CUSHMAN & WAKEFIELD | CORE

DUBAI MARKET UPDATE

Q1 2021

DUBAI MARKET SNAPSHOT Q1 2021

It has been more than a year since the pandemic started and despite the initial few months of uncertainty and contrary to wider held beliefs this time last year, we would all agree that the UAE real estate sector and the overall economy have fared impressively well. This remarkable resilience is attributed to robust government measures, fiscal incentives, reforms and one of the highest rates of vaccinations globally which has all led to the systematic opening of the economy and more importantly sustaining business continuity which even the most mature markets are struggling with.

Dubai's successful demonstration of mitigating COVID-19 risk and being open, relatively safe and connected is supporting new and existing businesses and providing comfort to end-users and investors, resulting in a rise in market activity across all sectors, particularly since Q4 2020.

We continue to see an acceleration of trends in 2021 that were already in play pre-pandemic, particularly flight to quality across sectors with prime assets and districts bucking the trend and witnessing price resilience. Within the UAE, the pandemic has also created a seismic shift in how occupiers and developers are evaluating their portfolios and asset performance. Many are considering portfolio overviews to re-assess and in some cases expand due to attractive entry points. This has resulted in a spike in transaction and instruction volumes as end-users, investors and developers are increasingly making investment decisions after taking a wait and see approach over the last few years.

We have seen both end-users and investors purchase competitively priced assets driven by lower entry points and interest rates resulting in price resistance and in some cases price increases as supply for certain products is becoming limited in select office and residential districts. While oversupply issues remain, we have seen the curb in new launches and the slowdown of off-plan transactions support residential market recovery.

Despite high rates of vaccinations, due to the very nature of the pandemic and its ever-changing impact on global tourism and mobilisation, we are yet to say with certainty that we are in the sustained recovery phase. That said, with strong fundamentals, business resilience and investment interest, most market stakeholders hold a positive market sentiment and remain cautiously optimistic for a steady 2021 on the back of efficient government measures.

This publication

This document was published in April 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

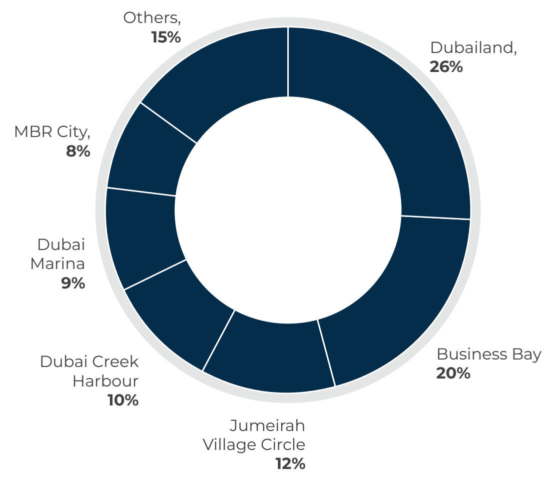
Dubai saw nearly 10,500 units come to market over Q1 2021, with major deliveries including UNA apartments in Townsquare, Amna Tower in Al Habtoor City, The Address Jumeirah Gate in JBR, Bloom Towers in JVC and multiple deliveries in Dubai Creek Harbour. The highest number of handovers over Q1 2021 were seen in Dubailand (Townsquare, Arjan and Akoya Oxygen) followed by Business Bay, Jumeirah Village Circle, Dubai Creek Harbour and Dubai Marina.

While oversupply issues persist, the formation of the real estate committee and subsequent announcements by major developers to curb supply is resulting in a sharp slowdown with no notable launches seen in YTD 2021. 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 over the mid to long-term.

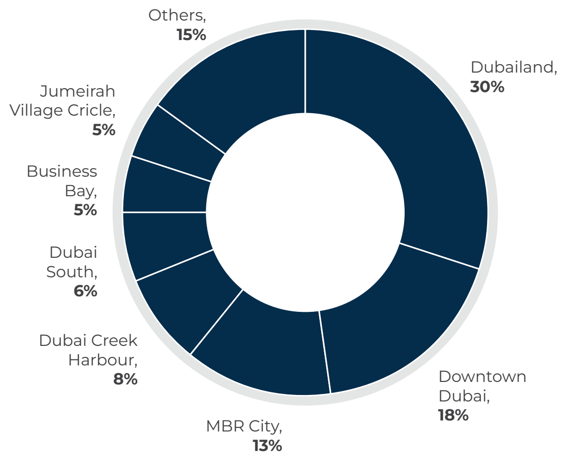
We foresee most developers focus on existing under-construction projects, deliveries, and inventory absorption. In line with our predictions at the start of the year, an additional 26,500 units are expected to be handed over in the remainder of the year (Q2 - Q4 2021), keeping our annual forecast for 2021 at over 37,000 units. 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.

Dubailand (Damac Hills, Akoya Oxygen, Villanova), Downtown Dubai, MBR City and Dubai Creek Harbour are expected to receive the highest number of deliveries over the rest of 2021.

