CUSHMAN & WAKEFIELD | CORE

DUBAI ANNUAL MARKET UPDATE

2020/2021

MARKET SNAPSHOT 2020/2021

COVID-19 was a black swan event that brought unprecedented challenges and dominated all our conversations, business practices and occupier behaviour over 2020 and its impact is expected to continue in 2021. However, Dubai outperformed most global cities as the UAE's government is one of the most efficient and agile leaderships in the world, with a history of successfully navigating through regional and global challenges. The government's efficient measures to mitigate the impact of COVID-19 while maintaining business continuity, providing multiple stimulus packages to aid the economy and most importantly the recent availability of vaccines has bolstered market sentiment and paved the way for a stronger 2021.

Although still not par with pre-COVID levels, we have seen green shoots appear in the tourism, retail and hospitality industries over Q4 2020 with an active winter season and the fact that Dubai is one of the few places globally that is relatively safe, well connected and open to tourism, resulting in an influx of visitors. Furthermore, the UAE government signing landmark peace accords and building diplomatic ties with Israel and Qatar is also expected to boost regional stability and business sentiment.

While disrupting the real estate market, the pandemic has also accelerated reforms. Measures to curb supply are gradually showing effect with major stakeholders collectively addressing Dubai's oversupply concerns.

Furthermore, government-led demand drivers including a range of visa reforms, low-interest rates and attractive LTV ratios for first-time buyers are supporting and sustaining demand. These steps are also resulting in a slowdown in the off-plan market and relative resilience in the ready sales market with record transaction volumes seen, largely led by end-user buyers. As an additional measure, we believe a lowering of DLD transfer fees could potentially help transaction activity by further reducing total buying costs.

Although the impact of COVID-19 has pushed price recovery further ahead, we are starting to see resilience in the market as sales prices reach development costs in many districts. Villa districts have particularly fared well due to rising demand from occupiers requiring more space and open areas as they adjusted to changes in working arrangements. However, apartment districts maintain their downward trajectory and are yet to show signs of plateauing.

The office market continues to face headwinds with occupancy levels and rents remaining under downward pressure as existing supply issues and dampened new demand impact office absorption. Most new demand in 2020 stemmed from relocation activity, particularly from SMEs and regional occupiers as most businesses adapted to market conditions. International corporates on the other hand are largely continuing to work from home with their real estate decisions deferred to Q2 2021 subject to the wider public being vaccinated. We expect a second wave of relocations in 2021 when large corporates inevitably adjust their workplace strategies.

With strong fundamentals and renewed business resilience, we expect 2021 to be the definitive year that Dubai has been preparing for years as we welcome the world for Expo 2020. With signs of gradual revival seen across sectors, we remain cautiously optimistic for a stronger 2021 on the back of efficient governments measures mitigating the pandemic's impact, easing in global travel restrictions, vaccinations for the wider public and the positive impact created by the Expo 2020 on the overall market.

This publication

This document was published in January 2021. The data used in the charts and tables is the latest available at the time of going to press. Sources are included for all the charts. We have used a standard set of notes and abbreviations throughout the document.

Residential Market

RESIDENTIAL SUPPLY

Dubai saw nearly 36,000 units come to market over 2020, bringing total residential stock to 586,000 units. While oversupply concerns remain, the realization rate contracted in 2020 compared to our initial conservative forecasts of 49,000 units, partly due to the impact of COVID-19 on the overall supply chain and softening in demand. Although lower in volume than initial estimates, this is still a considerable volume being added to existing unabsorbed inventory and we expect absorption to be relatively slower in the near term.

The most number of handovers over 2020 were seen in Dubailand (Townsquare, Mudon and Akoya Oxygen) followed by Jumeirah Village Circle, MBR City and Dubai South. Emaar continues to be the top developer by handover volumes in 2020 contributing nearly 15% of total stock, followed by Nshama at 9%, Damac at 8% and Dubai Properties at 6%.

Major villa deliveries include Noor Townhouses by Nshama in Townsquare, Vardon and Pacifica by Damac in Akoya Oxygen, Casa Dora Villas by Dubai Properties in Dubailand, Maple 3 by Emaar in Dubai Hills Estate and Arabella 2 in Mudon.

Prominent apartment handovers in 2020 include Rawda and Hayat Boulevard by Nshama in Townsquare, multiple deliveries by MAG in Dubai South, Merano Towers by Damac in Business Bay, BLVD Heights and Boulevard Point by Emaar in Downtown Dubai, One JBR by Dubai Properties in Jumeirah Beach Residences while JLT also saw Banyan Tree Residences delivered in 2020.

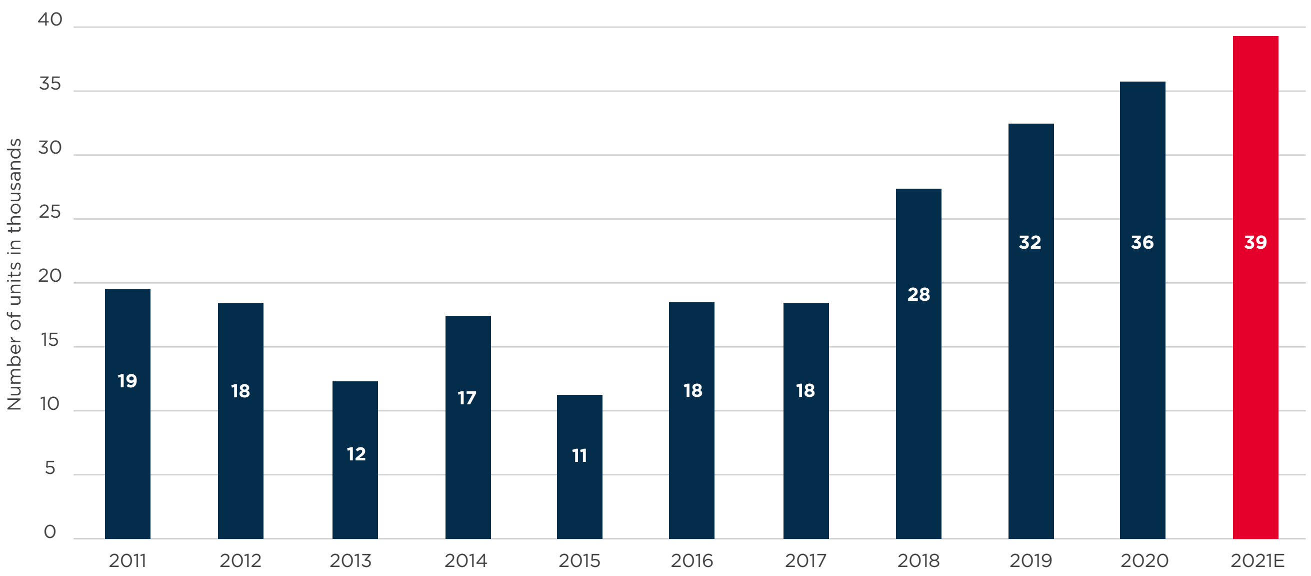
With many major developers announcing to curb supply, we expect a slowdown in 2021 handovers with nominal new project launches. We conservatively forecast nearly 39,000 units for 2021, however, further revisions are expected on supply forecasts as they will inherently depend on buyer confidence and an uptick in market sentiment as developers continue to adjust to ongoing market conditions. Mohammad Bin Rashid City and Dubai Creek Harbour are expected to receive the highest number of deliveries in 2021.

