

Lease Rates

	Q2 08	Q2 09
Office	↑	↓
Residential	↑	↓

Hot Topics

- Six month multiple entry residence visa for property owner/investors
- Prime office rents experienced a drop of 10 percent year on year, and no change from the previous quarter.
- Commercial office stock increased by 22% year on year.
- Increased dispute resolution activity with RERA reassessing service charge rates at some developments.

OVERVIEW

The Dubai real estate market endured another difficult quarter with minimal sales activity and further evidence of weak sales levels across all sectors. Despite continued negativity in the marketplace there is evidence that price declines are beginning to slow with cautious optimism that the market bottom could be called before year end. What demand does exist has continued to be directed towards ready to move in properties with premiums achieved on these properties remaining low.

Ready for occupancy properties are now commonly being offered for lease with owners shying away from sales offerings, due to prevailing low prices and long disposal times. Investors are typically choosing to lease with a guarantee of payment or part-payment cover for outstanding mortgages and service charges commitments.

Some creative investors have even opted for below market lease rates, in order to attract good quality tenants, for longer lease periods and pre-agreed annual increments.

AMENDMENT OF LAW NO 13

The major talking points during the quarter were the amendments to Law No 13 and the announcement of visas for real estate investors.

Law No 13 2008 has been amended with respect to rules on purchaser defaults as follows:

- If at least 80% of the project is completed, then the developer may keep the full amounts;
- If at least 60% of the project is completed, then deduction is 40% of the purchase price;
- If the developer has commenced the construction but did not reach 60%, then a deduction of 25% applies;
- If construction has not yet commenced for reasons beyond the developer's control, then the developer can deduct up to 30% of the total amounts paid by the purchaser.

VISA FOR PROPERTY OWNERS

The UAE Government issued a law in May 2009 pertaining to the issuance of six-month, multiple entry residence visas for property owners/investors.

Under the new law, the value of the completed property should have a minimum value of AED1,000,000 and owners should have a fixed income of not less than AED10,000 per month. However importantly the visa does not give the property owner/investor the specific right to work inside the UAE.

OFFICE MARKET

Available office space is currently outstripping demand as new completions add further pressure to existing stock. Several projects previously expected to enter the market during H1 of 2009 are now being pushed further back as developers halt and slow construction. Notably a significant volume of this upcoming stock is located in Business Bay.

The slowdown in business activity has caused a major drop-off in required office space. The majority of demand over the past six months has focussed on smaller sized office units ranging from 95-230m² as compared to 400 m² and above prior to the downturn.

Excess space from older buildings has steadily emerged over the last six months as companies downsize in light of current market conditions. Fewer cases of pre-leased office space have also been noted during this period.

Of those companies currently in the market for space it can be noted that new companies and companies formerly operating out of business centres are typically on the look out for fitted out space emerging from older buildings as this drastically reduces setup costs. The premiums paid for such office space still remain low as compared to fitting out a new space.

The lease rates in secondary locations continue to show a downward trend. The new office locations such as Dubai Silicon Oasis, Jumeirah Lakes Towers

and TECOM have witnessed a further plunge in rates, mainly in buildings with multiple ownership.

Prime lease rates mainly from the DIFC district remained stable throughout H1 2009. However lease rates within the district from private developers with multiple ownership are currently being leased in the range of AED4,036-4,300/m²/pa.

OFFICE STOCK

Commercial office stock stood at 4.5 million square metres as of end H1 2009, rising from 3.7 million square metres in 2008. This reflects an addition of 0.8 million square metres and a 22 percent year on year increase.

New supply reflected a quarterly increase of close to 4 percent, a noticeable reduction on previous quarters. Predominantly new space is emerging from newer master-planned developments, such as Jumeirah Lakes Towers, TECOM and Dubai Silicon Oasis. Existing business locations in Deira, Al Garhoud and JAFZA have also seen a steady increase of new supply over the quarter. Within the prime district of DIFC new space was released both by the DIFC Authority and private developers at Liberty House.

New supply coupled with low demand has led to a notable drop in lease rates. The secondary location of Al Barsha which commanded rents of AED3,230/m²/pa in Q3 2008, now leases at AED1,615/m²/pa, a 50 percent drop in nine months. Vacancy rates in newer locations are relatively high compared with established office districts.

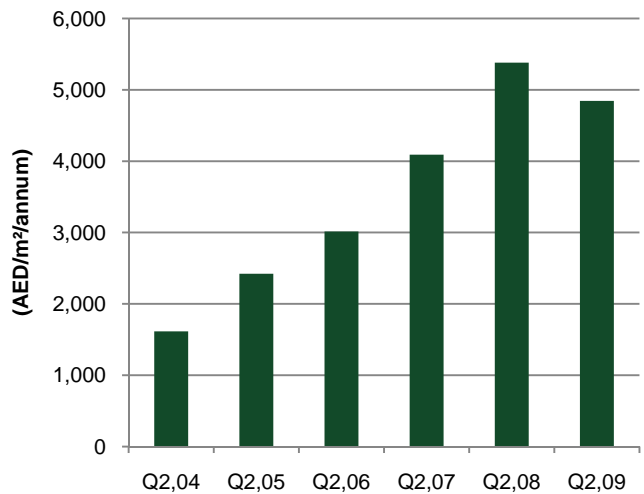
RESIDENTIAL MARKET

The exodus of the expatriate workforce along with new stock entry has resulted in a sharp drop in lease rates for residential apartments of all types. Established locations such as Bur Dubai, Deira and Karama have for the first time in many years reported apartment vacancies in both old and new properties.

