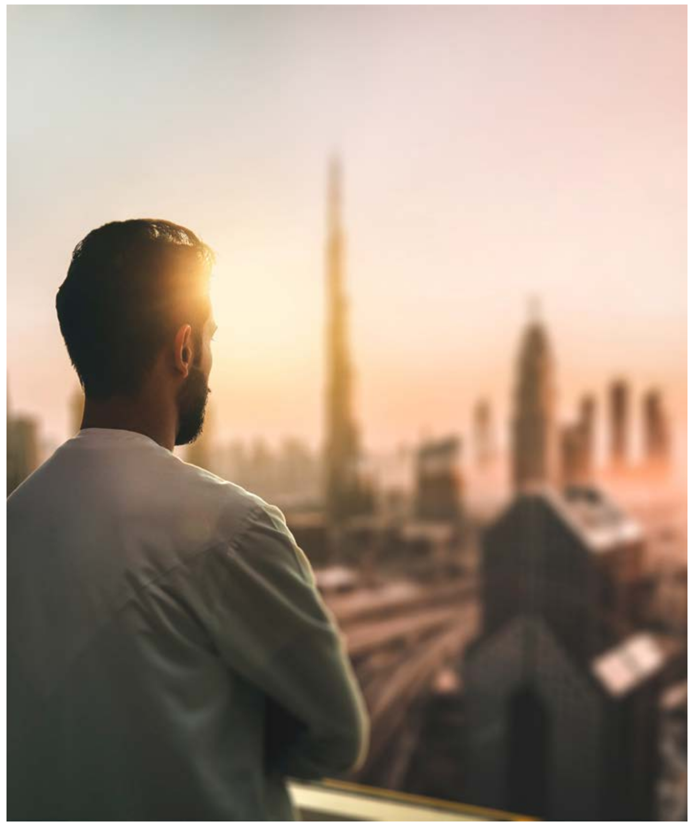
CUSHMAN & WAKEFIELD | CORE

DUBAI MARKET UPDATE

Q3 2022

DUBAI MARKET
SNAPSHOT Q3 2022



The strong momentum that the Dubai real estate market gained over early 2022 continues with robust growth witnessed across performance indicators for all asset classes. While globally, recession fears and stock market concerns loom, the UAE government's agile response to the pandemic, the successful hosting of Expo2020 and the raft of demand drivers that were set in motion over the last few years to cement Dubai's global positioning are bearing results. This is evidenced by the influx of FDI and HNI wealth, rising number of licences issued, record transaction volumes and sustained population growth across income segments.

The government's initiative for creating opportunities to attract global talent with its introduction of new visa reforms, aligning with the global workweek is furthering Dubai as an international hub and a leading gateway city to live, work and play, underpinning its residential and commercial real estate demand. Dubai's ideology of "build and they will come" is now a demonstrated example of "build and they will come and stay."

We are also witnessing stronger regulations from the government to increase transparency and a clearer view of market inventory with the recent announcement of allowing only three agencies to list a property for sale and registering all co-occupants in owned or leased residential properties. With further reforms expected in the RERA rental calculator and availability of all sales and leasing transactions as part of the open data initiatives by DLD, are significant steps towards a maturing market.

While overall market sentiment remains positive, issues around affordability are emerging. Although, the prime market is relatively resilient to risks associated with inflation, rising interest rates and strong dollar, a sharp rise in sales prices and overall rise in acquisition costs is particularly impacting the affordable and mid-market segments with many end-users being priced out of the market. The affordable and mid-market segments are also being affected by the sharp rise in rents and higher cost of living as inflation bites into disposable incomes, pushing tenants to either downsize or move to more affordable neighbourhoods.

While the residential market remains relatively balanced with offerings catering to a variety of entry points, the overarching theme of the office market is that of "demand outstripping supply" due to sharp rises in occupancy levels and very limited centrally located quality stock available in the market.

As we move into the final quarter of the year, historically a busy period, we expect robust activity levels, with demand coming in from new entrants, investors and existing occupiers leading to upward pressure on prices in most of the established offices and select residential districts. However, the emerging disparity between ask and bid prices are starting to be seen in some areas, causing the pace of price increases to gradually slowdown compared to late 2021 and early 2022 levels. We are yet to see a similar trend in the office market due to undersupply concerns with further rental rises expected in the near term.

DUBAI MACRO ECONOMIC OVERVIEW

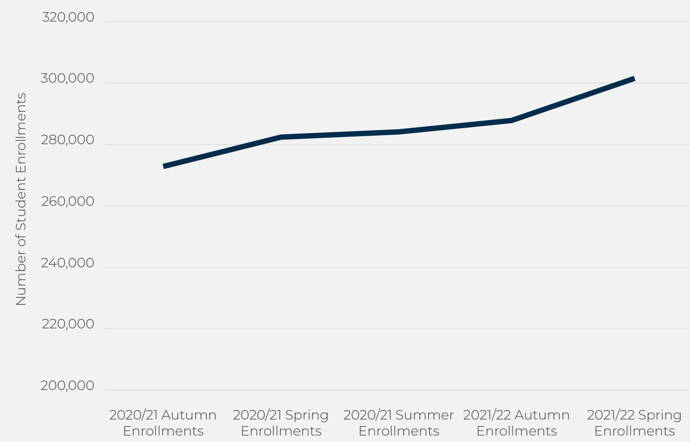
DEMAND DRIVERS

- A rising number of new licences indicating a strong business sentiment - new licenses issued by Dubai Economy and Tourism in H1 2022 is 25% higher than H1 2021
- Dubai's private schools record the highest ever number of enrolments, surpassing 300,000 enrolments. The increase in school enrolment is a testament to the robust school education ecosystem built by KHDA and a wide variety of global curriculums for students to choose from, making Dubai a lifestyle destination that has drawn families from around the world
- New visa reforms including the Golden visa, Green visa, Freelance visa, Jobseeker visa and multiple entry tourist visas are driving an influx of visitors and residents and increasingly positioning Dubai amongst the most desirable cities for businesses, investors, tourists and expats
- Increased demand for both secondary and off-plan properties evidenced by record transaction volumes reflects positive market conditions and investor confidence
- Increase in office rents and a sharp rise in occupancy levels across districts indicate strong economic sentiment for businesses
- The push for IPOs by most government entities and large family offices, and the successful launch of Salik, TECOM, DEWA etc to name a few demonstrates investor confidence in Dubai's macro-economy
- The much-awaited FIFA World Cup happening in Qatar is already creating a lot of traction for Dubai. With Dubai just an hour's flight to Qatar, many visitors are looking to base themselves in Dubai or extend their stays to include Dubai. This is evidenced by advanced bookings, high occupancy levels and ADRs for most hotels and short-term lets during the event
- As we go back to pre-pandemic levels with travel, mobility, occupancy levels and regulations (particularly the recent announcement that masks are no longer required, with a few exceptions) indicating a return to normalcy, we expect socio-economic sentiment to further improve