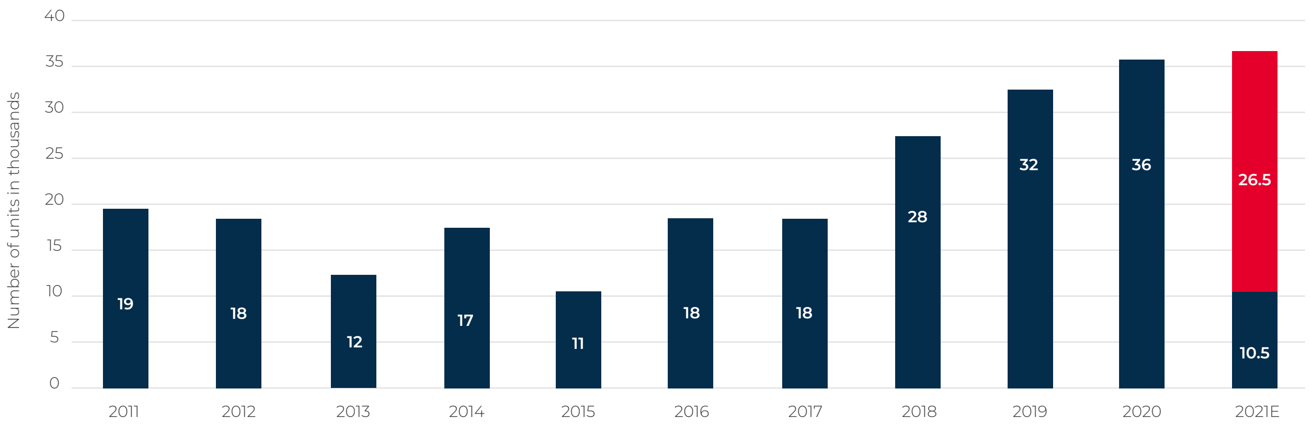
Supply Delivered by Area - Q1 2021



Supply Forecast by Area Q2 - Q4 2021



Residential Deliveries in Dubai 2011 - 2021



Source: Cushman & Wakefield Core Research

PROMINENT GOVERNMENT ANNOUNCEMENTS IN Q1 2021

2040 Urban Master Plan

The government of Dubai launched the Dubai 2040 Urban Master Plan that maps out a comprehensive future map for sustainable urban development in the city. The people-centric plan focuses on reinforcing Dubai's competitiveness as a global destination by providing a wide variety of lifestyle and investment opportuntities for citizens, residents and visitors over the next 20 years.

The plan is focused on development and investment in five main urban centres (three existing and two new centres) that support growth of economic sectors and increased job opportunities for its diverse population.

The existing urban centres include Deira and Bur Dubai, historic areas that highlight the Emirate's tradition and heritage; the business and financial heart of the city encompassing Downtown and Business Bay; hospitality and leisure centre encompassing the Dubai Marina and JBR that serves as an international tourism and leisure hub. The two new centres include Expo 2020 Centre, an economic and growth hotspot featuring affordable housing and a focal point for exhibitions, tourism and logistics sectors; and Dubai Silicon Oasis Centre, a science and technology and knowledge hub that drives innovation, digital economy development and talent generation.

Operation 300bn

His Highness Sheikh Mohammed bin Rashid Al Maktoum, Vice President and Prime Minister of UAE and Ruler of Dubai, launched the Industrial Strategy "Operation 300bn". The 10-year comprehensive strategy aims to empower and expand the industrial sector to become the driving force of a sustainable national economy, increasing its contribution to the GDP from the current AED133 billion to AED300 billion by 2031. Operation 300bn will support more than 13,500 SMEs by 2031, as they are major drivers of shaping a productive industrial sector and sustainable economy.

New visa reforms - Remote working residency visa, multiple-entry tourist visas

The UAE cabinet has approved a new self-sponsored Remote Work Visa that will enable employees from all over the world to live and work remotely from the UAE, even if their companies are based in another country.

The one-year visa allows foreigners to enter the UAE and work in line with terms and conditions issued with the visa. The new scheme aims to support the public and private sector, and also enables employees to expand their digital skills and take advantage of the "work from anywhere" trend.

The UAE cabinet also approved a multiple entry tourist visa for all nationalities to strengthen the UAE's status as a global economic capital.

RESIDENTIAL TRANSACTION TRENDS

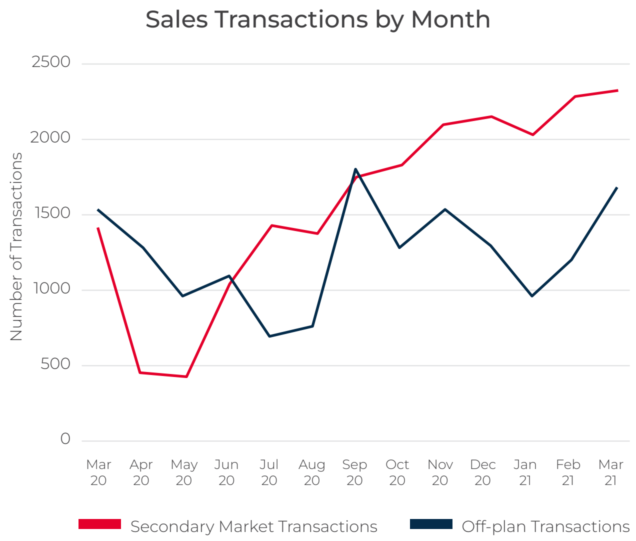
Despite COVID-19 led market challenges, we are seeing a robust increase in residential secondary sales transactions since Q3 2020 with many buyers who had previously taken a wait and see approach, now going ahead with their investment decisions. A multitude of demand drivers is resulting in this increase, including competitive entry points, variety of options, change in LTV ratios, low interest rates, visa reforms, an economic environment of safety and openness and the need for occupiers to upgrade residences to accommodate COVID led lifestyle changes.

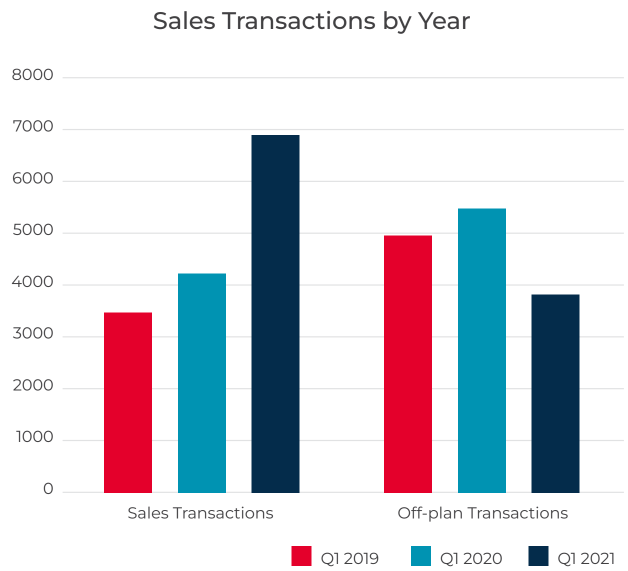
There has been a 64% increase in secondary market transaction activity over Q1 2021 compared to Q1 2020. Looking into the data closely, the villa market significantly outperformed with a spike of over 137%, while apartments saw over a 41% increase in secondary market transaction activity over Q1 2021 compared to Q1 2020.

