DUBAI ANNUAL MARKET UPDATE

2021/2022

MARKET SNAPSHOT
2021/2022

2021 saw robust recovery across all performance metrics of rents, capital values, transaction volumes, and we expect this upward trajectory to continue in 2022, albeit at a slower pace.

The UAE government continues to make strides with pioneering policies and reforms, cementing its position as a global hub for business, investment and talent with a raft of highly favourable visa regulations aimed at attracting and retaining residents across all demographics. The latest reform to align with the global workweek and being the first country in the world to officially commence on a 4.5-day work is expected to have a cascading positive effect on Dubai's business competitiveness.

Despite COVID-19 variants causing disruptions and temporary closures across the globe, Dubai continues to manage the pandemic efficiently with the highest vaccination rates and robust protocols - keeping safety and business continuity at the forefront. This has made the UAE rise to the top of most global indices, with the latest addition being ranked as the most popular destination in the 2022 TripAdvisor Travellers' Choice Awards. The launch and ongoing success of Expo 2020 along with a very busy winter season with one of the highest hotel occupancies recorded in Q4 2021 is a further testament to Dubai's global appeal.

With many demand drivers including forward-thinking and strategic government initiatives, the lowering of LTVs along with business resilience during the pandemic, have helped Dubai in reviving strong investment interest across sectors. This has created upward pressure on the real estate market with sharp rises in capital values and rentals witnessed over 2021, particularly in prime office and residential districts as they considerably outperformed most market forecasts.

Looking forward, with a robust budget of AED181 billion announced for 2022-24 focusing on infrastructure, social development, security, safety and innovation, economic sentiment is the most optimistic it has been in the last seven to eight years. We expect 2022 to see a continued uptick in values, albeit at a slower pace compared to the last few quarters and forecast steady activity levels with demand coming in from new entrants, investors and existing occupiers leading to a race for quality stock in established office and residential districts.

However, market recovery is expected to be segmented with a few residential districts witnessing slower stabilisation rates due to the supply overhang, and the Grade B and C office stock which has historically struggled in absorption, continue to face challenges.

This publication

This document was published in January 2022. 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

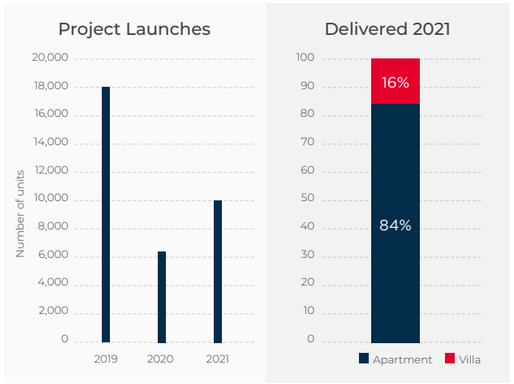
In line with our previous forecasts, Dubai saw the delivery of over 37,000 residential units in 2021. Only 16% (5,900 units) of these deliveries were in the villa market, thus further bolstering villa sales price recovery due to relatively lower levels of stock while the rest of the 84% of handovers were apartment units.

Carson in Damac Hills, Tiara United Towers in Business Bay, UNA Apartments in Townsquare, Bloom Heights in Jumeirah Village Circle and The Address Jumeirah Gate in Dubai Marina were amongst the largest delivered apartment projects in 2021. Prominent villa deliveries include multiple projects in Akoya Oxygen and Villanova, both in Dubailand and Club Villas at Dubai Hills Estate.

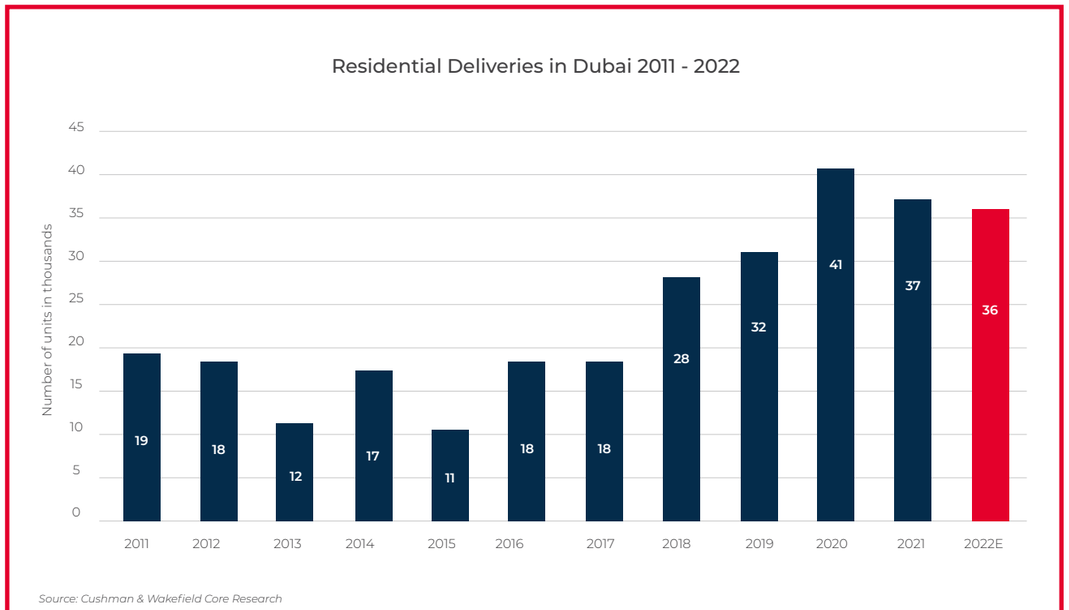
Dubailand (including Damac Hills, Damac Hills 2 and Arjan), Jumeirah Village Circle and Business Bay were the top 3 districts witnessing the highest number of handovers, accounting for nearly 57% of the total Dubai stock.

With the phasing of many projects due to the pandemic over the last two years, we expect a higher number of handovers to continue in 2022 with nearly 36,000 units conservatively estimated for this year. However, further revisions are expected on supply forecasts as developers continue to calibrate to ever changing market conditions. With Azizi, Emaar and Sobha expected to handover various projects in Mohammad Bin Rashid City, the district is expected to see nearly 27% of all handovers in 2022. The other areas to see high levels of handovers in 2022 are Dubailand (mainly Akoya Oxygen), Downtown Dubai, Business Bay and Dubai Creek Harbour. With 22% of 2022 deliveries expected to be villas compared to 16% in 2021, a slightly higher number of villa deliveries are expected in 2022.

