

Highlights:

- Real Estate Regulatory Authority (RERA) in operation.
- Escrow law implementation among developers.
- Launch of Armani Residence

Q4 2007
AT A GLANCE

Population	↑
Commercial Rents	↑
Office Vacancy	↓
Yields	↓

PROPERTY MARKET COMMENTARY

The buoyant sentiment surrounding Dubai's exceptional real estate market growth was still evident during the last quarter of 2007. Intensive efforts to enhance Dubai's overall image in terms of global leadership positioning continued with horizontal and vertical sector expansions across the Emirate.

Cityscape Dubai 2007 held during the quarter, disclosed AED 70 billion in new developments including the AED 40 billion Mudon project by Dubai Properties in Dubailand. As an observation, the majority of these projects are tourism driven developments along with others designed to address the premium segment.

In parallel a number of mixed-use developments offering considerable commercial space were launched in Business Bay. In conjunction with Dubai World Central's - Commercial City, these projects serve to enlarge oversubscribed supply lines of prime office accommodation faced with strong demand.

By delivering the impressive crop of developments that will eventually define Dubai's urban landscape, the Emirate is determined to establish its prominence in a global arena. Burj Dubai, at 598.5 metres in height and 158 storeys by the turn of the year, already claimed the world's greatest numerical floor count and surpassed the stature of internationally competitive tall structures.

Dubai's intent to build an internationally trustworthy and transparent code of practice supported by a comprehensive legislation bank around the real estate industry was clearly demonstrated with the introduction of Law no 8 of 2007 making escrow accounts compulsory for all Dubai off-plan developments. The underpinning objective of the law is the safeguard of buyers against potentially unscrupulous developers through regulatory protection of investor stage payments.

Thus, funds only become transferable to developers upon certified completion of the related construction phase. The law is also structured to ensure that property developers optimise their application of financial resources in the interests of timely delivery of the product.

In order to ensure practical implementation and compliance with the Escrow Law, and generally regulate Dubai's real estate sector more closely, the Real Estate Regulatory Authority (RERA) was created according to Law No. 14 of 2007, beneath the umbrella of the Dubai Land Department. While operationally speaking the body is relatively adolescent, there are positive indications that progress is being made on a month by month basis. It is understood that further legislation is on issue and while the full effects of RERA are yet to be felt, there is obviously a desire to realize a more mature establishment style market and instill long term and institutional investor confidence.

During the quarter, the property market remained in the grip of inordinately tight availability for immediate occupancy across all market segments. Meanwhile, Q4 also witnessed the announcement of a swathe of new developments in most categories, adding to a substantial inventory of real estate due for delivery over the next 3 to 5 years.

Highlighted among the new developments announced in Q4 2007 is the Armani Residences at the Burj Dubai Tower. Armani Residences is located on floors 9 to 16 of the tower, with a total of 144 apartments consisting of 99 m² one bedroom units and 208 m² two bedroom units. Original prices for the apartments started at AED 113,000 per m², one of the highest rates in the short history of the Freehold market in Dubai.

During the quarter, rental rates for commercial space in Dubai ranged from AED 4,100 – 4,300/m².

Combined total office stock of 330,000 m² in new developments announced during Q4 at Downtown Jebel Ali and Business Bay.

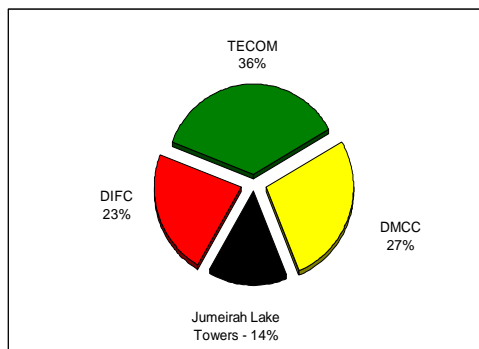
Office Market Overview

The substantial appetite for office space remained sharp despite a climate of accelerated rental rates, placing Dubai among the top ten most expensive locations in the world. Severely constricted commercial space options left vacancy rates hovering between 1 and 0 percent, thus supporting the distinct possibility of further upward movement in rental price levels.

Circa 247,000 m² of fresh office space entered the market in Q4 2007. With the exception of office stock within TECOM zones, all new inventory announced was designated as Freehold.

The following illustration depicts the breakdown of estimated office supply across selected districts.

**Office Supply in Selected Districts
Q4 2007**



Cityscape Dubai 2007 was the platform chosen for the declaration of many new Freehold office towers. The most prolific areas of development activity were Downtown Jebel Ali and Business Bay, in which a combined total office stock of 0.33 million m² was announced.

Prime office yields were further strengthened during the quarter registering at 7.5 percent, a gain of 0.25 percent over the previous quarter as a result of rising prime office rental rates and lack of office space in the CBD area. Next quarter, it is forecasted that yields would further decrease and likely move to 7.25 percent as the supply and demand factor continues to remain tight.

