Market View

Abu Dhabi, UAE

Lease Rates

	Q1 09	Q1 08
Office	↓	↑
Residential	↓	↑

Hot Topics

- Oil prices down to USD 40 – 50 from a 2008 high of USD 147
- Q1 2009 construction costs reduced 30%, which amounts to circa AED 50 – 100/sqft against last year.

OVERVIEW

Last year was an extraordinary time for the UAE. Soaring oil prices meant oil rich countries were producing billions of dollars every week. However, the oil price has come down from its peak in summer 2008 of $147 a barrel to around $40-50.

Despite current economic challenges, the Emirate of Abu Dhabi continues to perform, mainly due to undersupply of accommodation across all sectors. While a small number of developments have been delayed, the Emirate continues to demonstrate commitment to large-scale projects such as Sa'adiyat Island, Al Sowwah, Reem Island and Yas Island along with Masdar (the new sustainable city development).

Overall construction costs are estimated to have dropped 30% over the last quarter. This is a welcome news to developers that are under pressure to incorporate more "affordable housing units" to their developments. Contrary to the western definitions, affordable in this context refers to middle income housing, as any drop in costs improves profit margins to, in some cases positive, on previously marginal projects.

Multi-national corporate occupiers are less active, creating less pressure on the office leasing market. This is not surprising considering the pressing economic conditions faced globally which has resulted in a slowdown in demand, with expansion and investment decisions put on hold or cancelled due to lack of financing and high levels of risk and uncertainty.

According to the Travel and Tourism Report 2009 the UAE has emerged as the best tourism business destination in the GCC as well as the wider Middle East and Africa region. The country is leading the region in developing world class tourism facilities and in attracting visitors. The Travel and Tourism Competitiveness Report 2009 ranks the UAE as 33rd most competitive country in terms of international tourism with Qatar ranked 47th.

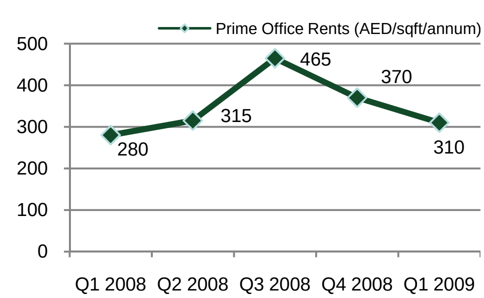
Abu Dhabi International Airport recently released its traffic figures for January 2009 and amidst the backdrop of a worldwide slowdown has posted a 10% rise in passenger traffic over the same month last year. Only a month earlier Abu Dhabi International Airport passed a significant milestone by handling over nine million passengers in 2008, having exceeded conservative expectations over the previous two years with over 30% growth pa.

The ADTA has predicted that the total number of hotel rooms in Abu Dhabi will increase to 25,000 within five years, exceeding earlier projections. It is anticipated the initial increase will start to show towards the end of 2009 when a number of major infrastructure projects are constructed, including the Yas Island F1 race track (scheduled to host its inaugural F1 meeting in 2009). However we expect this figure to fall some way short as a number of developers rethink construction timelines as a result of the global slowdown and severe restraints on liquidity both locally and on a world scale.

OFFICE SECTOR

Previous aggressive expansion by international firms, coupled with the lack of office supply pushed rental levels to unprecedented highs. However, the present economic turmoil has forced local and international occupiers alike to review expansion plans. Rental fluctuations are shown in the following graph.

Abu Dhabi Prime Office Rents, Q1 2008 - 2009



- Prime rental rates for office space with better building specifications and facilities..

OFFICE MARKET CHARACTERISTICS

Office Market Size	1.85 million m² 973,410 m² CBD
Annual Prime Rents (m²)	AED 3,200 – 3,500
Lease Structure	Typically three years, with longer lease terms becoming more popular.
Deposit	Generally 1 -3 month deposit; rent paid yearly in advance.
Service Charge	Typically 10 - 15% of annual rent
Agency Sales and Letting Fees	Sales: 2% of capital paid by each party Rental: 5-10% of one years rent

Overall, the office sector witnessed lower leasing activity and rental decreases during the quarter from previous highs experienced during 2008. Currently there is around 1.8 million sq m of office space in Abu Dhabi, much of which is below international standards. This is due to increase by 2 million sq m over the next 3 – 4 years much of which is predicted to be of a far higher standard. For the meantime though, supply remains constricted and rental levels affected only to a small degree as compared to markets elsewhere.

RESIDENTIAL SECTOR

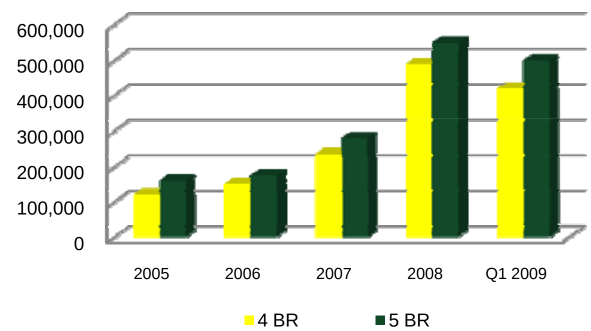
The lack of transparent transactional data makes it difficult to accurately gauge changes in rental and sales data.

Abu Dhabi Rental Rates for Residential Apartments, Q1 2009	
Unit Type	**Q1 2009**
Studio	75,000 – 95,000
One Bedroom	130,000 – 160,000
Two Bedroom	175,000 – 250,000
Three Bedroom	250,000 –300,000

During 2008, Abu Dhabi's real estate growth was fuelled by the same speculation and irrational exuberance that characterized the meteoric rise of Dubai's property prices. However, during Q1 2009 residential sale prices have been affected by transactional gridlock and demand for off-plan sales is virtually non-existent in some instances. Even though residential demand remains high, investor confidence is low.

Distressed sales have been occurring but a natural floor price exists where continuing to make payments on a property or even forfeiting money already paid is less costly than sale at dramatically discounted prices. In relation to off-plan sales, some investors are failing to secure financing and, as payment deadlines approach, downward pressure on prices is evident. During March HSBC and Barclays announced their intention to relax lending restrictions. This may inject some much needed liquidity into the capital markets.

RESIDENTIAL VILLA RENTAL RATES, 2005 - 2009



During the quarter, overall villa rental prices decreased between 5-15%. However, this is not significant when compared to Dubai where further decreases are likely.

MARKET OUTLOOK

Good occupier demand (including pent-up demand currently accommodated in Dubai) will ensure that prices remain relatively stable in the face of the current economic crisis. Positive indicators include tourism numbers, relaxation in bank lending criteria for residential and off-plan sales, and minor price corrections (as compared to neighbouring Dubai). A reduction in transaction volumes will enable developers and their agents much needed time to reassess properties with a view to maximising design quality.

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