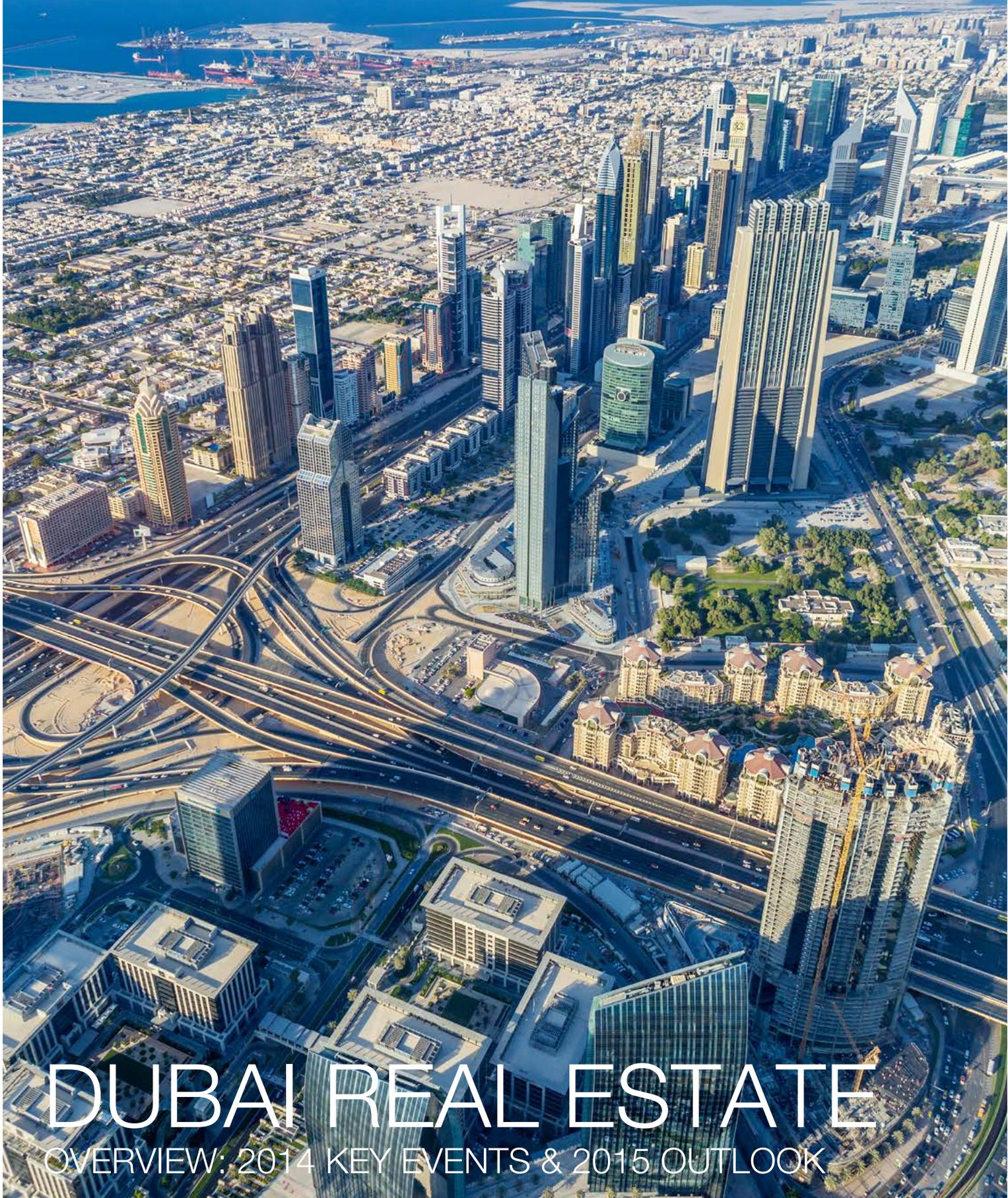


RESEARCH



DUBAI REAL ESTATE

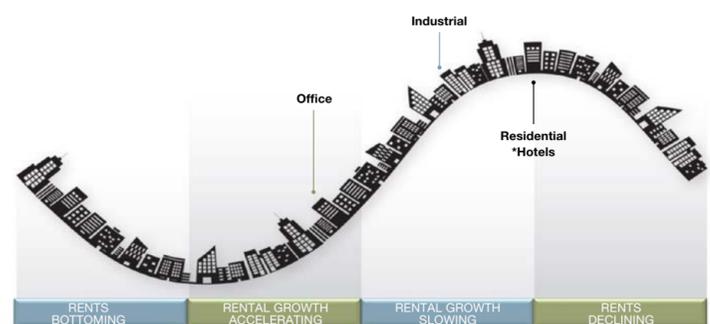
OVERVIEW: 2014 KEY EVENTS & 2015 OUTLOOK

