Deloitte.

Middle East Real Estate Predictions: Dubai

2019

#RealEstatePredictions

Contents

Executive Summary

Hospitality

Supply saw a 6% increase Year Over Year (YOY) by August 2018 while both occupancies and Average Daily Rates (ADR) dropped.

2019 will likely see continued growth in tourist arrivals with a shift in visitor preferences to more affordable offerings as key source markets continue to face economic headwinds.

Residential

There are significant challenges owing to an increase in supply and reduced purchasing power in key source markets. Overall sales rates are down 8% whilst rental rates are down 10%.

Longer term prospects beyond 2019 remain positive with continued population growth forecast and reducing household sizes.

Office

Although the market is broadly stable, 2018 saw a marginal 4% decline in pricing.

A fundamental shift in patterns of occupation is expected in 2019, with changes to ownership regulations anticipated.

Retail

2018 saw the introduction of Value Added Tax (VAT), which combined with a fall in overall retail sales volume has put increased pressure on retailers.

The focus of retail is shifting to meet the demands of a more experience driven consumer.

Industrial and logistics

During 2018 both import and export trade volumes grew whilst rental rates for warehouses saw steady growth.

Trade volumes are forecast to increase in 2019 along with throughput capacity. It is likely that growth in this sector will continue. 2019 is also likely to see a change in patterns of occupation in response to changes in ownership regulations.

Hospitality market

Dubai's hospitality market

There were a record number of rooms sold, but a strong Dirham and increasing supply affected ADRs and occupancies during 2018.

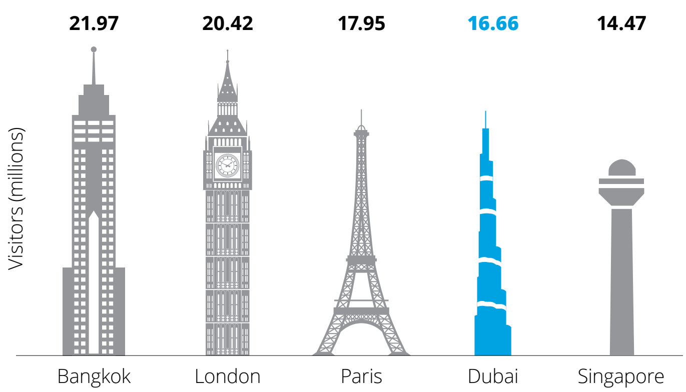
Review of 2018 performance

Dubai remains one of the most attractive tourism destinations in the world, retaining fourth position in terms of the total number of international overnight visitors. Dubai also kept its position at the top of the 2018 Mastercard Global Destination Cities Index in terms of visitor spending for the third consecutive year.

Despite an overall increase in overnight visitors, Dubai's hospitality market experienced a challenging year in 2018 compared to previous years. Increasing supply and competition between operators continued to drive reductions in both ADR and occupancy, which has led to a fall in revenue per available room (RevPAR) of 7% between 2017 and 2018 YOY January to August.

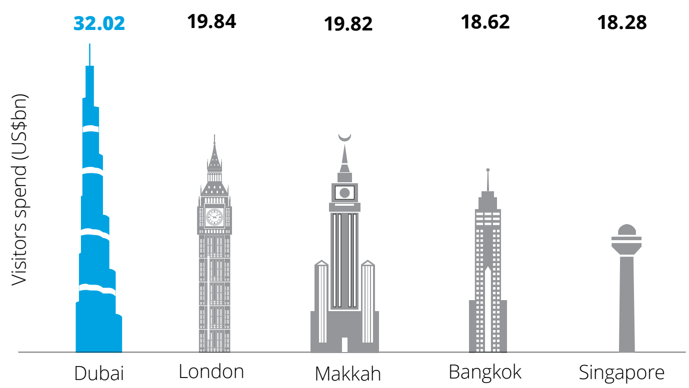
The Upscale, Upper Midscale and Midscale segments all experienced a decline in occupancy between 3% and 6% during Q3 2017 and Q3 2018 largely due to the increasing supply within these segments. Over the same period, there was a marginal increase in occupancy in the Luxury sector while occupancy within the Upper Upscale segment was unmoved.

International overnight visitors, global top five destinations, 2018



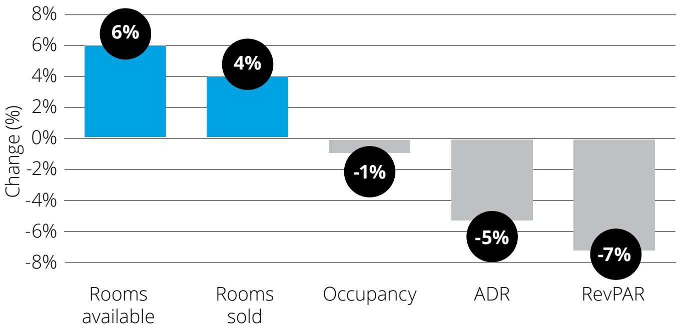
Source: Mastercard Global Destination Cities Index

International overnight visitor spending, global top five destinations, 2018



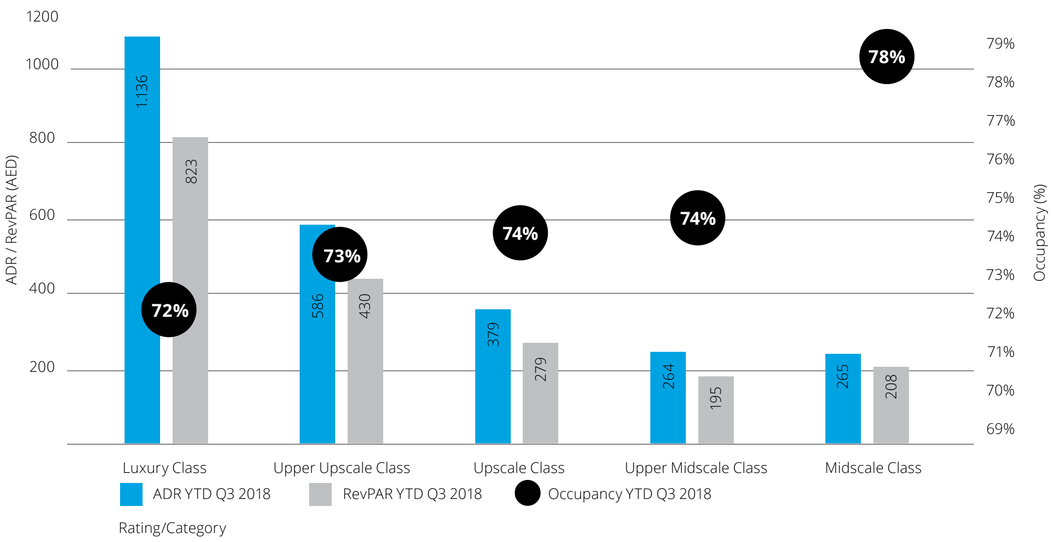
Source: Mastercard Global Destination Cities Index

Dubai hotel performance percentage change, January to August 2017 vs January to August 2018



Source: Business Intelligence and Reporting (DTCM)

Dubai hotel market performance, Year to Date (YTD) Q3 2018



Source: STR Global

Dubai hotel performance, YTD Q3 2018

Classification	Luxury	Upper Upscale	Upscale	Upper Midscale	Midscale
2017 YTD Q3 Occupancy	72%	73%	77%	80%	82%
Trend	↑	—	↓	↓	↓
2018 YTD Q3 Occupancy	73%	73%	74%	74%	78%

Source: STR Global
Note: % refers to average YTD hotel occupancy across all properties surveyed by STR Global in each submarket

Dubai's hospitality market is evolving and diversifying its offering

Dubai remains one of the most competitive hotel markets in the world. With leisure travellers becoming increasingly price sensitive, Dubai is diversifying its hotel offering to cater to mid-market demand.