After witnessing a consistent slow-down over the last few years, 2021 saw a strong revival in project launch volumes (new project announcements) due to an uptick in market sentiment and transaction activity. Major project launches in 2021 included Tilal Al Ghaf - Aura by MAF, Peninsula by Select Group, Jebel Ali Village and Murooj Al Furjan by Nakheel, Sobha Hartland Waves and Palace Beach Residence by Emaar.

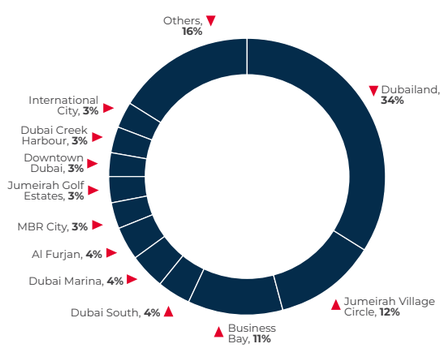


Source: Cushman & Wakefield Core Research

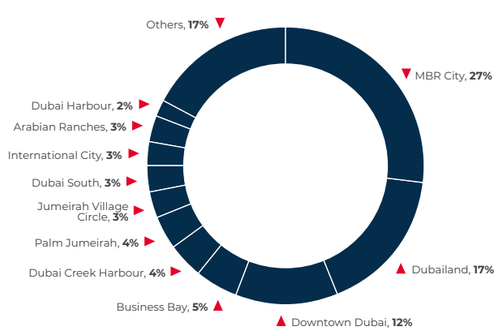


Source: Cushman & Wakefield Core Research

Supply Delivered by Area 2021



Supply Forecast by Area 2022



Source: Cushman & Wakefield Core Research

RESIDENTIAL TRANSACTIONS

Transaction Volumes at Record Highs

Transaction volumes were consistently high over the whole of 2021, with the highest ever quarterly value of transactions recorded over Q4 2021.

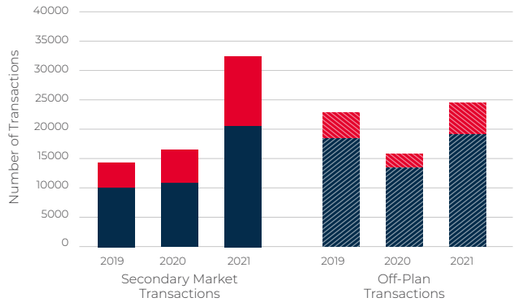
2021 secondary sales transactions volumes were 98% higher than 2020 and 132% higher than 2019. The off-plan market, after witnessing an interim slump, has bounced back with a 52% year-on-year increase in transaction volumes, however, just over 8% above pre-pandemic levels.

Secondary villa transactions, due to COVID-19 led lifestyle changes have seen even higher sales volumes, with 114% year-on-year rise in transaction activity.

While the preference for ready built stock is expected to continue, we also foresee off-plan activity continuing to gather pace as investor confidence and appetite steadily returns to the market.

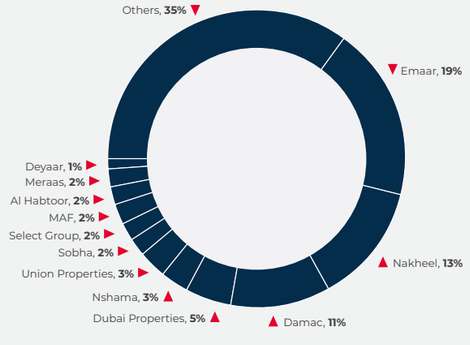
Looking at market share by developer, Emaar continues to lead the tally with the developer accounting for nearly 19% of all secondary market sales and 26% of all off-plan sales in the market.

Residential Sales Transactions Trends

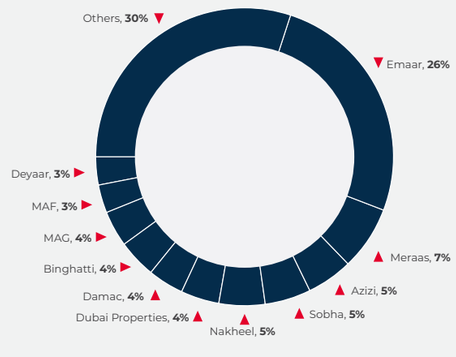


Source: Dubai Land Department, Cushman & Wakefield Core Research

Ready Market Sales Transactions by Developers - 2021



Off-Plan Sales Transactions by Developers - 2021



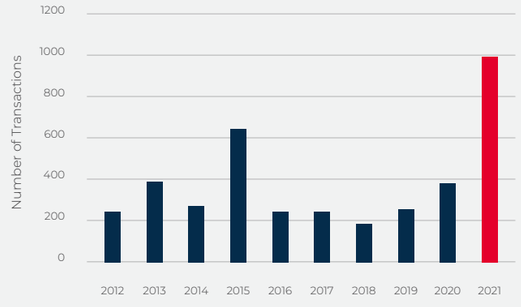
Source: Cushman & Wakefield Core Research

PRIME MARKET OVERPERFORMS SIGNIFICANTLY

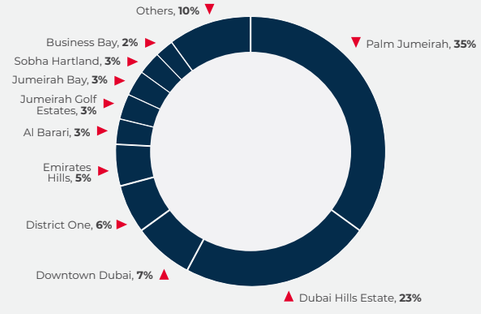
While the overall market saw record transactions in 2021, the prime market (transactions valued at over AED 10 million) saw a stratospheric rise of 174% in transaction volumes compared to 2020 and 286% to 2019 volumes, as global HNIs became increasingly attracted to Dubai's value proposition, robust governance and safe environment.