Villas 30% | Delivered in 2020 | Apartments 70%

586,000 units
Total residential stock in Dubai as of Q4 2020

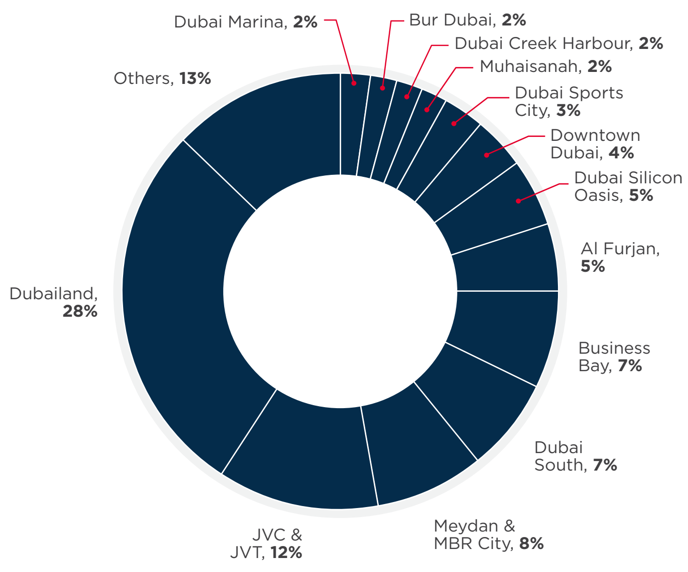
36,000 units
Delivered in 2020

Residential Deliveries in Dubai 2011 - 2021

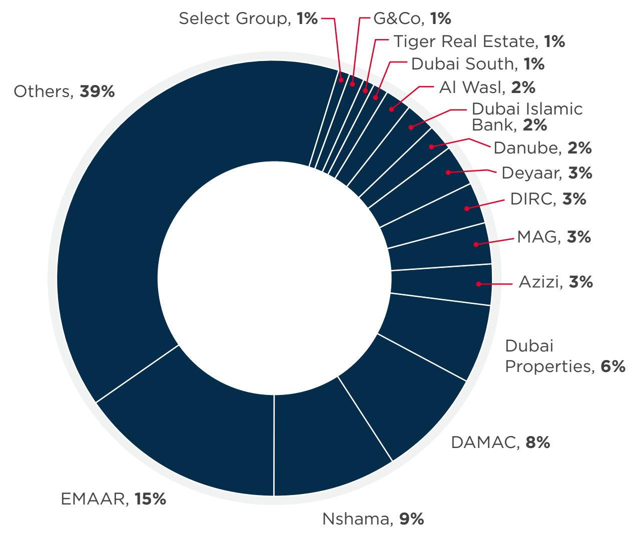


Source: Cushman & Wakefield Core Research

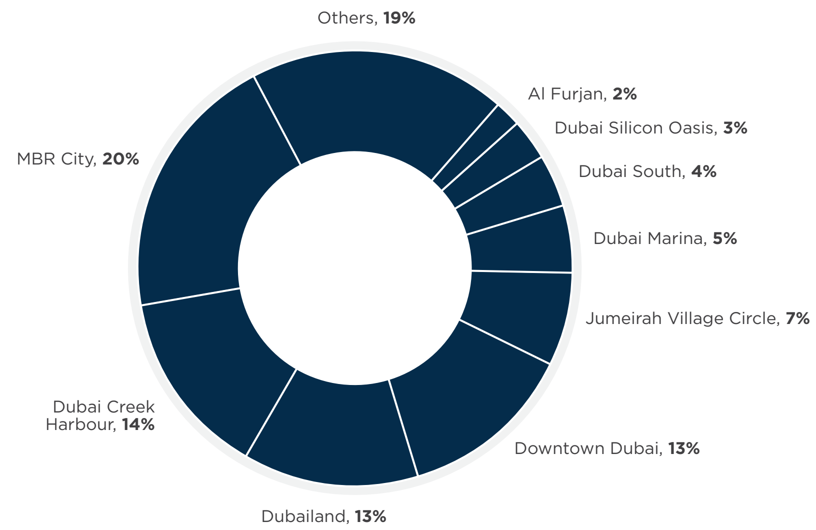
Supply Delivered by Area 2020



Supply Delivered by Developers - 2020



Supply Forecast by Area 2021



Source: Cushman & Wakefield Core Research

RESIDENTIAL TRANSACTION TRENDS

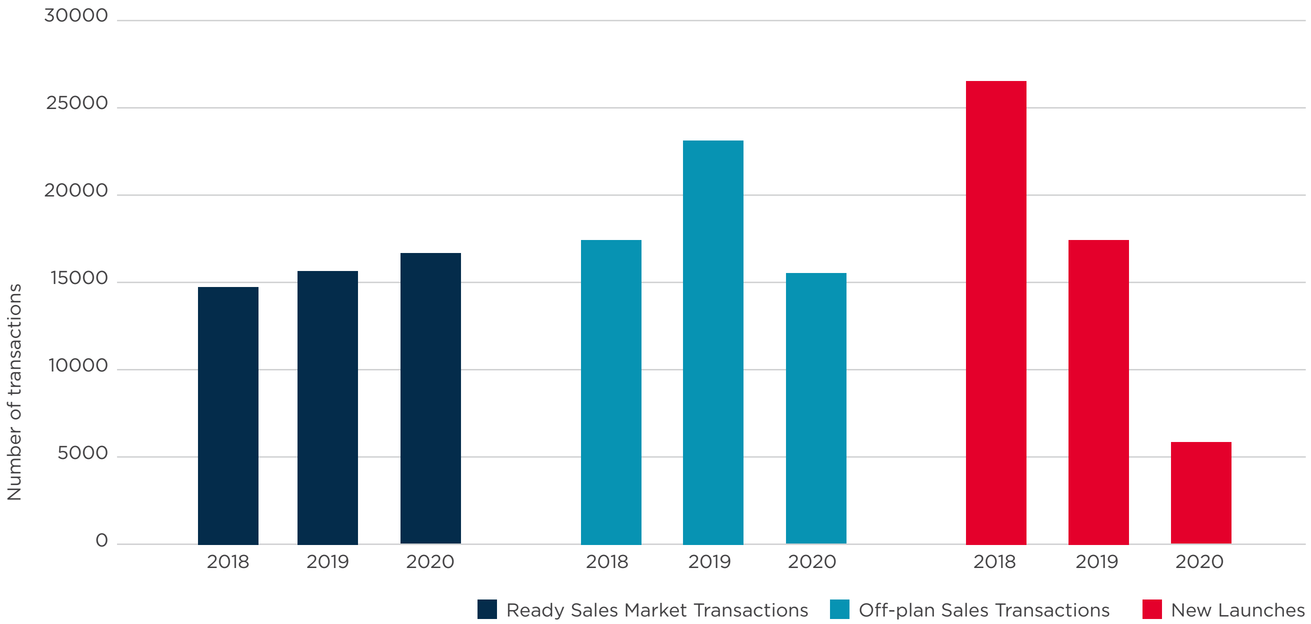
Despite a challenging 2020, we have seen transaction activity in the ready sales market see an increase of 7% over 2019 volumes due to many demand drivers such as attractive sale prices, lower interest rates and increase in loan-to-value ratios acting as a catalyst. The total buying costs are the lowest than they have been in the more than five years for a given unit, which is the one of the biggest factors driving transaction volumes in recent months. After the initial slump in transaction activity in April and May 2020 due to movement restrictions, ready sales market monthly transaction volumes have steadily risen since the restrictions were lifted in June with December 2020 witnessing the highest monthly volumes in two years. It is interesting to note that this rise in transaction activity is despite a slowdown in international travel and buyer activity. We expect this momentum to continue over Q1 2021 as the market is proving to have a sustained demand for ready units driven by end-user demand.
On the other hand, off-plan market activity contracted significantly by -32% year-on-year despite heavily incentivised payment plans and lower entry points as buyers preferred ready units to avoid further uncertainty and delays that may be expected from the off-plan market. We foresee this preference for ready stock to continue in 2021.