In the context of economic uncertainty from key source markets, leisure travellers to Dubai are becoming increasingly price sensitive. The Midscale segment in Dubai has seen significant growth in supply in both international and local brands such as the Rove by Emaar and Zabeel House by Jumeriah. In a period of two years, the Rove portfolio has expanded to five hotels across Dubai, with a further four hotels in the pipeline. Jumeirah has also forayed into the mid-market segment with the introduction of their Zabeel House and Zabeel House Mini brands, which currently includes two properties in Al Seef and a property in The Greens. The Midscale shift is also evident amongst international operators. Marriott has accelerated the development of its Midscale brands with the opening of three Aloft Hotels and Dubai's first Element Hotel in Me'aisam.

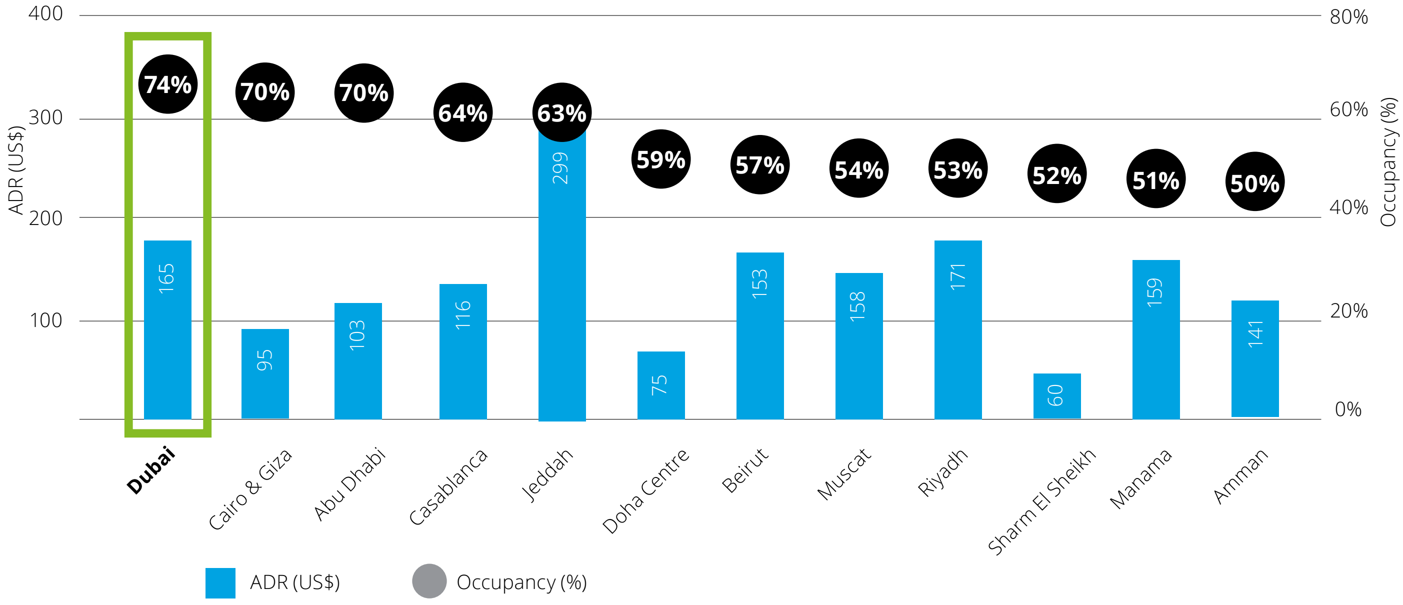
These Midscale hotels are expected to exert pricing pressure on other segments as they seek to provide a quality experience at value for money. This change is positive for the market, as a more diversified hotel offering will cater to a wider range of visitors.

The new mid-market hotels are targeted at the millennial traveller, offering authentic, unique experiences (Zabeel House has rooms with hammocks, Aloft City Centre Deira has movie themed suites and a cinema, etc.) and smart technology.

While hotel performance continues to face downward pressure due to increasing supply, operating efficiency and asset management are now key priorities for owners. Many owners are including performance tests into their Hotel Management Agreements (HMAs) in order to "pay for performance." They are also becoming increasingly confident and in certain instances choosing to operate themselves, such as the franchise agreement with Hilton at Habtoor City, giving them greater control and visibility over operations. This preference to have more flexibility and control in the owner-operator relationship is also starting a shift away from the traditional HMA model which currently dominates the market, with more interest in franchising likely to be seen in 2019.

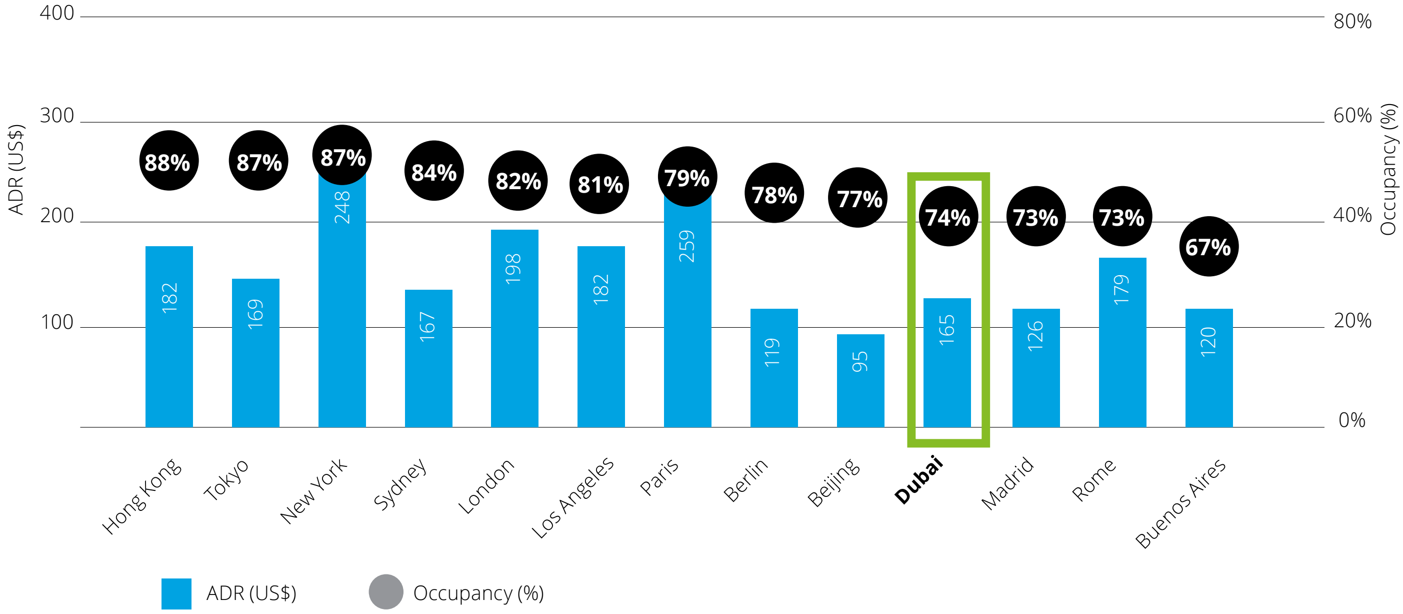
Despite the changing dynamics of the hospitality market in Dubai, key performance metrics are still healthy when benchmarked at a global level. Moving forward however, given the level of planned supply, owners will need to carefully consider their market positioning and understand how they can differentiate themselves in a maturing market.

