CUSHMAN & WAKEFIELD | CORE

DUBAI MARKET UPDATE

Q3 2021

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"The transition to normalcy with robust public health & safety measures in place is signalling the end of COVID-19 restrictions in the UAE and accelerating real estate recovery.

With the highest global vaccination rate and the lowest COVID-19 cases recorded in the last 12 months, the UAE government and public have worked cohesively to position Dubai as one of the safest and most resilient cities in the world – priming it to host Expo 2020. The infrastructure built for Expo 2020, including the AED 15 billion by Roads and Transport Authority (RTA) is also fast-tracking transit-oriented developments across the public transport networks, providing connectivity to the wider market.

The buzz in the city is entirely different than it was this time last year with schools reopened, most flight routes resumed, offices, malls and restaurants running at increased occupancy and Expo 2020 successfully inaugurated. The transition to normalcy with robust public health & safety measures in place is signalling the end of COVID-19 restrictions in the UAE and accelerating real estate recovery.

Most traditional source markets have faced prolonged lockdowns and relatively slower COVID-19 mitigation efforts resulting in many international businesses moving to Dubai to establish or expand their existing footprint, with the new policy of 100% company ownership further aiding this trend.

While visa reforms have been rolled out since 2018 including the retirement and golden visa, we have seen a significant increase in these visa approvals over the last year. Other recent visa reforms include the remote working visa, green visa, a new work-permit allowing teenagers (15 years and above) to work part-time and the lowering of the minimum investment for a 3-year property visa from AED 1 million to AED Dh750,000. Collectively, these factors are positively impacting market sentiment and translating to a spike in market activity with the highest ever residential secondary market transaction values recorded in Q2 2021 and Q3 2021.

Whilst oversupply continues to prevail, particularly in affordable apartment districts and grade B and C office stock, demand is increasingly catching up and gradually stabilising vacancy levels. On the other hand, select prime and established districts are now seeing limited availability.

Although green shoots were visible since late 2020 and we remained positive of Dubai's real estate performance for 2021, the sharp rises in capital values and rentals, particularly in the established villa and prime apartment districts have considerably outperformed most market forecasts.

As we move into the final quarter of the year, traditionally a busy period, we expect robust activity levels with demand coming in from new entrants, investors and existing occupiers leading to a race for quality stock in select established office and residential districts. However, it is important to note that market recovery is expected to be segmented with a few residential districts witnessing slower stabilisation rates, while the Grade B and C office stock which has historically struggled in absorption, continuing to face challenges.

This publication

This document was published in October 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

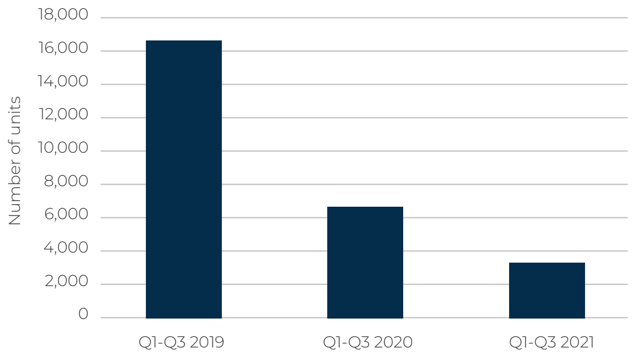
2021 is expected to see the highest number of residential deliveries in Dubai over the last decade with nearly 24,000 units delivered YTD 2021 while an additional 13,000 units are expected over Q4 2021, totalling to nearly 37,000 units for the year.

Apartment units continue to constitute a major portion of the delivered inventory, accounting for 86% of the total residential handovers over YTD 2021, albeit, further pushing villa price recovery due to limited villa stock. Major apartment projects that have been handed over are Tiara United Towers in Business Bay, Artesia in Damac Hills, Bloom Heights in Jumeirah Village Circle and 52-42 in Dubai Marina. Prominent villa deliveries this year include multiple projects in Akoya Oxygen, Villanova, both in Dubailand and Club Villas at Dubai Hills Estate.

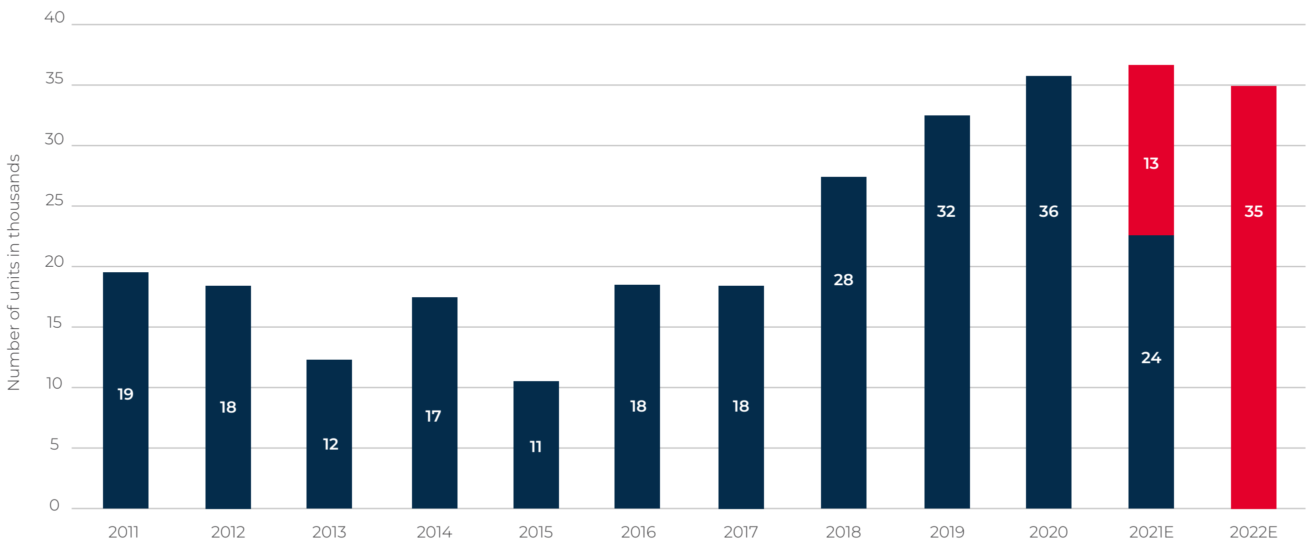
Pockets in Dubailand, Jumeirah Village Circle, MBR City and Business Bay are witnessing the highest number of deliveries and these areas are expected to continue seeing a steady stream of handovers over the next few quarters.

