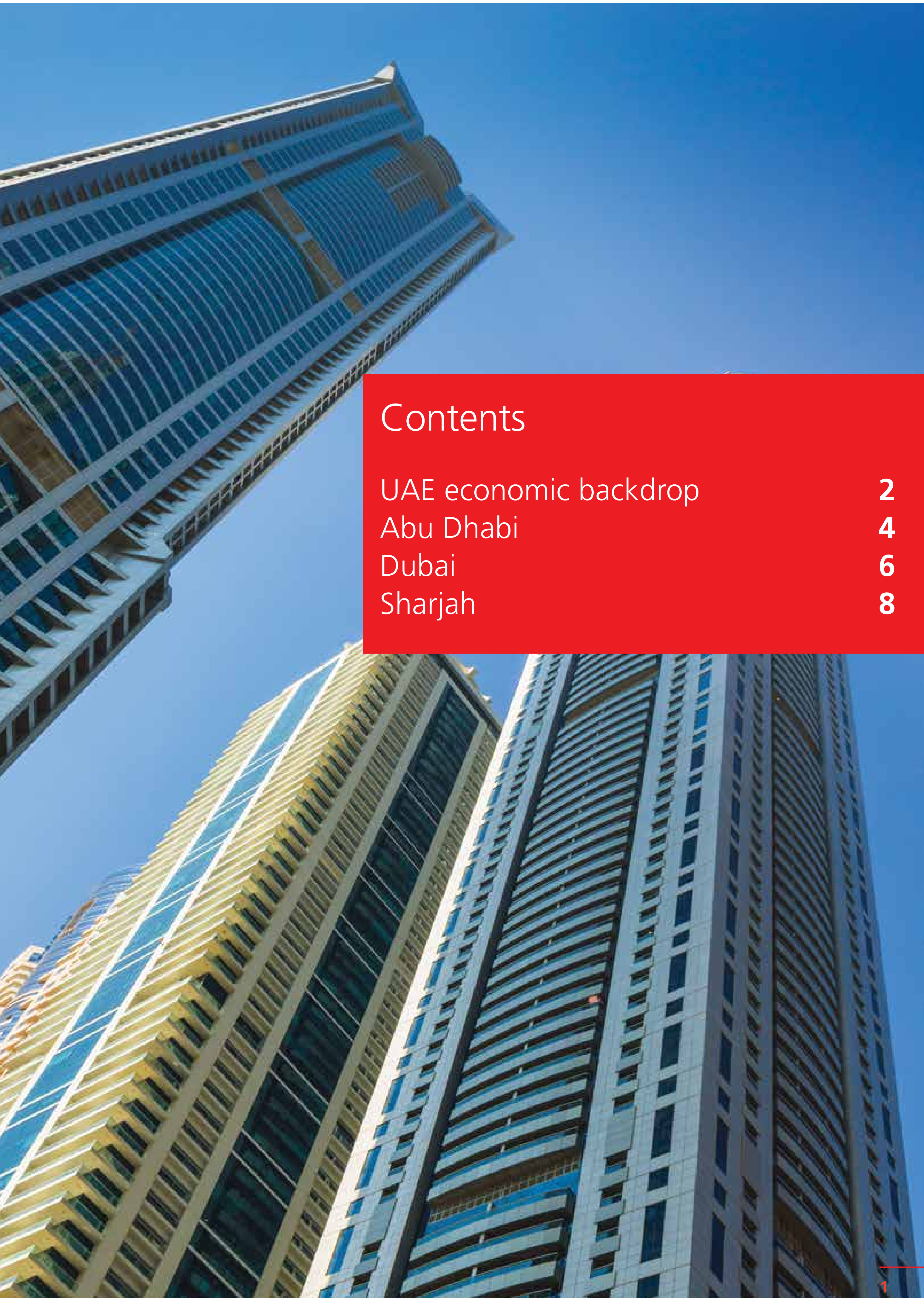
CLUTTONS

The Property Report

United Arab Emirates | Summer 2013

Welcome to our first annual Property Report on the United Arab Emirates, which provides a snapshot of the year-to-date performance of the real estate markets in Abu Dhabi, Dubai and Sharjah. It also looks ahead at the prospects for the remainder of the year.



