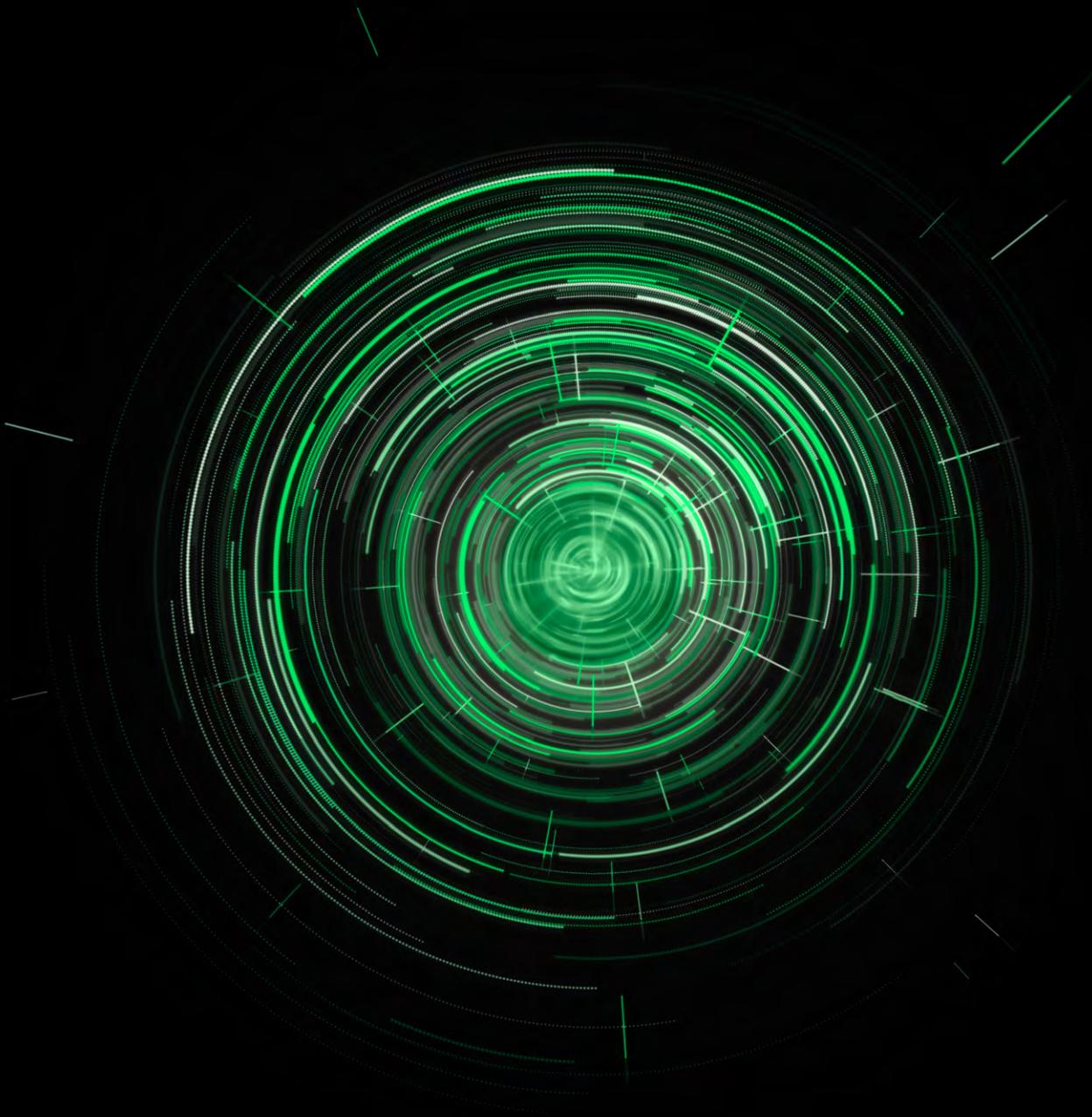


Deloitte.



**Middle East Real Estate
Predictions: Dubai**

2021

#RealEstatePredictions

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Executive summary

Dubai real estate market performance

COVID-19 has caused significant disruption across all real estate sectors in 2020 with owners and occupiers having to make necessary adjustments to business operations in response to the statutory restrictions on capacity and mobility. It remains unknown whether the pandemic will result in structural shifts for different use classes. However, with the COVID-19 vaccine available, the planned Expo starting in October and the 50th National Day in December there is an opportunity to showcase Dubai during 2021, in a post-COVID-19 world to both visitors and residents.