While there have been a few large project announcements recently including the Regalia Residences by Deyaar, Murooj Al Furjan by Nakheel and Palace Beach Residence by Emaar, total new project volumes have significantly contracted with YTD 2021 volumes 47% lower than 2020 and 79% lower than 2019. Although handover volumes continue to be high, lower launch volumes and robust transaction activity are expected to keep underpinning market recovery.

New Project Announcements

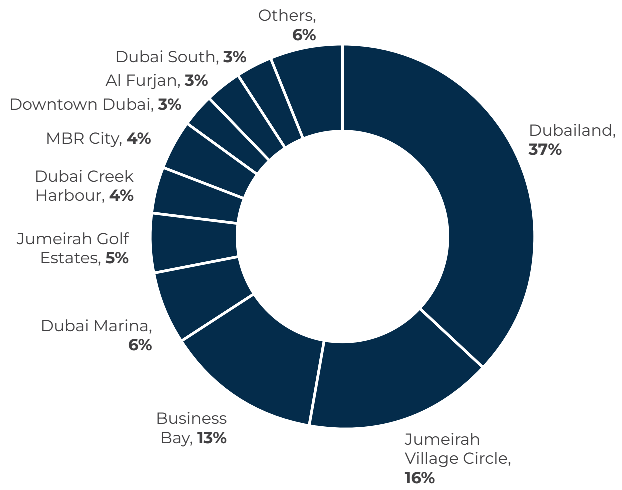


Residential Deliveries in Dubai 2011 - 2022

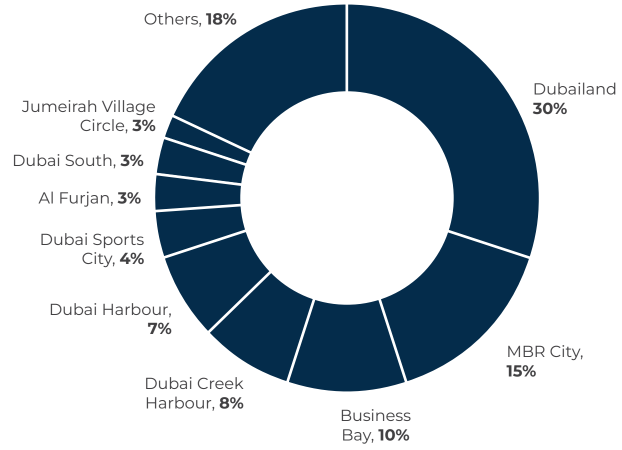


Source: Cushman & Wakefield Core Research

Supply Delivered by Area YTD 2021



Supply Forecast by Area Q4 2021



RESIDENTIAL TRANSACTIONS

The trend of rising numbers of residential secondary sales transactions that we saw since Q3 2020 continues to gain momentum with the highest ever quarterly value of transactions recorded over Q2 2021.

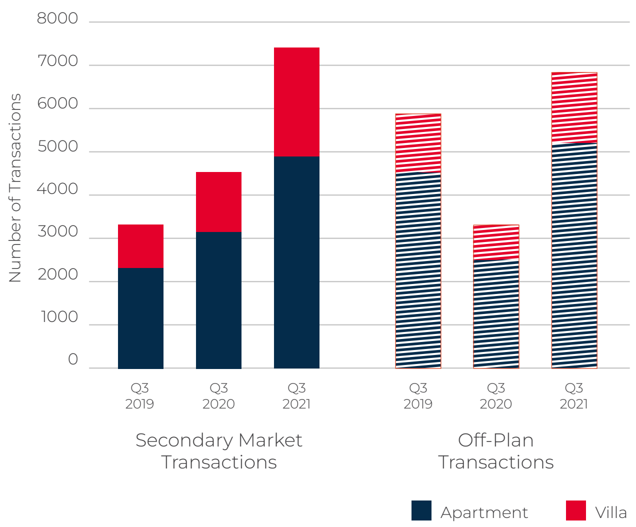
Domestic and international buyers are entering Dubai's real estate market with renewed confidence as the current market sentiment is relatively positive compared to most traditional source markets. A multitude of demand drivers are underpinning the rise in transaction volumes, including relatively competitive entry points, variety of options, change in LTV ratios, low interest rates, raft of visa reforms, and an economic environment of safety, openness, and resilience.

There has been a 67% increase in secondary market transaction volumes over Q3 2021 compared to Q3 2020 and a striking 127% more than Q3 2019, clearly indicating a revival from both the pandemic and pre-pandemic time periods. Looking into the data closely, the villa market continues to outperform with a 79% year-on-year rise in secondary sales transaction numbers, while apartments saw over a 62% annual increase.

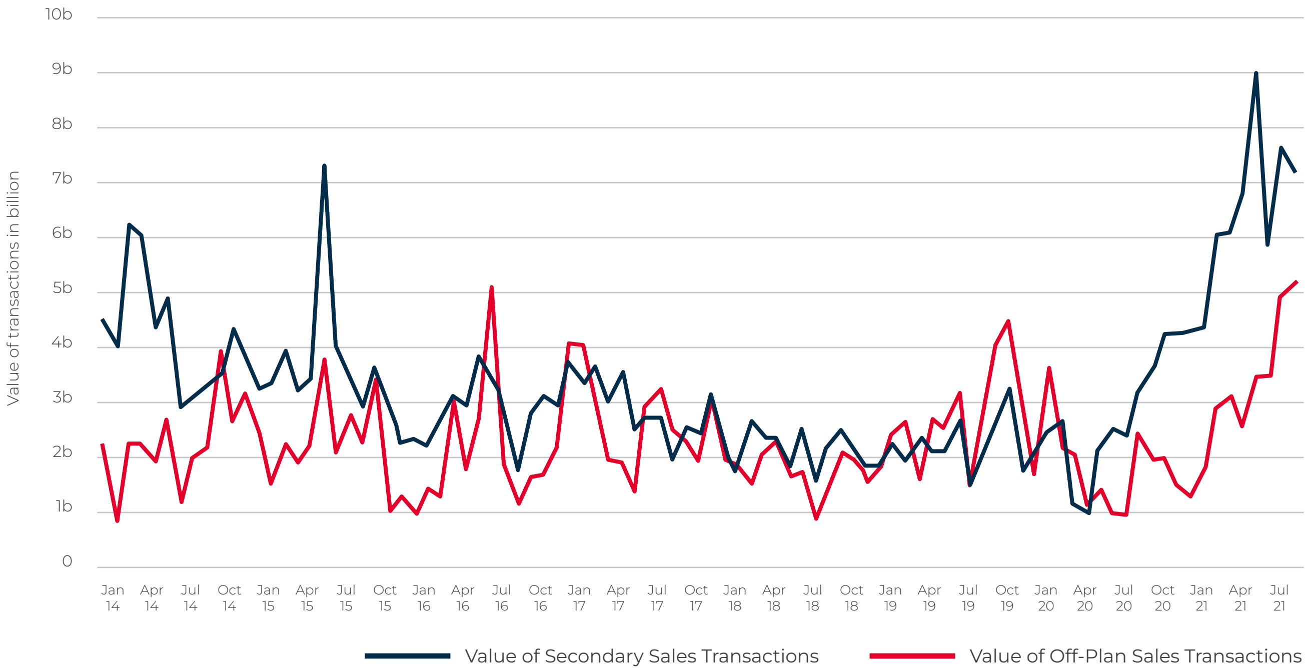
The off-plan market, after facing headwinds for over a year and witnessing significant contractions has seen a 'V' shaped recovery with off-plan transaction volumes up by 108% over Q3 2021 compared to Q3 2020 and 18% when compared to Q3 2019, signalling a return to pre-pandemic levels.