It comes as no surprise that Palm Jumeirah has led this recovery with nearly 35% of all AED 10 million and above transactions concluded in this district, followed by Dubai Hills Estate (23%) and Downtown Dubai (7%). These high transaction volumes and sharp rises in sales prices have helped prime districts to significantly bridge the gap between their current and historic peak values. As expected, villas formed a significant majority of prime transactions at 84%, while just 16% were apartments and serviced/branded apartments.

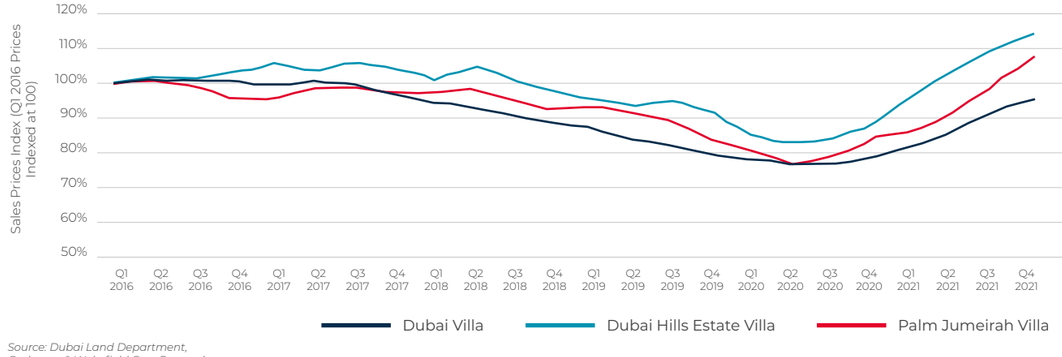
Secondary Market Transactions over AED 10 Million



Residential Transactions over AED 10 Million over 2021



Prime Villa Sales Price Index



Source: Dubai Land Department, Cushman & Wakefield Core Research

RESIDENTIAL SALES MARKET

Sharp revival in villa sales prices, while apartment values recover at a slower pace

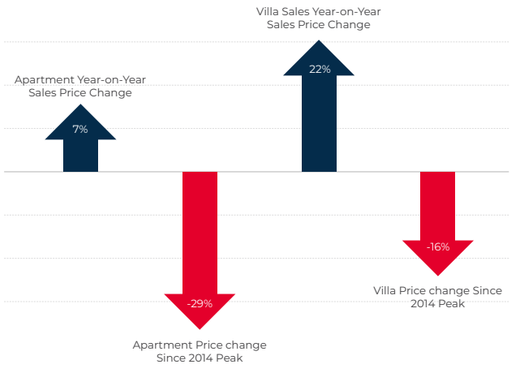
Villa sales prices have been leading market recovery over the last 18 months, witnessing the sharpest rise in capital values as supply in centrally located and well-established villa communities dwindle. Palm Jumeirah, The Lakes, The Springs and The Meadows saw a 28% rise in sales prices while other villa districts including Jumeirah Park (27%), Arabian Ranches (25%) and Emirates Hills (16%) displayed similar performances. It is interesting to note that while Palm Jumeirah villa supply is becoming limited, there are many older units currently being refurbished and are expected to come to market at significant premiums, exerting continued upward pressure on values in the district.

The outer areas of Jumeriah Village Circle and Dubailand (Akoya, Akoya Oxygen, Mudon, Mira etc) due to continued supply overhang, are recovering, albeit at a slower pace. The city-wide villa sales price average saw a 22% year-on-year increase, although values are still 16% lower than the 2014 peak, demonstrating that values are still competitively priced and have further room for growth.

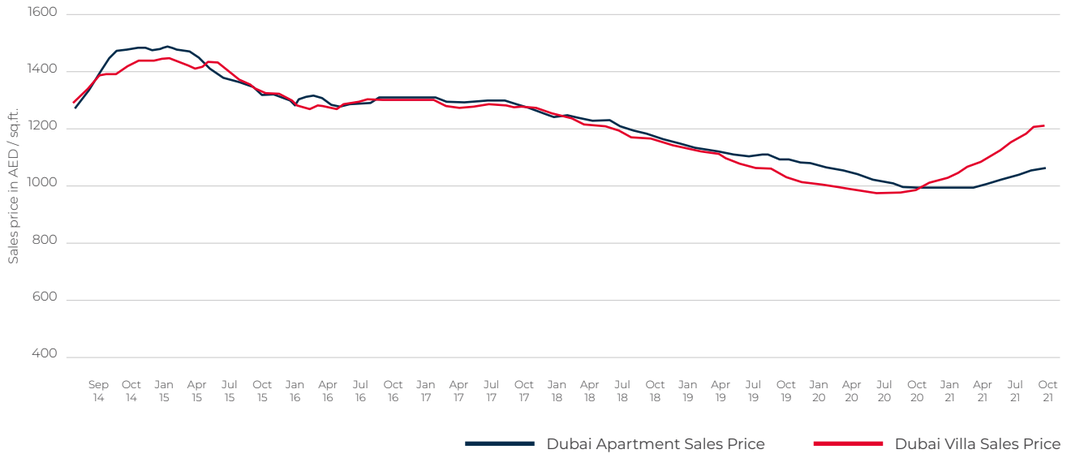
With COVID-19 variants causing many schools and offices to go back and forth with operating protocols, the preference for private, open and additional spaces would remain in post COVID world, further underpinning the preference for villas and larger units.

Apartment sales market performance is now mirroring the villa market, although the recovery is slower and fragmented. The prime as well as central apartment districts of Downtown Dubai (19%), DIFC (16%), Business Bay (15%), JLT (15%) and Palm Jumeirah (14%), witnessing a rise in year-on-year capital values while the outer and affordable locations such as Dubai Sports City (-1%), apartments in Dubailand (-3%), Discovery Gardens (1%) have witnessed nominal change.

With sales prices rising at a sharper pace than rental values, yields continue to contract, particularly in the apartment market.