Hospitality

The year to date (YTD) September 2020 occupancy for Dubai hotels averaged 45% in comparison to 73% for the same period in 2019, while the average daily rate (ADR) over this period has declined by 12% year-on-year to AED 455.



Residential

Average sales prices for residential properties in Dubai declined by approximately 7% between Q3 2019 and Q3 2020. Average rents have also declined by approximately 10% over the same period.



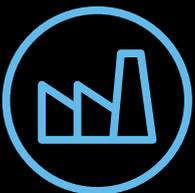
Offices

Office rents registered an average decline of 8% as of Q3 2020 compared to 2019. The impact of COVID-19 on business performance is expected to be the primary driver for changes in office spatial needs.



Retail

The reduction in international visitors due to COVID-19 travel restrictions impacted footfall and spending at bricks and mortar stores. The Economist Intelligence Unit (EIU) estimates that the total UAE retail sales volume will contract by approximately 10.3% in 2020, with sales expected to increase by an average of 2.6% a year until 2024.



Industrial and logistics

The expanding adoption of the e-commerce industry, mainly due to mobility restrictions, has proven beneficial for the logistics sector in 2020, generally with increasing demand for warehouse space in Dubai.

Emerging trends



Cash flow management and lending considerations

In the short-term, cash management and financing/lender considerations are some of the main priorities across all real estate sectors. Macro-economic and demographic factors as well as related government initiatives are likely to define the shape and pace of recovery for the real estate sectors in 2021.



Residential market demand and affordability

The pandemic has impacted global investment sentiment and as such capital protection has been the priority for the majority of real estate investors in 2020.



Changing role of the office

The relative importance of having traditional office space versus remote working is expected to vary by industry. It is possible that companies may gravitate towards a hybrid model, combining the core leased/owned space and additional on-demand flexible offices, while incorporating a higher ratio of work from home policies than pre-COVID-19.



E-commerce boost to logistics sector

The growth in the e-commerce segment has increased the requirement for storage and fulfilment centres, which is boosting the demand for warehouses.

Dubai real estate market performance



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Dubai's hospitality market

The inflow of tourists to Dubai has been disrupted due to travel restrictions and lockdown measures that came into effect from March 2020, which had a direct impact on the hospitality sector performance.

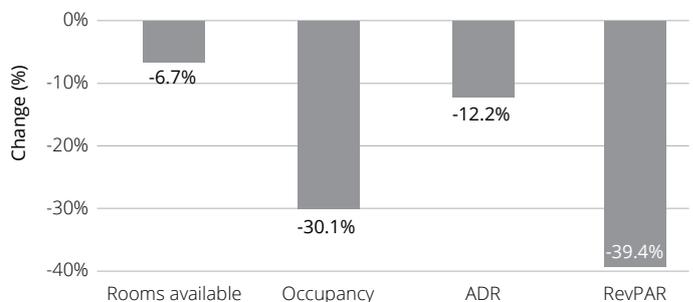
Review of 2020 performance

Similar to all major hospitality markets, Dubai's hospitality market has been significantly impacted by the COVID-19 pandemic, with travel restrictions and lockdowns having disrupted the industry in an unprecedented manner.

The YTD September 2020 occupancy for Dubai averaged 45% compared to 73% for the same period in 2019, while average ADR over this period has declined by 12% year-on-year to AED 455. This is higher than the majority of the regional and international markets, as shown on the following page.

