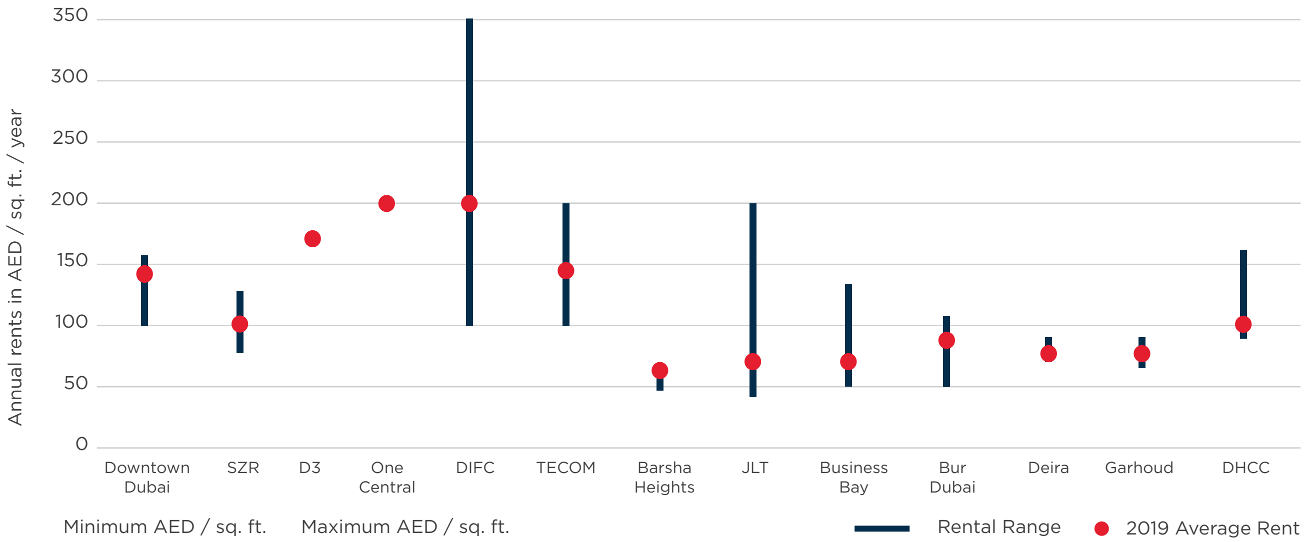
Rentals have contracted across the board, except the smaller freezones such as D3, One Central and DAFZA. We have seen secondary market locations such JLT, Business Bay and older Dubai districts (Deira, Bur Dubai, Garhoud and DHCC) witness significant year on year drops as relocation activity intensifies 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.

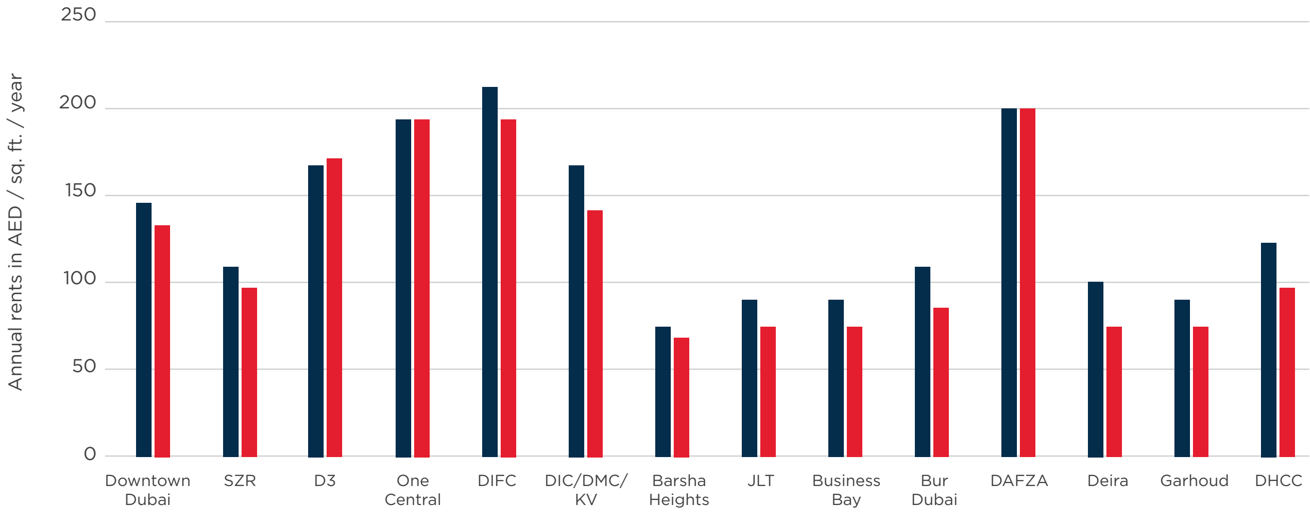
Districts with larger amount of stock such as JLT and Business Bay continue to be at lower occupancy levels compared to other smaller submarkets.