Dubai market performance vs. regional markets, January to September 2018



Source: STR

Dubai market performance vs. international markets, January to September 2018



Source: STR

Residental market

Dubai's residential market

Declines in sales prices and rents continued through 2018, while new provision continued to focus on the affordable segment.

Review of 2018 performance

Residential sales prices and rents continued to decline in Dubai in 2018. This is a result of increasing supply and a strong local currency, reducing the purchasing power from key international source markets such as India and the UK.

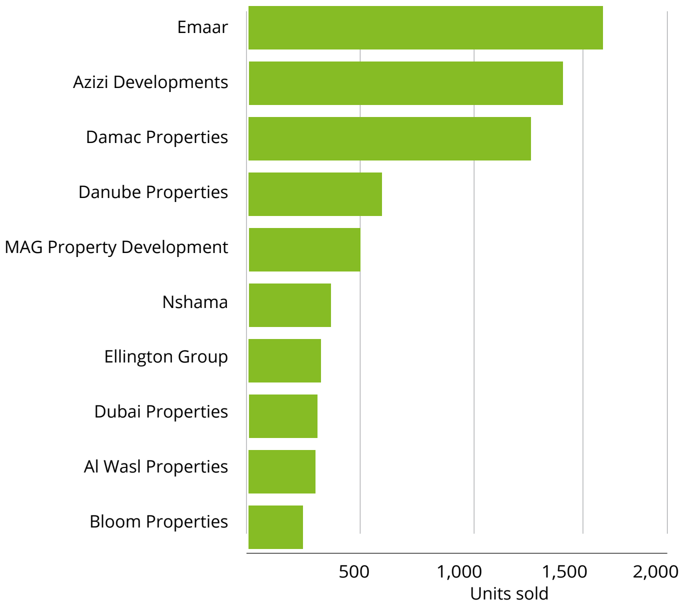
Average sales prices for residential property in Dubai declined by approximately 8% between Q3 2017 and Q3 2018. Average rents have also declined by approximately 10% over the same period. The average price for apartments fell from AED 1.33 million in 2017 to AED 1.24 million, as of September 2018.

In 2018, new residential provision in Dubai continued to focus on the affordable segment. A number of developers launched schemes at lower price points, with heavily back ended payment plans.

Based on consultations with key industry stakeholders, we estimate that the total number of residential units delivered in Dubai in 2018 was between 15,000 and 20,000.

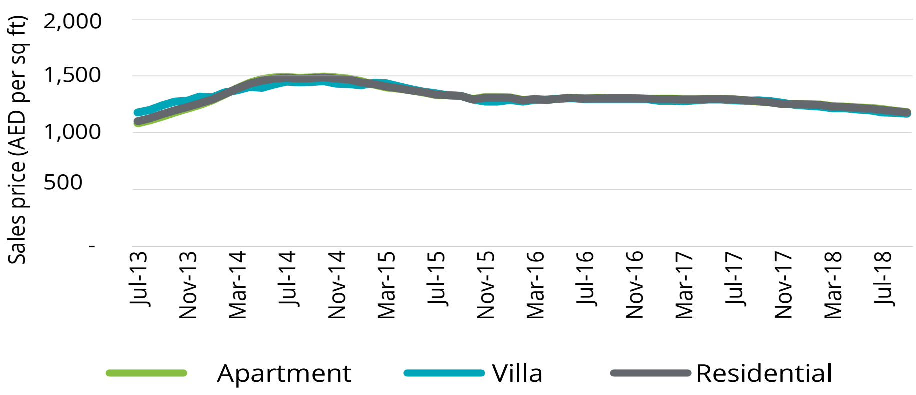
The adjacent graph provides a summary of the top 10 performing developers in terms of the volume of off-plan sales transactions in 2018. Emaar reported the highest number of off plan sales transactions followed by Azizi Developments.