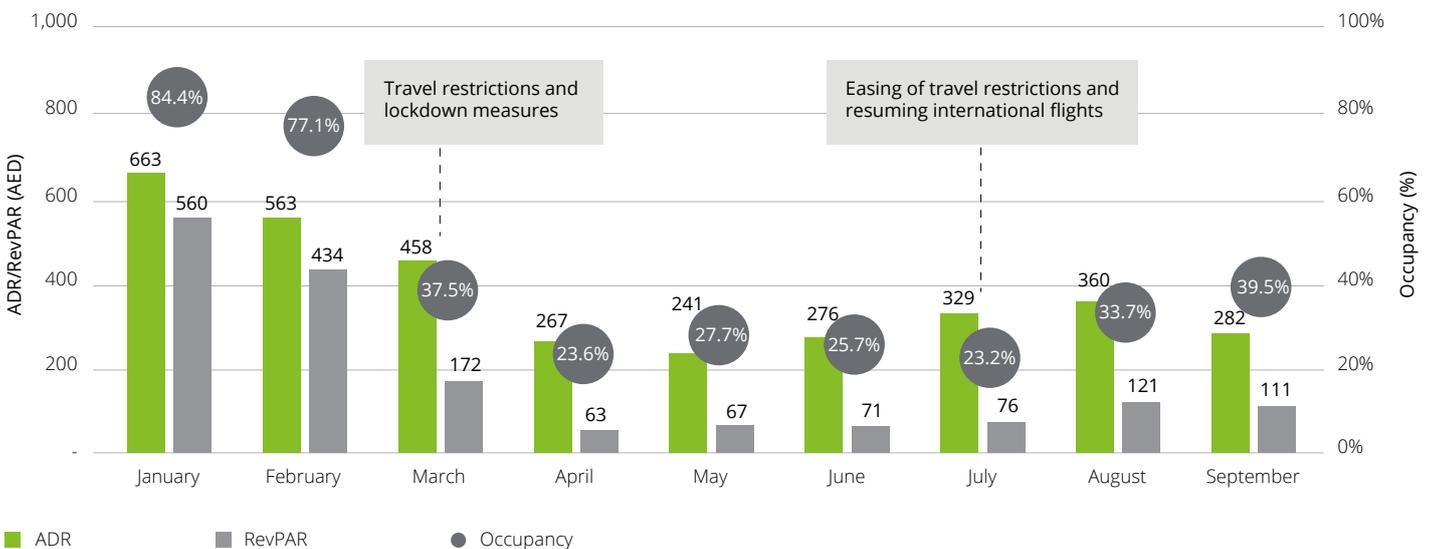
As shown below, both ADR and occupancy declined dramatically after the announcement of the travel restrictions and lockdown measures in March. Meanwhile occupancy increased marginally in May, around the time of the relaxation of measures around mobility and then again in July after international flights resumed.

Dubai hotel performance percentage change, January to September 2019 vs January to September 2020



Source: Business Intelligence and Reporting, Dubai Department of Tourism and Commerce (DTCM)

Dubai hotel market performance, January to September 2020



Source: STR Global

New campaigns and market focus

To ensure continued engagement with tourists during the current constraints, Dubai Department of Tourism and Commerce (DTCM) launched a number campaigns during the pandemic which include digital campaigns such as #TillWeMeetAgain, followed by #WeWillSeeYouSoon and most recently with #ReadyWhenYouAre as Dubai began welcoming back international flights from 7 July 2020.

According to the DTCM, Dubai received 416,700 overnight visitors between July and September 2020. The top five source markets include India (80.8%), Pakistan (41.4%), Egypt (34.5%), United Kingdom (32.4%) and Kazakhstan (14.7%).

In addition, the conferencing and events sector has restarted with a number of events adopting a hybrid approach that combine physical and virtual sessions, including the Arabian Hotel Investment Conference 2020, the Middle East Retail Forum and the Hotelier Awards. There were other large planned events towards the end of 2020 including Gitex 2020 which ran from December 6 – 10 at the Dubai World Trade Centre.

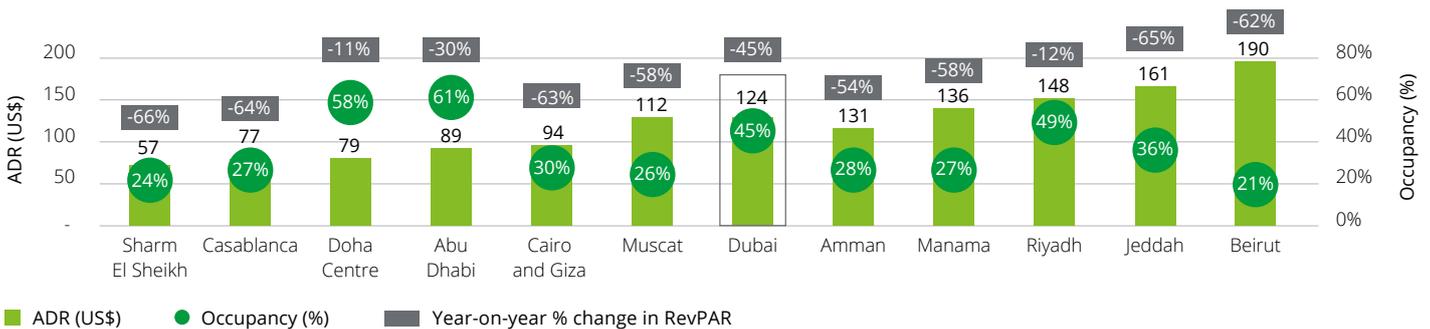
These campaigns and events are expected to continue to improve the hospitality market performance over the short to medium term.