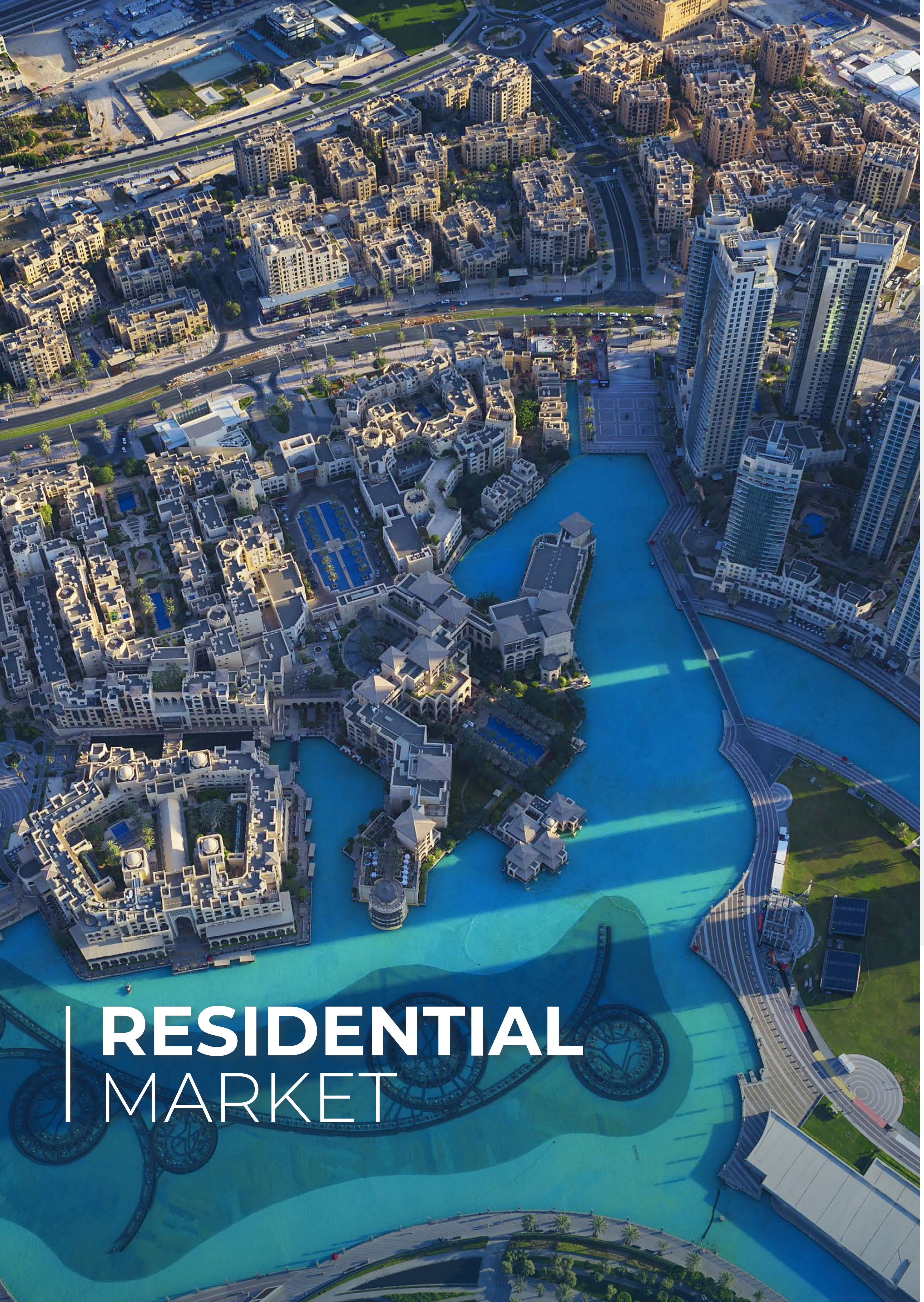
RISKS

- Rising construction costs and supply chain issues are impacting project delivery timelines and further increasing sales prices
- Rising interest rates and cost of acquisitions deterring a segment of mid-income end-users
- The strong dollar makes Dubai properties more expensive for traditional buyer nationalities as the Pound, Rupee and Euro are significantly weaker. Furthermore, many residents are looking at repatriation of income to take advantage of favourable exchange rates, buying in home countries or delaying their investment decision making in Dubai
- Western recession fears and downward trends in most international stock markets impacting investment potential
- Due to the disparity between rising inflation and income, disposable household incomes are contracting and affordability becoming a growing concern
- Saudi Arabia is witnessing a strong drive to diversify its economy and is competing with the UAE for international investment across sectors and luring professionals and highly skilled labour

Dubai Private School Enrollment 2020 - 2022



Source: KHDA



RESIDENTIAL **MARKET**

SUPPLY

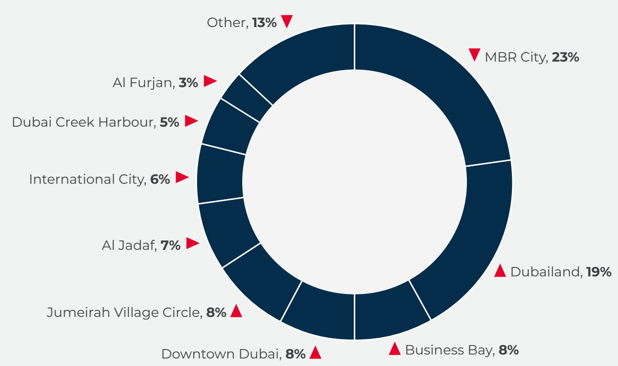
About 5,700 units were delivered in Dubai in Q3 of 2022, totalling to 19,000 units delivered YTD 2022, while a further 13,500 units are expected to be delivered in Q4 2022, moving our yearly forecast downward from 38,000 to nearly 32,500 units. This is a first downward revision that we have witnessed in our yearly forecasts since 2016. That said, due to positive market conditions, many developers are accelerating their completion timelines and aiming to handover projects sooner than anticipated, provided they aren't facing any supply chain issues and construction delays.

Most deliveries continue to be in the apartment segment with only 22% of YTD deliveries being villas. Villas in master developments offering a variety of amenities and a sense of strong community remain the main focus for residents, creating a supply deficit and continuing the upward pressure in villa rents and sales prices.

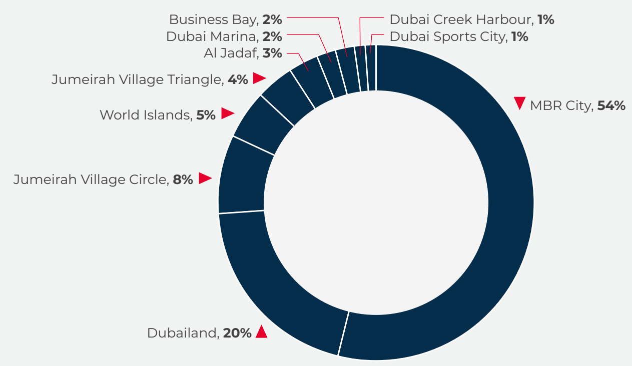
The highest number of handovers were witnessed in Mohammed Bin Rashid City, Dubailand, Business Bay, Downtown Dubai and Jumeirah Village Circle. Major deliveries included The Grand at Dubai Creek Harbour, Avencia and Aquilegia in Damac Hills 2, One Park Avenue in Sobha Hartland, Golf Grove in Dubai Hills Estate and Le Pont in Port de La Mer.

Over Q4 2022, we foresee MBR City (which includes, Dubai Hills, District One, Sobha Hartland and Azizi Riveria) to lead supply delivery, accounting for nearly 54% of all expected handovers, followed by Dubailand, Jumeirah Village Circle, World Islands and Jumeirah Village Triangle.

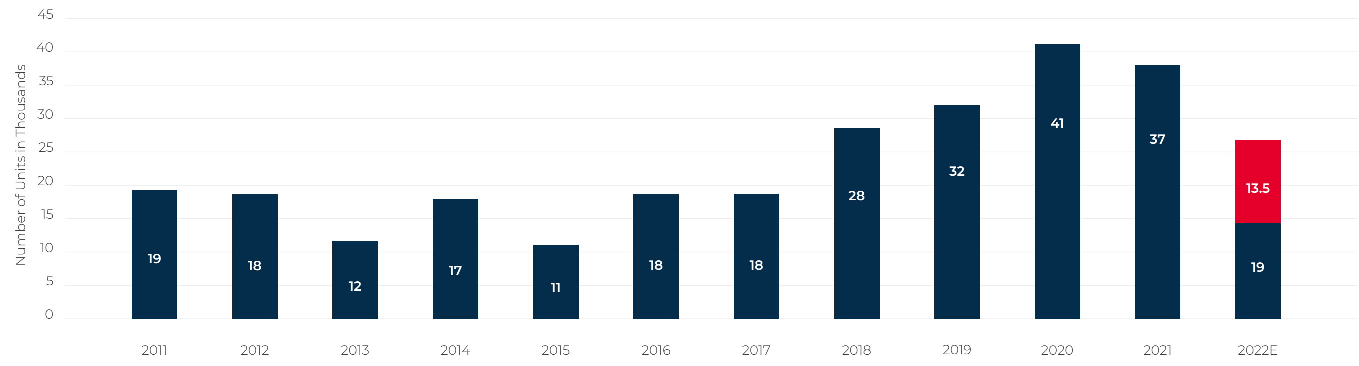
Supply Delivered by Area - YTD 2022



Supply Forecast by Area - Q4 2022



Residential Deliveries in Dubai 2011 - 2022



Source: Cushman & Wakefield Core Research

RESIDENTIAL **TRANSACTIONS**

Despite summer being a traditionally leaner period for transactions, transaction volumes continued to keep their upward trajectory with Q3 2022 recording both the highest ever value and number of secondary market transactions.