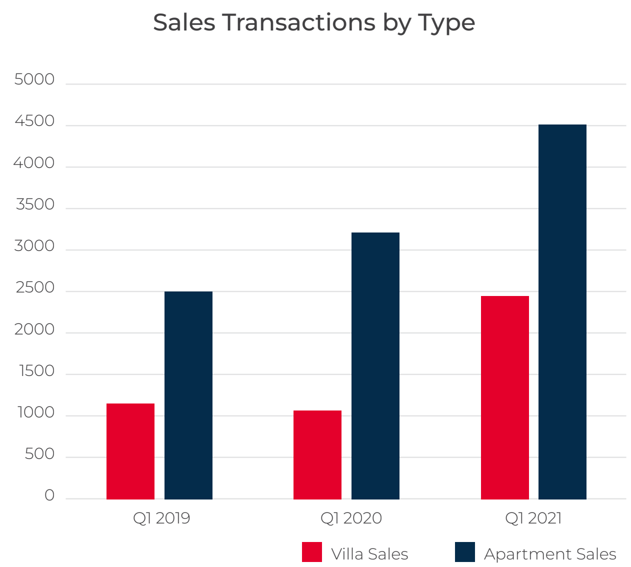
On the other hand, off-plan market activity continues to face headwinds, contracting by -29% over Q1 2021 vs Q1 2020. Despite heavily incentivised payment plans and lower entry points, buyers continue to prefer ready units to avoid further uncertainty and delays that may be expected from the off-plan market. We foresee this preference for ready stock to continue over the near to mid-term.

MORTGAGE APPLICATIONS	COMPLETED MORTGAGES	AVERAGE LOAN SIZE
85%	85%	2M AED
GROWTH YEAR ON YEAR	GROWTH YEAR ON YEAR	IN Q1 2021

Source: Mortgage Finder







Source: REIDIN, Cushman & Wakefield Core Research

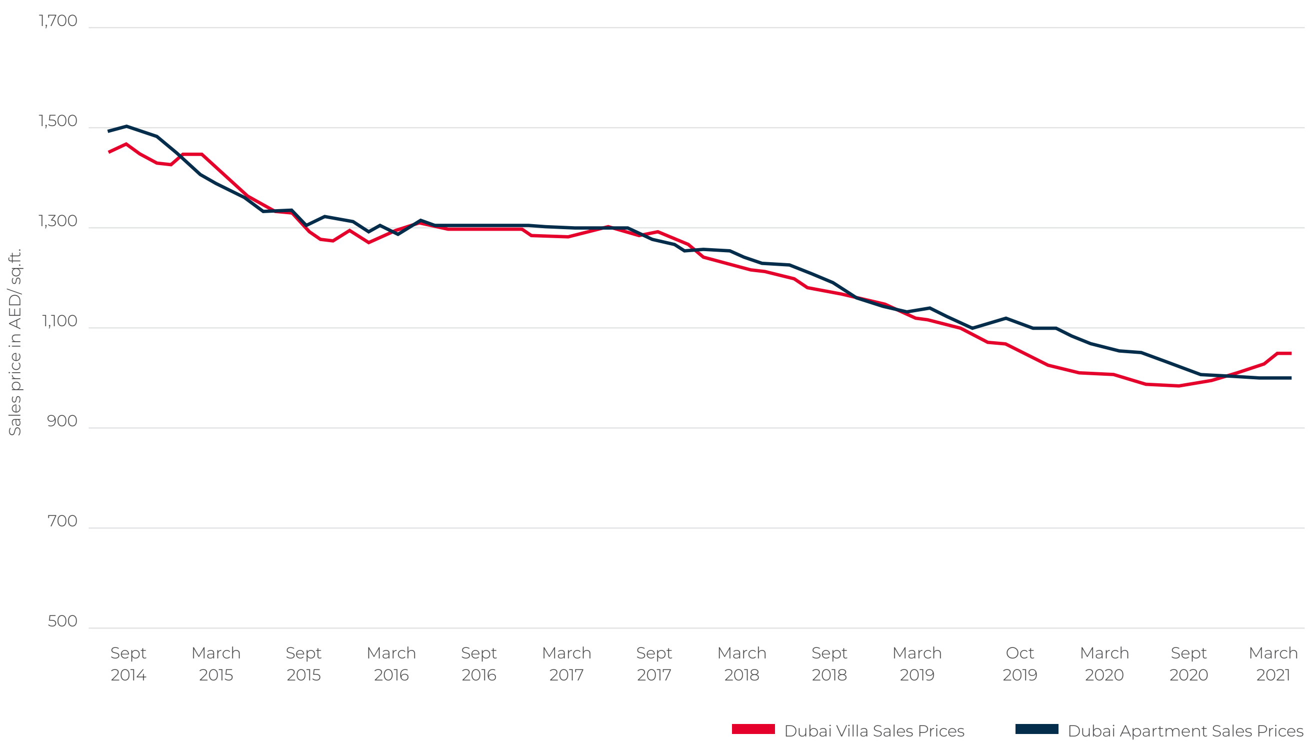
RESIDENTIAL SALES MARKET

Following robust sales activity and limited availability of ready stock in select prime and established villa markets, we are starting to see stabilisation in average villa sales values since Q4 2020 with prices showing continued marginal upticks for the first time since 2014. We expect the raft of demand drivers to continue supporting transaction activity, particularly in the secondary villa market.

The established districts of The Springs and The Meadows saw a sharp 10% year on year increase, followed by Emirates Hills (6%), Palm Jumeirah (4%) and Arabian Ranches (4%), while the outer villa districts of Dubailand (-5%) and Jumeirah Village Circle (-7%) continue to see a decline in sales prices.