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United Arab Emirates Economic backdrop

Following on from the robust 4.4% GDP growth recorded last year, the UAE economy has continued to expand, with all major sectors posting moderate growth, according to preliminary estimates from the National Bureau of Statistics (NBS). Furthermore, according to the latest HSBC Markit Purchasing Managers' Index (PMI), which tracks the performance of all non-oil sectors, the national PMI climbed marginally in July; primarily driven by new overseas orders, which accelerated at their fastest pace since January. Employment levels have also improved, albeit at their weakest rate for eight months and this continues to translate into real wage growth, which registered a record increase in June.

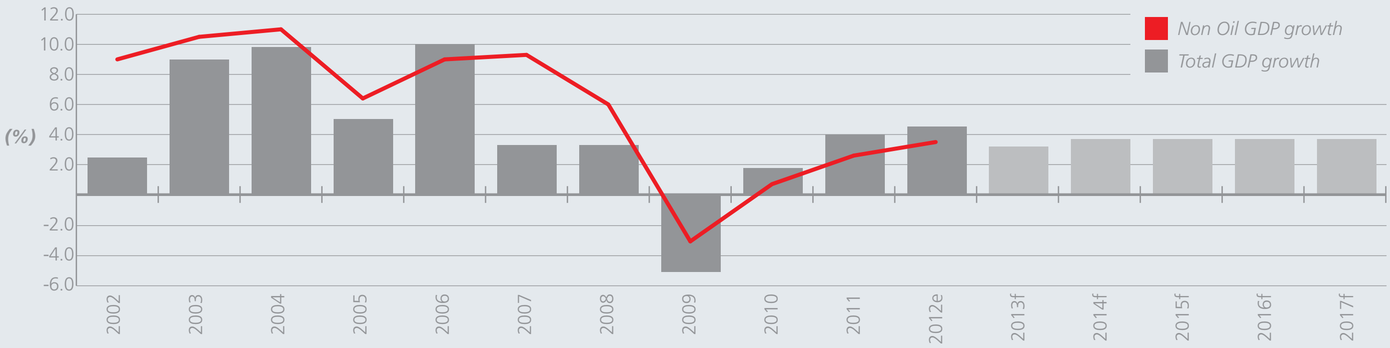
> Inward FDI is likely to receive a further boost once the UAE officially moves into the Morgan Stanley Capital International (MSCI) Emerging Markets Index next year

The improved economic conditions are translating into increased inward investment, which is fuelling further economic rejuvenation. Data compiled by the Arab Investment and Export Credit Guarantee Corp showed that the UAE raked in $9.6 billion worth of Foreign Direct Investment (FDI) inflows during 2012, up 25% on 2011. This equates to just over a fifth of the total FDI inflows into the 22-member Arab League (excluding Syria and the Comoros Islands), making the UAE the second largest FDI recipient, after Saudi Arabia, last year. The UN Conference on Trade and Development (UNCTAD) also echoed these findings, citing Abu Dhabi's surging levels of public spending and the rapid rebounding of Dubai's non-oil sectors as catalysts for the UAE's increased FDI appeal. Separate figures released by Dubai FDI show that Dubai's inward investment during 2012 rose to $8.01 billion (AED 29.4 billion), up 26.5% on 2011, which equates to 83.4% of the UAE's total.

The surging inward investment flows are being fuelled primarily by the emirate's economic turnaround, underpinned by the tourism & hospitality sector's buoyancy and real estate sector revival. Furthermore, inward FDI is likely to receive a further boost once the UAE officially moves into MSCI's Emerging Market Index next year; HSBC forecasts that this will translate into $370 million (AED 1.4 billion) of new UAE bound funds. Speculation surrounding the UAE's upgrade was evidenced by intense activity on the nation's bourses during the first half of the year, with the Dubai Financial Market Index (DFM) rallying by 48%, to become the world's second strongest performing stock market during the first 5 months of the year, according to Bloomberg. On 20 July, the DFM closed at its strongest level since November 2008.