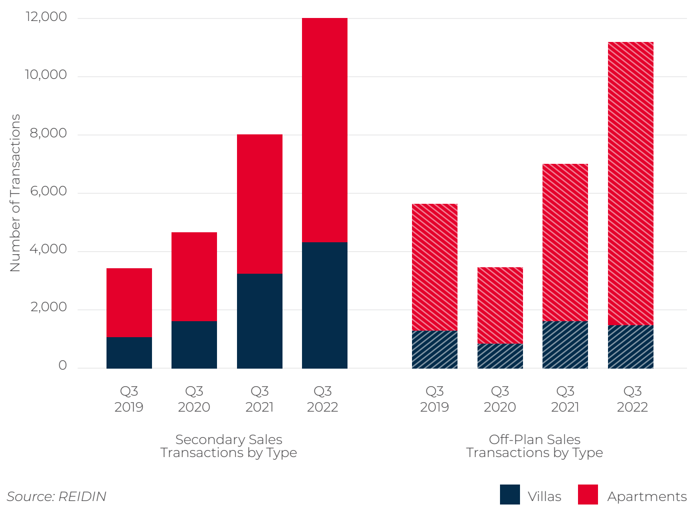
- Overall secondary market transactions in Q3 2022 saw a 49% increase compared to Q3 2021 while the off-plan market saw a 60% rise.
- In the apartment sales market, we witnessed a 52% rise in Q3 2022 in secondary sales transactions and 81% higher in off-plan sales transactions compared to Q3 2021.
- In the villa sales market, we witnessed a 43% rise in Q3 2022 in secondary sales transactions while villa off-plan sales transactions were 7% lower compared to Q3 2021.

The overall increase in off-plan sales transactions makes us point out the risks associated with this product as many investors are looking to purchase off-plan properties with the aim of selling at a higher price point, in some cases, before the project is handed over.

While there are stronger regulations in place now, and to be able to sell an off-plan property in Dubai before it's completed, investors must meet certain conditions. These criteria are usually set by the developer of the off-plan project and most developers require owners to have 30-40% of the cost paid off before it can be sold to a new owner. This value may vary from developer to developer and potentially further eligibility criteria to re-sell an off-plan property can also depend on other terms set in the contract by the developer.

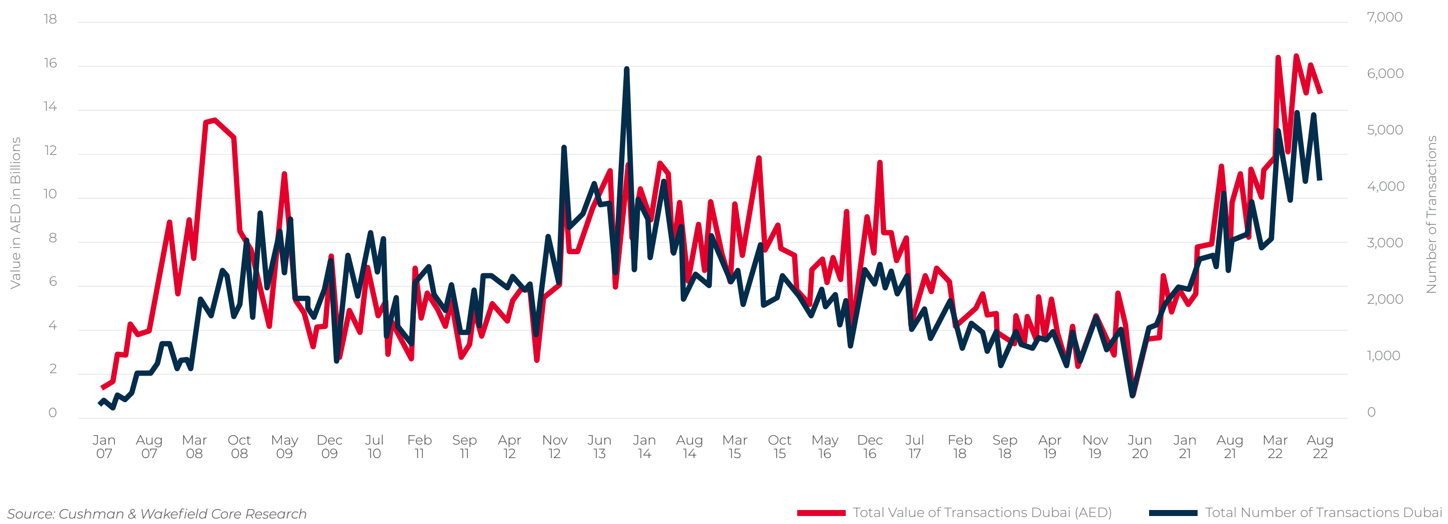
Should demand be impacted in the coming quarters due to rising interest rates, inflation, continued strength of the USD to which the AED is pegged along with rising sales pricing out buyers, this may become a cause of concern.

Residential Sales Transactions Trends



Source: REIDIN

Dubai Secondary Market Transactions Trends



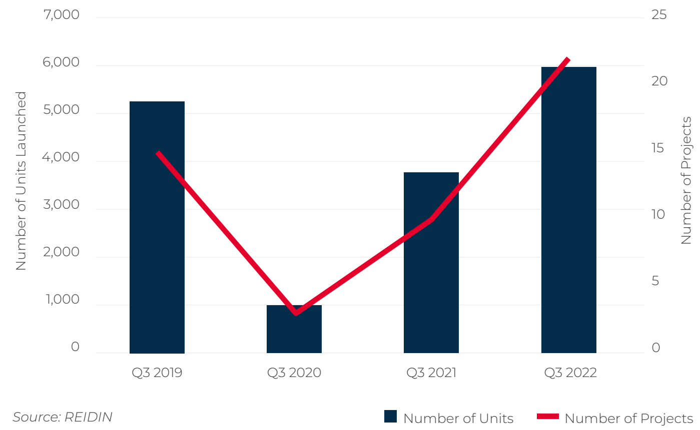
Source: Cushman & Wakefield Core Research

PROJECT **LAUNCHES**

A significant increase in new project announcements has been observed in recent quarters, with Q3 2022 launch volumes up by 61% year-on-year and exceeding pre-pandemic levels by 11%, reflecting the overall positive market sentiment. Several noted projects are witnessing strong absorption, demonstrating Dubai's renewed investor confidence, while leading some developers to relaunch previously on-hold projects to capitalise on favourable market conditions