HOW HAS THE DUBAI PROPERTY MARKET BEEN PERFORMING AND HOW IS IT EXPECTED TO DO IN 2015?

How has the Dubai Property Market Been Performing?

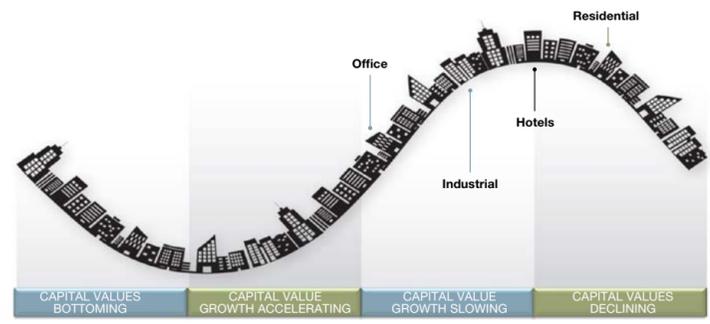
- In recent months, the spotlight has been firmly on Dubai's residential property sector, where – after trending up for a number of years – rental value growth has stalled and prices have begun to register falls.
- Last year, Dubai International (70.3 million) overtook London Heathrow (68.1 million) as the world's busiest international airport by passenger numbers. However, largely due to rising supply, the hotel sector performed sluggishly. Notable openings included the Four Seasons at Jumeirah Beach, Sheraton on Sheikh Zayed Road, and Doubletree hotels by Hilton in JBR and Al Barsha.
- On a more positive note, healthy expansion in the private non-oil economy underpinned strong rental value growth across the commercial property sectors last year.

FIGURE 1
Prime Property Rent Cycle, Dubai (Q4 2014)



The above diagram is intended to provide a comparative guide to the current positions of Dubai property sectors in their rent cycles. Markets will move through their cycles at different speeds and, sometimes, in different directions. The positions indicated in the diagram do not constitute forecasts of future rental value trends.
*Refers to RevPAR rather than rents. Source: Knight Frank

FIGURE 2
Prime Property Capital Values Cycle, Dubai (Q4 2014)



The above diagram is intended to provide a comparative guide to the current positions of Dubai property sectors in their cycles. Markets will move through their cycles at different speeds and, sometimes, in different directions. The positions indicated in the diagram do not constitute forecasts of future capital value trends. Source: Knight Frank

RESIDENTIAL: 2014 KEY EVENTS

- In 2014, the total number of residential sales transactions across Knight Frank's basket of mainstream residential properties were down 41% compared to a year earlier. Unsurprisingly, in annual terms, the second half of the year was notably weaker than the first.
- Data from the Dubai Land Department showed that Emiratis were the largest real estate investors in 2014, spending close to AED 22.8 billion. Meanwhile, Indians (AED 18.1 billion) were the largest expat buyers of real estate, followed by the British (AED 9.3 billion) and Pakistanis (AED 7.6 billion).
- In quarterly terms, residential price growth entered negative territory in both the prime and mainstream segments in Q3 2014, with the former seeing a 0.2% fall and the latter a 5.2% drop. Moreover, the price indices experienced their second consecutive quarterly decline in the final three months of last year.

RESIDENTIAL: 2015 OUTLOOK

- Prime residential prices and rents are predicted to soften in 2015. Indeed, we expect prices to fall by 5-10%, and rents to decline by up to 5%.
- In 2015, new residential supply in the mainstream segment is expected to equate to around 5.5% of existing stock. On the same basis, the figure for the prime segment is projected to be closer to the 2% mark.