In line with government directives and recent news of many major developers holding on new project launches, 2020 saw a sharp decline in new launches, dropping by 67% compared to 2019 as developers increasingly adjust to market conditions and focus on absorption of existing inventories.

Although scaling back of new launches may not have an immediate impact on price recovery due to ample existing inventory, it is welcome news and will greatly help in aligning the supply and demand equilibrium of the overall market. We expect this decrease in new launches, if sustained over the mid-term, to also cause a slowdown on future off-plan market transactions volumes.

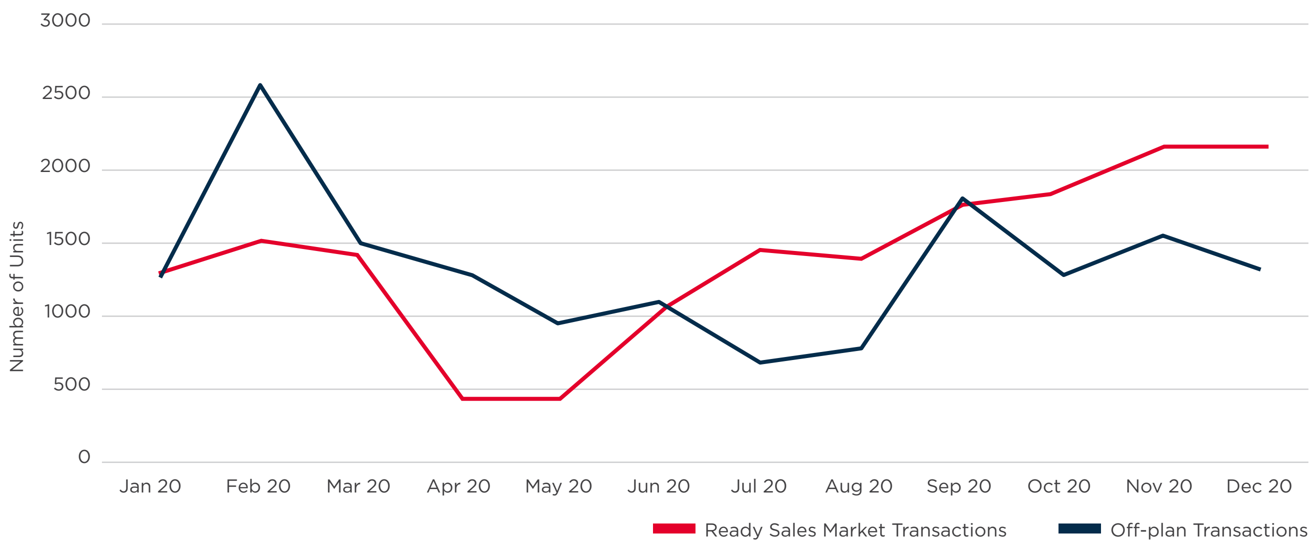
Over 2020, Emaar led the tally in transactions with nearly 19% of all secondary market transactions and over 26% of off-plan transactions being concluded in Emaar projects.

Residential Sales Transactions Trends



Source: REIDIN, Cushman & Wakefield Core Research

Transaction Volumes



Source: REIDIN, Cushman & Wakefield Core Research

SALES MARKET

While ready sale transaction volumes are rising steadily, residential sales prices continue to follow a downward trajectory with almost all areas showing reductions. While demand continues to grow, it is being outstripped by unabsorbed inventory and new supply coming to the market. However, the villa market has displayed relative levels of resilience with lower year-on-year reduction in values due to evolving occupier needs for more space and outdoor areas in the wake of COVID-19 supporting demand. The Springs and The Meadows (+1%), Arabian Ranches (-3%), Palm Jumeirah (-4%) and Jumeirah Park (-5%) were the most resilient villa districts with nominal changes in year-on-year sales prices, bolstered by a strong Q4 transaction market performance.

Apartment districts on the other hand continue to see sharp declines, with only the prime apartment districts such as Downtown Dubai (-4%), Palm Jumeirah (-4%) and Dubai Marina (-6%) showing relatively lower levels of change in annual prices. The more affordable and outer apartment districts such as Dubai Sports City (-14%), Discovery Gardens (-15%) and Dubailand (-15%) have been the weakest performing districts over 2020.