Revenue per available room (RevPAR) performance in September and October has registered marginal improvement over the summer period, though primarily around beachfront and resort properties due to staycation demand.

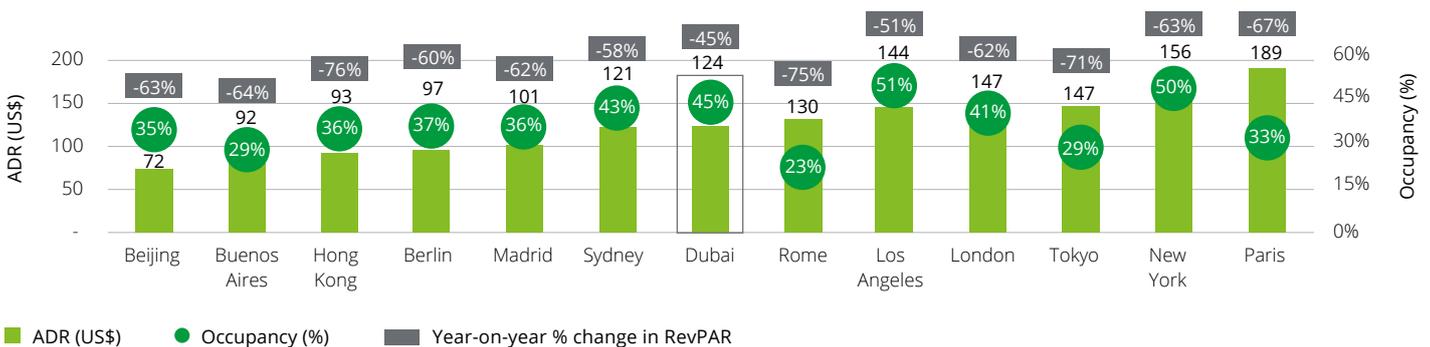
The Deloitte Middle East Hospitality Sentiment survey conducted in September 2020 suggests that the market recovery to 2019 levels is not expected until the end of 2023, or later. Many hospitality companies are using this downtime to revise their business strategy and build resilience towards the new normal. This includes a review of management contracts, building and amenities design, food and beverage offerings, and other services within the hotel.

The Dubai hotel market has experienced a major shock and has had to adapt during a very difficult period. With the vaccine currently being rolled out and Expo rescheduled to start on the 1st October 2021, it is hoped that a rebound will occur and performance will return to much healthier levels.

Dubai market performance vs. regional markets, January to September 2020



Dubai market performance vs. international markets, January to September 2020



Dubai's residential market

Tenants remain in the driving seat as rents decline by 10% as of Q3 2020.

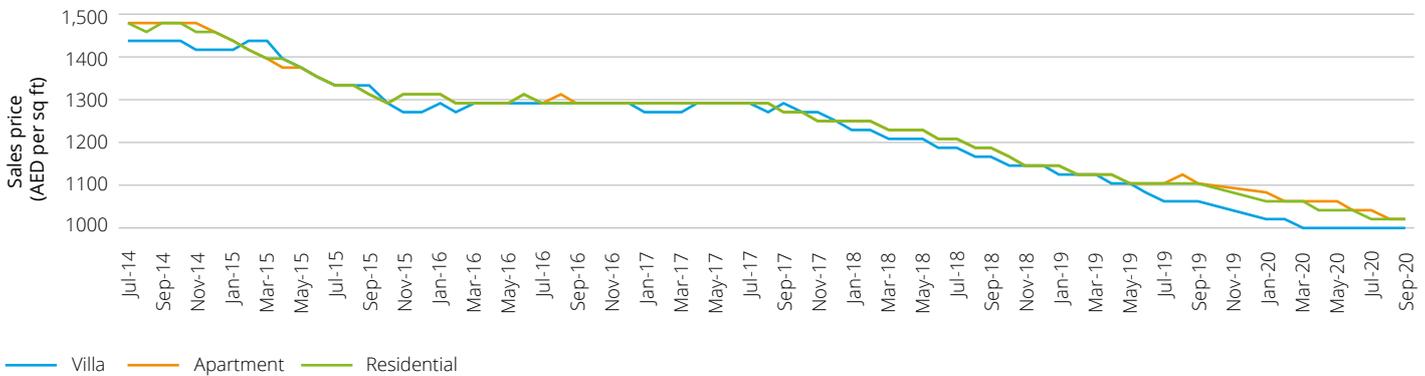
Review of 2020 performance

Average sales prices for residential property in Dubai declined by approximately 7% between Q3 2019 and Q3 2020. Average rents also declined by approximately 10% over the same period, and the average price per sq ft for apartments declined from AED 1,090 in 2019 to AED 1,011 as of September 2020.