OFFICES: 2014 KEY EVENTS

- In 2014, the Markit/HSBC UAE Purchasing Managers' Index remained well above the 50-no change mark, pointing to healthy expansion in the non-oil private sector. In December last year, the figure reached 58.4 – up marginally on November's outturn (58.3) and well above the series' long-run average (54.3).
- After holding more or less steady for 18 months, prime office rents grew strongly in 2014. In Q4 2014, rents were 23% higher compared to a year earlier.
- In the first quarter of last year, prime office vacancy rates edged down for the first time in 18 months, and then held steady at that level for the remaining part of 2014. Nevertheless, at 18%, the figure was at its lowest level in almost four years.
- Last year there was anecdotal evidence to suggest that some large occupiers postponed their re-location plans, with a view to move into newly completed office buildings in 2015.

OFFICES: 2015 OUTLOOK

- Pockets of instability in the region are expected to continue pushing office occupiers to the safety of Dubai. Also, with a number of office schemes due to be completed next year, tenants will have a range of accommodation to choose from. Upcoming projects include d3 (Dubai Design District) and the Dubai Trade Centre District development, although there are other notable schemes due to be completed in Business Bay and Internet City. Finally, at DIFC, we expect increasing tenant movement as rents rise and new supply becomes available.



HOTELS: 2014 KEY EVENTS

A series of directives and incentives were introduced last year, including:

- The reduction of the pre-approval process for hotel construction to two months.
- Dubai Municipality managing the approval process for hotel planning permission.
- The introduction of the 'Tourism Dirham' for guests staying in hotels, hotel apartments, guest houses and holiday homes.
- A number of incentives to help develop hotels in the three and four-star segments, including:
 - The allocation of government land as identified by Dubai Municipality and government-linked master developers.
 - The establishment of a committee to review re-zoning of plots.
 - No charge on changing the usage of land to hotel usage.
 - An extra year of exemption from the 10% Dubai Municipality fee for three & four-star hotels due to open before June 2017.
- Investment Corporation of Dubai (ICD) unveiled plans for a US\$1.4 billion, 46-storey Royal Atlantis Resort and Residences in October 2014. Moreover, 2014 saw a number of hotel openings, including Four Seasons at Jumeirah Beach, Sheraton on Sheikh Zayed Road and Doubletree by Hilton in JBR and Al Barsha.

HOTELS: 2015 OUTLOOK

- After overtaking London Heathrow as the busiest international airport last year, Dubai International is forecast to handle 78.4 million passengers in 2015, according to Dubai Airports. This in turn should provide another boost to demand for hotel rooms, which the emirate should be well placed to service.
- Sustained weakness of the Rouble is expected to impact passenger numbers from Russia. At the end of last year, passenger traffic from Russia and the CIS experienced sharp annual falls, which in turn acted as a drag on hotel occupancy in Dubai.

INDUSTRIAL: 2014 KEY EVENTS

- Although enquiries for industrial space strengthened significantly in 2014, not all of these converted into actual take-up. However, this was largely down to the fact that available space for occupation remains low in Dubai.
- Year-on-year, industrial rents in Dubai continued to see double-digit increases in 2014. On the same basis, Jebel Ali, Dubai Investment Park and Al Quoz saw the strongest rental value growth at the end of last year.
- There has been growing interest in locations such as Dubai Investment Park and Dubai Industrial City from tenants requiring larger, and generally better quality units. These locations also offer longer ground leases, making them attractive options for those tenants planning for the long-term.
- In 2014 overall, demand for industrial units was strongest from food & beverage, as well as third-party logistics firms.
- At the end of last year, it was announced that Economic Zones World (EZW) had been acquired by DP World.

INDUSTRIAL: 2015 OUTLOOK

- Despite low levels supply, industrial rents are expected to begin to plateau this year as tenants take a more cautious approach to expansion in view of rising uncertainty in the global economy.
- Moreover, if it materialises this year, a relaxation in sanctions on Iran is expected to give a significant boost to UAE's trade with the "sleeping giant" (currently trade is being rerouted via neighbouring countries at higher cost). This in turn should have positive implications for industrial property demand in Dubai, with those areas located closest to air and sea ports likely to benefit especially strongly.



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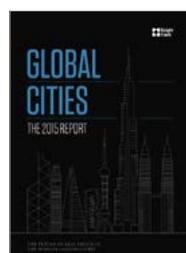
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