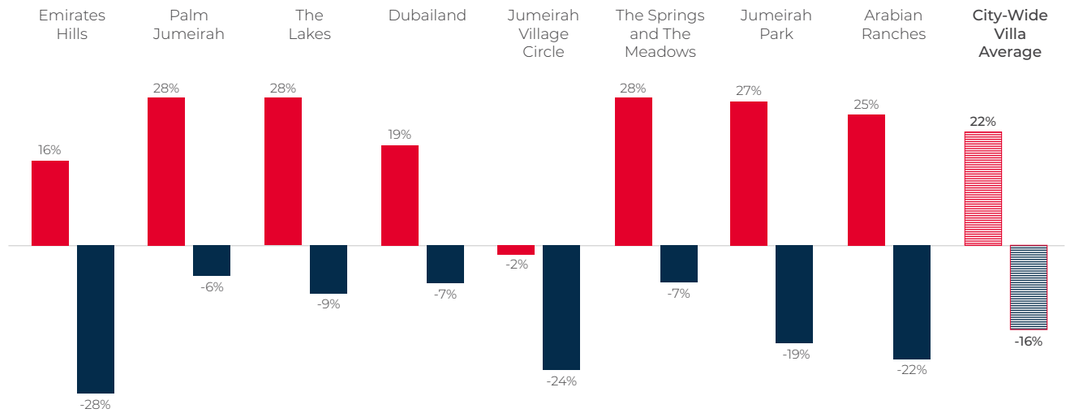


Dubai Sales Price Trends

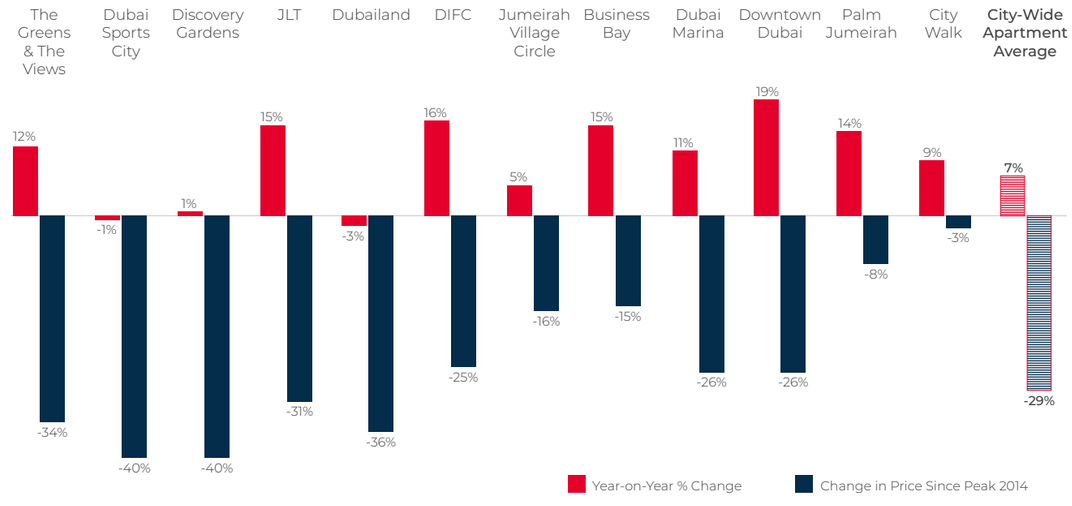


Source: REIDIN, Cushman & Wakefield Core Research

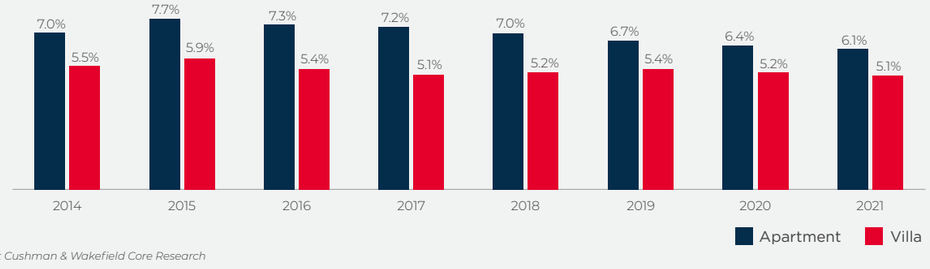
Villa Sales Prices Q4 2020 vs. Q4 2021



Apartment Sales Prices Q4 2020 vs. Q4 2021



Gross Residential Yields

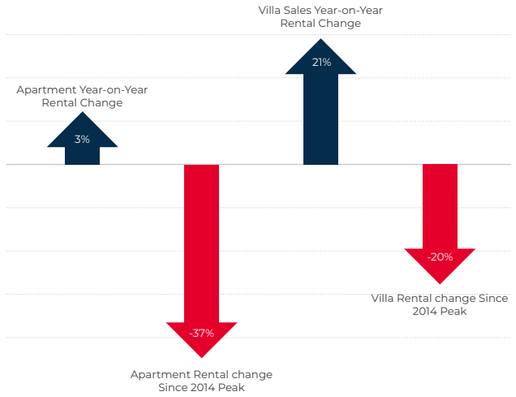


Source: Cushman & Wakefield Core Research

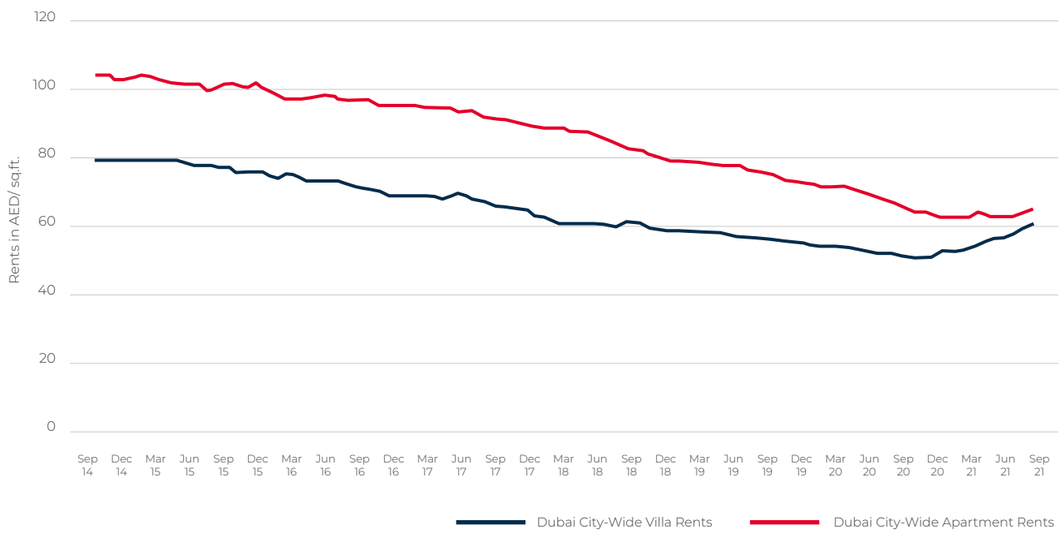
RESIDENTIAL RENTAL MARKET

Mirroring the soaring demand for villas across the city, all the 9 villa districts we track saw robust double digit rises in year-on-year rentals and the city-wide villa rental average was up by 21% year-on-year. Palm Jumeirah villa rentals overshot the market by witnessing a 34% annual rise due to very limited supply after seeing strong take-up from local and global HNI's since the start of the pandemic. The district is now at par with its 2014 peak values and is expected to see a continued rise in values due to its global appeal, water-front location and limited new-built or refurbished stock. That said, all other villa districts are still well below their 2014 peak values, albeit expected to inch towards them over 2022.