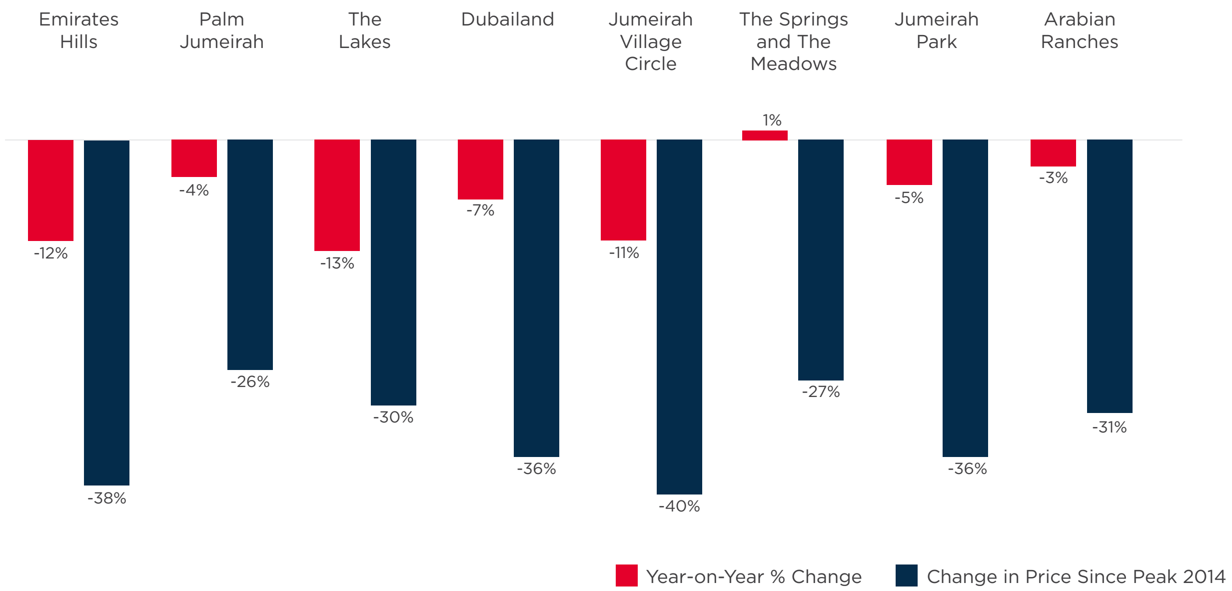
Looking historically from the peak values of 2014, villas have dropped nearly 31% while apartment districts have dropped over 35% with older districts such as JLT and Discovery Gardens witnessing over a 40% drop over the last six years.

The government is implementing many demand drivers to further aid transaction activity with easing access to finance while taking strong measures to attract and retain residents. The market is at historically low interest rates and favourable loan-to-value ratios with an increase of five percentage points for first-time buyers expected to improve affordability in the ready sales mortgage market.

In addition to the long-term visa regulations announced in 2019, 2020 saw more reforms being implemented such as the retirement visa and remote working visa which are expected to create steady demand as more resident expats and international buyers choose UAE to settle down and contribute to sustained population growth.

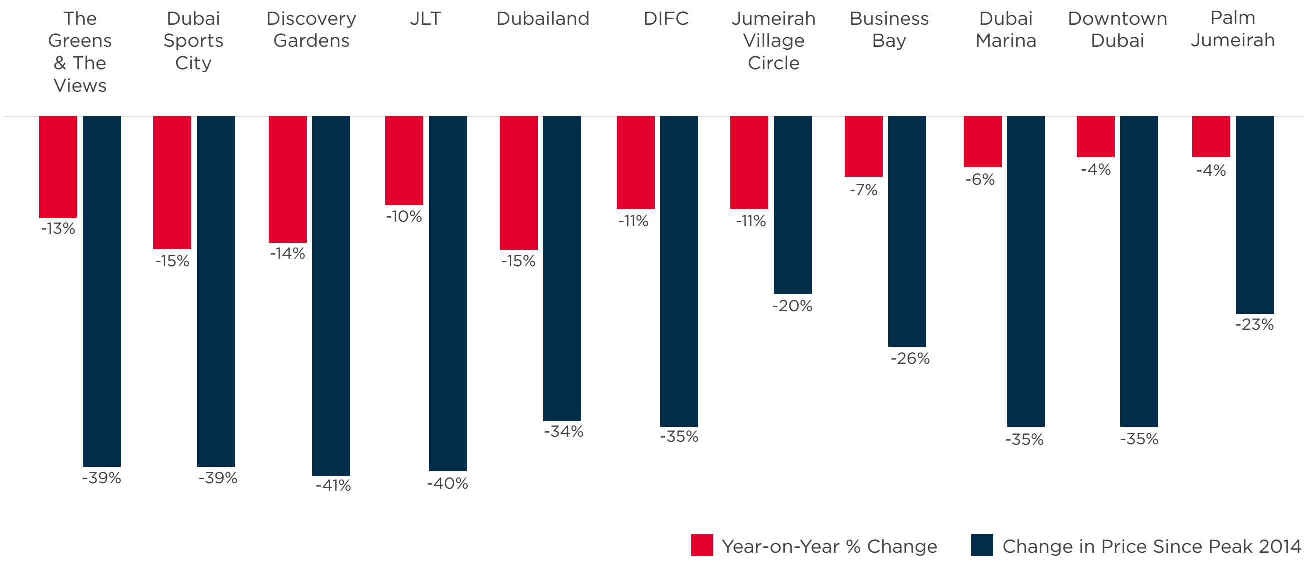
We expect these demand drivers and robust measures taken to mitigate the risks of COVID-19 coupled with a successful vaccine drive to positively impact overall market sentiment and in-turn transaction volumes. We are also witnessing some tenants who have a long-term view, making a shift from renting to owning as a form of savings plan due to attractive entry points and easy access to finance. Therefore, we forecast continued market movement and steady transaction volumes, particularly for ready units, as many buyers are actively looking for competitively priced assets in the market.

Villa Sales Prices Q4 2019 vs. Q4 2020



Source: Cushman & Wakefield Core Research

Apartment Sales Prices Q4 2019 vs. Q4 2020



Source: Cushman & Wakefield Core Research

RENTAL MARKET

Due to income contraction, repatriation and oversupply issues, rents continue to fall across the majority of Dubai's districts. Following a quiet Q2 2020, Q3 and Q4 2020 saw significantly increased activity in the rental market as tenants adjusted to their new financial reality. Most tenants either looked to find the current (albeit corrected) rental value of their property to help them negotiate rent reductions with their landlords or relocate and reduce their rental outflow.

While landlords may push back on increasing tenant demands, most landlords are now willing to negotiate lower rents and flexible lease terms upon renewals to retain tenants. This has led a large section of tenants remain in their current premises as they have been able to achieve rental savings upon negotiations while avoiding uncertainty and additional moving costs. However, depending upon landlord flexibility, tenants' working arrangements and financial situation, many have relocated to either achieve more space or considerable savings as rents have softened markedly over the last 12 months, particularly in the apartment districts.

Furthermore, tenants upgrading to bigger units or moving from apartments to villas was a major trend seen over 2020 as the aftermath of COVID-19 created the need for larger living and outdoor spaces, particularly for families with children, as tenants accommodated work from home arrangements. This trend has boosted demand for many villa districts, in turn supporting rental values, although it is to be seen if this trend is sustained as more people go back to physical offices over 2021.