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.

Residential Sales Transactions Trends



Value of Transactions by Month



Source: REIDIN, Cushman & Wakefield Core Research

RESIDENTIAL SALES MARKET

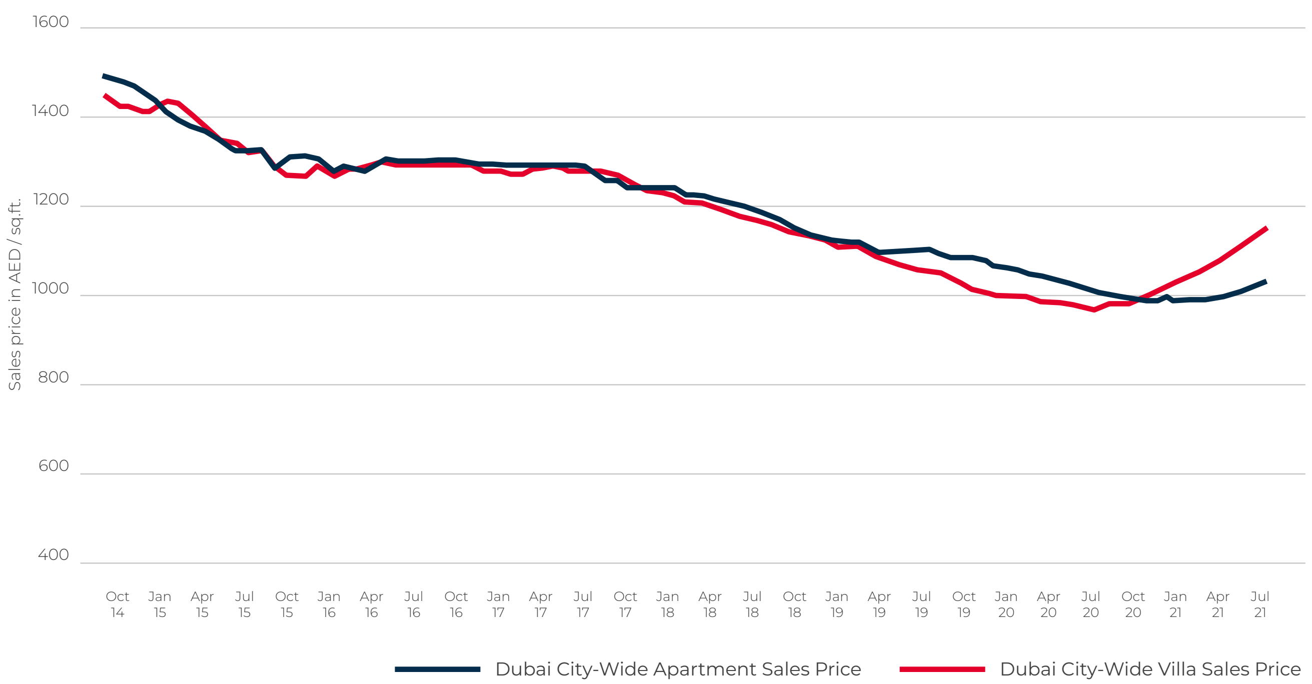
While the villa sales market has been leading the recovery since late 2020 with apartment sales market lagging, we are now witnessing a gradual rise in apartment sales prices over the last few months.

Looking in further detail, eight of the nine villa districts that we track saw an uptick in year-on-year sales prices with The Springs and The Meadows (28%), Palm Jumeirah (25%) and The Lakes (23%) witnessing the sharpest rises, while city-wide villa sales price average saw a robust 16% rise. It is imperative to note that while these price increases are significant, they are compared to the lowest point in the market cycle over Q3 2020. All villa markets are still significantly lower than their 2014 peak values and are gradually moving towards them. With the high migration witnessed by occupiers from apartments to villa districts over the last the 12-18 months, most established villa districts have limited stock and the outer sub-urban villa areas are now absorbing the unmet demand.

While the preference for private, open and additional spaces will remain in a post COVID world, it would be interesting to see if the villa market continues to see a sharp rise in values or witness corrections as most COVID-19 related restrictions have been lifted and schools and offices returning to near full occupancy.