Transaction volume has declined by 16% YTD September 2020 when compared to the same period in 2019. Demand for secondary market properties has outpaced transaction volumes for off-plan units whilst cash transactions continue to dominate, making up 74% of the total transactions. Meanwhile developers are offering discounts, fee waivers and rent-to-own incentives as an attempt to attract buyers.

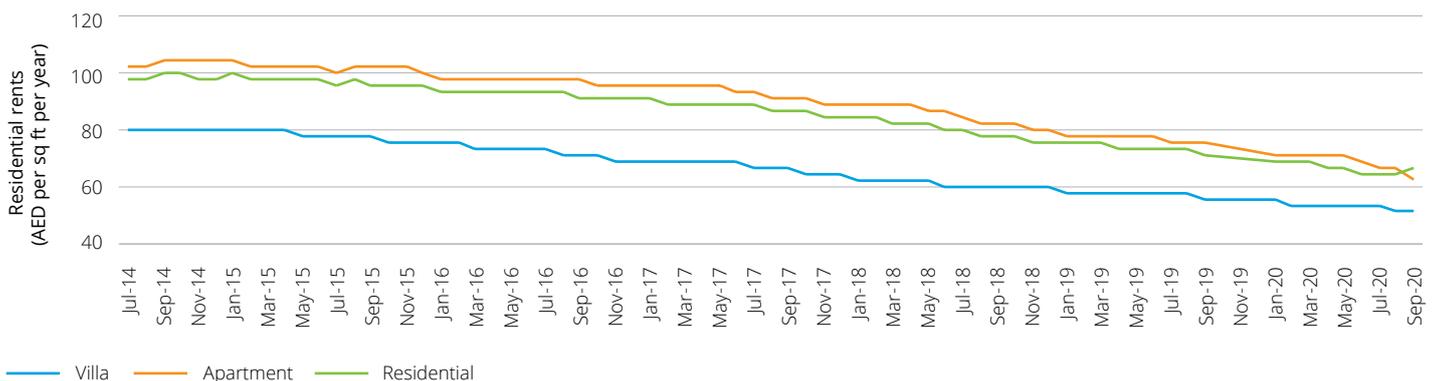
Many tenants have chosen to migrate to larger units with superior amenities, which have now become more affordable. Despite the continuing decline in prices, project handovers in Dubai continue in the lead up to Expo 2020. Based on consultations with key industry stakeholders, it is estimated that a total of 24,000 to 25,000 residential units were handed over in the first nine months of 2020.