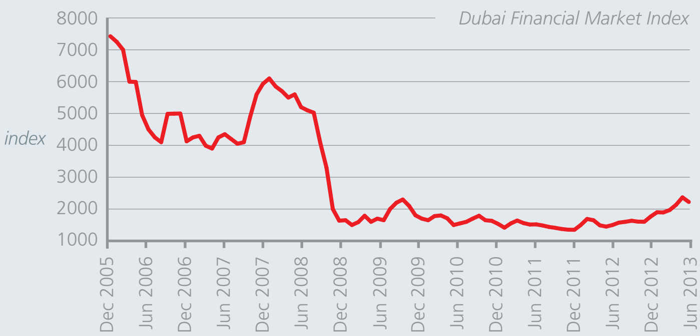
During July, the IMF released updated global economic forecasts, which, for the most part, were downwardly revised. Projections for the UAE however, remained unchanged, with expansion of 3.1% expected this year, followed by growth of 3.6% pa between 2014 and 2017. The outlook certainly appears more positive than major western economies, with the impact of weaker growth in the EU and elsewhere to some extent being negated by the UAE's perceived safe haven status in an otherwise turbulent region. This aside, Dubai's real estate recovery, coupled with the exceptionally strong performance of its hospitality, tourism and leisure sectors, is helping to drive strong economic growth in the emirate; annualised growth for Dubai's non-oil trade sector stood at 16% at the end of Q1 (Dubai Customs). The economy of Abu Dhabi, which has traditionally been driven by hydrocarbon income, continues to be hindered by the slow pace of the emirate's real estate sector recovery, but high levels of public spending and rapid economic diversification are expected to pay dividends in the short to medium term. Together, the two powerhouses of the UAE look set to underpin growth, with current indicators suggesting the likely outperformance of the IMF GDP forecasts.

UAE GDP growth (y/y)



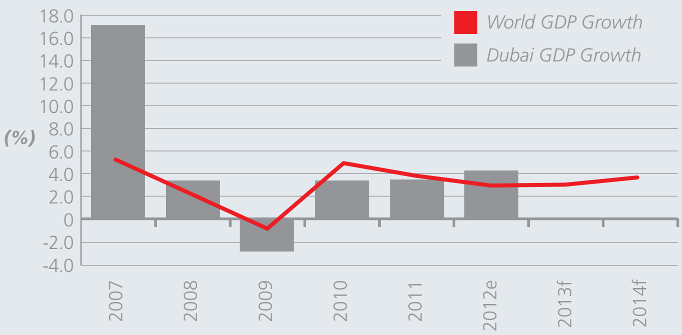
Source: UAE National Bureau of Statistics, IMF

Dubai Financial Market Performance



Source: Dubai Financial Market

Dubai and World GDP growth (y/y)



Source: Dubai Statistics Centre, IMF

Abu Dhabi Market Overview

The Executive Council of Abu Dhabi announced plans to invest up to AED 330 billion in the emirate's economy over the next five years, which is aimed at stimulating economic growth and aiding the expansion of the non-oil segment of Abu Dhabi's economy. The impact of this is already being felt, as evidenced by the Business Cycle Index, released by the Department of Economic Development, which points to an upturn in both the number of new business licenses issued and the number of people employed across the Emirati capital during the first quarter.

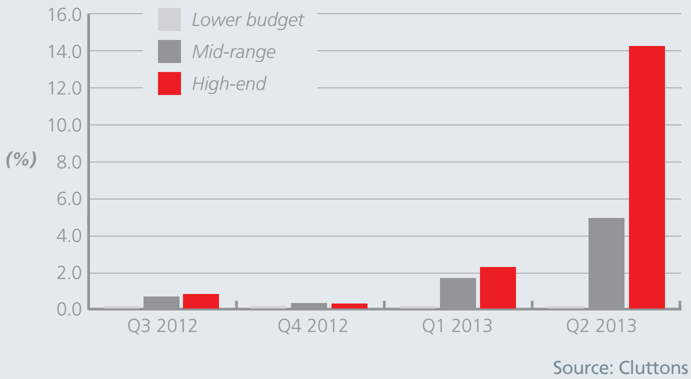
The rising level of housing demand is evidenced by a significant 13.2% rise in average capital values for apartments during the first half of 2013