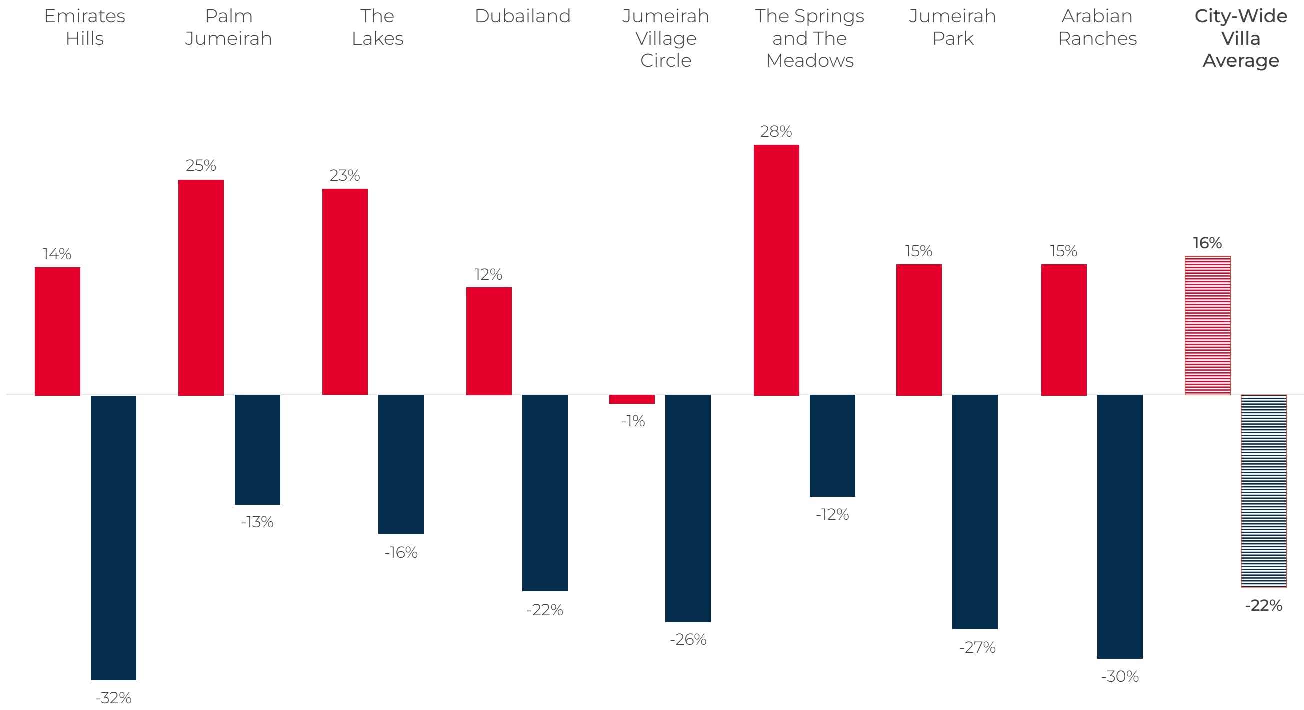
Apartment sales market performance continues to be clearly fragmented. The prime as well as central apartment districts of Downtown Dubai (14%), Palm Jumeirah (13%), DIFC (6%), Dubai Marina (3%) witnessing a rise in year-on-year capital values while the outer and affordable locations such as Dubai Sports City (-6%), Dubailand (-6%), Discovery Gardens (-4%) and Jumeirah Village Circle (0%) are yet to reach pre-pandemic price levels.