While apartments in Palm Jumeirah have been an outlier in market performance due to continued sharp rises over the last several quarters, many other apartment districts started to see notable year-on-year growth after displaying a lag in performance. The large apartment districts of The Greens and The Views (18%), Downtown Dubai (11%), Dubai Marina (10%), Business Bay (9%) and JLT (7%) saw strong rises. However, a few outer districts continue to underperform such as Discovery Gardens (-13%), Dubai Sports City (-2%) and Dubailand (-1%). With supply projections for apartments remaining high in 2022, we expect rents in sub-urban apartment districts to remain relatively under pressure over 2022.

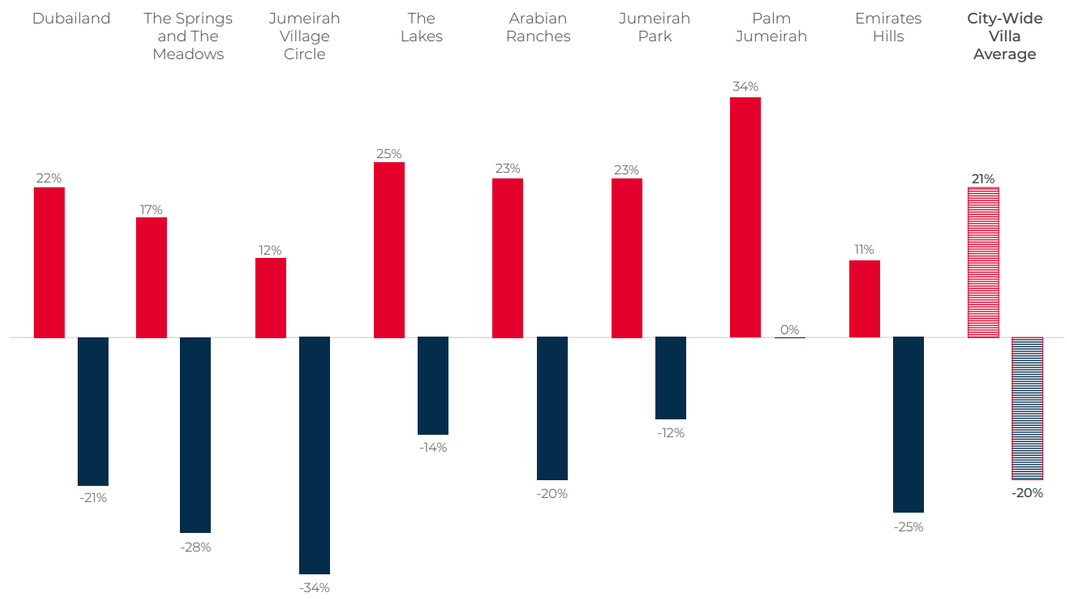


Dubai City-Wide Rental Trends

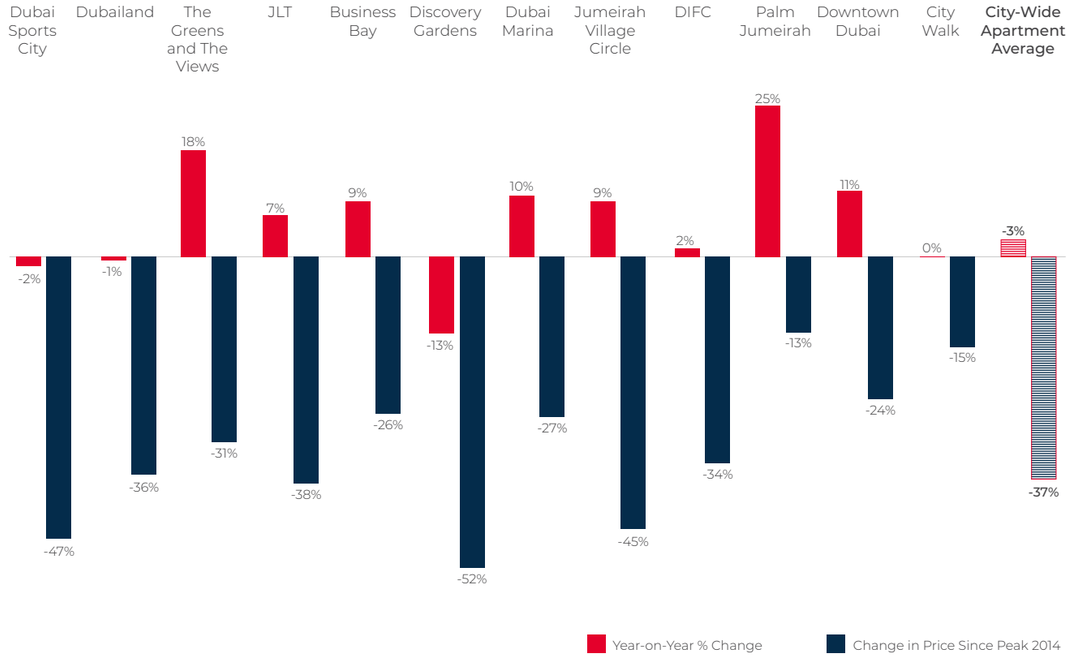


Source: REIDIN, Cushman & Wakefield Core Research

Villa Rents Q4 2020 vs. Q4 2021



Apartment Rents Q4 2020 vs. Q4 2021



Source: Cushman & Wakefield Core Research

RESIDENTIAL MARKET FORECAST 2022

Transaction volumes to see a steady increase - Sales transactions, in both the secondary and off-plan market, are expected to a steady uptick in 2022 as demand continues from local and international buyers. Investor interest increased sharply over 2021 due to relative ease in travel restrictions, positive sentiment and a rise in the number of tourists stemming from Expo 2020 coupled with Dubai's demonstrated success in managing the pandemic efficiently. That said, the Dubai residential market continues to be led by end-users driven by the raft of social and economic reforms along with the lowering of interest rates and LTV ratios.