Top 10 developers by off plan sales transactions, Q1 2018 to Q3 2018



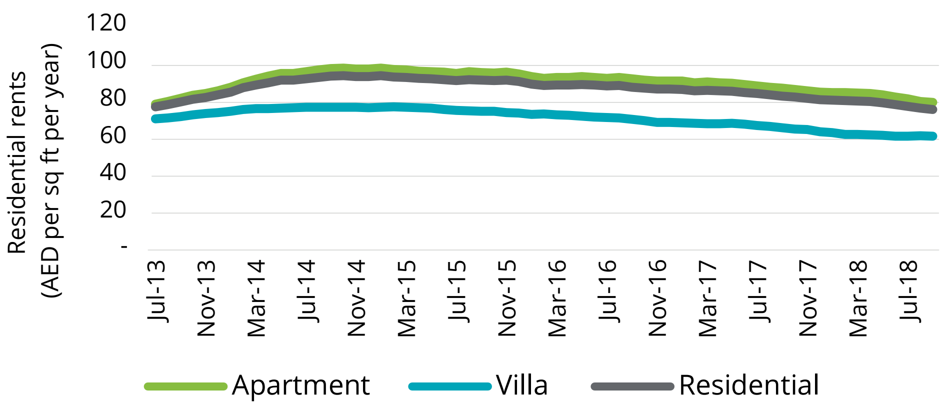
Source: REIDIN, Deloitte

Dubai residential sales prices, Q3 2013 to Q3 2018



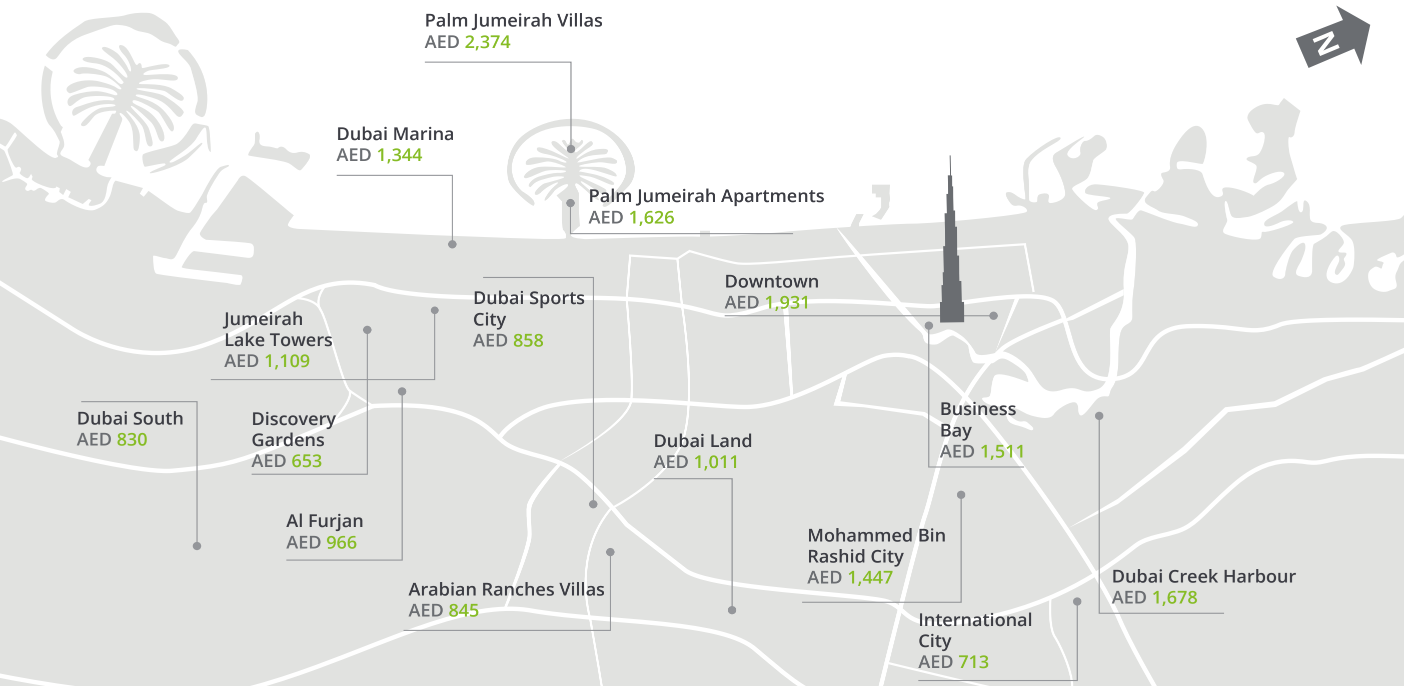
Source: REIDIN

Dubai residential rents, Q3 2013 to Q3 2018



Source: REIDIN

Dubai residential sales prices by location, Q3 2018



Source: REIDIN

* World Trade Centre / Sheikh Zayed Road

Sales prices are quoted in AED per sq ft

Metric	Apartment rent	Apartment sales price	Villa rent	Villa sales price	Dubai average rent	Dubai average sales price
Q3 2017	AED 91 per sq ft per year	AED 1,274 per sq ft	AED 66 per sq ft per year	AED 1,283 per sq ft	AED 86 per sq ft per year	AED 1,276 per sq ft
Trend	↓ 10%	↓ 7%	↓ 8%	↓ 9%	↓ 10%	↓ 8%
Q3 2018	AED 82 per sq ft per year	AED 1,181 per sq ft	AED 61 per sq ft per year	AED 1,166 per sq ft	AED 78 per sq ft per year	AED 1,178 per sq ft

Source: REIDIN, Deloitte

Dubai's demographic evolution

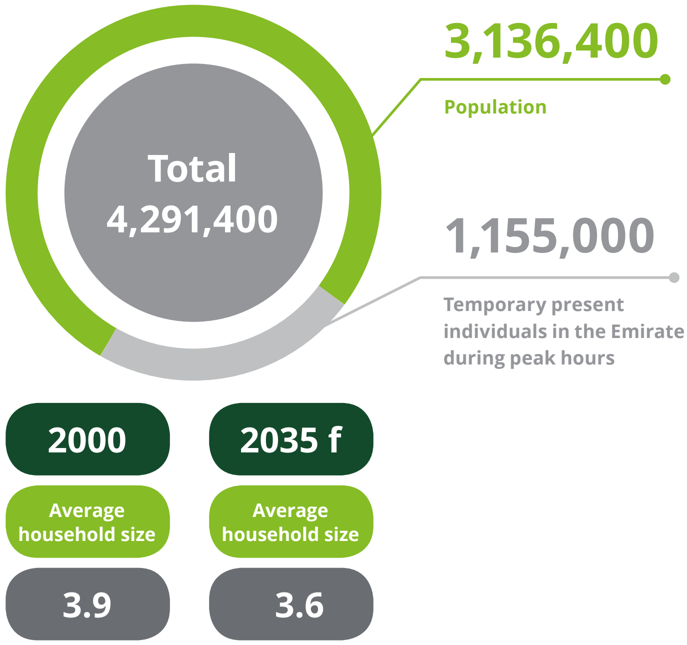
The increasing population and decreasing household size continues to drive residential demand.

According to the Dubai Statistics Centre (DSC), the population of Dubai has grown from approximately 860,000 in 2000 to 3.1 million in 2018. DSC also identified a further 1.2 million "temporary present individuals" during peak hours. Following the expansion of population at a compound annual growth rate (CAGR) of 8% between 2000 to 2018 the future growth rate for Dubai is forecast by the UN Population Division to slow, but in line with that expected of a maturing metropolis.

Data provided by Oxford Economics forecasts a reduction in average households from 3.9 persons in 2000 to 3.6 persons by 2035. Dubai has seen total households grow from approximately 156,000 in 2000, to approximately 560,000 in 2018. Such growth continues to drive demand for housing with net additional demand between 2018 to 2035 forecast to be approximately 176,000 additional households.

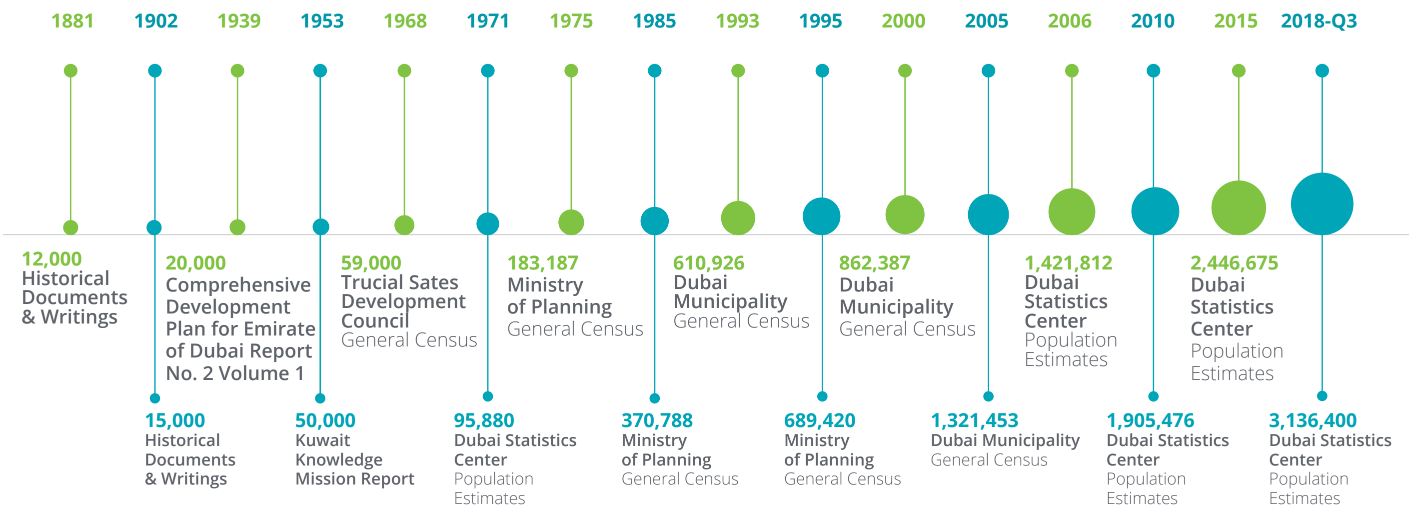
Looking at the historic growth of Dubai, it is expected that future population growth will continue, which is likely to be a catalyst for longer term residential market prospects.