Dubai City-Wide Sales Price Trends

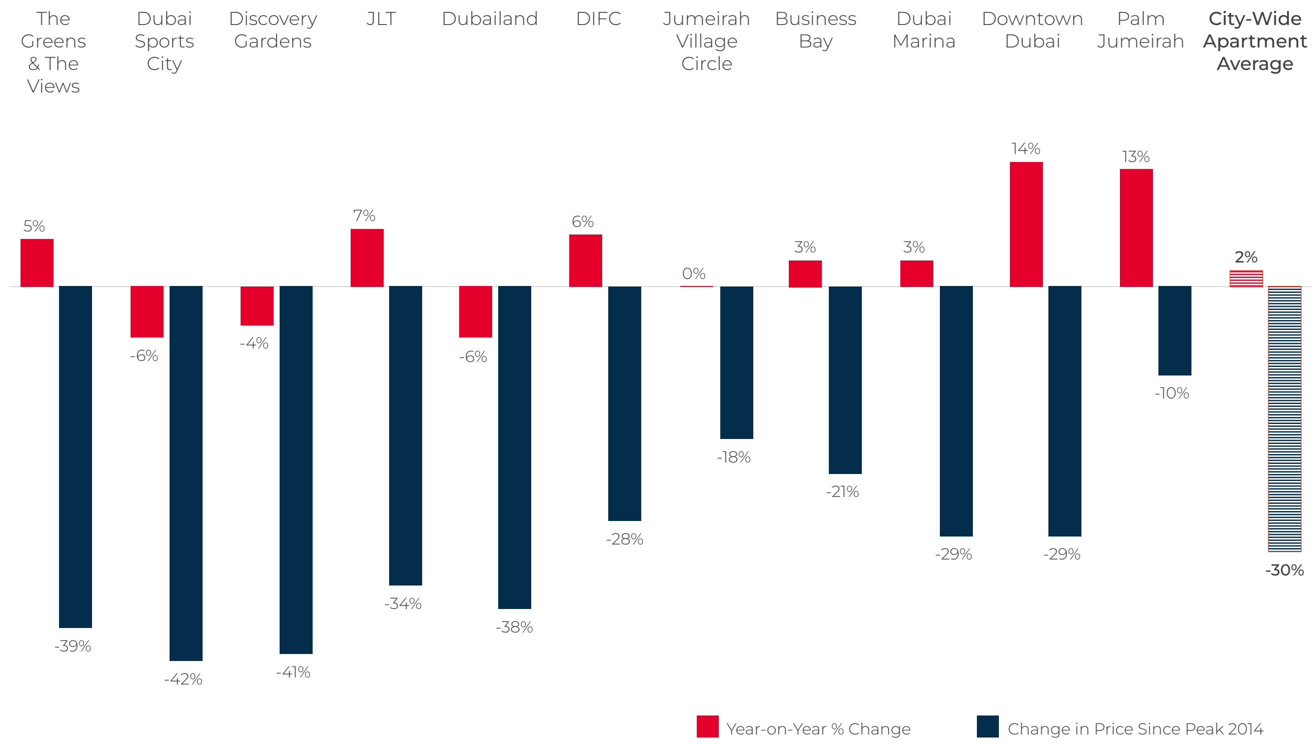


Source: REIDIN, Cushman & Wakefield Core Research

Villa Sales Prices Q3 2020 vs. Q3 2021



Apartment Sales Prices Q3 2020 vs. Q3 2021



Source: Cushman & Wakefield Core Research

RESIDENTIAL RENTAL MARKET

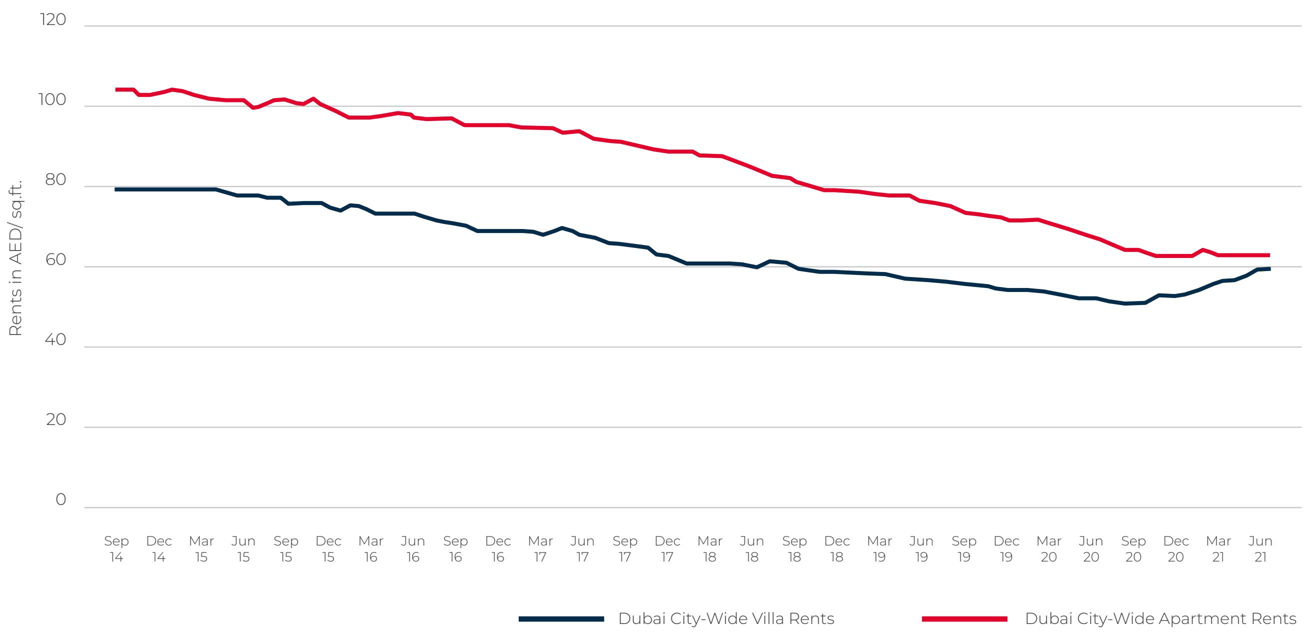
As seen over the last few quarters, demand for prime apartments in select districts has steadily increased, particularly in Palm Jumeirah, City Walk, a few high-end projects in Dubai Marina and Downtown Dubai. With limited supply in this niche segment, higher HNI demand and flight to quality with a preference for superior built and larger/open spaces, a few apartment buildings are witnessing near full occupancy. However, most of the mainstream and affordable apartment market continues to be over-supplied with rents and occupancies under pressure. This trend further reinforces the increasing segmentation in the residential market. While the instance of rental rises and low vacancy levels are being witnessed and widely talked about, it is limited to the villa market and a few prime apartment districts. Furthermore, most rental rises are in the new-let villas as landlords have been able to list and rent villas at 5-25% higher rents, however, we haven't witnessed similar levels of rental escalations in lease renewals, potentially due to RERA rental regulations.

Villas in Palm Jumeirah have seen a soaring 33% rental rise, largely due to limited availability and strong local and new international demand for prime waterfront properties. Other established villa areas such as The Springs and The Meadows (16%) and The Lakes (15%) also performed well and the city-wide villa rental average was up by 14% year-on-year.

However, it is important to note that rental recovery is not uniform across the market with most of apartment stock continuing to see rental contractions and absorption challenges – albeit the rate of rental declines is starting to decelerate. To further illustrate, 11 out of the 12 apartment districts we track continue to see year-on-year rental contractions with apartments in Palm Jumeirah being the only district to see a 12% rise. The weakest performing apartment districts are the affordable areas of Discovery Gardens (-20%), Dubai Sports City (-12%) and Dubailand (-10%). With supply projections for this year and next year remaining high, we expect rents in sub-urban apartment districts to remain under pressure.

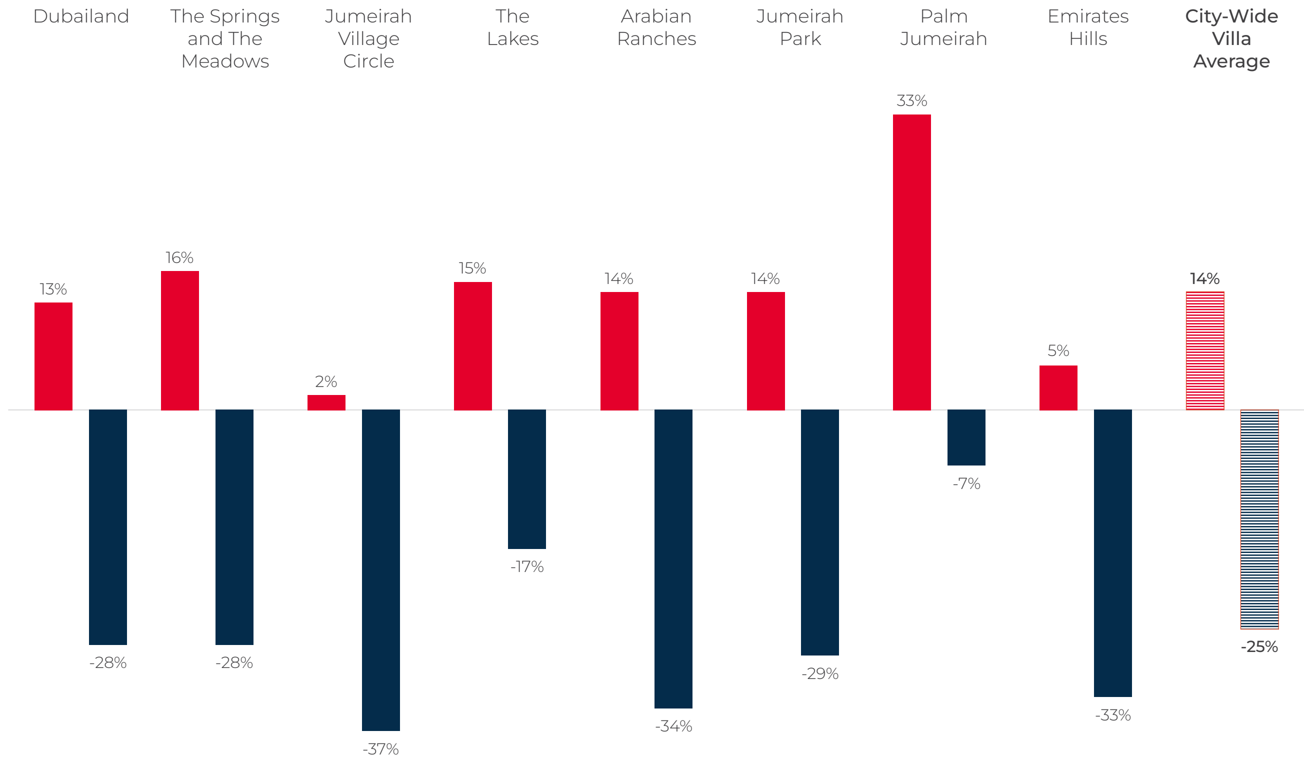
While Expo 2020 may see corrections in its pre-pandemic projections of 25 million visitors, it is expected to draw a large portion of these projected visitors from October 2021 until April 2022 and showcase the UAE on a global stage while creating thousands of direct and indirect jobs. We foresee an influx of jobs during this period in Dubai, especially within the travel, tourism, events and exhibition, technology, marketing and logistics sectors. Furthermore, we expect a section of these international visitors to be attracted to the business, employment and social proposition that Dubai offers and look to relocate to Dubai thus translating into increased rental demand over the near term.