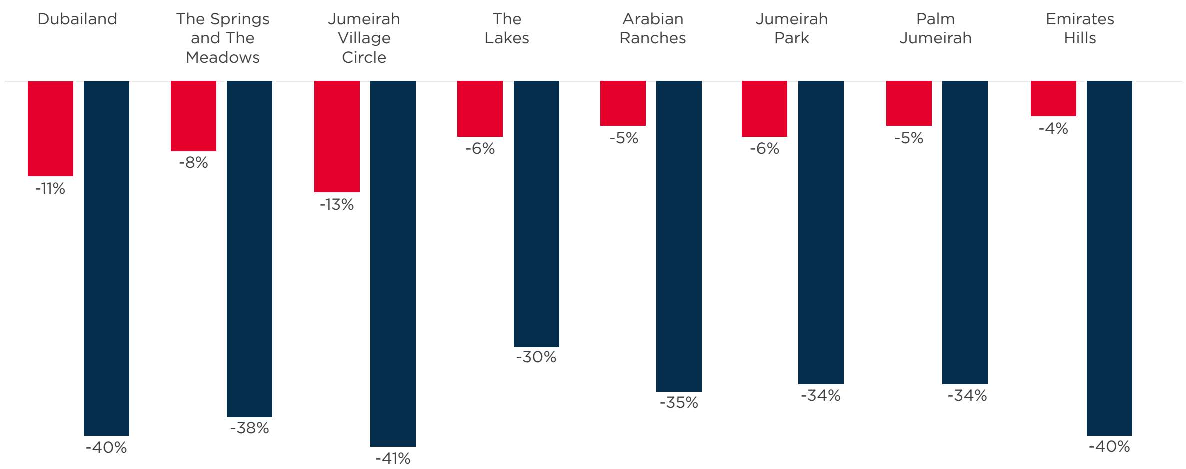
Looking at year on year data, rents in apartment districts in general have fallen sharper than villa districts with a higher share of apartment districts witnessing double-digit drops. The weakest performing apartment areas are Dubai Sports City (-19%), Dubailand (-19%), The Greens and The Views (-17%), and JLT (-15%). Villa communities witnessing the sharpest year-on-year declines are Jumeirah Village Circle (-13%) followed by Reem-Mira and The Villa in Dubailand (-11%). Prime villa locations like the Palm Jumeirah (-5%) and Emirates Hills (-4%) have shown resilience in rental drops, particularly in the upper end of the market with high absorption witnessed over H2 2020 with now limited stock available in the market.

From peak rents witnessed in 2014, villas have dropped nearly 33% while apartment districts have dropped over 40% with many districts displaying reductions over the 45% mark over the last six years. As rents fall at a faster pace compared to sales prices, yield contractions have been witnessed across villas and apartment districts. We witnessed both flexibility in headline rents and attractive payment/lease terms coupled with other incentives/waivers as key differentiating factors for developers/landlords in an attempt to preserve occupancy levels.

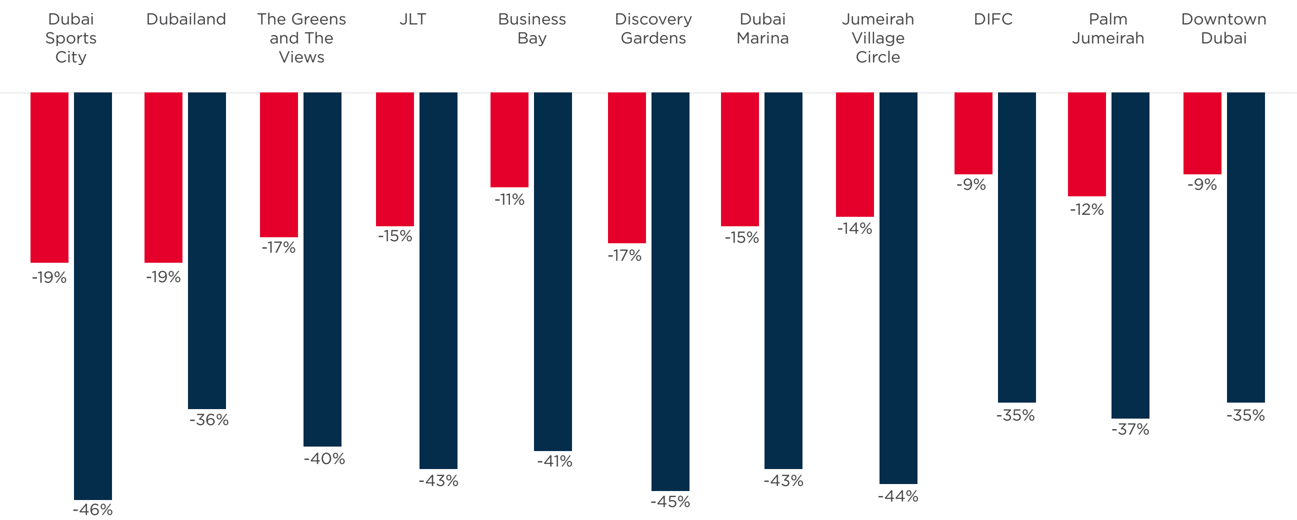
Furthermore, efficient building and owner's association management in relation to establishing safety protocols in the wake of COVID-19 has helped developers and landlords provide comfort to tenants thus further aiding occupancy levels.

With household incomes expected to remain under pressure, we foresee relocations to continue with a majority of tenants remaining price sensitive.

Villa Rents Q4 2019 vs. Q4 2020



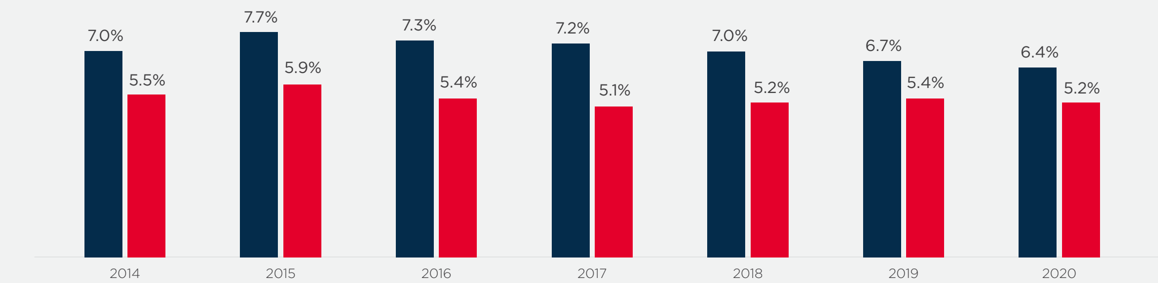
Apartment Rents Q4 2019 vs. Q4 2020



Source: Cushman & Wakefield Core Research

Year-on-Year % Change   Change in Price Since Peak 2014

Gross Residential Yields



Source: Cushman & Wakefield Core Research

Apartment   Villa

2021 Residential Market Forecast

Sales prices and rents to remain under downward pressure

Capital values and rents are expected to continue softening with apartment districts facing further headwinds while established villa districts that saw strong take-up over H2 2020 and currently have limited supply are expected to see price resilience.

Flexibility in lease terms as market expected to largely remain tenant friendly

As the market remains price sensitive, with most landlords willing to negotiate to retain tenants, flexibility in lease and payment terms are expected to continue.

Steady secondary sales transactions

Residential secondary sales transactions are expected to be steady as underlying demand is supported by lower capital values and demand drivers such as financial, visa and social reforms.