Number of present individuals in the Emirate during peak hours, Q3 2018



Source: Dubai Statistics Centre, f (forecast), Oxford Economics

Dubai population through history since 1881



Source: Dubai Statistics Centre

Office market

Dubai's office market

Slowing occupier demand led to a 4% decline in office rents in 2018.

Review of 2018 performance

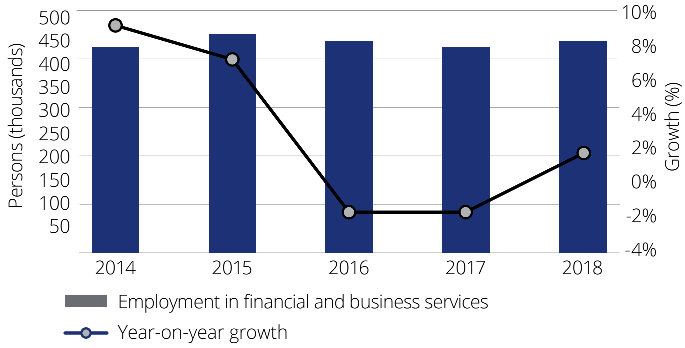
During 2018, Dubai's office market saw declining rents across most established office districts as landlords increased incentives to attract and retain tenants. Average rent for shell and core accommodation in Dubai declined by an average of 4% citywide.

The performance of International Grade A office spaces has remained broadly stable in terms of rent and occupancy due to the continued flight to quality among tenants. This is likely to come under pressure with a number of large scale completions on the horizon including ICD Brookfield Place and additional phases of One Central (World Trade Centre).

The UAE Cabinet recently announced that 100% foreign ownership of companies will be allowed in non-freezones for certain sectors. Dual licensing has been prevalent for just over a year, where the system allows foreign freezone companies to extend their operations to non-freezones. Dual licencing has also become more prevalent with DIFC, DWTC and DAFZ all permitting entities to have on and off shore operations within their freezones.

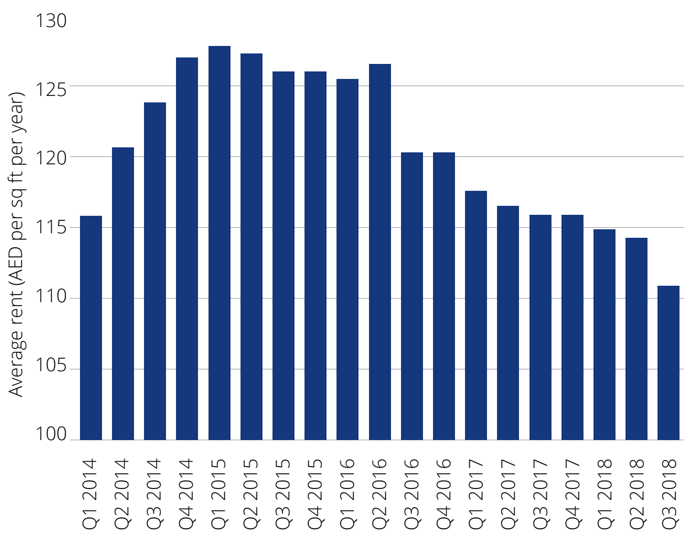
This means that companies will have a larger variety of options to choose from as they are not restricted to specific areas. Once this comes into effect, it is expected to lead to some relocations as larger corporate occupiers seek to consolidate and optimise their operations.

Dubai employment in financial and business services, 2014 to 2018f



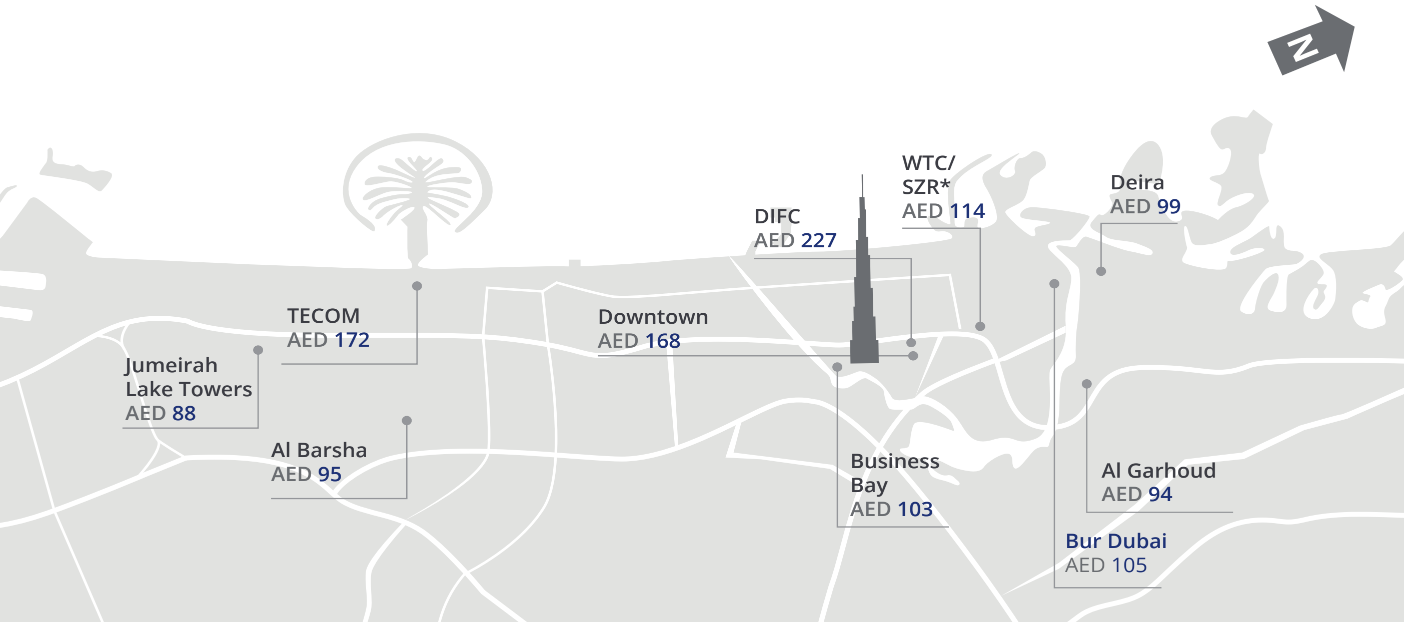
Source: Oxford Economics, f (forecast)