Dubai City-Wide Rental Trends

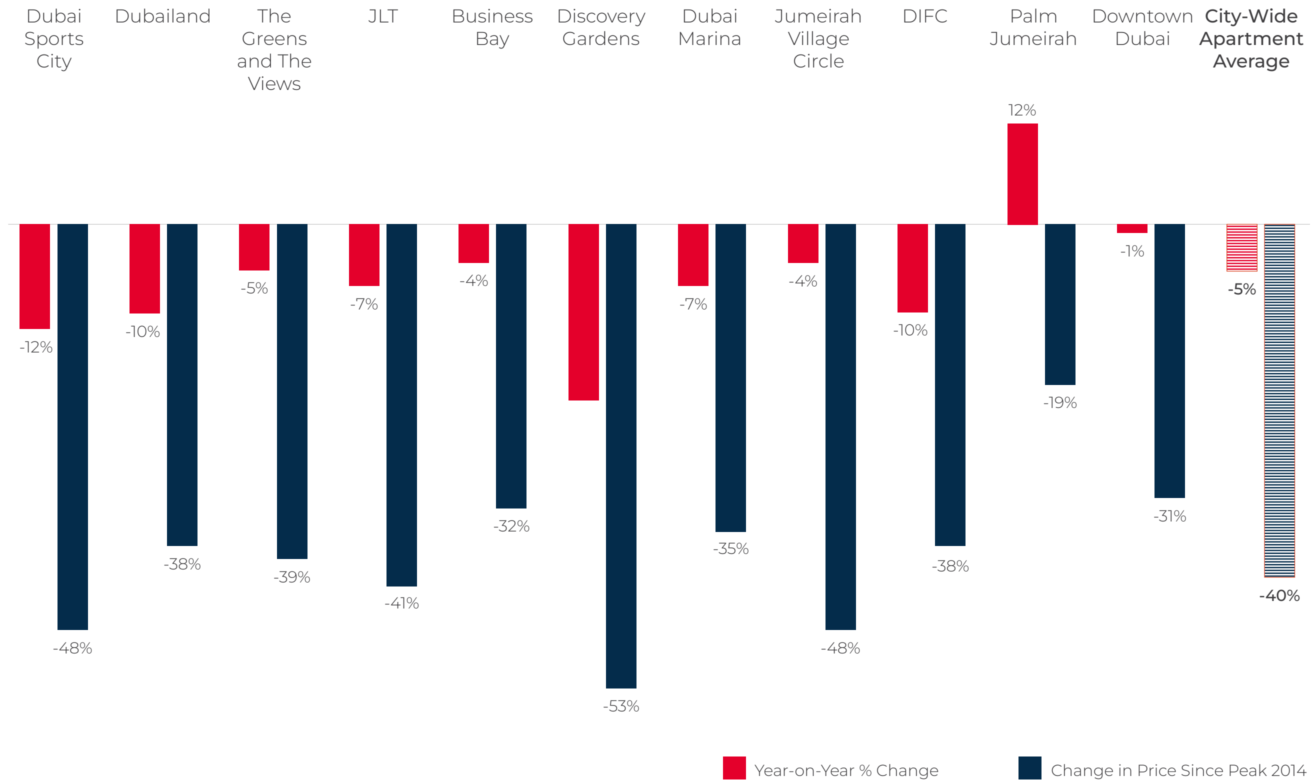


Source: REIDIN, Cushman & Wakefield Core Research

Villa Rents Q3 2020 vs. Q3 2021



Apartment Rents Q3 2020 vs. Q3 2021



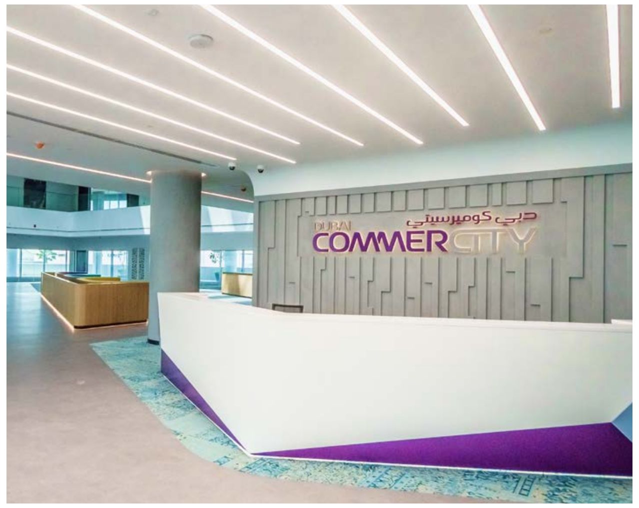
Source: Cushman & Wakefield Core Research

Commercial Market

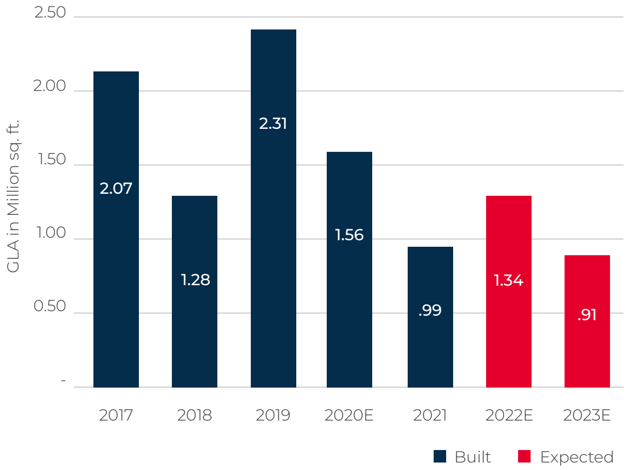
OFFICE MARKET SUPPLY

Over 990,000 sq. ft. of total office space has been delivered YTD 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. Other smaller standalone or mixed-use projects include offices at Dubai Courts, Al Fattan Downtown near City Walk and SOL Bay in Business Bay.