Dubai residential sales prices, Q3 2014 to Q3 2020



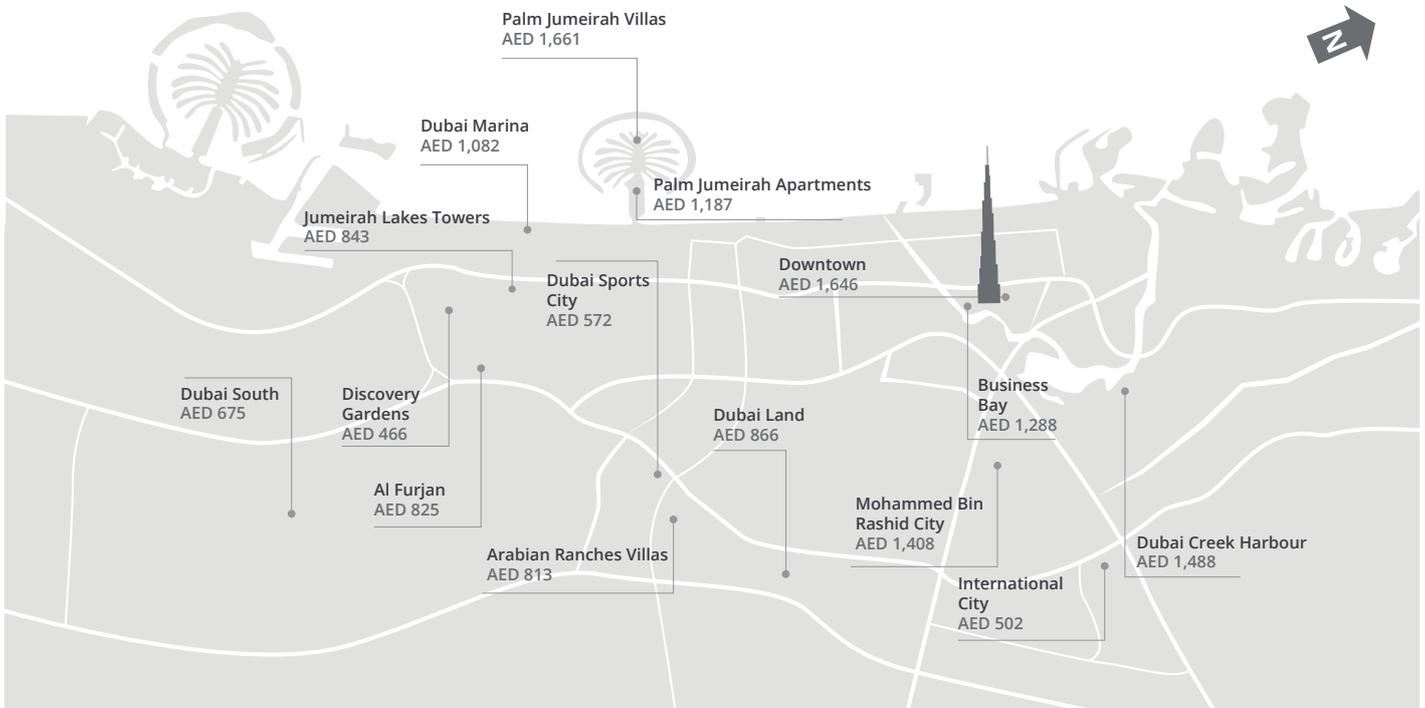
Source: REIDIN

Dubai residential rents, Q3 2014 to Q3 2020



Source: REIDIN

Dubai residential sales prices by location, Q3 2020



Source: REIDIN – Illustration by Deloitte

Note: 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 2019	AED 75 per sq ft per year	AED 1,090 per sq ft	AED 56 per sq ft per year	AED 1,054 per sq ft	AED 71 per sq ft per year	AED 1,090 per sq ft
Trend	↓ -13%	↓ -8%	↓ -7%	↓ -7%	↓ -10%	↓ -7%
Q3 2020	AED 65 per sq ft per year	AED 1,011 per sq ft	AED 52 per sq ft per year	AED 983 per sq ft	AED 64 per sq ft per year	AED 1,011 per sq ft

Source: REIDIN, Deloitte

Dubai's office market

The impact of COVID-19 on business performance is expected to be the primary driver for change in office space requirements.

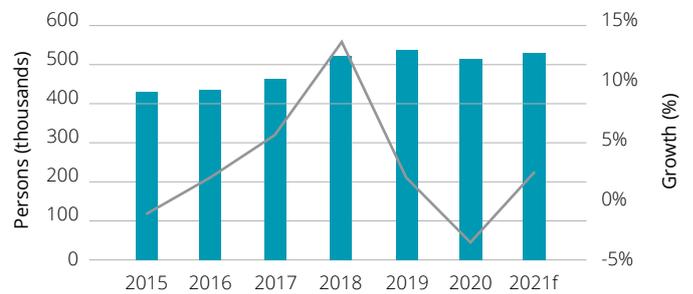
Review of 2020 performance

Office space usage has faced disruptions as a result of the remote working model necessitated by the COVID-19 pandemic, first during the 24 hour lockdowns in April 2020, and since then with varying 'return to work' policies across companies.

Changes in spatial needs are likely to be promoted when leases expire or when companies may choose to downsize or even expand their facilities. Meanwhile, office rents registered an average decline of 8% as of Q3 2020 compared to 2019.