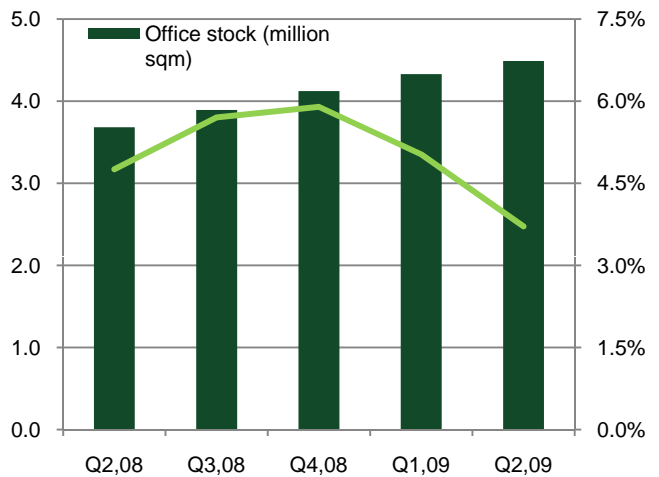
Among the non-freehold locations illustrated in the chart, the worst affected are the newer residential districts of Al Barsha and Al Nahda. A one bedroom apartment in Al Barsha is currently available for lease in the range of AED60-65,000/pa as compared to a high of AED90-100,000/pa in Q2 2008. During the last nine months a surge in supply has resulted in a sharp drop in lease rates. The falling levels have provided an option for many existing tenants to move to higher denomination apartments at the same rate as their existing units.

Declining lease rates and the movement of tenants has forced landlords to opt for incentives, the most prominent being payment terms of 6 to 12 cheques compared to annual payment up-front that was required previously. Lower sale and lease rates in freehold locations have also resulted in landlords offering tenants below market rates with payment options of full a year's rent in advance, a win-win option for both tenant and the landlord.

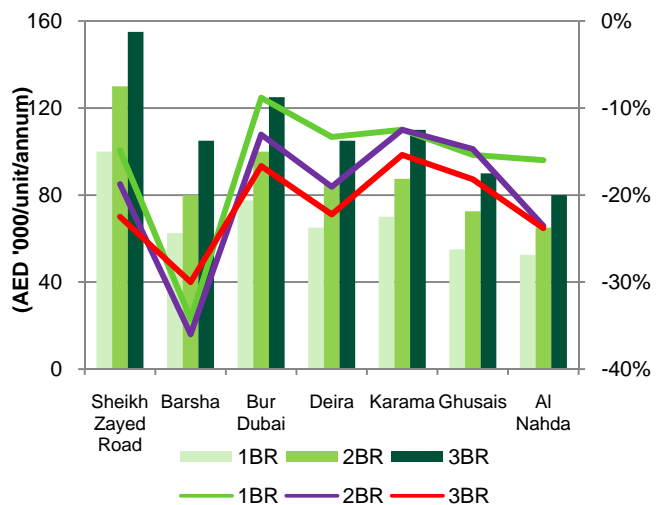
Prime Office Lease Rates (Q2,2004 to Q2,2009)



Office Stock Growth (Q2,2008 – Q2,2009)



Lease Rates for Residential Units (Q2,2009 & % change Y.O.Y.)



OUTLOOK

The high volume of new supply across all property sectors, coupled with the continuation of the economic downturn is expected to result in a worsening picture through H2 2009. Lease rates for both the residential and commercial properties are likely to see a further drop, however this decline will be marginal as compared to the drop since H1 2009. Pressure on lease and occupancy rates will be most prominent in the emerging new residential developments such as Dubai Silicon Oasis, International Media Production Zone and Motor City.

In terms of the commercial office market sector, office stock will see a further and substantial increase over the next 6 months with many projects in the latter stages of completion. Of this stock the majority will be from the newer business areas of Jumeirah Lakes Towers, Al Barsha, TECOM, Business Bay and Dubai Silicon Oasis, with more limited supply from the DIFC area.

The Business Bay development will see the emergence of considerable new office supply over the course of the year as infrastructure issues ease and developers begin the long awaited handover of new units. The impact of this new supply is likely to see a further increase in competition between landlords, resulting in greater incentives for tenants. It is worthy of note that lease rates in Business Bay towers which are nearing completion are currently being quoted in the range of AED 1,615 to 1,884/ m². This is a substantial discount from the current prime sales rates within the DIFC, a reflection of both its emerging status as a office location and the current levels of development and infrastructure within the wider Business Bay development.

The outlook for the final quarters of 2009 then remains negative but importantly forecast levels of decline are notably less than already experienced during the first half of the year. A period of minimal negative growth over the next 6 months could see some stability and the market bottom called before year end.

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