

Lease Rates



Hot Topics

- Year-on-year residential lease rates drop by 20 percent across the Northern Emirates.
- Ajman establishes real estate regulatory authority.
- Trust/escrow accounts become mandatory for developers in Ajman and Ras Al Khaimah

RESIDENTIAL OVERVIEW

The Northern Emirates enjoyed a boom period in recent years as cost-conscious occupiers sought alternative accommodation solutions. The “ripple effect” emanating from Dubai was sufficient to fuel the expansion of new periphery markets, a consequence of tight supply and exceptional levels of demand. However, the real estate market in the Northern Emirates (primarily Sharjah, Ajman and Umm Al Quwain) is now experiencing a universal drop in both occupancy and lease rates as a market reversal quickly erodes the gains of recent years.

Analysis has shown that residential buildings still some way from completion have been most affected in the downturn. At the same time investor confidence in off-plan units has been decimated with widespread speculative activity a major factor in overheating the sales market. As rents cool across all areas many residents are choosing to relocate back to Dubai or to up-scale property in current locations.

PROPERTY REGULATIONS

The freehold market in the Northern Emirates is largely concentrated on Ajman and Ras Al Khaimah, with both suffering universal declines in demand and price points. In order to help protect investors and to maintain confidence in the property market the Ajman Government has implemented several important initiatives. These include the establishment of a regulatory body and a programme to take stakes in a number of key developments. Notably Ajman Real Estate Investment Department, which is owned by the Ajman Government, acquired a stake in the Marmooka City project at a cost of AED800 million.

The Ajman Real Estate Regulatory Agency (ARRA) was established in 2008 following Emiri Decree (11/2008) issued by His Highness Sheikh Humaid bin Rashid Al Nuaimi, ruler of Ajman. The organisation aims to regulate the activities of real estate development and to establish a legal system for licensing buildings and investment projects throughout the Emirate. Ajman has also issued the Ajman Trust Account Law, under which it is mandatory for all developers to deposit all amounts received from buyers into escrow accounts until the completion of predetermined stages of construction.

Sheikh Saud bin Saqr Al Qasimi, Crown Prince and Deputy Ruler of Ras Al Khaimah, issued Amiri Decree No.22 of 2008 pertaining to the creation of ‘guarantee accounts’ for real estate development projects. Under the law, developers wishing to sell off-plan properties in the Emirate of Ras Al Khaimah must apply to Ras Al Khaimah Investment Authority (RAKIA) to open escrow accounts wherein all the funds received from property owners/purchasers must be deposited.

Similar to the situation in Ajman, Rakeen, a subsidiary of the Ras Al Khaimah Government, purchased the La Hoya Bay project which was being developed by Khoie Properties in the Al Marjan development.

In addition, the UAE Government issued a law in May 2009 pertaining to the issuance of six month, multiple entry residence visas for property owners/investors in UAE. 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 right to work inside the UAE.

Further regulatory changes are expected over the next in the Northern Emirates over the next 18 months with Governments determined to generate renewed trust and confidence by offering investors a greater level of security and transparency.

FREEHOLD MARKET

Ajman

Overall residential lease rates in Ajman have fallen by nearly 20% with some units seeing a decline of over 35%.

Emirates Road has been the focal point for the majority of projects launched in Ajman over the last two years. The location offers easy road access to Dubai but with prices at a substantial discount. As a result units have proved extremely popular with cost orientated investors and end-users alike.

The freehold market in Ajman first emerged in 2004 with the launch of Al Naemiyah Towers. Apartments in phase 1 were offered at a rate of AED1,680/m² and phase 2 at a rate of AED1,940/m². This was followed by Rashidiya Towers which was offered at a rate of AED2,368/m². The evolution of launch sale prices in Ajman is illustrated in figure 1 and highlights the rapid rise in rates, especially from the period 2007 to 2008.

Ras Al Khaimah

Ras Al Khaimah has benefited largely from its position as both an overflow market for Dubai and its attractiveness as second home location for local and international investors. The availability of lower price units helped the Emirate attract value conscious purchasers seeking opportunities outside the main markets of Dubai and Abu Dhabi. The Emirate's naturally occurring characteristics, in the form of mountains and sea, provides some potential for further future development of the tourism and leisure markets.