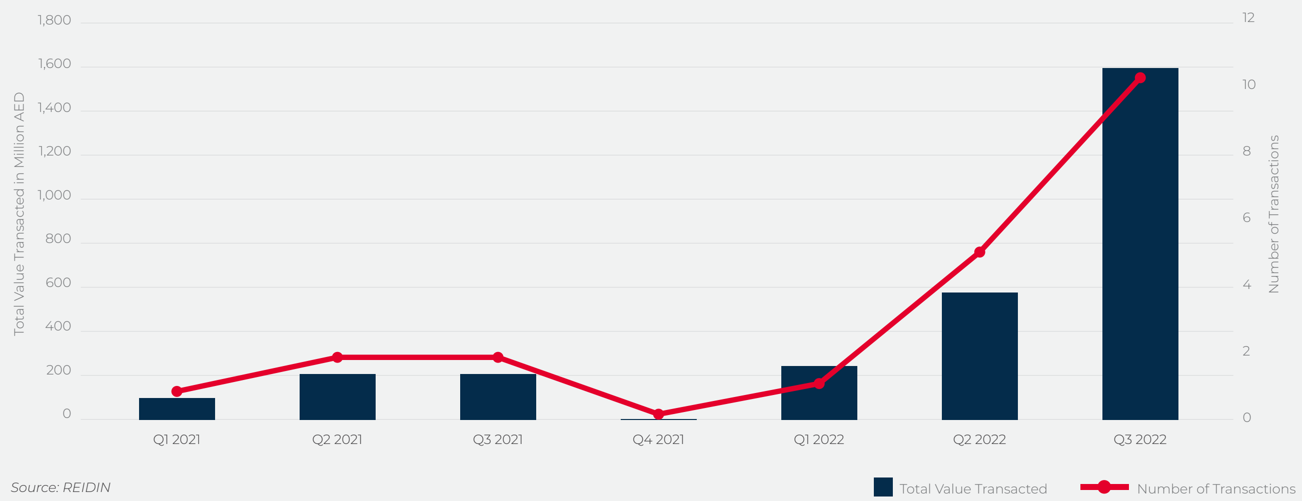
Prominent announcements this year have been Bulgari Mansions at Jumeirah Bay, Nad Al Sheba Gardens Phase-2, Al Jazi at Madinat Jumeirah Living by Dubai Holding and Beach Gate by Address at Dubai Harbour.

Project Launches



Source: REIDIN

Residential Transactions Above AED 100 Million (Secondary and Off-plan Market)



Source: REIDIN

Dubai is drawing a considerable influx of HNI wealth evidenced by the sharp rise in high ticket price transactions. This year, Dubai recorded the highest number of sale transactions above AED 100 million (16 transactions recorded YTD 2022 in secondary and off-plan market compared to a total of 5 transactions in 2021). Q3 2022 saw a particular spike with 10 transactions being registered above the AED 100 million mark with ultra-prime water-front projects such as Bulgari Ocean Mansions and Palm Jumeirah villas leading this trend.

With strong demand drivers, visa reforms, Dubai's positioning as a global destination and competitive tax environment along with internationally comparable ultra-prime supply catering to this niche audience, we expect demand for the prime and ultra-prime market to continue.

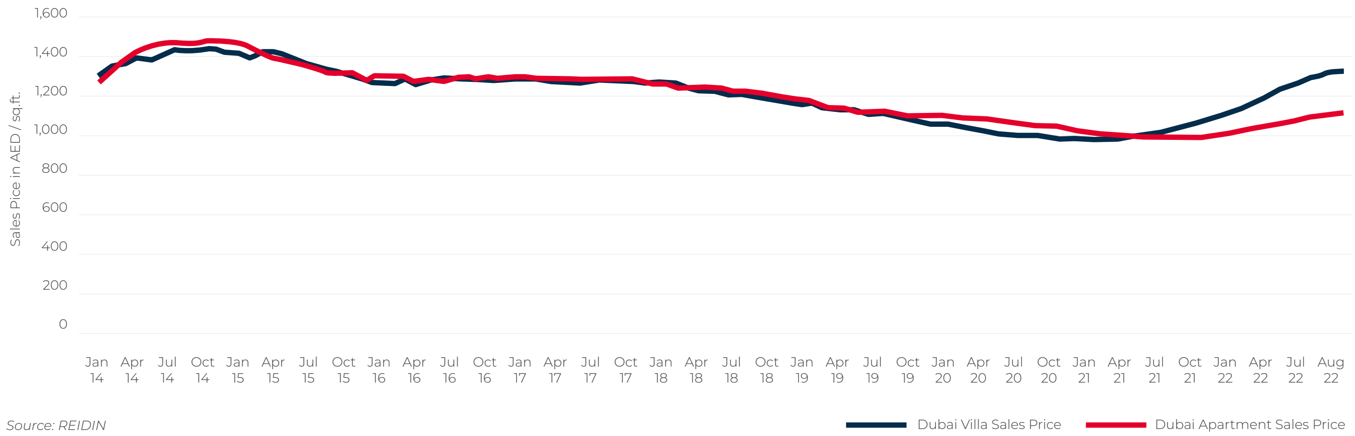
RESIDENTIAL
SALES MARKET

While the upward trajectory in sales prices continues across districts, it has relatively slowed down when compared to Q1 and Q2 2022, particularly in the villa market. Apartment districts witnessing sharp rises in sales prices are Downtown Dubai (19%), Business Bay (16%) and DIFC (16%), while apartments in Dubai Sports City (3%) and Discovery Gardens (2%) are yet to recover. It is interesting to note that apartment districts like Palm Jumeirah and City Walk are the first to have surpassed previous peak values.

In the villa market, Palm Jumeirah with a 52% year-on-year increase is a unique district, with many refurbished/upgraded units selling at significantly higher prices resulting in the spike in year-on-year average sales prices, followed by other central villa districts of The Lakes (24%), Emirates Hills (21%), and Arabian Ranches (16%). Sales prices across districts are well above pre-pandemic levels with average citywide villa sales prices up by 16% and apartments by 8% year-on-year. Although catching up fast, city-wide prices are still below their 2014 peak values, with villas lagging by -7% and apartments by -25% compared to 2014 peak values.

We see the prime/ultra-prime residential segment to remain relatively resilient to inflation, rising interest rates (as most of the high-ticket transactions are unlevered), the sharp rise in sales prices and a strong USD. However, the affordable and mid-market segment is expected to increasingly feel the rising cost of acquisitions and contracting disposable incomes. As potential buyers get priced out of the market due to a rising gap between ask and bid prices resulting in lower demand, we expect the pace of price growth to slow down and reach sustainable levels.