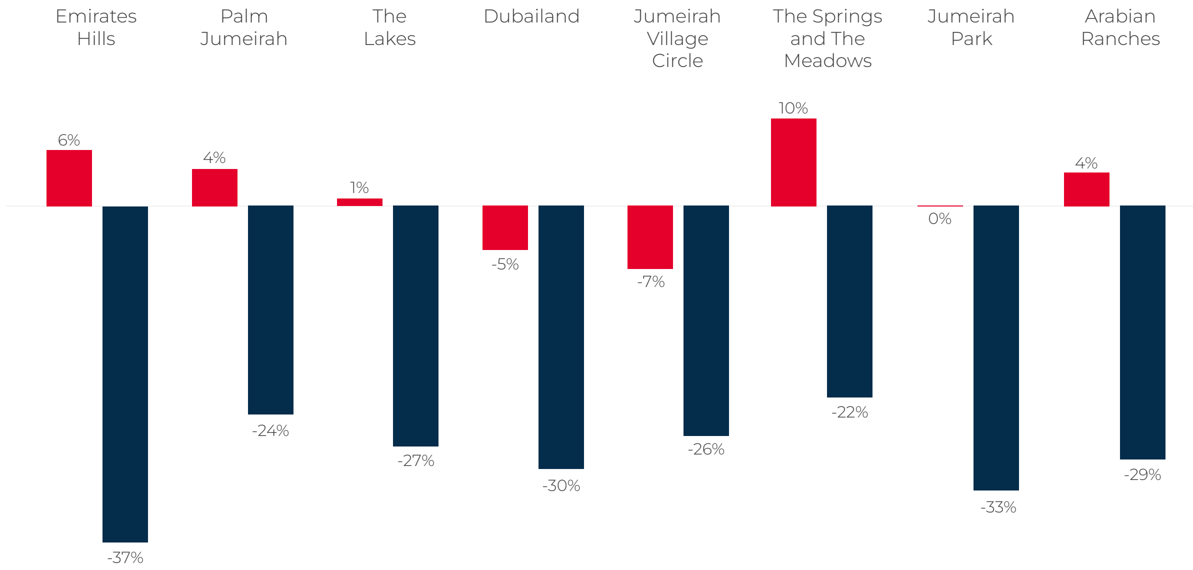
On the other hand, the average apartment sales prices softened further and are yet to show signs of recovery. Only Palm Jumeirah saw a notable spike in sales prices of over 6%, while other areas continue to witness year-on-year price declines with Dubailand (-15%) and Dubai Sports City (-13%) being the weakest performing apartment districts.

Dubai Sales Price Trends

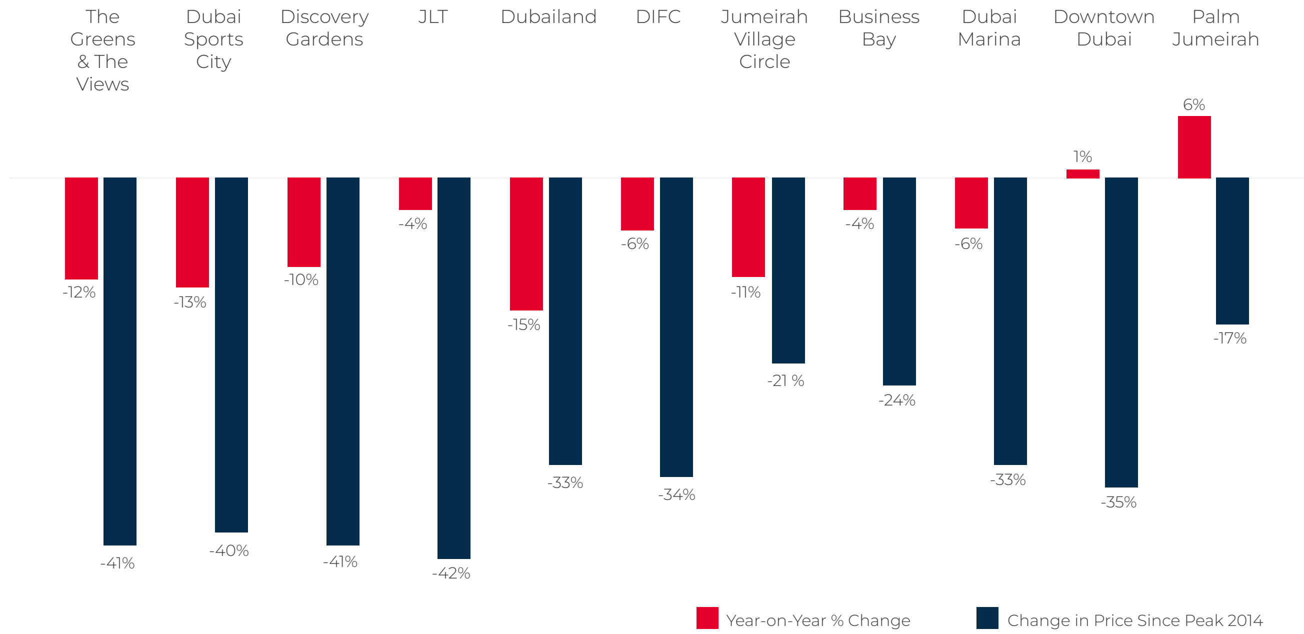


Source: Cushman & Wakefield Core Research

Villa Sales Prices Q1 2020 vs. Q1 2021



Apartment Sales Prices Q1 2020 vs. Q1 2021



Source: Cushman & Wakefield Core Research

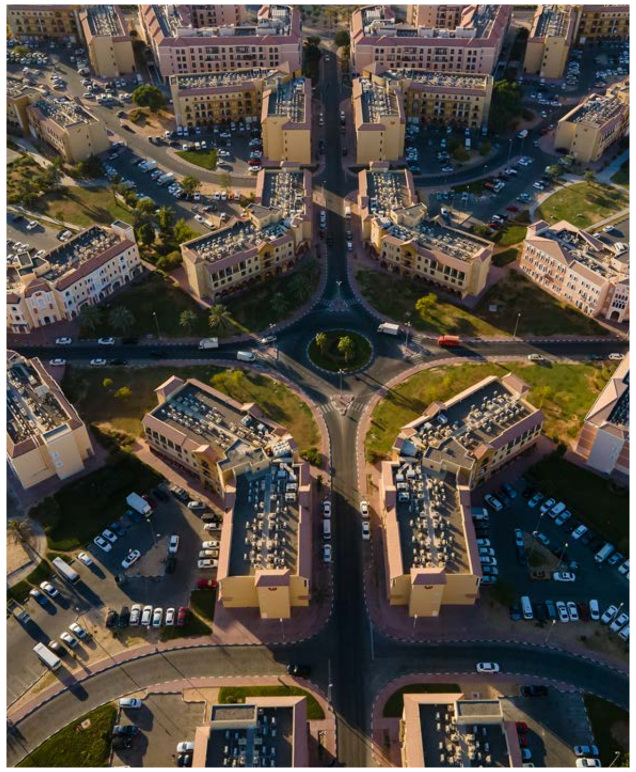
RESIDENTIAL RENTAL MARKET

The polarised performance between apartment and villa districts that we saw in the sales market continues to be mirrored in the rental market. A slow yet steady uptick in villa rental values can be seen from Q4 2020, although the year-on-year values are still negative at -2%. The prime villa districts of Palm Jumeirah and Emirates Hills continue to buck the trend with 12% and 11% year on year increases while the affordable districts of Jumeirah Village Circle and Dubailand saw the sharpest decline in rents at -11% and -9% respectively.