Sales prices to witness a gradual, yet, continued rise, particularly in prime villa and apartment districts, with most districts expected to near 2014 peak values. It is important to note the 2014 values were when there were nearly 200,000 lesser number of units than there are in 2021, therefore the market has fundamentally performed better despite the significant addition in stock.

Rental market to balance out and start favouring the landlords after being tenant friendly for years, however, rental rises will not be uniform across the city. COVID-19 variants will continue to impact remote working, thus keeping demand for villas and larger units strong.

Prime districts to continue outperforming the market, further intensifying market fragmentation – While we expect most districts to recover, prime districts due to limited availability and high demand, are expected to see sharper rises.

Oversupply, a continued downside risk - With a high number of handovers expected in 2022, oversupply will continue to be a downside-risk, particularly in the sub-urban apartment districts.

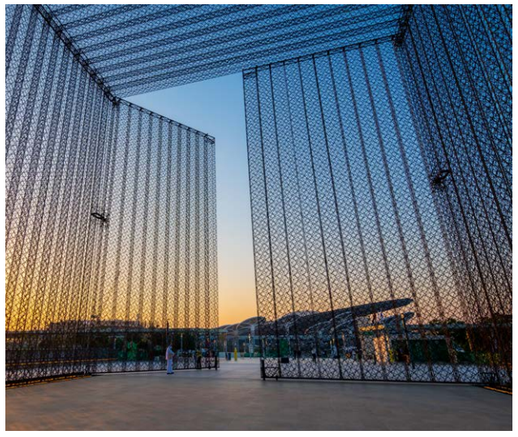
Continued uptick in market sentiment: Despite COVID-19 variants causing uncertainty, market sentiment is expected to remain positive over 2022. With the UAE government's continued focus on making the country the most preferred place for businesses and residents due to its pioneering policies, economic and visa reforms, agile and safe management of the pandemic without impacting business continuity are expected to continue positively impacting the real estate market and bolster demand across asset classes.

Commercial Market

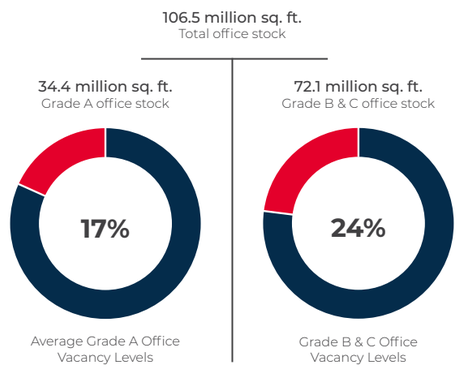
OFFICE MARKET SUPPLY

Over 1.29 million sq. ft. of total office space was delivered in 2021. Major deliveries include the first phase of the Deira Enrichment Project by Ithra and the first phase in the business cluster of Dubai CommerCity, both projects witnessing steady leasing activity from both existing occupiers in the vicinity and new market entrants. Visa opened its 100,000 sq. ft purpose-built headquarters in Q4 2021 and other mixed-use projects include offices at Dubai Courts and Garhoud Business Center.

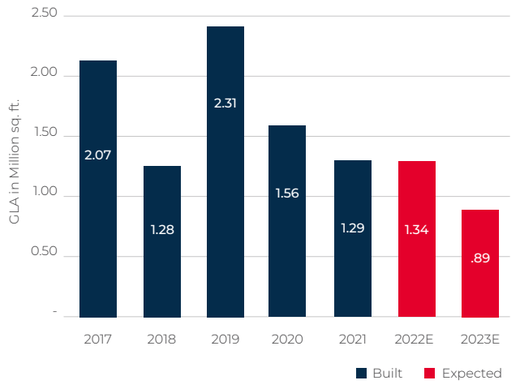
In 2022, over 1.34 million sq. ft. of office space is forecast including phases of large-scale projects such as the first phase of the office portfolio in District 2020, Uptown Tower (Uptown 2020) in JLT and the next phases of Dubai CommerCity.



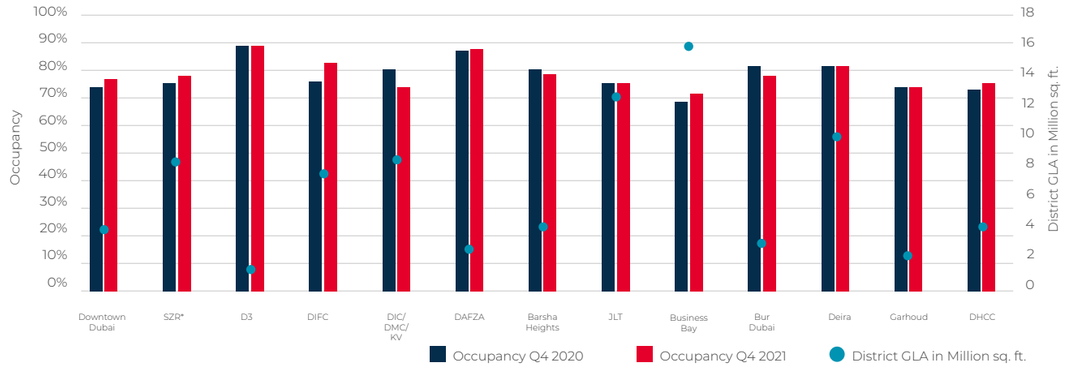
Dubai Office Market in Numbers



Dubai Office Supply 2017 - 2023



Office Occupancy Q4 2020 vs. Q4 2021



Source: Cushman & Wakefield Core Research

OFFICE MARKET RENTS

After nearly six years of softening, office market rents are up in most Dubai office districts we track. Coming off their cyclic lows in 2020, the sharpest rise in year-on-year office rents were seen in JLT (23%), Business Bay (23%), Downtown Dubai (20%) and DIFC (20%).