Dubai City-Wide Sales Price Trends



Source: REIDIN

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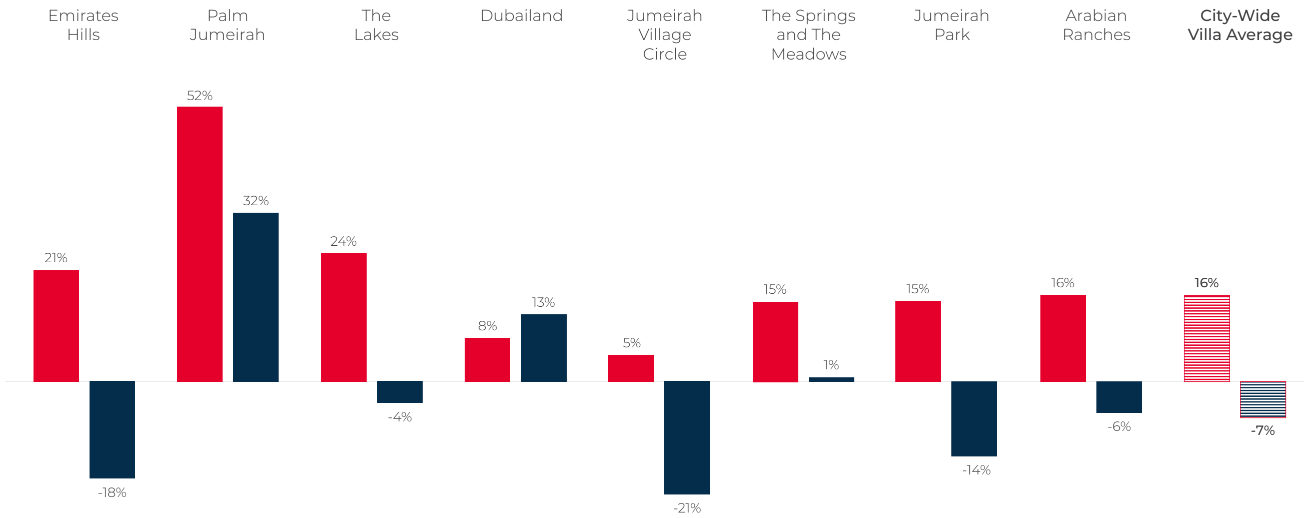
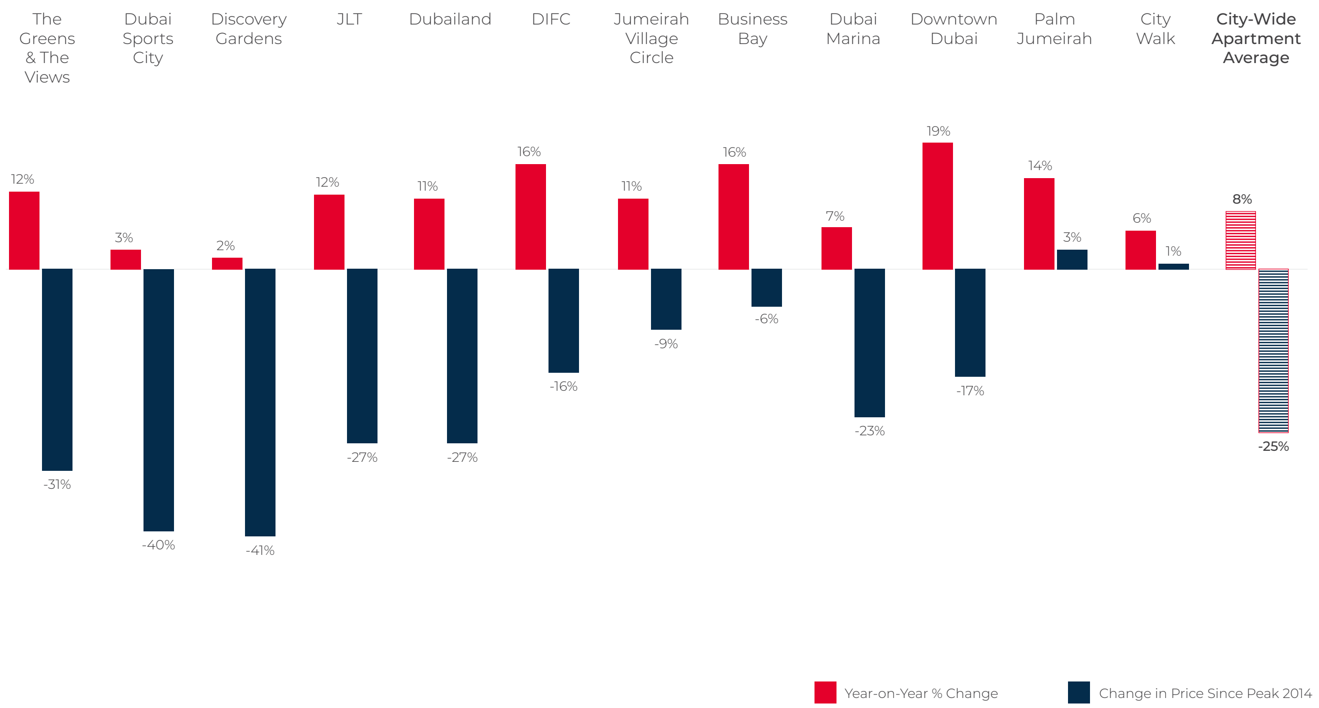
RESIDENTIAL
SALES MARKET

Villa Sales Prices Q3 2021 vs. Q3 2022



Apartment Sales Prices Q3 2021 vs. Q3 2022



Source: Cushman & Wakefield Core Research

RESIDENTIAL
RENTAL MARKET

The rental market is witnessing steeper rises compared to sales prices across districts leading to higher rental yields. Gross villa yields have seen an uptick from 5.1% to 5.6% year-on-year while gross apartment yields have risen from 6.1% to 7.1% year-on-year.

Apartments in Palm Jumeirah continue to lead with a rental rise of 38% year-on-year, followed by Downtown Dubai (37%) and The Greens and The Views (37%). The outer districts such as Discovery Gardens (27%), Dubailand (25%) and Dubai Sports City (21%) have also picked up momentum and seen sharp rises in rents compared to Q3 2021. The steepest rise in year-on-year villa rents were again seen in Emirates Hills (42%) and Palm Jumeirah (41%) followed by Jumeirah Village Circle (28%) and the Springs and the Meadows (20%).

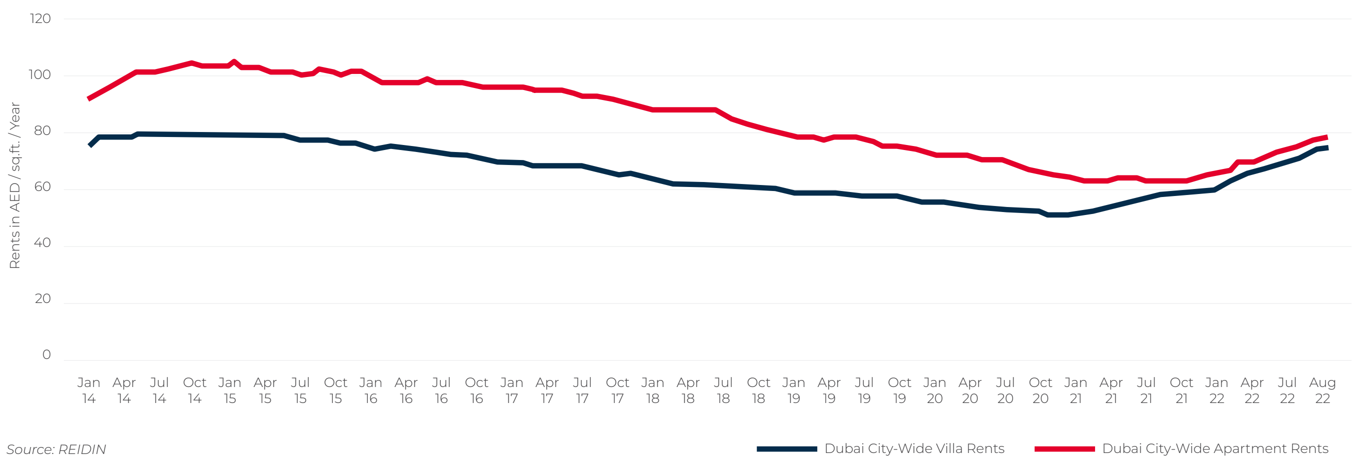
The citywide villa rents are up by 28% and apartments by 26% year-on-year. While improving at record pace, these rents are still below 2014 peak values, with villas lagging by -5% and apartments by -24%. However, we expect at the current pace, city-wide villa market rents to reach the 2014 mark by Q4 2022 or early next year and apartments rents following the trend shortly after.

As most districts have witnessed over 25% increases, such a sharp rise in rents is not sustainable thus significantly impacting affordability and is a growing concern amongst tenants. With tenants choosing a rental property giving much consideration to connectivity to the workplace, school, and community amenities; being imposed a nearly 25% rental increase in a year makes it challenging to both renew or bear moving costs. As inflation and the rising cost of living are not at par with salary increases, coupled with ongoing rents considerably contracting disposable incomes, many tenants are pushed to either downsize, move to affordable areas, and in many cases buy as rental outflows are greater than mortgage payments.

Landlords who have been in a downward market for a long time and looking to capitalise on favouring market conditions are pushing to increase rents during renewals while many tenants are resorting to the RERA rental calculator to protect from such increases. We are witnessing many cases of 12-month eviction or refurbishment notices being served to tenants where landlords are trying to get the unit vacant and back in the market. While we are seeing some landlords leverage the rental valuation certificate to increase rents during renewals, until RERA officially announces that the rental valuation certificate supersedes the RERA rental index, the RERA rental index remains applicable for rental renewals. The rental valuation certificate applies to a vacant property and not for a rent renewal.