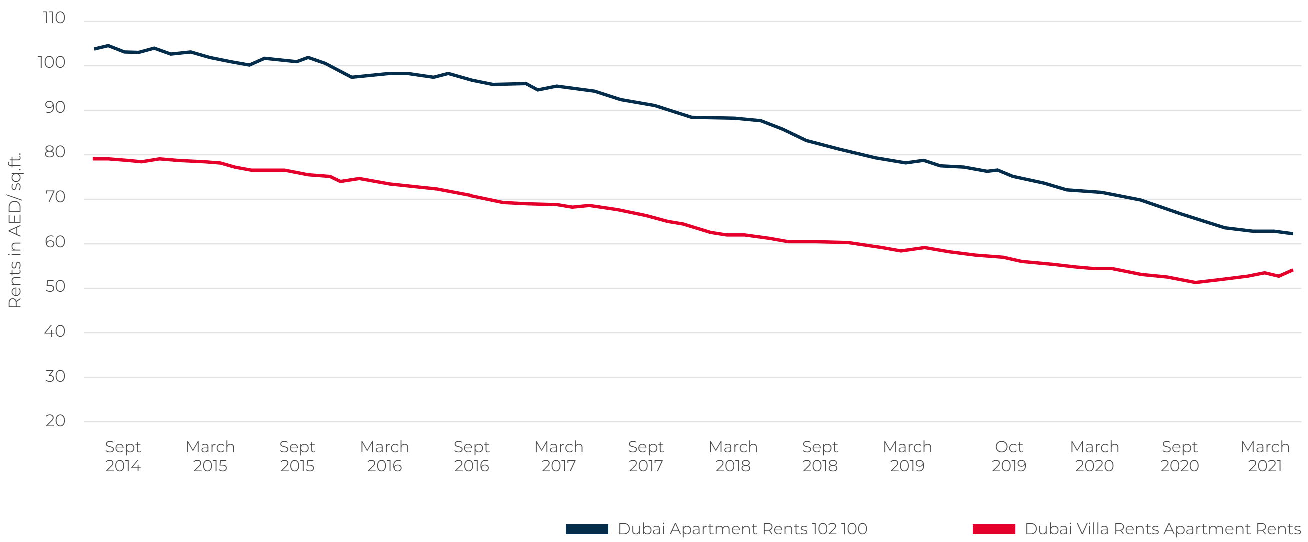
Apartment districts continue to see widespread rental contractions with most districts we track witnessing sharp double-digit year on year declines. Existing oversupply issues coupled with the fact that most new supply continues to be in the apartment segment and the COVID-19 led tenant migration from apartments to villas are collectively adding further downward pressure on apartment rents.

The affordable district of Discovery Gardens saw the sharpest decline of nearly 22% year on year while the prominent apartment districts of JLT, Dubai Marina, The Greens and The Views also saw 16% rental contractions.

While landlords in some cases resist on increasing tenant demands, most landlords continue to be willing to negotiate lower rents and flexible lease terms upon renewal to retain tenants. This has led a large section of tenants to remain in their current premises as they have been able to achieve rental savings upon negotiations while avoiding the inconvenience 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. We foresee apartment rents to continue softening over the remainder of 2021.