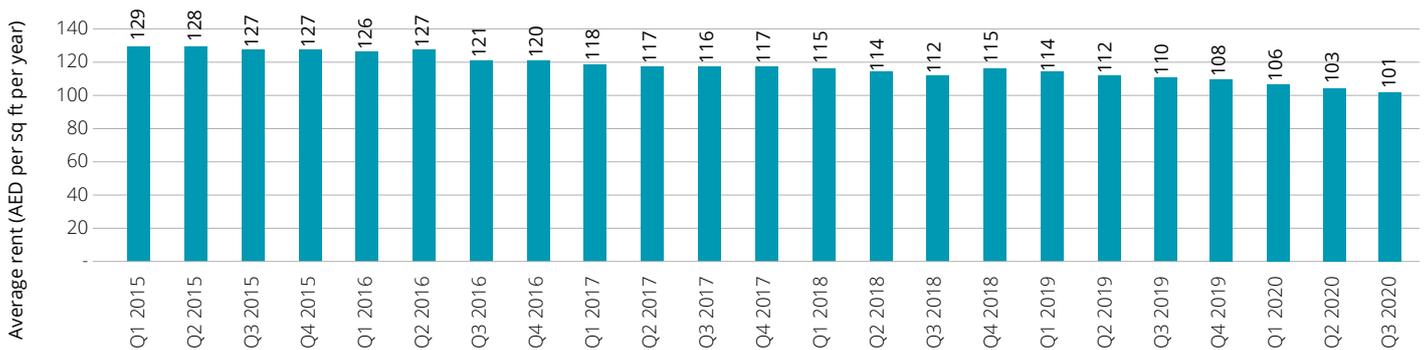
The addition of approximately 900,000 sq ft of office space through the handover of ICD Brookfield Place in DIFC is expected to increase competition among prime assets in the financial district, while owners in other areas are expected to face downward pressure on rents.

Dubai employment in financial and business services, 2015 to 2021f



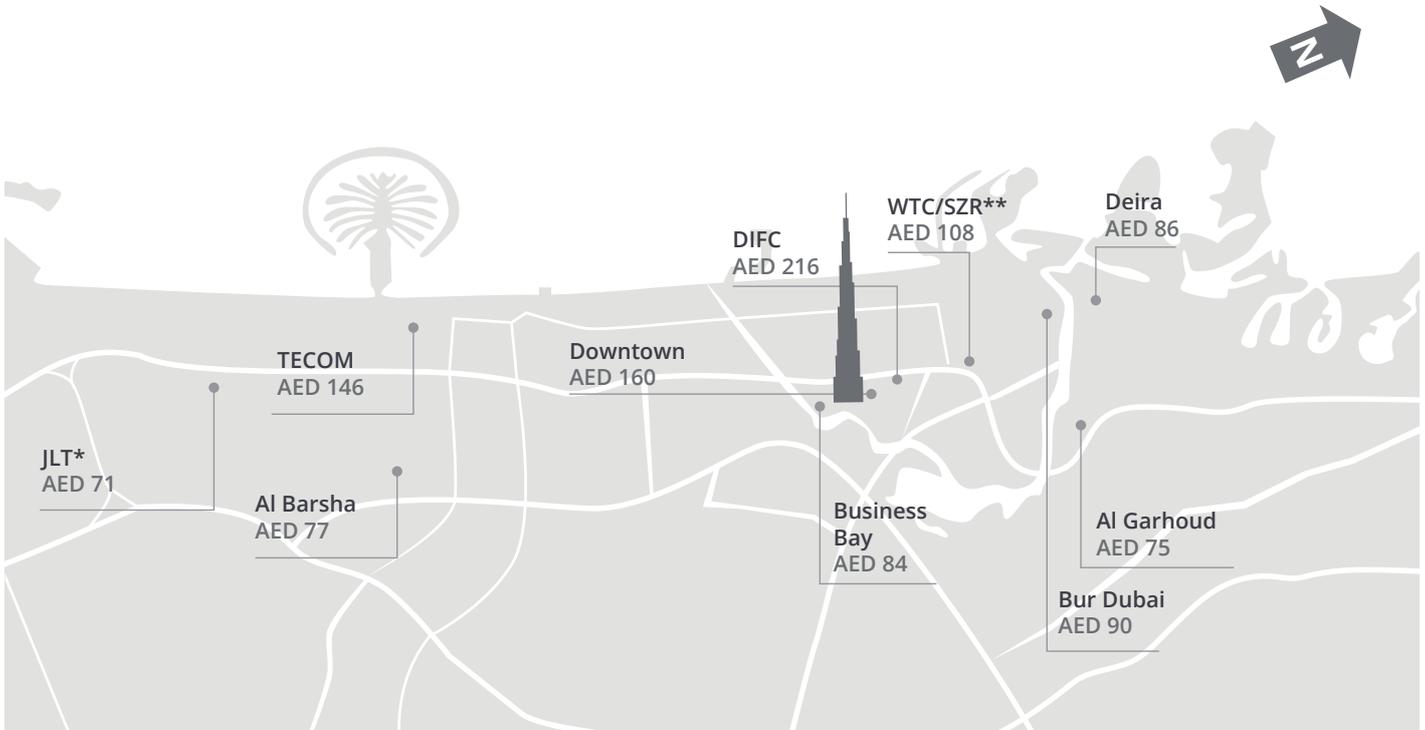
■ Employment in financial and business services
 — Year-on-year growth (%)
 f: forecast
 Source: Oxford Economics