Lower new launch volumes

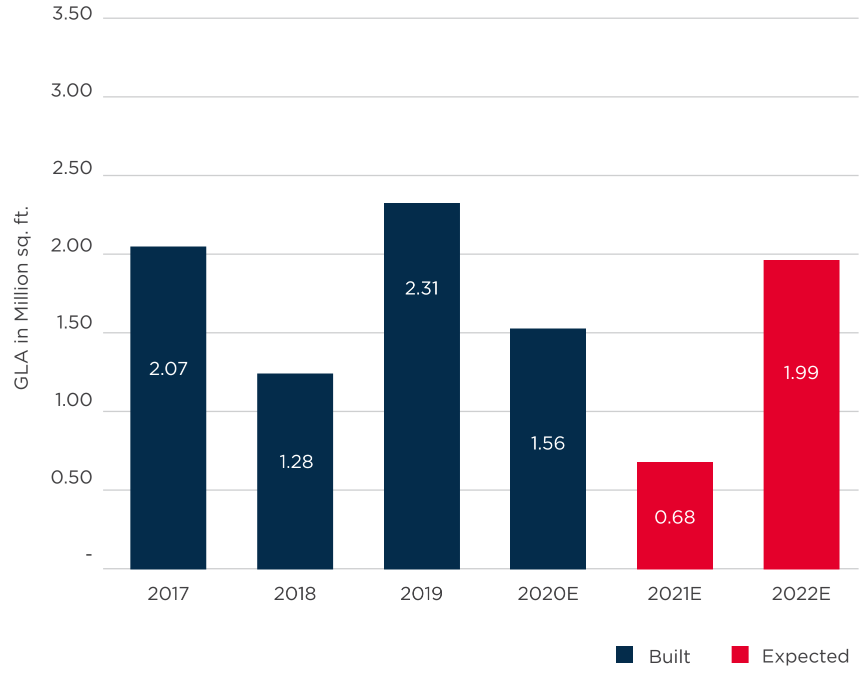
While the market continues to see significant handovers and unabsorbed inventory with oversupply concerns persisting in the near term, new launch volumes were at the lowest level in 2020 compared to the last 8 years. We expect new launch volumes to further reduce in 2021 as developers re-strategize and focus on absorption of existing inventory.

Commercial Market

OFFICE SUPPLY

Mashreq Bank's purpose-built headquarter in Downtown Dubai and ICD Brookfield Place in DIFC were the two prominent handovers of 2020, adding nearly 1.5 million sq. ft. of office space and bringing the total Dubai office stock to 104.9 million sq. ft. as of end of 2020. The office supply pipeline for 2021 is significantly lower than previous years with smaller office portfolios in mixed-use buildings across Dubai expected to be handed over. In 2022, phases of large-scale projects such as the office portfolio of District 2020 and Uptown Tower (Uptown 2020) in DMCC are expected to be handed over H2 2020. As with the residential market, we expect lower realisation rates and potential delays to push these handover dates further.

Dubai Office Supply 2017 - 2022

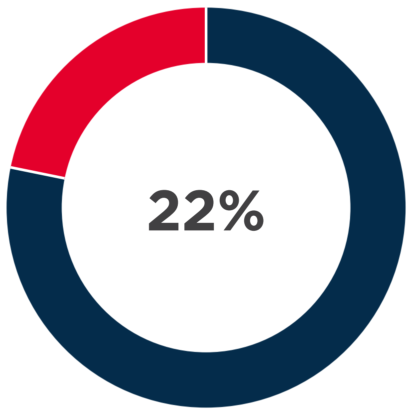


Dubai Office Market in Numbers

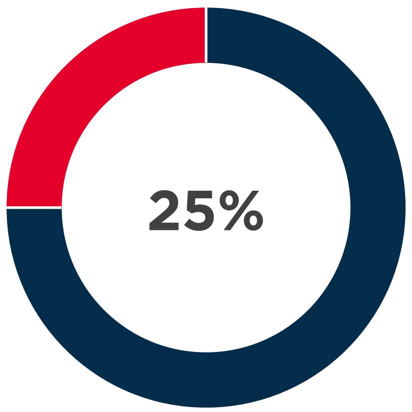
104.9 million sq. ft.
Total office stock

34.3 million sq. ft.
Grade A office stock

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



Average Grade A Office Vacancy Levels



Grade B & C Office Vacancy Levels

Source: Cushman & Wakefield Core Research

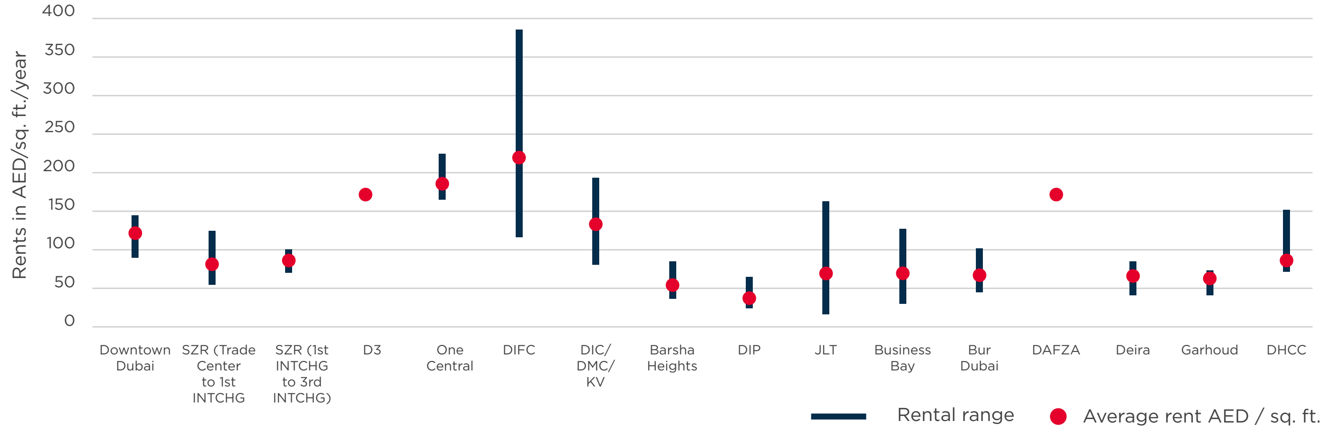
Office Rental Market Performance

Office rents over 2020 have been under pressure across all the sixteen districts we track. However, freezones with predominantly single owned office assets such as DIFC, Dubai Internet City and Media City, DWTC and D3 have displayed relatively lower levels of rental reductions partially due to rents being controlled by single landlords. Old Dubai locations such as Deira, Bur Dubai and Garhoud have seen the sharpest drops with average rents falling over 20 - 25% year-on-year as many tenants migrated to newer locations. Other strata districts such Barsha Heights, Busines Bay and JLT continue to face challenges, displaying a steep 20% year-on-year drop in average rentals.