As new leases are driven by market conditions, many landlords, particularly of units in sought-after buildings and villa districts achieving multiple offers on asking prices.

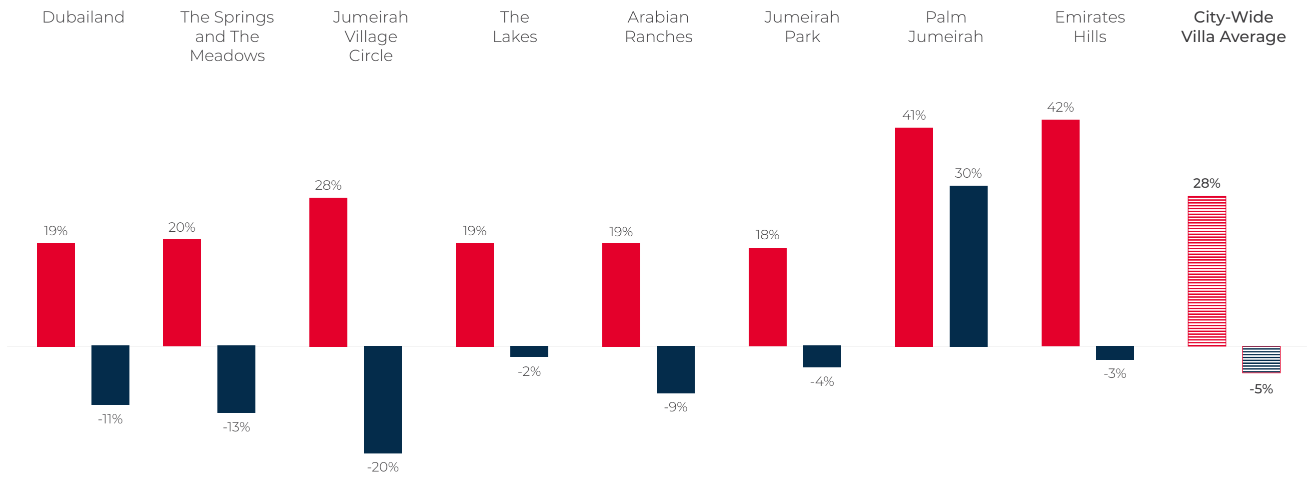
Dubai City-Wide Rental Trends



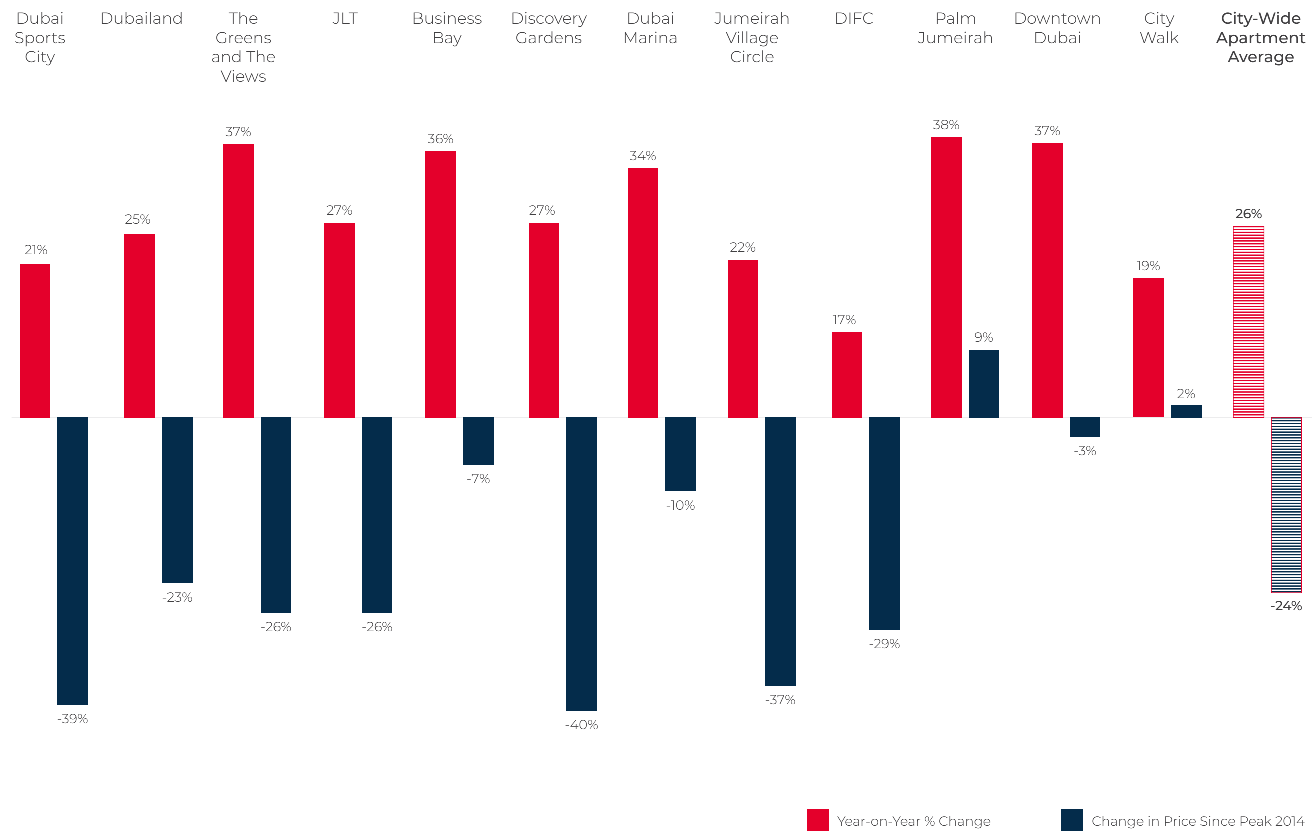
Source: REIDIN

RESIDENTIAL
RENTAL MARKET

Villa Rents Q3 2021 vs. Q3 2022



Apartment Rents Q3 2021 vs. Q3 2022



Source: Cushman & Wakefield Core Research

COMMERCIAL MARKET

DUBAI OFFICE **MARKET SUPPLY**

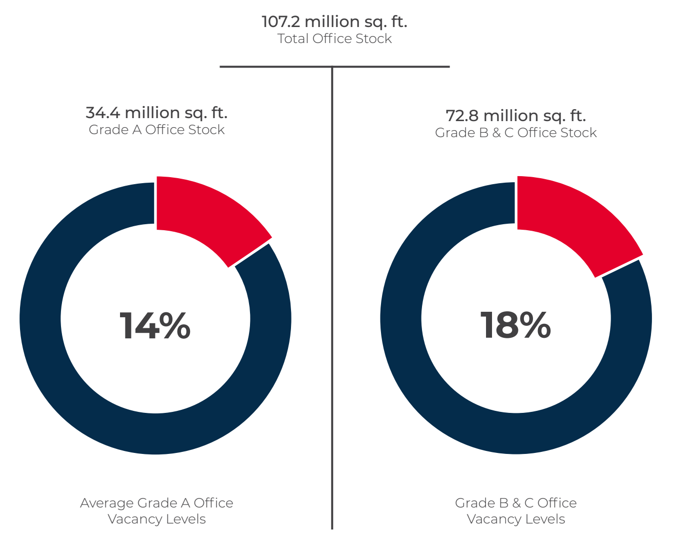
The total Dubai office stock currently is nearly 107.2 million sq. ft., with two buildings in Dubai CommerCity handed over in Q3 2022. In Q4 2022, we expect Uptown Tower in JLT to be handed over, which is reported to be fully pre-leased. Furthermore, we expect the District 2020 office component to be handed over in phases this year and next year. The strong pre-leasing performance of Uptown Tower by DMCC underscores the robust demand for institutional grade office spaces. This has led DMCC, to announce future phases of Uptown Dubai to cater to this rising demand in the freezone.