Office Market Characteristics

Dubai Offices	
Office Market Size	3.1 million m ²
Prime Rents	AED 4,100 - 4,300 per m ²
Lease Structure	Typically 1-3 years, only 1 year enforceable under application. No security of tenure after expiry.
Deposit	Generally 3 month deposit; rent is annually or semi-annually in advance.
Service Charge	Typically included in rent.
Taxation	No property related taxes other than 5% Municipality Tax on annual rental.
Agency Sales and Letting Fees	Each party responsible for costs. Sales: 2% of capital value Leasing: 5-10 % of one year's rent.

Sale prices for office accommodation situated in the Freezone area of Downtown Jebel Ali stood between AED 10,764 - 12,900/m² while the Freehold equivalent in Business Bay occupied a range between AED 15,070 - 20,450/m².

In terms of the office leasing market, the following rental rate bands existed in the market:

- TECOM AED 2,475 – 2,800/m²
- JLT AED 2,690 - 2,900/ m²
- DIFC AED 4100/ m²

Residential Market Overview

Significant activity was recorded in the residential market during the quarter, with a wide range of developments emerging in Freehold districts such as Culture Village, Downtown Jebel Ali and Dubailand.

The subsequent table describes the average sale prices of selected new developments brought to market.

Average Residential Sale Price, Q4 2007

Development	Average Sale Price (AED/m ²)
Dubailand: Remraam	7,965
Dubitech: Harmony Tower	8,395
Culture Village	13,455 – 15,607
Downtown Jebel Ali	10,765 – 12,915
Dubai Waterfront	
Pixel Tower	13,995
Wave Residence	16,145

As shown in the table, residential products situated within Dubai Waterfront districts command higher sale prices compared with similar developments in other locations. This significant variation in price can be attributed to a variety of influential factors including: location, views, proximity to retail and leisure facilities, amongst others.

During the quarter, average annual rental rates ranged between AED 75,000 – 110,000 and AED 100,000 – 155,000 for 1 and 2 BR apartments respectively. Generally, first time rental prices are heavily market driven dependent on variables such as location, amenities, views and proximity to the CBD and other major work specific districts, but usually based on availability.

The widening demand-supply gap in the residential sector was most glaring in the low-to-middle income market segment. Healthy exponential population growth being the primary stimulation behind demand. The aggressive economic expansion strategies, adopted by both the private and Government sectors in Dubai, have resulted in sustained growth in demand for housing units.

As the majority of the labour force reside in the mid-to-lower income bracket, accentuating demand for affordable residential properties was clearly visible in the market. The severe shortage of residential units, appropriate to these remuneration categories, resulted in a significant leap in rental levels.

MARKET OUTLOOK

In the short-run, rents for both residential and commercial accommodation are unlikely to change dramatically over the next quarter. However, the massive volume of product expected to become available in the next 12 to 18 months, should result in a robust surge across almost all property segments providing wider choices to investors.

Despite the phenomenal growth pervading the Dubai economy in general, it is imperative to temper the euphoria with pragmatism as regards sustainability and the inherent capability to deliver good quality and absorb future stock. Delivering more inventory, to counteract the acute shortage of real estate products in Dubai property, is necessary but not a universal panacea. The greatest challenge lies in addressing specific demand demographics to prevent future product disparity .

As an emerging economy, while current growth rates are remarkable, the Dubai market stands at a relatively youthful stage. Thus, the repercussions of bulk delivery ignorant of the true nature of ongoing demand could potentially be harmful to the industry. The prospects for continued sustainability rely heavily on solid market fundamentals, structural reforms and political & financial stability - all factors justifying Dubai's image as a safe investment haven in the GCC region.

For additional information please contact:

Iris Dinu
Associate Director
CB Richard Ellis (FZ) LLC
+971 4 362 0818 (t)
+971 4 362 0815 (f)
iris.dinu@cbre

Mohammed Faheem
Research Analyst
CB Richard Ellis (FZ) LLC
+ 971 4 362 0818 (t)
+ 971 4 362 0815 (f)
mohammed.faheem@cbre

Arlene Isito Jimenea
Research Analyst
CB Richard Ellis (FZ) LLC
+971 2 681 4399 (t)
+971 2 681 4714 (f)
arlene.jimenea@cbre.com

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EMEA Offices

Abu Dhabi (971) 2 674 3399	Leeds (44) 113 233 7666
Aix-en-Provence (33) 442 60 01 31	Lisbon (351) 21 311 4400
Amsterdam (31) 20 626 2691	Liverpool (44) 151 227 4611
Athens Danos & Associates (30) 210 756 7567	London (44) 20 7182 2000
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Helsinki Huoneistokeskus Oy (358) 207 80 3750	Valencia (34) 96 316 2890
Hoofddorp (31) 23 565 7700	Vienna (43) 1 533 4080
Istanbul CB Richard Ellis LS (90) 212 259 36 29	Warsaw (48) 22 544 8000
Jersey (44) 1534 874141	Zagreb (385) 0 487 8000
Johannesburg Broil Property Group (27) 11 441 4229	Zurich CB Richard Ellis PI Performance (41) 44 226 30 00
Kampala (256) 41 345165	