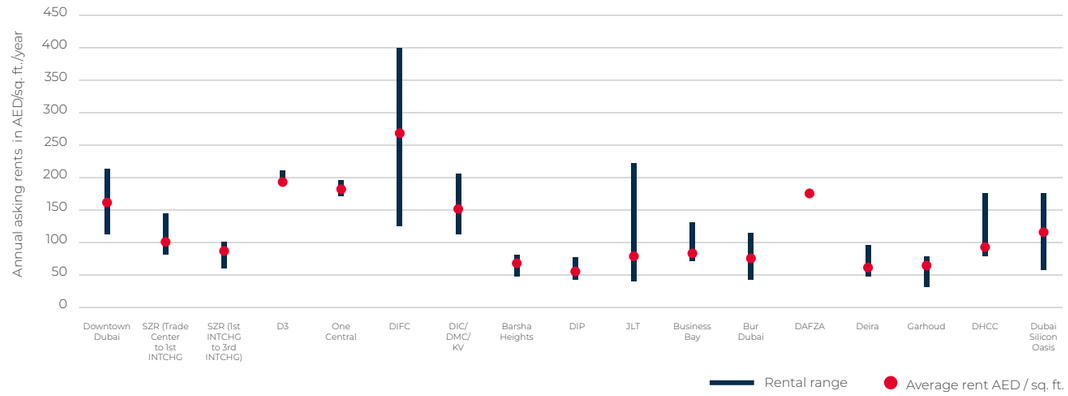
Most competitively priced fitted stock in superior build buildings that was on the market over 2020 and 2021 has been absorbed with limited stock currently available in this category, thus exerting upward pressure on rents.

That said, market segmentation further intensifies with Grade A stock witnessing higher demand, and Grade B stock which had struggled in the past and constitutes a large portion of the vacant stock, continuing to face absorption challenges.

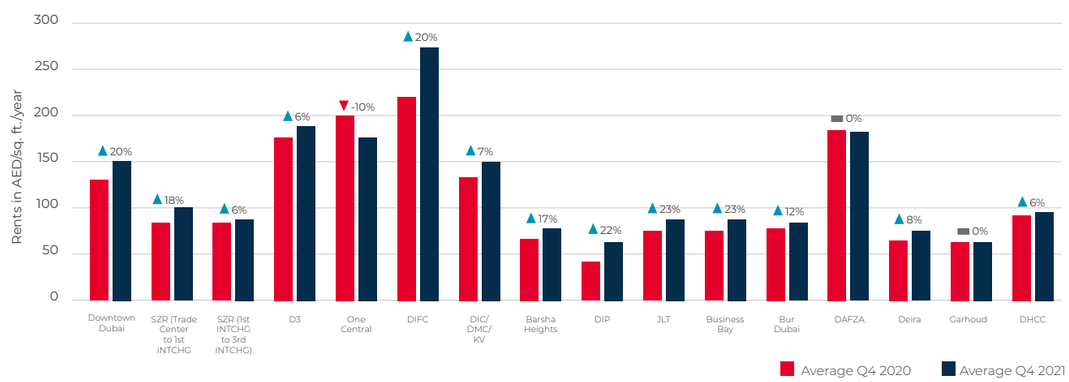
With a very high preference for fitted and furnished options, landlords of well-appointed units are seeing quick take-up at or above asking prices. Most clients, both local and international corporates are looking for faster occupation timelines and are willing to pay a premium for ready-to-move-in units which have led the micro-offices, particularly in DIFC to achieve very high rental rates compared to the overall market.

Furthermore, as fitted stock becomes limited, there are two trends emerging; either Landlords of shell and core units (who can spend) are looking to fit out their office floors to spur absorption or tenants who are not finding larger sized stock, going ahead with shell and core units.

Dubai Office Rents Q4 2021



Change in Average Office Rents Q4 2020 vs Q4 2021



Source: Cushman & Wakefield Core Research

OFFICE MARKET DEMANDS

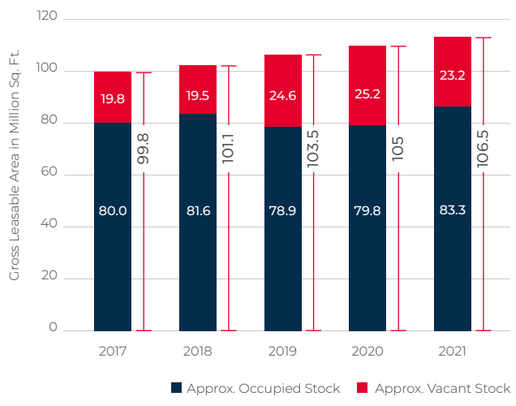
After recent downsizing activity and limited first phase expansions, 2021 saw a surge in office market demand with significantly higher enquiries, further evidenced by a record number of trade licenses issued in both on-shore and free zones locations. The range of visa reforms, stable and open business environment, relaxations in ownership regulations and digital disruptions caused by the pandemic are driving new office demand, particularly from technology and allied tech firms (fintech, cryptocurrency etc) who continue to expand rapidly post-pandemic. The forward-thinking adoption of the new workweek is expected to further draw global business demand into the UAE and position Dubai as a global talent magnet.

The 100% ownership reform is increasingly giving freezone firms more options to choose from across Dubai and making freezones evaluate their service and value-add offerings to make them more competitive to new and existing occupiers. Most of these relocations are upgrades with higher spatial take-ups. This has led occupancy levels to improve across the board for the first time in the last four years, with 2021's city-wide office occupancy now at 78%, a 2% increase over 2020. Furthermore, the prime single-owned districts of DIFC (7%) and Downtown Dubai (3%) have seen a relatively sharper rise in occupancy levels as several large occupiers have moved or relocated to these districts.

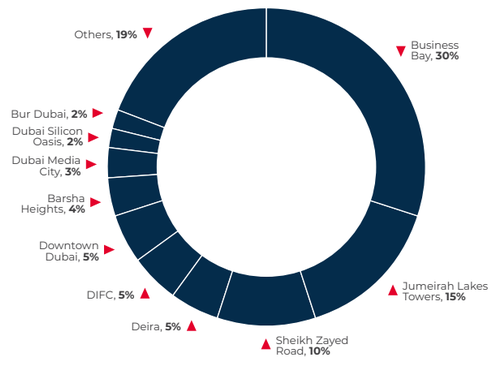
That said, enquiries continue to be skewed towards districts that predominantly have large levels of strata* stock such as Business Bay and JLT. As the preference continues to be for superior built and fitted units, which are increasingly becoming limited, there is a clear shortage of office stock for above the 3,000 sq. ft spatial requirement across most strata districts due to the way the floorplates have been subdivided and sold to individual owners.