Other prominent freezones are also pursuing the next phases with DIFC expected to hand over Innovation Hub One in Q4 2023, which is focused specifically on Fintech start-ups and innovative SMEs, while TECOM is bringing phase 2 of the Innovation Hub to market in Q4 2024. D3 Phase-2, which is a mixed-use development comprising 1 million sq. ft. of office and residential assets is currently in design and planning stages with estimated delivery in 2024/2025. 6 Falak by Sweid & Sweid is an upcoming commercial building in Dubai Internet City comprising 90,000 sq. ft. of office GLA which is also nearly 65% preleased, is expected to be handed over in 2024.

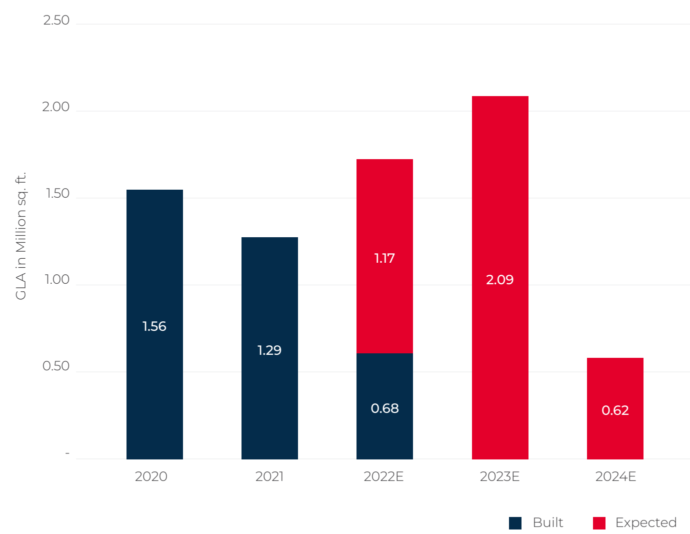
We have seen many developers repurposing/refurbishing their existing mixed-use portfolios in order to bring more office space to market and expect this trend to continue in the near term as demand for office space continues to outstrip supply.

However, apart from prominent freezones, we see resistance from smaller developers/single landlords to build office projects as development risk is relatively higher compared to typical residential projects. With the residential market seeing a strong recovery, most developers are focusing on residential developments as they can be sold off-plan early in the project cycle-aiding cash flows along with providing better return on cash invested. On the other hand, office projects despite strong pre-leasing demand have rents commence only after project handover. This is resulting in two outcomes, firstly office supply pipeline remains limited with most new stock concentrated within select freezones and secondly no notable office inventory from smaller developers/single landlords is under construction or in planning due to the above-mentioned perceived risks.

Dubai Office Market in Numbers



Dubai Office Supply 2020 - 2024



Source: Cushman & Wakefield Core Research

DUBAI OFFICE **MARKET DEMAND**

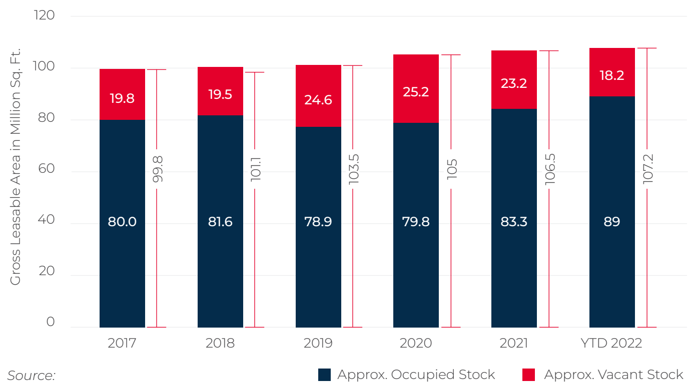
Various policy amendments and strategies to accelerate economic growth and diversification, including full company ownership to foreign investors have played a key part in the office market recovery seen over 2022. According to the latest figures published by the Business Registration and Licensing (BRL) department at the Department of Economy and Tourism (DET), Dubai issued 45,653 new business licences in the first half of 2022, registering a growth of 25% compared to the same period in 2021 when 36,647 licenses were issued.

Most demand is stemming from first-phase expansions and new market entrants while the demand from existing incumbents is generally due to expansion. Most local and regional firms are almost entirely back in the office while international firms are urging and, in some cases, incentivising through a better workspace environment for employees to be back in office. This has led to lower contraction in office space requirements as previously expected from the hybrid workspace model.

City-wide occupancy levels are at the highest since the 2014 peak, rising from 78% last year to 83% as of Q3 2022, resulting in an absorption of over 5.4 million sq. ft. in the last 12 months. City-wide Grade A stock is at a higher occupancy level of 86% while Grade B & C stock is at an 82% occupancy level. Most Grade A buildings are reaching near-full occupancy, with tenants being pushed to Grade B and C buildings, leading to an uptick in absorption in properties which performed sluggishly over the last several years.

While all 18 office districts we track are witnessing a rise in occupancy levels, the sharpest increases are being seen in the large office districts of Business Bay (1.66 million sq. ft. take-up, 10% rise leading to 81% occupancy), JLT (1.3 million sq. ft. take-up, 10% rise leading to 83% occupancy), Sheikh Zayed Road (0.5 million sq. ft. take-up, 6% rise in leading to 85% occupancy)

Total Office Occupied vs. Vacant Stock

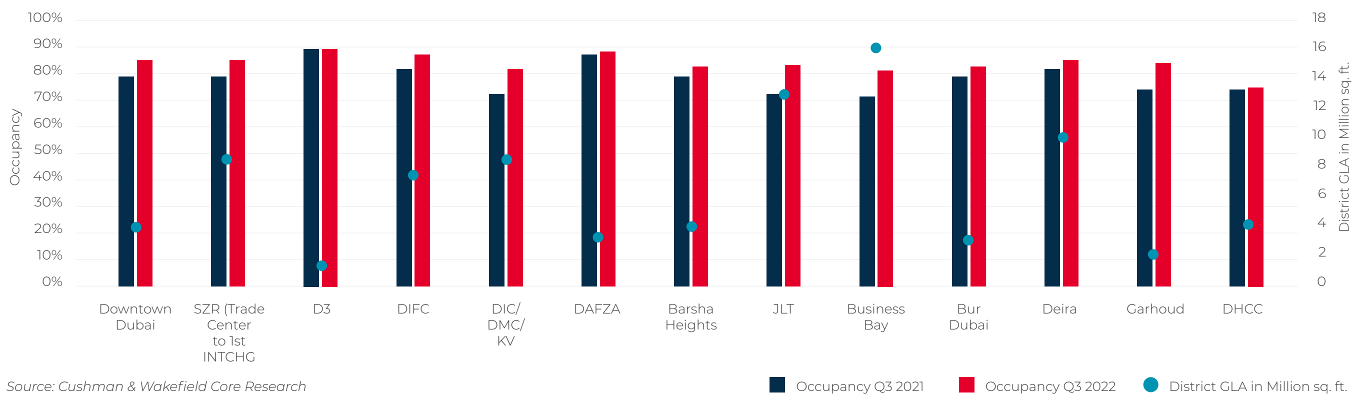


Source:
Cushman & Wakefield Core Research

Similarly, enquiry volumes are largely focused on Business Bay, JLT and Sheikh Zayed Road, with these three areas forming nearly 58% of city-wide leads although accounting for only 35% of the total Dubai office stock. The rise in enquiries and increase in license volumes are stemming from the 100% company ownership law, causing DED areas, particularly Business Bay and Sheikh Zayed Road to see a sharp uptick in demand.

In terms of sectoral demand, we have seen a revival in Financial and Business Services with this sector accounting for nearly 26% of office demand followed by the Technology sector which has been driving office market demand for several quarters at 13%.

Office Occupancy Q3 2021 vs. Q3 2022



Source: Cushman & Wakefield Core Research

OFFICE MARKET **RENTAL TRENDS**

As demand for quality office space continues to rise due to limited availability of stock, we have seen rents soar in major office districts. We are witnessing a race for quality stock across key office districts leading to growing upward pressure on headline rents and occupancy levels. Many landlords (particularly those owning fitted units) aware of the turning market, are now achieving asking prices or in some cases premiums on asking prices as well with limited room for incentives and negotiations (subject to the client and spatial requirements).