The upturn in employment, coupled with the government's requirement for an estimated 20,000 public sector workers currently residing in other emirates to relocate to Abu Dhabi by September 1st, is helping to reduce the magnitude of the residential supply overhang. The rising level of housing demand is evidenced by a 13.2% rise in average capital values for apartments during the first half of 2013. Average price increases for high end apartments on Reem Island over the same period stood at 15.9%, more than double the overall residential growth rate across the capital of 7.3%. In contrast, high end apartment values contracted by -3.3% on Reem Island last year, while apartment prices slipped by -4.4% across Abu Dhabi during 2012. Villa's on the other hand, have experienced capital value rises of 22% during H1, underpinned by the strong performance of villas on Saadiyat Island. Al Reef Villas registered price growth of 15.1% in the six months to June, positioning it as the strongest performing villa submarket. Al Reef's proximity to Sheikh Zayed Road (E11) and ease of access to both Abu Dhabi Island and Dubai makes it a sought after residential community, particularly for families, which is helping to underpin value growth. Golf Gardens and Hydra Village were the weakest performing villa submarkets, with no capital value increases recorded between January and June this year. The majority of housing requirements stem from households relocating to the capital to comply with new government regulations, in addition to new job starters in the healthcare, education and hospitality sectors.

Office supply continues to remain in excess of occupier demand. Prime grade-A rents are however holding steady at between AED 1,700 and AED 1,800 psm, while more secondary offices, in locations perceived to be inferior, are still experiencing rent reductions, dipping to just below the AED 1,000 psm mark. It is office space in older parts of the capital that are expected to experience further downward rental adjustment given the focus of demand on modern space. With no significant boost to office demand levels expected in the near term, it is unlikely that we will see a turnaround in office rental value growth this year.

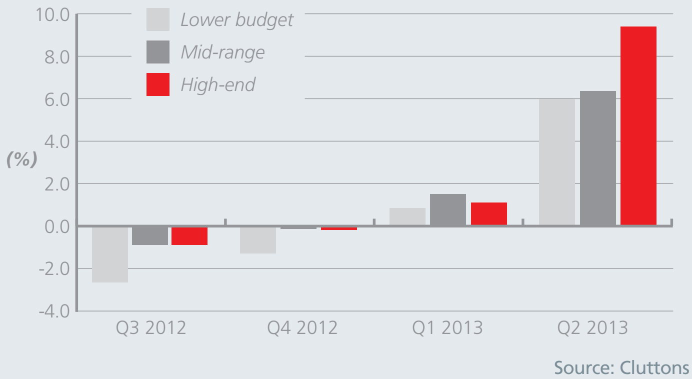
The retail market in the capital does offer a more positive outlook, despite the additional 200,000 sqm expected to complete this year at Deerfields Mall, Emporium Mall at the Central Market and the newly opened Galleria at Sowwah Square. Abu Dhabi has long lagged Dubai in terms of its retail offerings. However with over 600,000 sqm of additional retail space already projected to complete between 2014 and 2017, we expect to see the capital's malls follow a similar strategy to those in Dubai, creating lifestyle destinations, providing niche entertainment and leisure attractions. Crucially, we expect these new shopping malls to serve as anchors for future residential and commercial development, serving surrounding communities, mirroring the impact of the likes of The Dubai Mall (Downtown Dubai) and Mall of the Emirates (Barsha). These malls have been the catalysts for housing and office demand in their respective submarkets and Abu Dhabi's new mega malls are likely to act as the foundation blocks for similar future growth.

Capital Value Performance – Villas



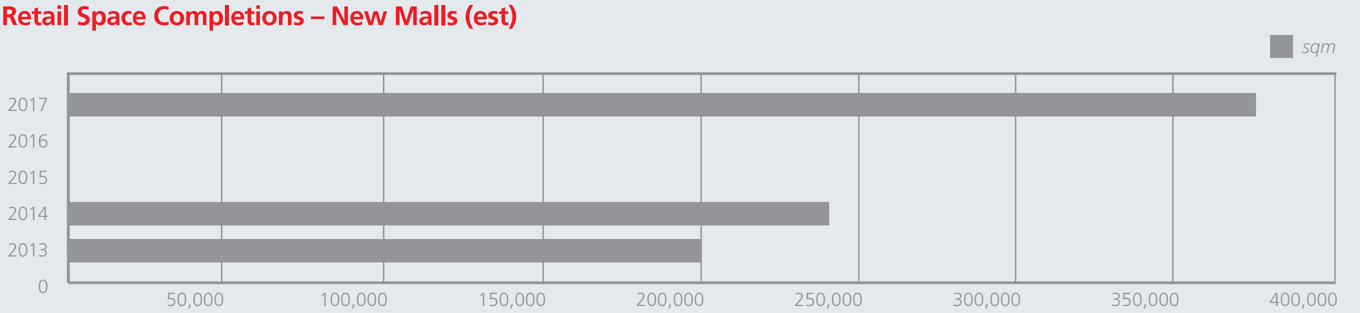
Source: Cluttons

Capital Value Performance – Apartments



Source: Cluttons

Retail Space Completions – New Malls (est)