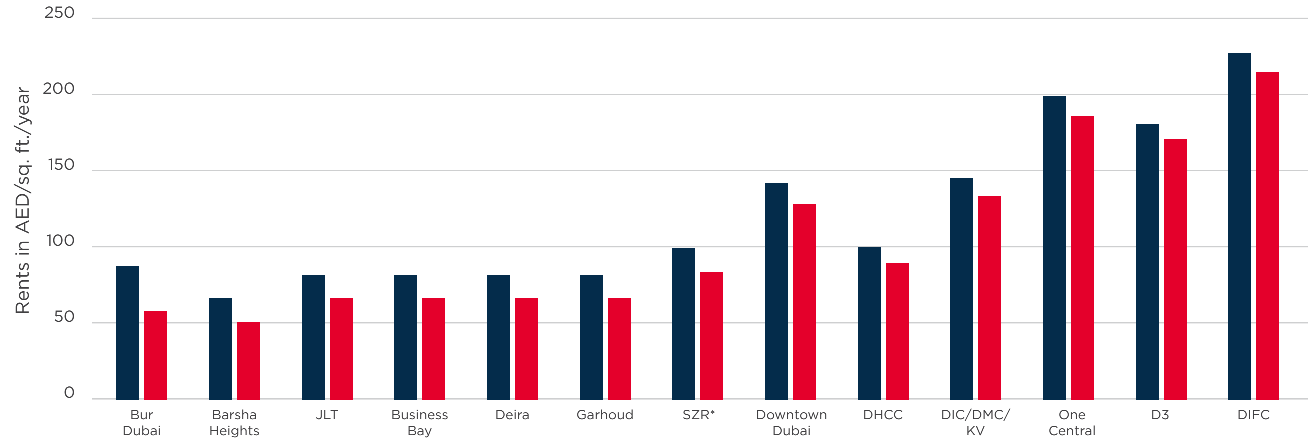
We have seen strata landlords, particularly those with mortgaged units be very flexible and willing to undercut the market while single landlords are being relatively resilient. This is because most strata buildings have lower occupancy levels, making landlords eager to attract and retain tenants whereas single landlord buildings have typically witnessed higher occupancy levels and attracted bigger corporates, a distinction they wish to maintain. Single landlords, therefore, are hesitant to drop rents drastically while also wanting to minimize the impact on their valuations.

While top and average rental ranges may still have some room for contraction, bottom rental ranges are facing resistance for further rental reductions as they near operational costs for landlords, a scenario particularly being seen in districts with large levels of strata stock.

Dubai Office Rents Q4 2020



Change in Average Office Rents Q4 2019 vs Q4 2020



Source:
Cushman & Wakefield Core Research *Sheikh Zayed Road (refers to the stretch from Trade Centre to first interchange ■ Q4 2019 ■ Q4 2020

Office Occupancy Levels

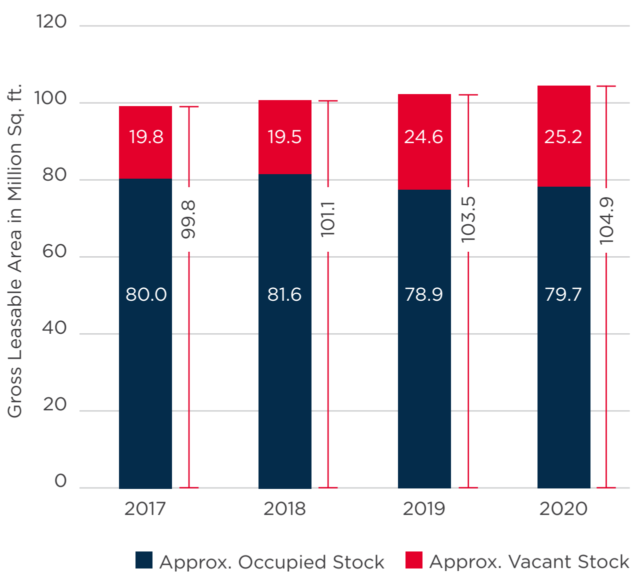
As most new office demand over 2020 stemmed from relocation or downsizing activity while new market entrants remain limited, occupancy levels contracted across the board and the net absorption continued to be negative. In addition to new office deliveries, a significant amount of secondary market stock has also been brought to market as firms' re-structure their manpower and spatial requirements in the wake of COVID-19, creating further downward pressure on occupancy levels.

We have seen an increase in subleasing activity by firms occupying purpose-built facilities such as HSBC, Standard Chartered and tenants in DIFC. The trend for repurposing retail and other mixed-use space into commercial space is also coming into effect with offices at City Walk, Roof Top in Nakheel Mall and Golden Mile on Palm Jumeirah being prime examples.

Downtown Dubai and DIFC both saw the sharpest decline in occupancy levels (-10% year-on-year) as new and secondary stock came to market. Older Dubai districts of Bur Dubai, Garhoud and Deira also saw a marked drop in occupancy levels, averaging around -10% year-on-year as tenants relocated to newer areas such as Busines Bay and Sheikh Zayed Road.

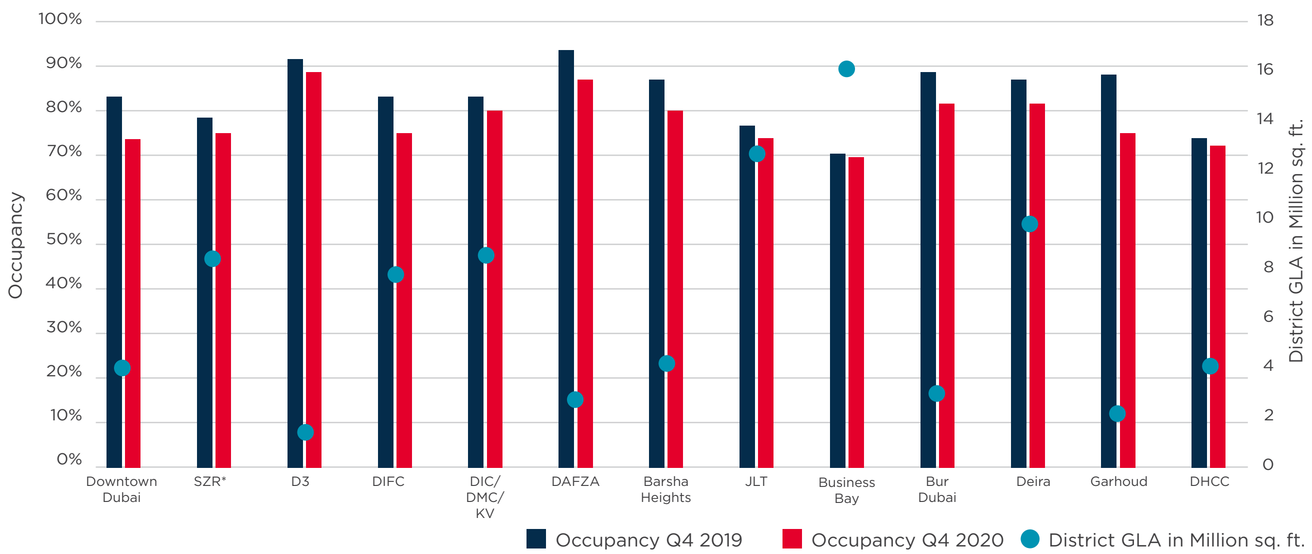
Overall vacancy levels across Grade A stock increased to over 22% as of Q4 2020 while Grade B stock vacancy levels remained steady at 25%.