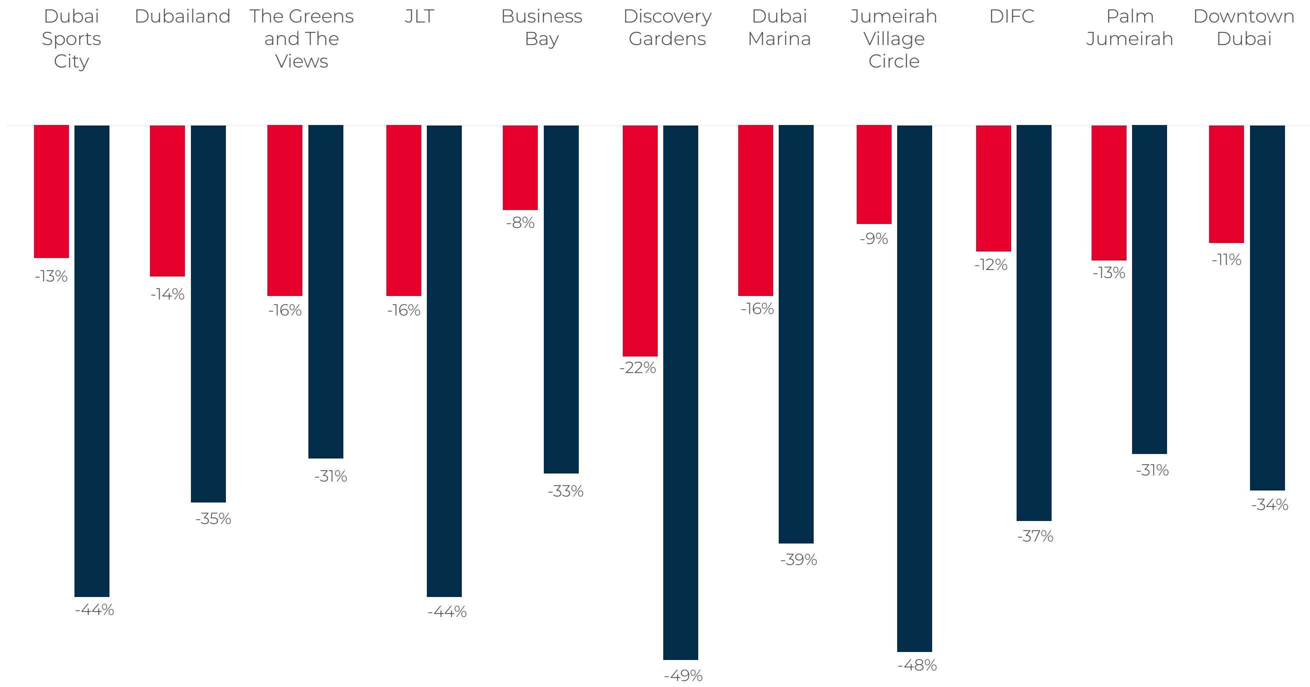


Dubai Rental Trends

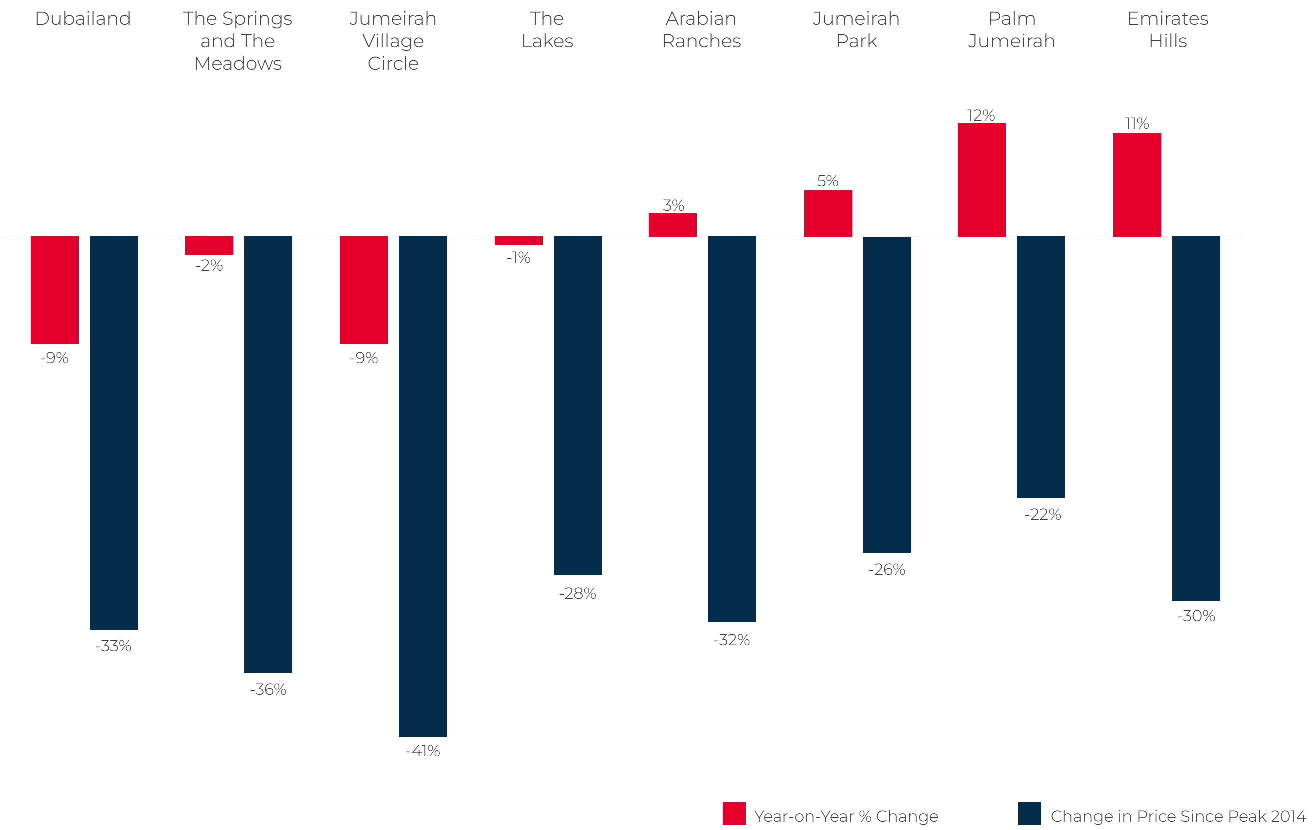


Source: REIDIN, Cushman & Wakefield Core Research

Apartment Rents Q1 2020 vs. Q1 2021



Villa Rents Q1 2020 vs. Q1 2021



Source: Cushman & Wakefield Core Research

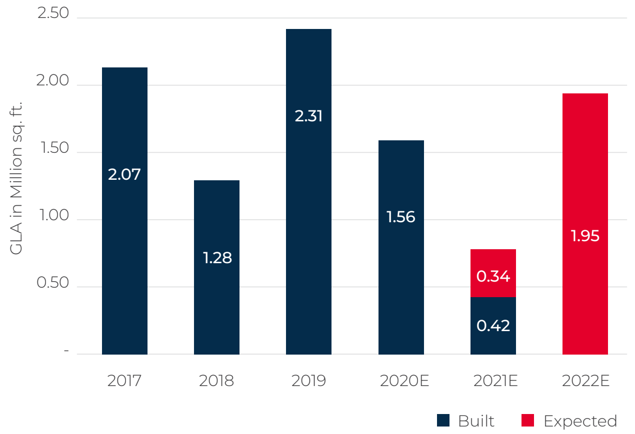
Commercial Market

OFFICE SUPPLY

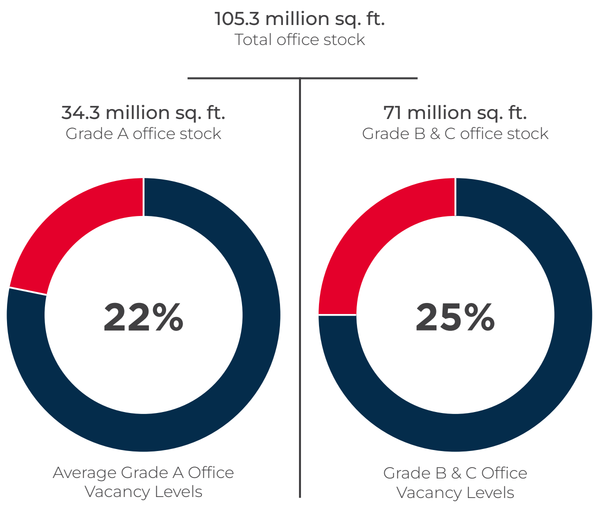
Q1 2021 saw over 420,000 sq. ft. of office space being handed over in the first phase of the Deira Enrichment Project by Ithra and the first phase in the business cluster of Commerce City. An additional 340,000 sq. ft. is expected over the remainder of 2021 in the next phases of the Deira Enrichment Project and other smaller standalone or mixed-use projects such as the Al Fattan Downtown project.

In 2022, over 1.95 million sq. ft. of office space is forecast including phases of large-scale projects such as the office portfolio in District 2020, Uptown Tower (Uptown 2020) in JLT, next phases of commerce city and office floors within the One Za'abeel project. As with the residential market, we expect lower realisation rates due to potential construction delays.