Source: Cluttons

Dubai
Market overview

The momentum built up last year in Dubai's economy, which resulted in GDP growth of 4.4% during 2012 was underpinned by exceptionally strong growth in the manufacturing and restaurants & hotels sectors, which expanded by 13% and 17% respectively, over the course of the year. This buoyancy has been sustained for the first half of 2013, with real estate, trade, tourism and leisure acting as the driving force behind the expanding economic activity. Crucially, during the first quarter, the emirate's non-oil trade sector was up 16% on Q1 2012, while overall trade over the same period was up 13%, according to the latest data from Dubai Customs. Employment levels have also continued to rise, with the Department of Economic Development reporting a 4% increase in the number of new business licenses issued during Q1, when compared to the corresponding period in 2012.

An expanding economy, coupled with a rising population, currently forms the backbone of Dubai's housing demand

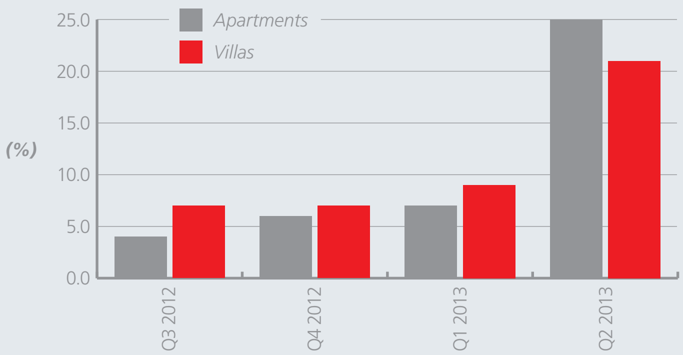
Heightened economic activity has undoubtedly been supported by the recovery of Dubai's real estate sector, with capital values in some residential submarkets quickly closing in on their Q3 2008 pre-crisis peaks. During Q2 2013 alone, villa values rose by an average of 21%, following the 24.4% last year. Apartments on the other hand recorded capital value increases of 25.1% in the second quarter, almost double the corresponding 2012 figure of 13.4%. Overall however, values remain -31.1% below the previous peak suggesting that recent IMF concerns about the market overheating may prove too negative. In the aftermath of the recession, prices plunged by -49.7%, but now stand 36.9% above the Q2 2009 market low.

Data from the Dubai Land Department shows AED 108 billion worth of property transacted during the first half of 2013, translating into over 30,000 transactions. Dubai Marina was the most active residential sub market with AED 3.5 billion worth of transactions. An expanding economy, coupled with a rising population, currently forms the backbone of Dubai's housing demand; however buy-to-let investors, both from within the UAE and further afield, are also contributing to overall buyer requirements. Similarly, as the pace of job creation accelerates, tenant requirements are also rising sharply, particularly in well established submarkets in New Dubai. The surging demand so far this year has helped to push rental values up by 11.3% across Dubai during the first six months of 2013.

The heightened market activity is also drawing international interest, as individuals and institutions seek to capitalise on the recovery. A recent example of this was the June announcement by a China State Construction Engineering Corp. unit, which has invested in SKAI Holdings' AED 3.67 billion Viceroy Hotel & Resort complex on the Palm Jumeirah, where values have risen by 15.2% between January and June. The improved trading conditions have also resulted in the return of the so called "property flippers"; although as the cycle progresses, we expect to see increased regulation in this area. The government has already announced plans to unveil loan-to-value (LTV) mortgage restrictions for both nationals and expatriates, which is expected to take effect later on in the year. The proposed new law calls for incremental reductions in LTVs with every property purchased with a mortgage, which aims to address some of the debt linked problems of the past.

While the residential market is experiencing heightened levels of activity, the office market remains more subdued. That said, prime office rents have shown their first signs of positive growth in over four years, with rental values rising by 2.7% during H1, after remaining unchanged last year and declining by -2.7% in 2011. Rents for secondary and tertiary offices have remained flat so far this year, following no growth in 2012. The outlook for the office market is certainly more positive than this time last year, but the supply overhang from the anomalous growth in stock recorded between 2006 and 2008 is still dampening recovery. Challenges remain for many of Dubai's newly built office towers, where strata ownership barriers prevent large scale leases and this is driving landlords to offer more competitive rents in an attempt to entice relocation.