Dubai average office rents, Q1 2014 to Q3 2018



Source: REIDIN

Dubai average office rents, Q3 2018



Rents are quoted AED per sq ft per year
Rents are average achieved rents for shell and core offices exclusive of service charges

* World Trade Centre / Sheikh Zayed Road

Area	DIFC	Bur Dubai	Al Garhoud	Deira	WTC/ SZR	Al Barsha	Business Bay	Down-town	TECOM	JLT	Dubai average
Q3 2017	235*	108	99	109	119	103	105	199*	166	95	116
Trend	↓ 4%	↓ 3%	↓ 5%	↓ 9%	↓ 4%	↓ 8%	↓ 1%	↓ 16%	↑ 4%	↓ 8%	↓ 4%
Q3 2018	227	105	94	99	114	95	103	168	172	88	112

Source: REIDIN, Deloitte

*Note: the basket of properties assessed has been rebased in 2018.

Could the introduction of new regulations be a catalyst for growth in coworking during 2019?

The emergence of coworking

Serviced office space and incubators have been around since the 1960s, but now we have seen a blurring of the lines between these concepts as coworking.

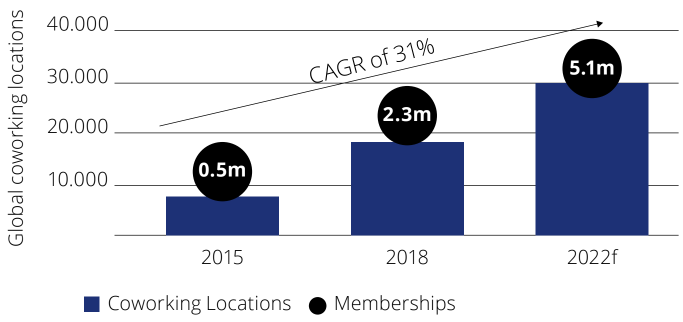
From 7,800 coworking locations in 2015, it is estimated that today there are now 17,700 locations globally and expected to reach 30,000 locations by 2022, representing a CAGR of 31%[1].

Over the last few years, coworking has begun to spread through Dubai with the launch of AstroLabs, Emaar's e25, Our Space, 1776, Servcorp's Level 41, Dtech, A4 Space, Youth x Hub, DIFC's Fintech Hub and Tecom's In5, amongst others.

There are over 55 flexible office locations in Dubai, which currently occupy less than 1% of Dubai's office stock. In comparison, in London, Cushman & Wakefield estimate that flexible workplace providers occupy approximately 4% of Central London office space[2]. In the US, the total number of coworking operations are greater, although occupancy reflects approximately 2% of office stock in key cities[2].

Dubai, compared to global markets, has a low penetration of flexible office supply when total stock is considered. With new players likely to enter the coworking market, this is likely to change. This change is being driven by opportunities created by new company ownership regulations, preferences of SMEs who are increasingly being run by a younger demographic, changes to accounting treatments, market vacancy rates for more traditional forms of occupation and of course, a potential cost reduction.

Global coworking forecast, 2015 - 2022f



Source: Global Coworking Forecast December 2017, GCUC, Emergent Research, f (forecast)

Sources:

1. Global Coworking Forecast December 2017, GCUC, Emergent Research
2. Coworking 2018, Cushman & Wakefield

Drivers of growth

- **Access to partners**
  The most successful coworking operations engage with private sector partners who offer occupiers access to technology, software, mentors, funding and a doorstep talent pool. In Dubai, coworkers benefit from partners such as IBM, Google, Microsoft, Standard Chartered and GE.

- **Building communities**
  At the heart of coworking is the notion that "independent professions and those with workplace flexibility work better together than they do alone"[2]. Coworking has typically attracted start-ups and SME occupiers, who see themselves as part of a community. In their 2018 global survey of coworking operations, Deskmag[3] identified that 81% of coworking operations see individual customers as their main target market.

- **Mall vacancies**
  Looking at global trends, it is not only the office sector where coworking is a disruptor. The US has witnessed an increasing trend whereby coworking operations are being set up in vacant mall space and even integrating retail as part of the coworking environment. In Dubai, space within the Emirates Towers Mall has been successfully converted from retail to accommodate the Youth x Hub.

- **Ownership**
  The UAE will announce which sectors are eligible for 100% ownership outside of freezones, in Q1 2019. It is reported[1] that these may include technology, renewable energy and artificial intelligence; all prime SME markets, potentially unlocking demand for coworking needs. There is potential that the change in regulations could mean certain companies may seek more cost effective coworking options that, previously, would have only been accessible to onshore companies.

- **IFRS 16**
  Leases or licences under 12 months are permitted for exclusion under IFRS 16, indicating there will not be a requirement to capitalise related rental liabilities on an occupier's balance sheet. When viewed in line with continued macro-economic headwinds, this may encourage larger corporate occupiers to view flexible office space as a more mainstream solution to accommodate staff.

- **Capital expenditure**
  A key attraction of coworking space is the initial capital expenditure and time saving when compared to conventional space. Coworking occupiers plug and play without considering fit out and furniture costs, broker fees and utilities to name but a few considerations. Based on our analysis undertaken as of Q4 2018, coworking space can be up to 50% more cost effective than conventional space for up to 10 staff on a one year term.

Sources:

1. UAE to announce sectors eligible for full foreign ownership in early 2019, The National, 12 November 2018
2. Coworking Wiki, accessed 17 December 2018
3. 2018 Global Coworking Survey Results, Deskmag

Retail market

Dubai's retail market

The increasing supply of retail units, popularity of e-commerce and declining disposable incomes continue to put pressure on the retail market.

Review of 2018 performance

The Economist Intelligence Unit (EIU) forecasts that the total UAE retail sales volume was down by 3% in 2018. This is driven by declining disposable incomes (as inflation has outstripped wage growth), the introduction of VAT, the increasing popularity of e-commerce as well as a strong local currency making purchases more expensive for foreign visitors.

Shifting source markets continue to impact tourist retail spending in Dubai where visitor numbers from traditionally moderate spending source markets in North and South East Asia recorded the highest growth levels.