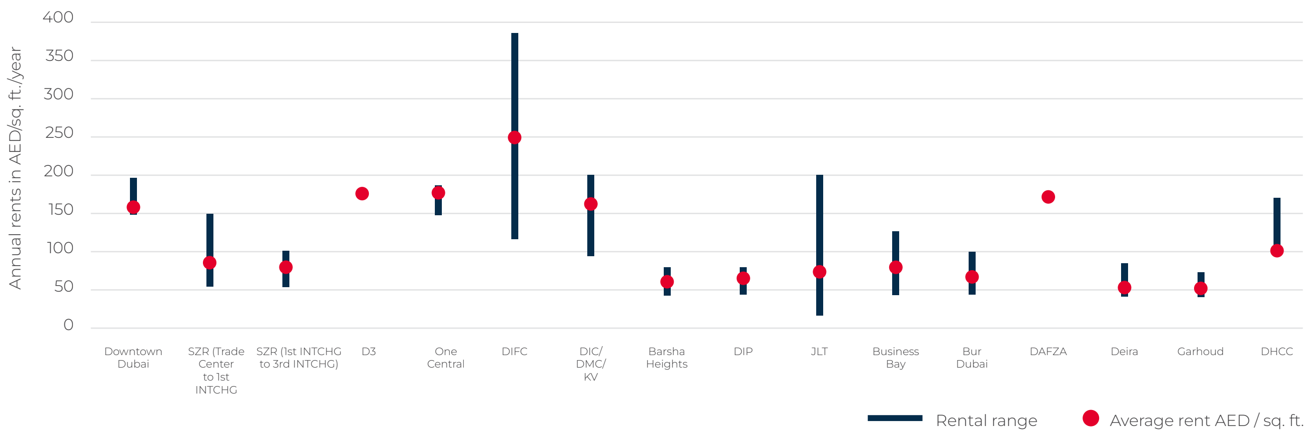
Dubai Office Supply 2017 - 2022



Dubai Office Market in Numbers



Dubai Office Rents Q1 2021



Source: Cushman & Wakefield Core Research

PROJECT SPOTLIGHT | **DEIRA ENRICHMENT PROJECT**

BY ITHRA DUBAI

PHASE 1 MASTER PLAN EVOLUTION

Deira is one of the oldest and most important areas of business and culture in Dubai since the city's founding. The Deira Enrichment Project (DEP) Masterplan envisions to retain these and cultures, which are integral to Deira, and incorporate them in the revitalization of the waterfront area.

The DEP Masterplan concept is to oexpand the urban fabric of the existing Deira community towards the waterfront. Retaining the architectural themes, business activities, and designs similar to the characteristics that make up Deira currently, the DEP Masterplan focuses on the sense of community, preserving the spirit of trade and entrepreneurship while enhancing, social interaction and connectivity for residents.

DEIRA ENRICHMENT PROJECT - KEY FACTS

- **2,200** RESIDENTIAL UNITS
- **1,450** HOTEL ROOMS ACROSS 8 HOTEL PROPERTIES
- **721,182** sq.ft. OFFICES
- **834,203** sq.ft. RETAIL GFA
- **700+** SHOPS
- **40+** RESTAURANTS
- **800+** ADDITIONAL PARKING SPACES
- **NEW EXTENSION** TO THE GOLD SOUK
- **WATERFRONT** PROMENADE
- **BUS** STATIONS
- **TRANSPORTATION** HUBS
- **RTA** WATER TAXI STATION
- **2 METRO** STATIONS

Source: Ithra DUbai

OFFICE MARKET DEMAND

We have seen a marked increase in office enquiry levels over the two quarters with demand being driven by two segments. The first section of demand is stemming from existing SMEs and regional occupiers who had taken a wait and see approach over the pandemic and in some instances waiting for their lease terms to expire. These tenants are now looking to relocate, downsize, or in many cases upsize by taking advantage of favourable lease terms. The other section of demand is coming from new occupiers entering Dubai from western markets, GCC and India due to Dubai's favourable, open and resilient economic climate well established by UAE's business continuity and COVID-19 mitigation efforts displayed over the last year.

However, most blue-chip international occupiers are continuing to work from home or working in some form of phased or hybrid workplace solution and accommodating a socially distanced workplace within the existing office premises and are yet to decide on their new spatial requirements. We expect demand from this segment to start picking up based on directives from their global headquarters. While the UAE has one of the highest vaccination rates and is considered relatively safer than most global cities, many international firms are following a company-wide workplace strategy that is being mandated by their headquarters.

In line with the dominant flight to quality trend, the impact of COVID-19 has resulted in a strong preference for prime and well managed office stock. Grade A offices and relatively superior Grade B offices have been able to attract and retain tenants relatively well compared to Grade B and C offices. Office demand continues to be heavily skewed towards fitted and furnished offices with many good units in premium towers witnessing quick absorption as tenants are willing to pay premium for such units with faster occupation timelines.

While over-supply issues continue to exert downward pressure on the office market, we foresee further polarisation in stock with an under-supply in the fitted, furnished and superior maintained stock as most of these units are being absorbed and becoming unavailable, particularly in the 2,000-3,000 sq. ft size bracket. On the other hand, we predict Grade B and shell and core properties to continue facing challenges in attracting occupiers and witness contraction in occupancy levels.

FUTURE OF WORKPLACE

The corporate world is increasingly becoming polarised over the future of working from home. Some technology firms are pushing for most of their employees (whose roles allow them to work remotely) to work permanently from home, thus increasing their workforce's dependencies on technology and video conferencing. On the other hand, many banks and some technology firms are championing the way to bring back employees to the workplace as soon as possible

For example, the chief executive of Goldman Sachs has signalled his determination to have his bankers back behind their office desks, calling home working an "aberration" that must be corrected "as soon as possible". Many fortune 500 CEOs are echoing this sentiment and stressing on the limitations of virtual work, with a view that it is better for teams formed before the pandemic than for new employees.

These C-suite executives are increasingly raising concerns around loss of peer learning, collaboration, mentorship, and the apprentice model of learning which is almost impossible to replicate virtually. Most blue-chip occupiers, particularly in the financial sector are concerned about the undermining impact of remote working on the character and culture a company is attempting to create.