Although COVID-19 variants are pushing more workplaces to continue working remotely or in a hybrid system, most firms are managing their workplace strategies in a more agile way and continue to prefer employees in offices. This has led most global occupiers keeping their existing footprint while renewing leases or relocating, even if the space is underutilised in the interim to maintain flexibility.

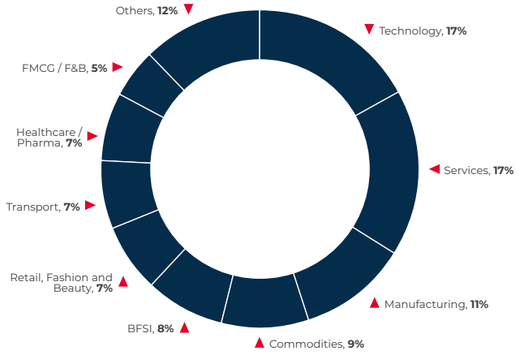
Total Office Occupied vs. Vacant Stock



Office Enquiries by Area



Demand by Sector



Source: Datafinder
**Strata : Multiple owners owning an office tower. In a strata office building, individuals or businesses own separate office units within the property and share ownership of all common areas.*

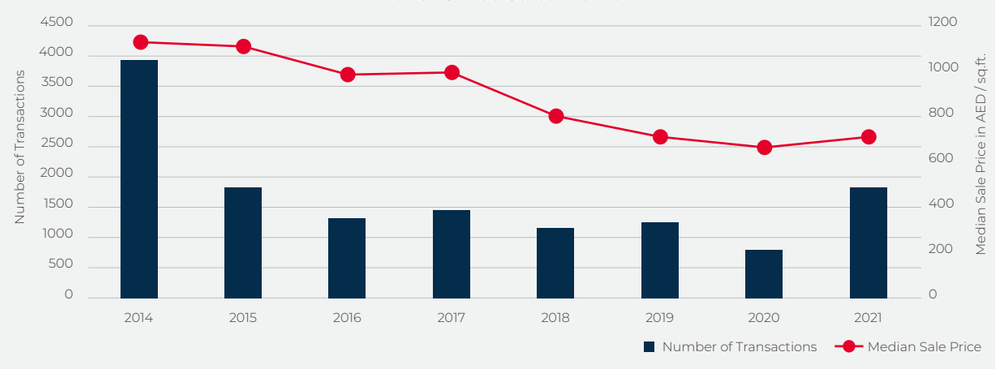
Source: Cushman & Wakefield Core Research

OFFICE SALES MARKET

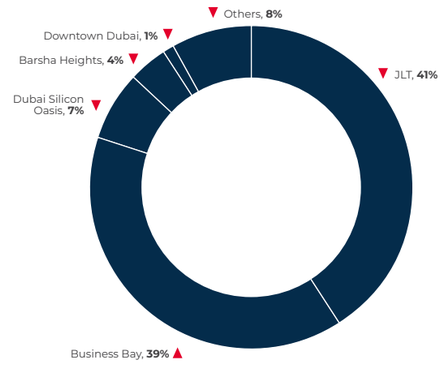
Bottomed-out capital values and growing confidence from business entities to become owner-occupiers of their office spaces along with rebounding investor appetite is resulting in a rise in office sales transaction volumes. 2021 saw an annual rise of 114% in office sales transactions and a 45% rise compared to 2019. Median sales office values also improved by 6% year-on-year, however, current office sales prices are nearly 38% lower than 2014 peak values, indicating significant room for growth.

While strong investment demand exists, there is very limited investment-grade office stock available in Dubai. As most office transactions are in the strata stock, nearly 80% of all concluded office transactions were in JLT and Business Bay. The disproportional distribution of smaller office units amongst strata office stock is further evidenced when looking into the sizes of concluded office transactions, with near 86% of transacted offices below the 2,000 sq. ft. spatial size. We expect demand for office sales to continue over 2022, with a struggle to find the suitable stock.

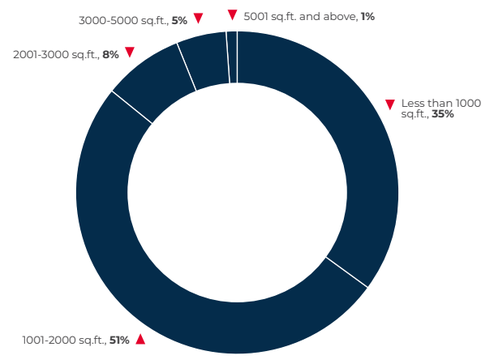
Dubai Office Sales Market



Office Market Sale Transactions by Area - 2021



Office Market Sale Transactions by Size - 2021



Source: Dubai Land Department

OFFICE MARKET FORECAST 2022

The new workweek is expected to further bolster Dubai's global competitiveness, drive business growth and attract international talent in the near to mid-term.

New occupier/first phase expansions to continue witnessing a rise due to Dubai's business continuity and competitive, safe and open business environment

Technology and allied tech firms to be key sectors driving office market demand

While the hybrid model is here to stay, a push for working from physical offices as a preferred place to work will continue, with global occupiers employing creative place-making and workplace strategies to attract employees.

Rent and occupancy levels to continue witnessing upward pressure in Grade A and superior build stock

Further segmentation between Grade A and Grade B & C office market performance to be seen

As demand for fitted/plug and play offices continues to outstrip supply in Grade A stock, we expect landlords to increasingly convert their shell and core assets to CAT A fit-out (raised floor and ceiling) or completely furnish units to aid absorption or in an increasing number of cases, tenants to go ahead with core and shell spaces, particularly for larger spatial requirements

Investment interest for offices and office sales prices, both expected to see a rise in 2022

Other commercial asset classes such as dark kitchens and dark supermarkets which have risen sharply post-pandemic, to continue witnessing demand

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