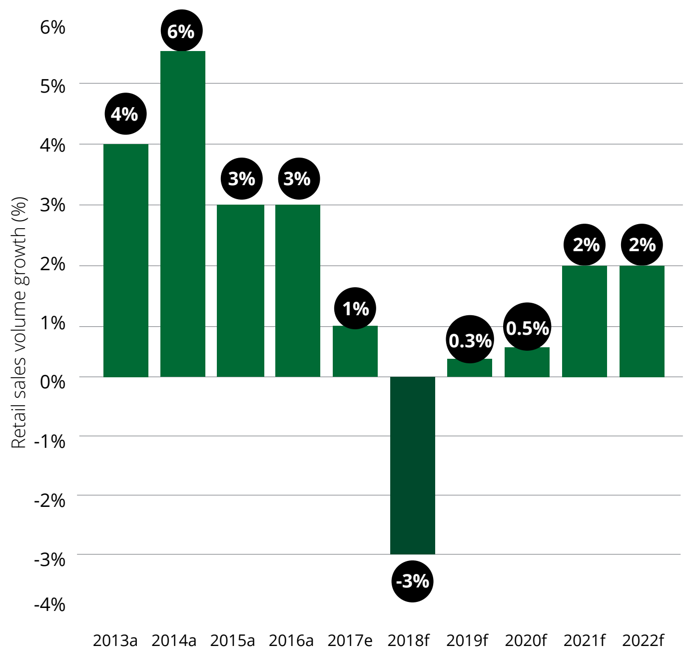
There is a significant number of Super Regional and Regional Malls in the pipeline including Meydan One, Al Khail Avenue, Cityland Mall, Nakheel Mall, Deira Mall and Dubai Hills. This is expected to put pressure on rents and occupancy levels as landlords continue to offer high incentives including rent free periods, fit out contributions and reductions in service charges. In comparison, community centres in densely populated areas have continued to perform well.

Domestic retail demand in Dubai continues to be pressured by the decline in disposable incomes. In 2018, 72% of Dubai residents expect to have the same or less disposable income in 2019, while only 28% expect to have more.

The Dubai Mall and Mall of the Emirates continue to be the most popular malls with tourists in 2018, collectively capturing 52% of total tourist retail demand.

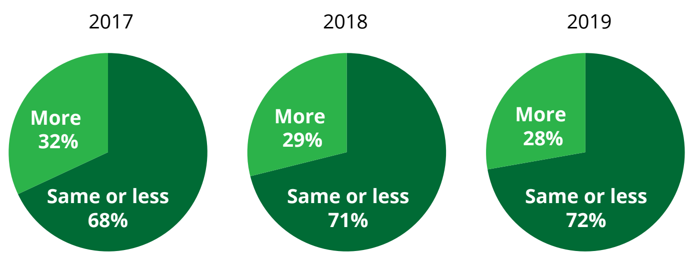
For residents, "Other Malls" (including smaller community centres and convenience retail) and non mall outlets continue to dominate due to their convenience and proximity to densely populated residential areas.

UAE retail sales volume growth, 2013 to 2022f



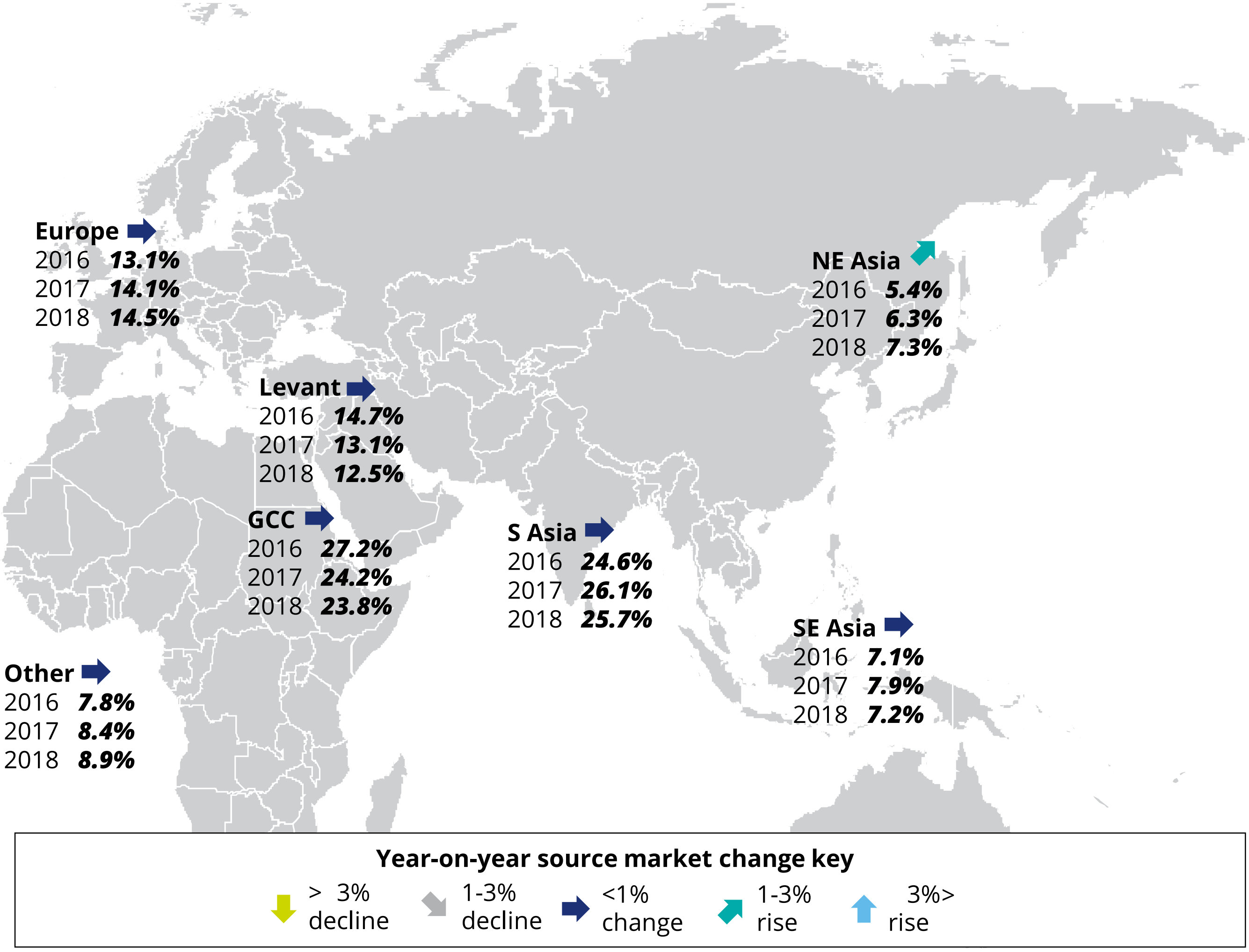
Source: EIU, a:actual, e:EIU estimate, f: EIU forecast