Furthermore, prominent global tech firms such as Google, Amazon and IBM have emphasized in recent months that while they are flexible to a hybrid workplace solution, the aim is to return to an office-centric culture as they believe it enables employees to invent, collaborate, and learn together more effectively.

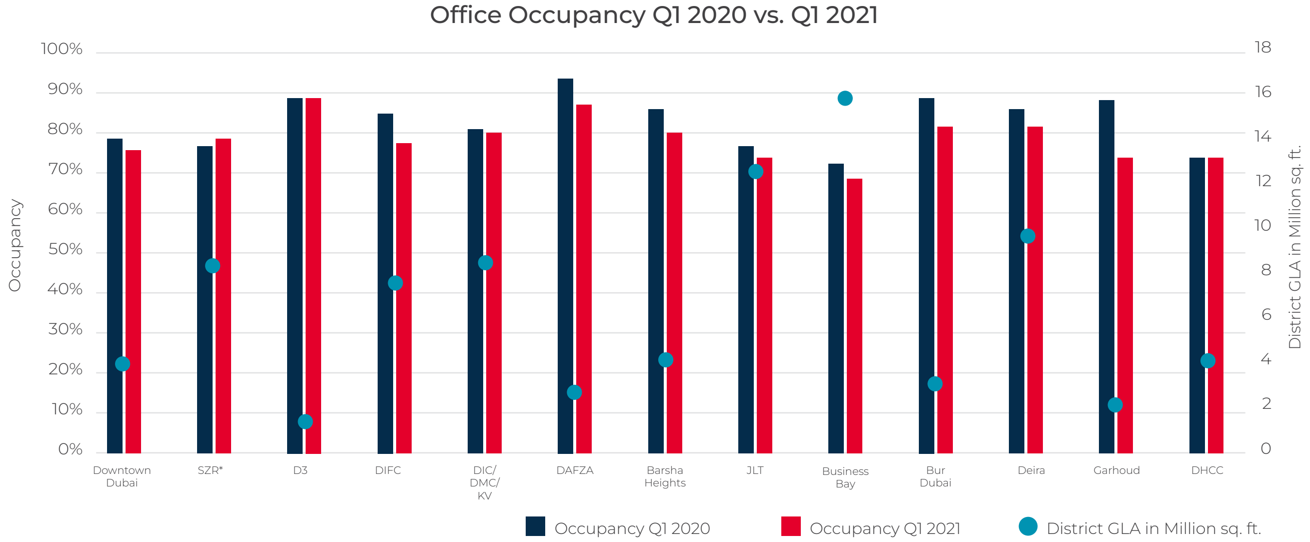
While the requirements and approach is different for each firm, companies shall pan their workplace strategy out over 2021 - 2022 in order to see what works best for their business and teams and are likely to calibrate along the way. That said, most global corporate occupiers across sectors agree that they would be reducing a portion of their real estate footprint going forward as they move to a more open seating arrangement and the use of digital technology to manage seating and conference rooms.

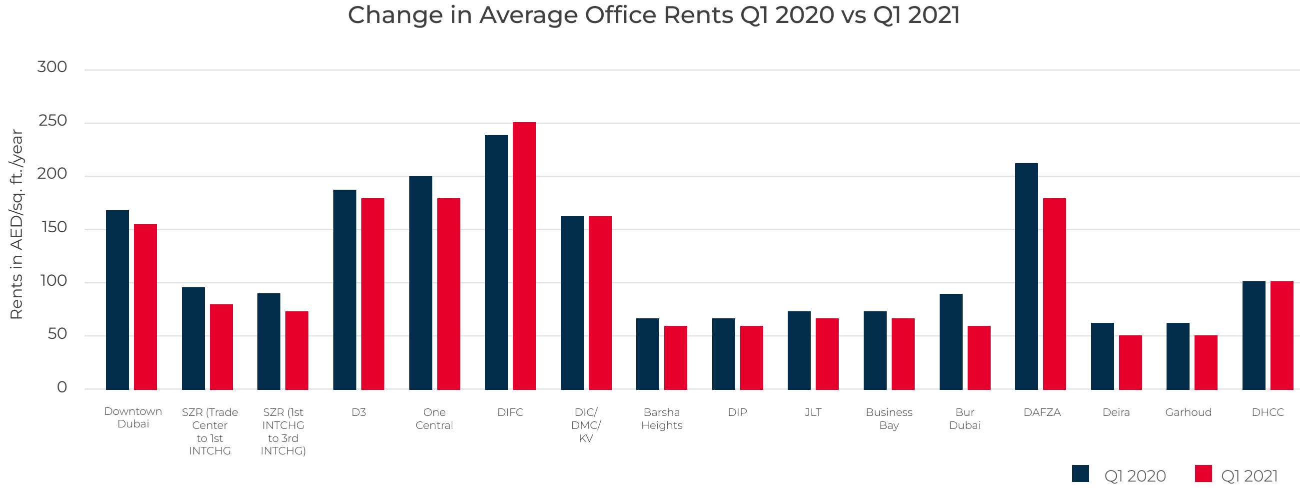
OFFICE MARKET RENTS

While rents continue to be under pressure across the city, we are starting to see resistance in further rental declines for superior, fitted offices with the gap between asking and transacted prices contracting for such units. Average quarter on quarter rents saw limited change in many districts displaying a level of stability, although year on year rents are still notably lower than Q1 2020 values.

Downtown Dubai and Business Bay districts continue to entice old Dubai occupiers to migrate to newer buildings at similar or lower costs. JLT(DMCC) is also attracting a significant amount of freezone demand from other more expensive or outer freezones. This trend has resulted in relatively faster absorption of competitively priced stock and the average rents in both Business Bay and JLT districts witnessing a nominal quarter on quarter increase.

The old districts of Bur Dubai, Deira and Garhoud have unsurprisingly seen the sharpest year on year rental declines of over -20% while Barsha Heights and Sheikh Zayed Road have also witnessed nearly -15% year on year declines. On the other hand, average rents in Business Bay and JLT are finally starting to see some resistance with over a 7% decline (Q1 2021 vs. Q1 2020) compared to the nearly 20% drop witnessed over Q1 2020 vs. Q1 2019. Average rents in DIFC have marked an uptick due to more premium stock driving the market such as ICD Brookfield Place and a few fitted options in other existing buildings.





Source: Cushman & Wakefield Core Research

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