We are also witnessing landlords become increasingly flexible during new leases and rent renewals in order to maintain occupancies. Number of cheques are limited to one to four cheques while the trend for fitting out units and extending rent-free periods are increasing. Clients continue to prefer fitted and plug and play offices and this has seen a rise in co-working and serviced office spaces, particularly from start-up and SME clients. While new market entrants prefer the convenience of serviced/shared working space, lower rents have also led some existing clients, particularly in JLT and Business Bay to go for fitted but non-serviced offices to save on value added costs. We are seeing large single owned assets offering smaller, fitted and micro office options within in their portfolio to cater to this rising demand segment.

Dubai office rents Q3 2019



Average office rents Q3 2018 vs. Q3 2019

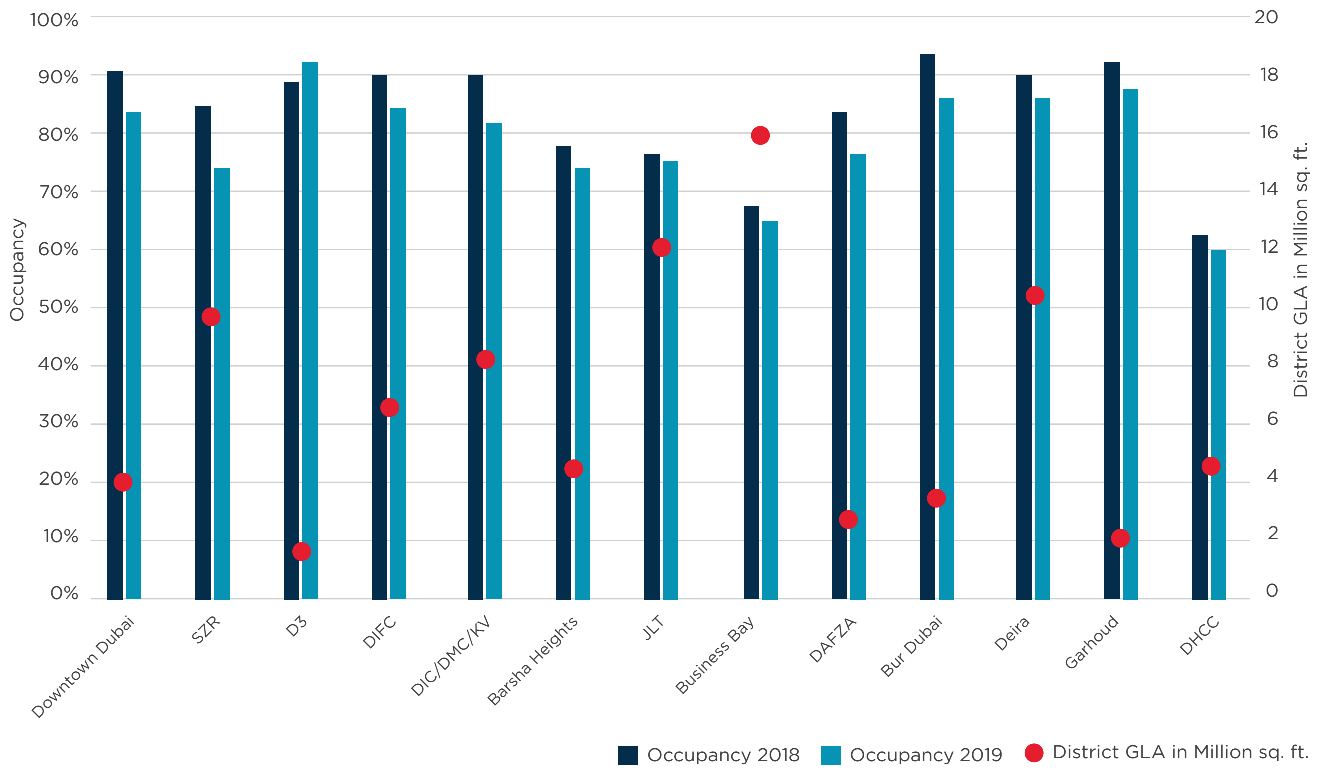


Source: Cushman & Wakefield Core Research

Office Market Outlook

With ample new and secondary supply coming into the Grade A market, blue-chip corporate occupiers have a 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.

Office occupancy Q3 2018 vs. Q3 2019



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