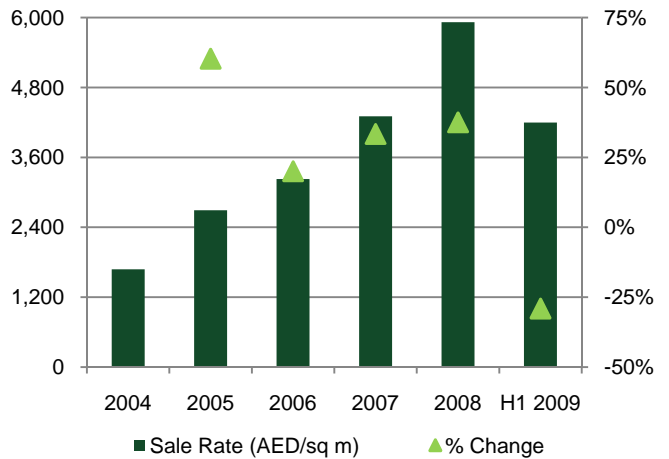
Similarly to the other Emirates, Ras al Khaimah saw a huge price growth between 2007 and 2008. The average launch sale prices for residential units during the period 2005 to 2008 are provided in the adjacent chart. During this period prices have risen from AED6,100/m² to AED14,800/m², an increase of 143 percent as illustrated in figure 2.

RESIDENTIAL LEASE MARKET

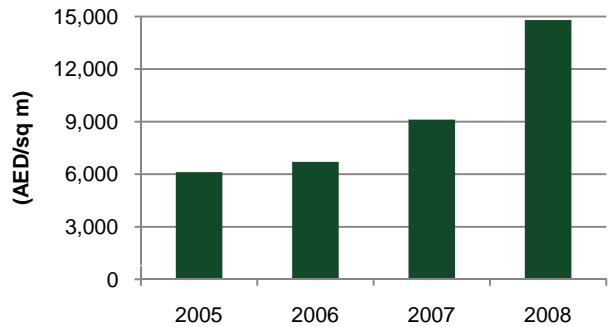
Historically, much of the mid to low-income accommodation needs of the Dubai workforce has been satisfied by developments in Sharjah and the Northern Emirates. The "ripple effect" emanating from Dubai reached as far north as Ajman and Umm Al Quwain, notably when supply became tight and rents rose in Sharjah during 2007 and early 2008. With considerable supply entering the market during the remainder of 2009 and with increased options for residents, a further decline in lease rates is likely.

Residential rental rates have fallen across all types and market sectors in the Northern Emirates during H1 2009 as indicated in figure 3. Year-on-year rents in the Northern Emirates have also dropped by an average of 20 percent and now show close resemblance to rents prevailing in H1 2007.

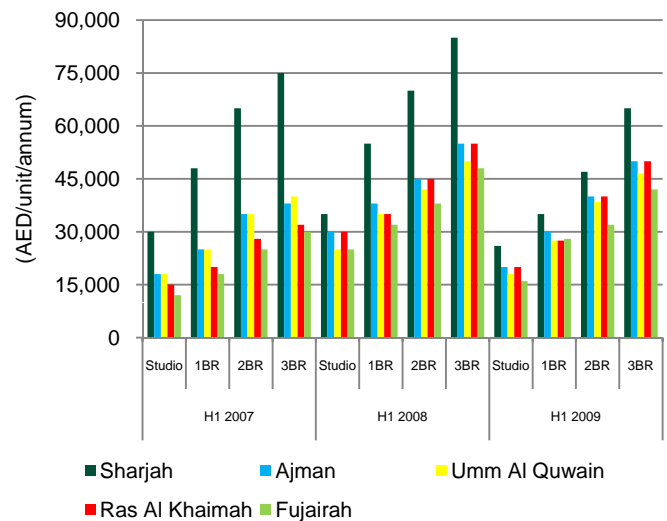
Evolution of Freehold Apartment Rates & % Change - Ajman



Evolution of Freehold Apartment Sale Rates - Ras Al Khaimah



Northern Emirates - Apartment Lease Rates (H1,2007 - H1,2009)



OUTLOOK

Residential lease rates are to likely to experience further downward pressure as significant new supply enters the market in the short term. With supply already well outstripping demand, tenants are likely to benefit from an increase in options while also being offered more favourable terms from landlords. Increasingly attractive incentives have become more common place as landlords try to retain high occupancy rates in the face of deteriorating market conditions. Declining lease rates in Dubai will result in further relocation of tenants from the Northern Emirates, predominantly from Sharjah and Ajman.

In the freehold market, the impact of the new visa regulations on the property markets in Ajman and Ras Al Khaimah has not yet become clear. However it is important to note that the value of most residential properties in Ajman are below the minimum criteria of AED1,000,000 laid down by the Federal Government. It is feared that already declining market conditions for developers will worsen, at least in the short term and this could result in additional delays, cancellations or Government intervention. Given the current direction of the market and the lack of investor appetite more issues of this nature are likely to arise.

For more information regarding the Market View, please contact:

Matthew Green

Head of Research & Consultancy
CB Richard Ellis Middle East
Building 6, 8th Floor
Emaar Square
Dubai, UAE
t: +971 4 437 7200
e: matthew.green@cbre.com

Mohammed Faheem

Research Analyst,
CB Richard Ellis Middle East
Building 6, 8th Floor
Emaar Square
Dubai, UAE
t: +971 4 437 7200
e: mohammed.faheem@cbre.com

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