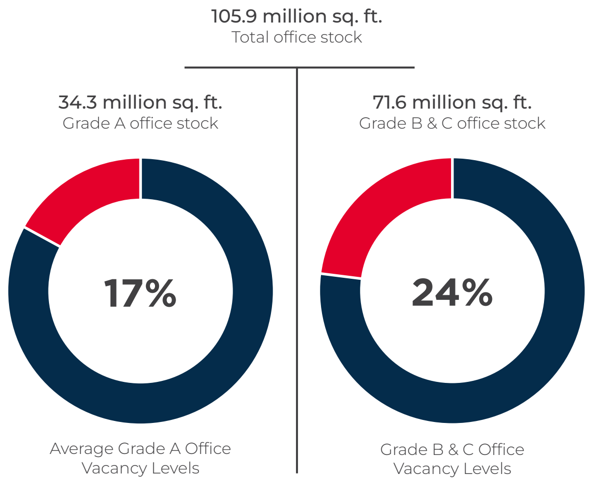
There are no major office handovers scheduled for Q4 2021. In 2022, over 1.34 million sq. ft. of office space is forecast including phases of large-scale projects such as the first phase of the office portfolio in District 2020, Uptown Tower (Uptown 2020) in JLT and the next phases of Dubai CommerCity.



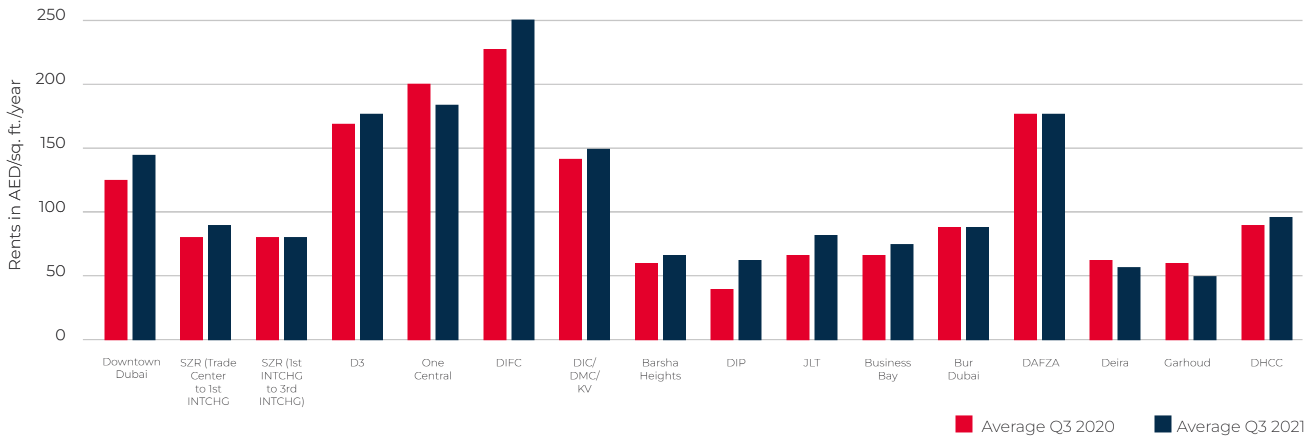
Dubai Office Supply 2017 - 2023



Dubai Office Market in Numbers



Change in Average Office Rents Q3 2020 vs Q3 2021



Source: Cushman & Wakefield Core Research

OFFICE MARKET DEMAND

While new market entrants were limited pre-pandemic, we have seen a sharp rise in first phase expansions with nearly 40% of our office inquires coming from this segment. The remaining demand stems from existing occupiers who are either expanding or who had taken a wait and see approach over the last 12-18 months and now looking to relocate.

Although the market is abuzz with smaller spatial requirements, we are seeing limited movement above the 15,000 sq. ft mark except in select prime office buildings. Most major occupiers are continuing to stay in existing premises, either due to competitive lease renewals executed over the last 18 months or because they are currently operating under a hybrid model and are yet to take a call on their long-term expansion and workplace strategy. We expect this segment of the market to mobilise from early 2022 as most international occupiers are expected to return to the office next year.

In terms of market performance, we are witnessing a considerable amount of leasing activity since Q1 2021, particularly in the 3,000 to 5,000 sq. ft. requirement range. While there is an oversupply in the overall office market, the flight to quality trend that has been playing out for a while now has resulted in the absorption of most of the prime sub 5,000 sq. ft available office stock. With an undersupply in select size and superior build-quality stock, some landlords are achieving higher rentals than the area average for such well-appointed units, particularly in the strata office districts such as Business Bay and JLT.

We foresee further polarisation in office market performance with an increasing under-supply in the fitted, furnished and superior maintained stock as most of these units are being absorbed and becoming unavailable. On the other hand, we predict Grade B and shell and core properties, unless repurposed and fitted, to continue facing challenges in attracting occupiers and witnessing contraction in occupancy levels.

Furthermore, most of the migration of old Dubai occupiers to newer premises either in the immediate vicinity or to Sheikh Zayed Road and Business Bay has already taken place. As the rents stabilise and, in many cases, increase and suitable options become unavailable, the value proposition of these new areas would cease, making relocations more expensive.

Office Occupancy Q3 2020 vs. Q3 2021

Source: Cushman & Wakefield Core Research

OFFICE MARKET RENTS

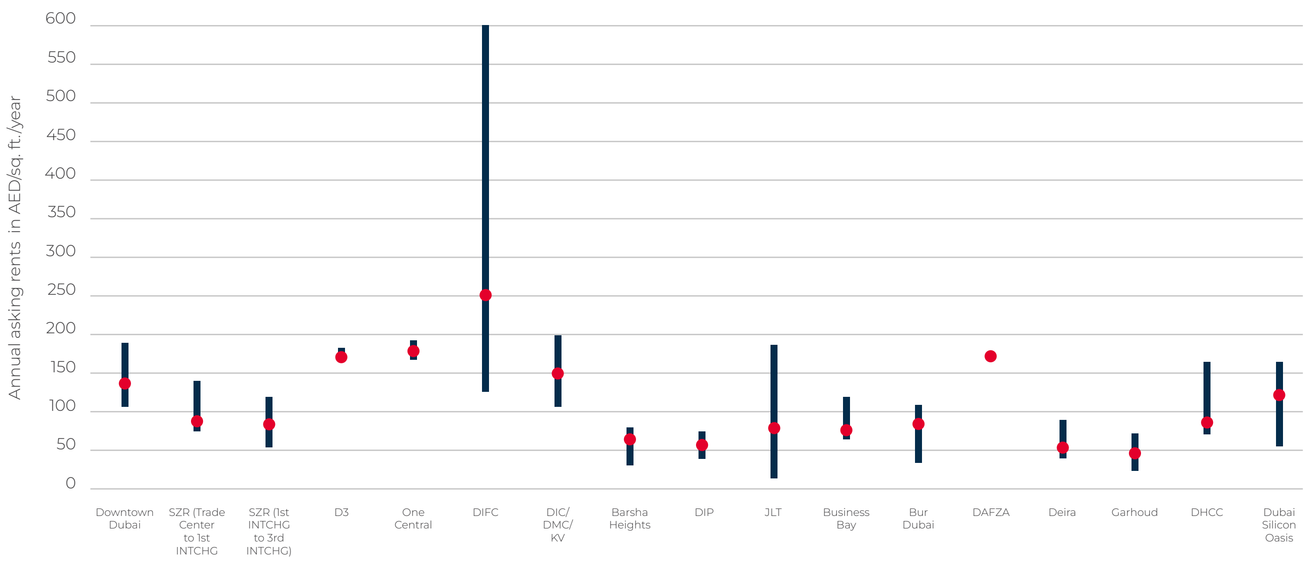
Single-landlords and single-owned freezones have mostly maintained headline rents over the last year and are not displaying the volatility in asking rents that the strata (multiple-ownership) market is now seeing. The strata market is increasingly favouring landlords after being tenant-friendly for years. In certain sub-markets where demand is exceeding supply, landlords, particularly for fitted units, are pushing for higher headline rentals with transactions being closed at asking prices with fewer cheque payments