Total Office Occupied vs. Vacant Stock



Of the total 104.9 million sq. ft. of office stock, nearly 25.2 million sq. ft. of stock is vacant (24% of all Dubai office stock), with the volume of vacant stock gradually increasing over the last five years. That said, we have seen a polarizing performance amongst Grade A and Grade B areas with most of the market witnessing a flight to quality with Grade A areas typically witnessing resilience in both occupancy levels and rental drops.

Office Occupancy Q4 2019 vs. Q4 2020



Source: Cushman & Wakefield Core Research

Office Demand Trends

While demand and enquiry levels slowed considerably over Q2 2020, we saw a significant spike over Q3 and Q4 2020 due to pent-up demand and restructuring measures taken by many firms. While Q4 is historically a busy period for office enquiries, Q4 2020 was busier than previous years and we expect this momentum to be continued over in Q1 2021.

We have seen growing demand from technology clients who have witnessed a marked rise in business activity as COVID-19 disrupted occupier behaviour and increased their market penetration. Most technology clients with healthy cashflows are in fact looking to secure better commercial terms, longer lease terms and early break clauses. Landlords are also willing to provide the same as longer-lease terms helps limit vacancy levels across their portfolio.

In the aftermath of the pandemic, most SMEs saw the immediate business impact of COVID-19 and were quick to restructure and adjust to market conditions. This reduction of staff coupled with the need to lower office rents to reduce capital expenditure led to a significant rise in office enquiry levels from this tenant segment with nearly 60% of the demand in 2020 focused below the 2,000 sq. ft. area requirement.

This high concentration of enquiries below the 2,000 sq. ft mark is also due to most large corporates and blue-chip occupiers continuing to work from home or deploying hybrid models of work from home and phased office occupancy. These large occupiers are yet to restructure with many deferring real estate decisions to Q2 2021 subject to most of their staff being vaccinated while awaiting instructions from their global headquarters. Many of these large multi-nationals who are headquartered in the US or UK are also taking a company-wide approach on workplace strategies and are thus slow to move back to physical offices.

On the other hand, over Q4 2020, we saw an increase in leasing enquiries from large local or regional occupiers as they gradually phase back staff into physical offices.

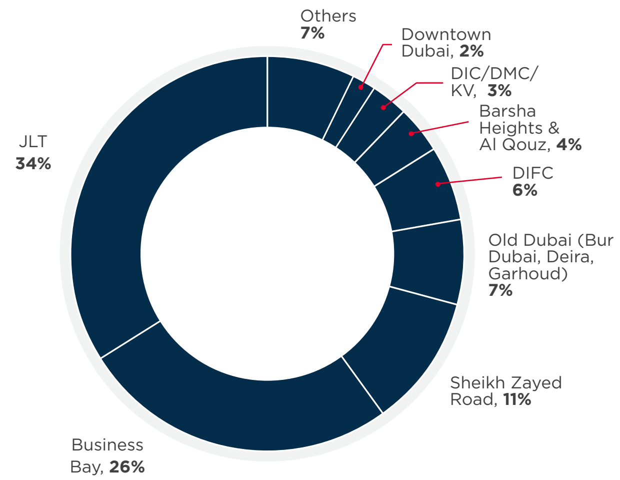
Office tenants are also becoming increasingly aware of the importance of building maintenance and facilities management. Tenants are looking to move to superior managed and built properties to bolster employee confidence and safety while not significantly altering cash outflows. Most Grade A buildings which are largely single owned have been proactive with better COVID -19 risk mitigation protocols such as visitor security, thermal screening, frequent cleaning and disinfecting measures and building management protocols for COVID positive cases, etc. Such stringent measures are generally missing in Grade B and Grade C buildings. As rents have softened across grades, the advantage of moving into a Grade A building is multi-fold - from a financial as well as user experience and safety perspective.

Another emerging office trend is that of occupiers moving between freezones. With most freezone office stock being largely single owned and at considerably higher rents, we have seen occupiers consider more competitively priced strata freezones such as DMCC. Furthermore, we continue to see the trend of old Dubai occupiers migrating to properties located in Business Bay and Sheikh Zayed Road.

The preference for fully fitted and partitioned offices or CAT-A finishes (finished ceiling and raised flooring) remains strong while shell and core stock has seen limited movement as potential tenants are hesitant to invest in fit-outs and require immediate occupancy. This decision driver has led well priced, maintained, fully fitted units to witness good absorption, particularly in strata markets such as Business Bay and JLT.

Lastly, we have also seen many occupiers enquire and analyse the market and use this data to renegotiate with current landlords (who are being extremely flexible to retain tenants) and remain in their present units. Most of these renegotiations are for a one-year term as tenants are deferring decision-making and not wanting to commit to longer terms due to business uncertainty. In other instances where landlords were unable to meet tenants' expectations has resulted in tenants moving out to more economical units.

Office Enquiries by Area



Source: Cushman & Wakefield Core Research

2021 Office Market Forecast

Office is here to stay
Although flexibility around remote working will remain prevalent with hybrid models the largely accepted workplace strategy, the importance of the physical office is unlikely to be diminished as businesses will need common spaces to foster innovation, productivity, company culture and teamwork that are hard to sustain through remote working.

Second wave of relocations
We expect a second wave of relocations in 2021 when global corporates inevitably adjust their workplace strategies. Most of the demand for these relocations/ consolidations are expected in the Grade A market.

Resistance in headline rents
Landlords, particularly of single owned assets are hesitant to sharp rental reductions to minimize the impact on the overall portfolio value, however, they are providing a variety of incentives to attract and retain tenants as tenant retention continues to be the most important issue for landlords.

Occupancy and tenant retention
As most new office demand is dominated by relocation or downsizing activity while sub-leasing activity also gathers pace, we foresee maintaining occupancy levels and retaining tenants be the main focus for commercial landlords

Rise of technology clients
Globally, technology and allied sectors are the new major landlords, superseding the BFSI and service industries. We are also seeing rising volumes of technology clients and take-up in Dubai.

Furnishing and fitting out shell and core spaces
As most enquiry levels are for fitted/plug and play offices, we expect landlords to increasingly convert their shell and core assets to CAT A fit-out (raised floor and ceiling) or completely furnish to aid absorption.

Repurposing building use
With some of the older stock underperforming, developers and landlords are looking at refurbishing office units or repurposing retail/mixed use into office space to optimise asset classes and footprint.

Grade A supply performance
With nearly 67% of new supply coming in the Grade A segment (2018 - 2020), most of the large occupier activity is expected to be in this segment in the next few years.

Rise in retail logistics
With the pandemic accelerating acceptance of online retail, retail logistics is a growing segment, and we expect more players expanding to improve their omnichannel offering.

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