While supply is available in either shell and core condition or sub-par stock, the lack of quality office space in sought-after buildings is driving average asking rents up across most Dubai office districts we track. The sharpest rises in average year-on-year office rents were seen in Business Bay (40%), Sheikh Zayed Road (39%), Downtown Dubai (38%) and JLT (36%). Such increases in rents may sound sharp, however, they are from a historically low base witnessed during 2021. That said, almost all office districts are at par or above pre-pandemic levels with Business Bay and JLT seeing the strongest recoveries. With no new major office developments expected in centrally located established office districts, we expect continued upward pressure on office rents over the foreseeable future.

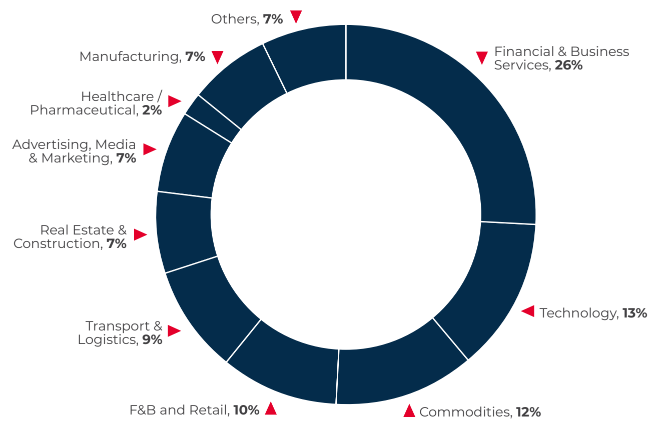
Furthermore, companies trying to expand and new market entrants looking to set up operations in the city have both contributed to the rise in demand for flexible space choices like serviced offices and co-working spaces. We are witnessing a rising number of enquiries from new business centres and have seen prominent global flex-space operators such as WeWork, Servcorp, Regus and local providers also record near full occupancy. Many freezones, large single landlord operated business centres and CAT B (ready to move in) spaces are also witnessing a similar trend with nominal availability.

NEW CORPORATION RATE TAX

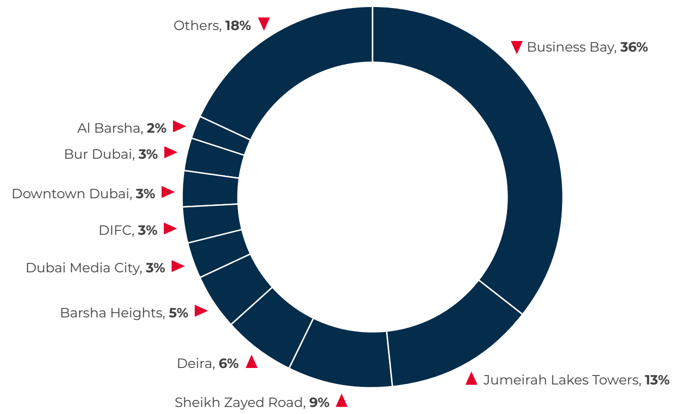
The recent announcement of the introduction of a 9% Corporation Tax in the UAE from 1st June 2023 is not expected to have a major negative impact on the market and is expected to be gradually absorbed in business costs. However, businesses in free zones across the UAE (which have historically been exempt from all taxes) may benefit if they are exempt from Corporation Tax as more occupiers may choose freezones over DED regions.

"With limited existing and new office stock available in the market and demand outstripping supply, occupancy levels and rents are expected to see continued upward pressure in the near term."

Office Demand by Sector - YTD 2022



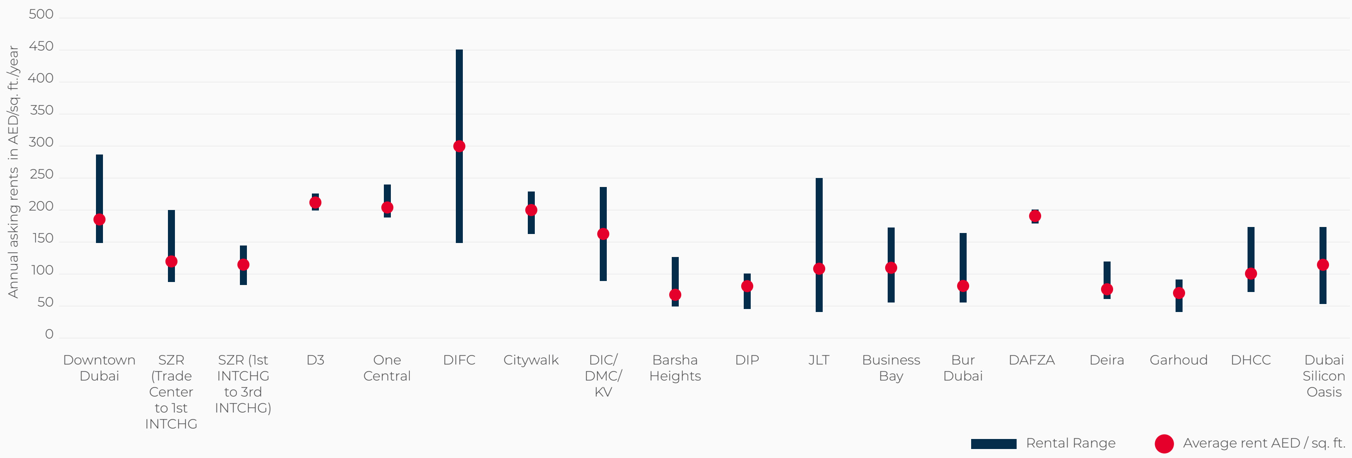
Office Enquiries by Area - YTD 2022



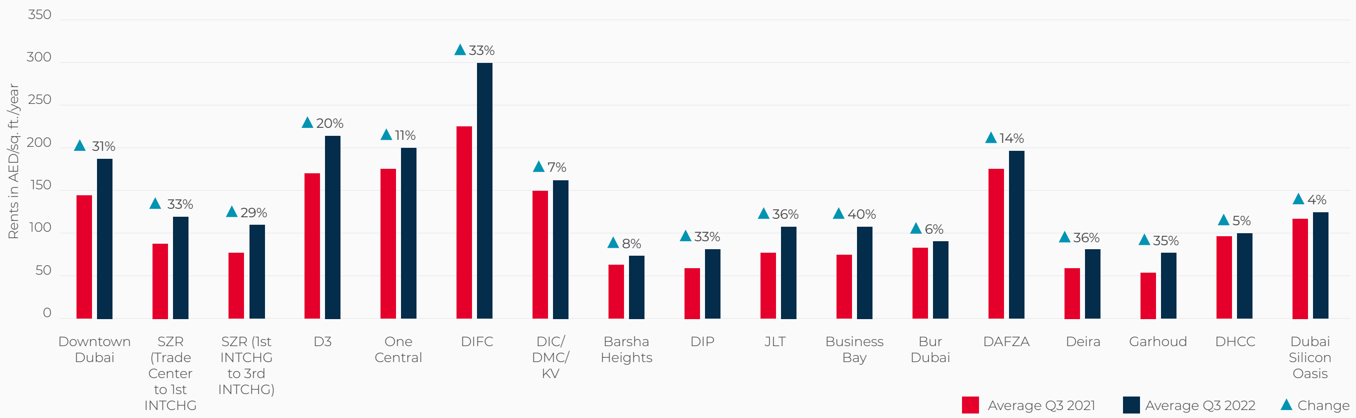
Source: Datafinder, Cushman & Wakefield Core Research

DUBAI OFFICE **RENTS**

Dubai Office Rental Range Q3 2022



Change in Average Office Rents Q3 2021 vs Q3 2022



Source: Cushman & Wakefield Core Research

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