Most office distracts that we track have either seen average year-on-year rents stabilise or witness a marked uptick. Prominent asking rental rises were seen in DIFC (13%), Downtown Dubai (16%), Sheikh Zayed Road (Trade Center to 1st interchange, 6%), JLT (23%) and Business Bay (15%) as most of the market activity is concentrated in these areas. On the other hand, the older Dubai districts of Deira, Bur Dubai and Garhoud continue to see rental declines.

Occupancy levels and rental trends have largely moved hand in hand with newer DED areas and freezones witnessing stabilisation in occupancy levels or increases. The sharpest rise in occupancy levels were witnessed in DIFC with ICD Brookfield Place, Central Park Towers, Index Tower and Burj Daman seeing many new lease executions. ICD Brookfield Place has particularly seen a high number of new leases executed in DIFC and clearly shows the market appetite for prime office stock.

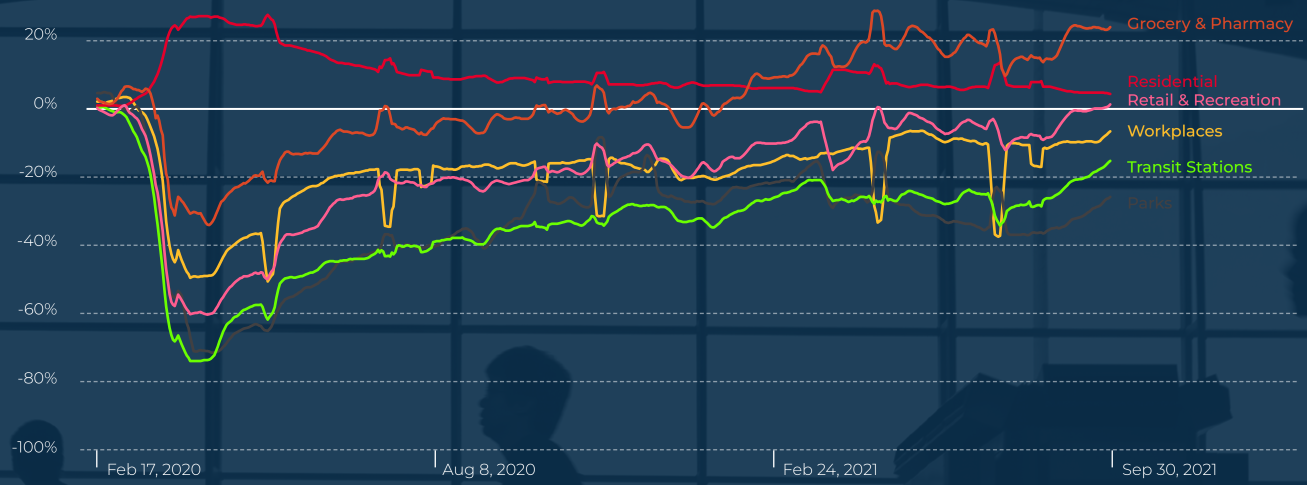
Large strata districts such as Business Bay and JLT are also witnessing a steady rise in occupancy levels due to an increase in market activity. Mirroring the rental market, the older Dubai districts of Bur Dubai, Deira and Garhoud continue to see contractions in occupancy levels except for new-build properties such as Dubai CommerCity and Deira Enrichment Project, which are seeing a robust take-up.

Dubai Office Rents Q3 2021



Source: Cushman & Wakefield Core Research

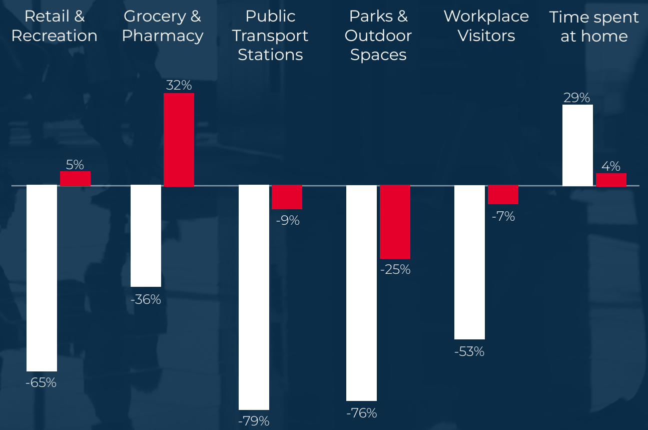
IN-FOCUS: UAE MOBILITY TRENDS



Source: Google COVID-19 Community Mobility Trends – Last updated 2 October 2021, 15:53 (London time), OurWorldInData.org/coronavirus

- UAE's retail and recreation activity is slightly above pre-pandemic levels
- We are visiting our grocery and pharmacy stores nearly 32% more than we used to pre-pandemic.
- Public transport is still 9% below pre-pandemic levels, however, it is expected to quickly catch up with the relaxation of Dubai Metro's recent social distancing regulations
- Parks and outdoors space visitor activity is 25% down from pre-pandemic level, however, with the onset of winter months and a further relaxation of outdoor COVID-19 restrictions, we expect a quick revival
- Workplace visitor numbers have gradually improved over the last quarters with the current values just 7% lower than pre-pandemic levels
- The time spent at home in September has nearly equalled pre-pandemic levels with just a 4% increase compared to pre-pandemic levels.

Change in Visitors by Category in UAE



**Note: Pre-pandemic baseline days (the median value for the 5-week period from January 3 to February 6, 2020)*

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