Capital Value Performance – All Residential

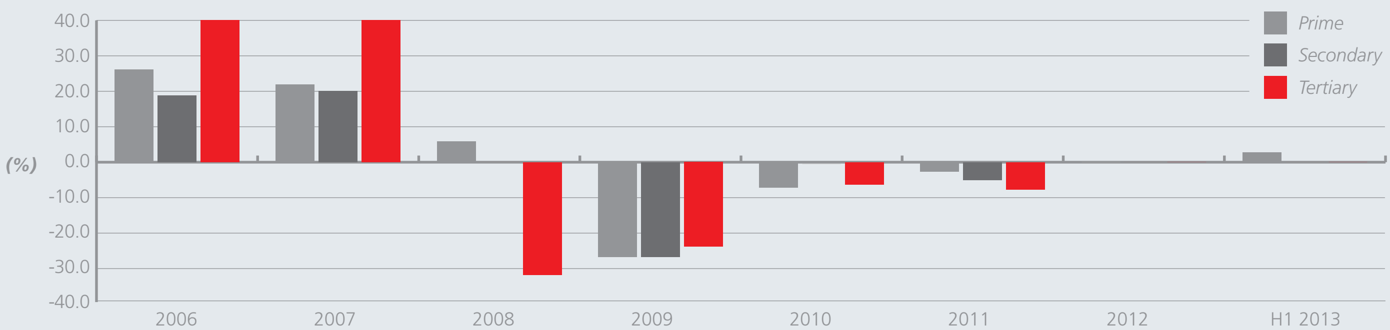


Source: Cluttons

Rental Value Performance – All Residential

Source: Cluttons

Rental Value Performance – Offices



Source: Cluttons

Sharjah
Market overview

Sharjah's residential real estate market continues to be influenced by the ebb and flow of rents across the border in Dubai, where the soaring economic growth has resulted in a sharp upturn in the demand for rented accommodation. This has fuelled strong rental value growth, resulting in cost conscious tenants turning their attention to Sharjah. As a result, we have seen an upturn in tenant demand in the submarkets close to the Dubai border, such as Al Nahda and Al Majaz.

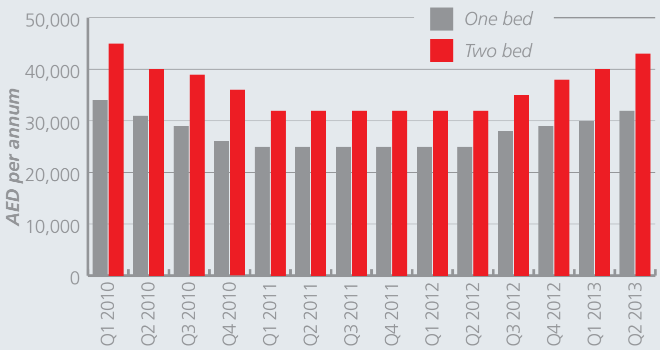
The tenant demand spill over phenomenon from Dubai boosted residential rental values during the last property cycle and we are now seeing repeated in Sharjah

The recent introduction of a Salik Toll Gate on Al Ittihad Road and the removal of the daily AED 24 Salik cap does not appear to have dented the appetite to live in Sharjah and commute to Dubai for work. This demand spill over phenomenon boosted residential rental values during the last property cycle and we are now seeing this repeated. This, coupled with its own intra-emirate tenant demand has translated into a rental value increase of 7.1% across Sharjah during the second quarter. With no immediate slowdown in Dubai's economic expansion rate expected, the outward rippling of tenant requirements is projected to continue placing upward pressure on rental values across Sharjah.

In contrast, Sharjah's office market has been relatively subdued over the past 18 months. In the core submarkets of Al Majaz and Al Soor headline rents have grown at a slower rate than in other markets in the UAE.
Al Soor for example experienced a 15% rise in rental values between Q2 2012 and Q2 2013, albeit from a low base. Overall, prime asking rents continue to hover between AED 45 and AED 60 psf. Restricted demand for offices in older properties, in areas perceived to be more secondary, has prompted some landlords with vacant offices to undertake refurbishment programmes in an effort to enhance competitiveness and minimise voids. Supply is also continuing to be managed by indirect government intervention in the form of the Heart of Sharjah redevelopment project adjacent to Bank Street. As a result, an exodus of small and medium sized enterprises is continuing as the area is cleared for the emirate's flagship urban regeneration project.