Dubai expectations on disposable income, 2017 to 2018



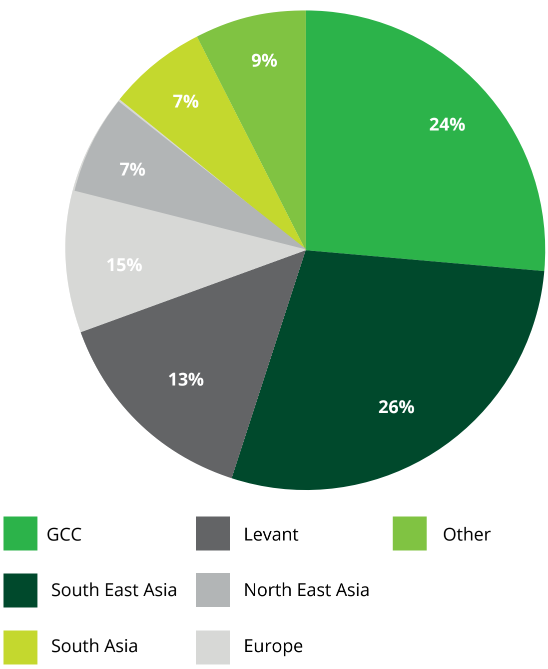
Source: grmc

Dubai key retail mall source markets, 2016 vs. 2017 vs. 2018



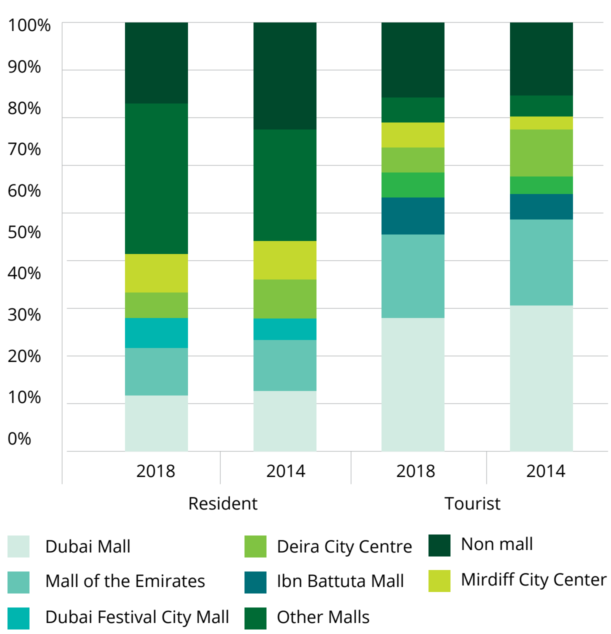
Source: grmc

Dubai retail mall source markets, 2018



Source: grmc

Dubai tourist and resident mall preferences, 2014 vs. 2018



Source: grmc

Digital disruptors are changing the retail landscape

Digital influences

Disruptors within the retail sector provide opportunities for brands to grow their relationships with consumers. Some of the most successful retailers are those embracing a multi-channel presence that combine bricks and mortar with the consumer's online experience. More than one third of shoppers say they research a product online whilst in a store[1] and studies show that those using a digital device in-store are more likely to make a purchase whilst there[2].

Vast amounts of data are being collected by leading brands. Artificial intelligence (AI), machine learning, augmented and virtual reality are creating new ways that brands can engage with their consumers. The Deloitte Digital Democracy Survey identified that for 50% of millennials, social media advertising had a medium or high influence on their buying decisions[3].

In 2018, Deloitte Digital and Salesforce undertook a survey of more than 500 traditional retail, pure play, consumer goods and branded manufacturing leaders from around the world. The brands considered as elite performers (with over 10% revenue growth in the last fiscal year) compared to brands with flat or decreasing revenue were:

- 1.6 times more likely to have rigorous compliance and security measures related to consumer data
- 2.3 times more likely to have clear definitions of roles and governance for managing consumer data
- 1.9 times more likely to quickly respond to demands and insights identified within consumer data

The survey also found that while only one third of brands had adopted AI, the most prevalent use (40%) is to tailor pricing and promotions in real time[4].

Source:
1. Salesforce 2017 Connected Shoppers Report
2. Kasey Lobaugh, Jeff Simpson, and Lokesh Ohri, Navigating the new digital divide.
3. Gerald Belson, Kevin Westcott, and Scott Lippstreau, Deloitte Digital Democracy survey
4. Consumer Experience in the Retail Renaissance, Deloitte Digital and Salesforce

Ensuring bricks and mortar stays relevant

As online retail is taking a larger percentage of retail purchase activity, consumer expectations around the experience of going out to shop have changed. Retail developers have therefore had to respond to these changing expectations by creating unique experiences as an integral part of their retail development program and design to drive footfall.

While the commercial space of retail is certainly the focus of a scheme's pro forma, developers are increasingly becoming aware that common areas are equally important in generating and sustaining footfall to the retail development. Through design and place making, these areas are essential in contributing to the retail positioning and identity of a development, enhancing the overall customer experience, and providing opportunities to connect with the community.

Future successful retail developments will be those that are programmed as multi-purpose multi-faceted and experience-driven environments with a strong destination appeal. It is such retail environments that encourage social and community interaction, provide pleasing, memorable and authentic experiences, and to which consumers will remain loyal for the long term.

Data and technology provide retailers with a better understanding of consumers, the ability to quickly respond to their preferences, as well as offer greater convenience and access to product information. However, the expierence driven retail developments that both embrace technology and celebrate the human connection will ensure the relevance of bricks and mortar retail in 2019 and long into the future.

Industrial and logistics market

Dubai's industrial and logistics market

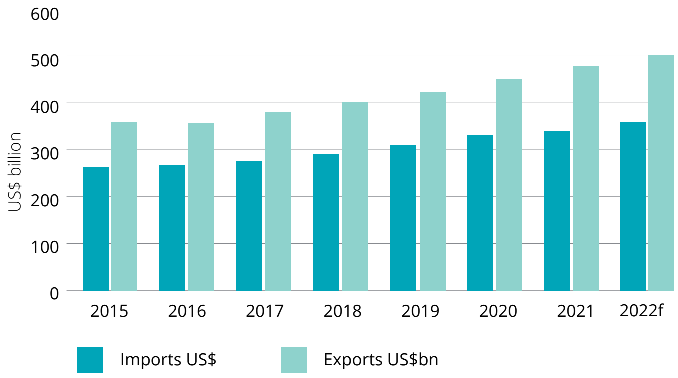
A strong infrastructure pipeline, improving business sentiment and preparations for EXPO 2020 will spur further investment in the logistics sector.

Review of 2018 performance

Continued growth in UAE imports and exports has driven demand for industrial and logistics warehouses in Dubai. Key demand drivers, including airport cargo throughput, port throughput and road freight tonnes, have all increased between H1 2017 and H1 2018. As a result, rents for warehouses in Dubai have increased in 2018.

A strong infrastructure pipeline and improving business sentiment on the back of oil price gains and preparations for EXPO 2020 will spur further investment in the warehousing and logistics sector.

UAE imports and exports, 2015 to 2022f



Source: BMI, f:forecast

Dubai key logistics indicators, 2017 vs 2018f

Period	DWC cargo throughput	DXB cargo throughput	Jebel Ali container throughput	Jebel Ali tonnage throughput	Road freight tonnes
2017 (YTD September)	0.44m	1.99m	15.4m	16.1m	29.2m
Trend	↑ 7%	↓ 3%	↑ 3%	↑ 2%	↑ 2%
2018 (YTD September)	0.48 m	1.93m	15.8m	16.4	29.9m

Source: BMI, Dubai Airports, f: forecast m: millions

Average warehouse rents, Dubai, Q3 2018

Rents are quoted AED per sq ft per year. Rents are average quoted rents for purpose built warehouses exclusive of service charges

Source: REIDIN, Deloitte

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