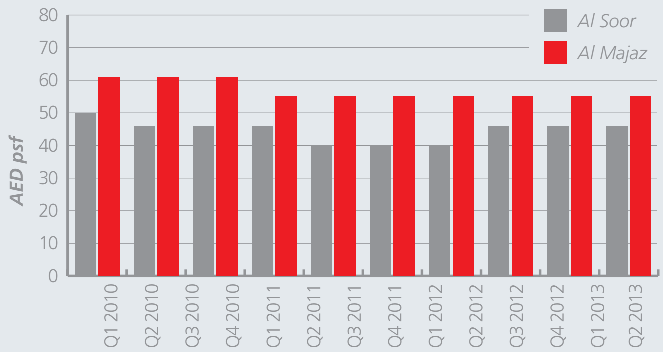
In contrast to Sharjah's commercial market, the hospitality sector is quietly achieving success, with the record 75% occupancy rate for the city's hotels during 2012 expected to be bettered this year, according to the Sharjah Commerce and Tourism Development Authority (SCTDA). The repositioning of the emirate's aviation sector has been one of the main drivers of Sharjah's economy, and continues to support growth of the expanding hospitality and leisure sectors. In particular, the rapid and aggressive expansion plans of Air Arabia have contributed to a sharp rise in tourist arrivals. Last year, Sharjah International Airport handled just over 7.5 million passengers, with almost half ending their journeys in the emirate. With the busy winter season still ahead, we expect to see last year's hotel occupancy levels surpassed, despite the SCTDA's forecast increase in the number of hotel rooms to 12,000 by 2016, from about 9,000 currently. The increased tourist arrivals in the emirate are projected to continue attracting the attention of major global hotel chains, with Hilton Worldwide and Millennium Hotels' Copthorne brand making their debut in Sharjah earlier this year. More are expected to follow suit, as this fledgling industry expands and begins to have a significant impact on GDP.

Rental Value Performance – Apartments



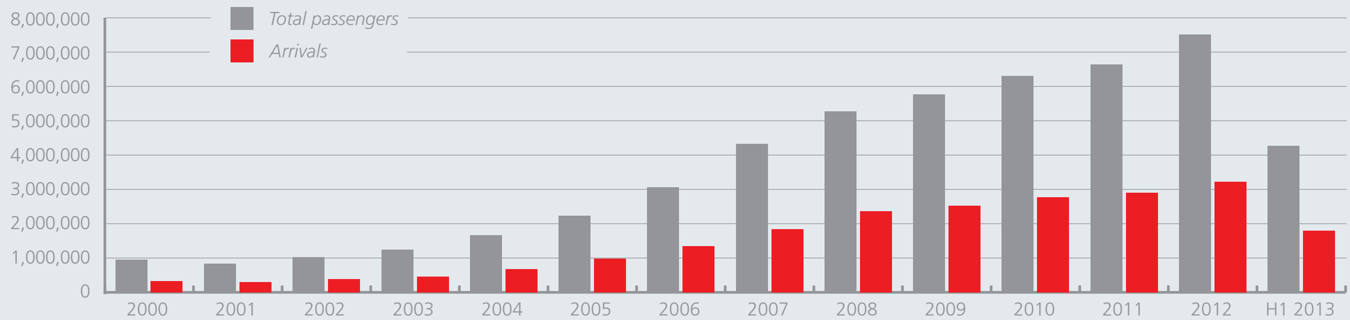
Source: Cluttons

Rental Value Performance – Offices



Source: Cluttons

Sharjah International Airport Passenger Traffic



Source: Sharjah Airport Authority

For further information, please contact

Abu Dhabi
abudhabi@ae.cluttons.com
+971 2 441 1225

Dubai
dubai@ae.cluttons.com
+971 4 334 8585

Sharjah
sharjah@ae.cluttons.com
+971 6 572 3794

International Research
Cluttons.research@cluttons.com
+44 (0) 20 7647 7166

cluttons.com