Dubai average office rents, Q1 2015 to Q3 2020



Source: REIDIN
 Note: Above rents are exclusive of service charge

Dubai average office rents, Q3 2020



Source: REIDIN – Illustration by Deloitte

Note: Rents are quoted AED per sq ft per year

Rents are average achieved rents for shell and core offices exclusive of service charges

*Jumeirah Lakes Towers; **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 2019	219	98	85	93	110	85	98	162	165	80	110
<i>Trend</i>	↓ -1%	↓ -8%	↓ -11%	↓ -8%	↓ -2%	↓ -9%	↓ -15%	↓ -1%	↓ -11%	↓ -12%	↓ -8%
Q3 2020	216	90	75	86	108	77	84	160	146	71	101

Source: REIDIN, Deloitte

Dubai's retail market

The reduction in international visitors due to COVID-19 travel restrictions impacted footfall and spending at bricks and mortar stores.

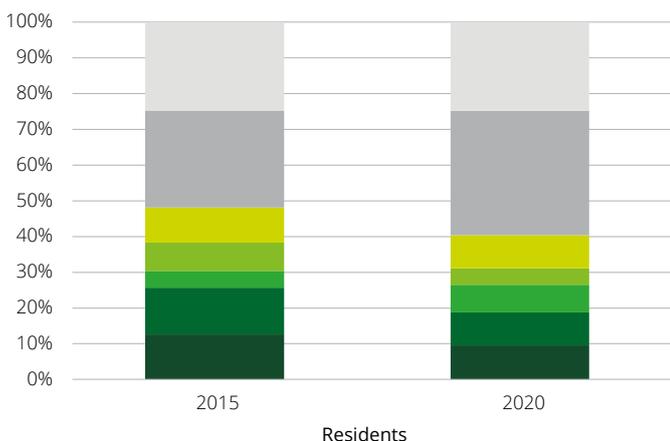
Review of 2020 performance

The EIU estimates that the total UAE retail sales volume will contract by approximately 10.3% in 2020, with sales expected to increase by 2.6% a year on average over the remainder of the forecast period.

Emaar Malls, which owns and operates 6.6 million sq ft of retail gross leasable area (GLA), registered a 27% decline in revenue during the first nine months of 2020, when compared to the same period in 2019. Meanwhile average occupancy for the Emaar portfolio, which includes Dubai Mall, Dubai Marina Mall, Gold & Diamond Park, Souk Al Bahar and other community retail centres stood at 91% as of September 2020.

The impact of COVID-19 on retailer revenues has led to many tenants seeking turnover-linked rents in their contracts. Meanwhile certain mall owners have provided temporary incentives in the form of rent relief launched soon after COVID-19 lockdown measures in March 2020 and in certain cases extended until the end of 2020.

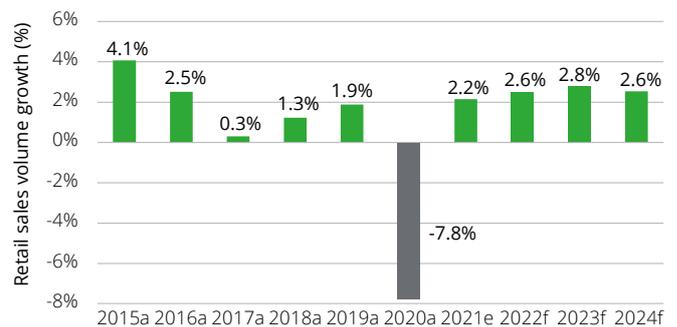
Dubai resident mall preferences, 2015 vs. 2020



Legend: Dubai Mall, Mall of the Emirates, Dubai Festival City Mall, Deira City Centre, Mirdif City Centre, Other Malls, Non Mall

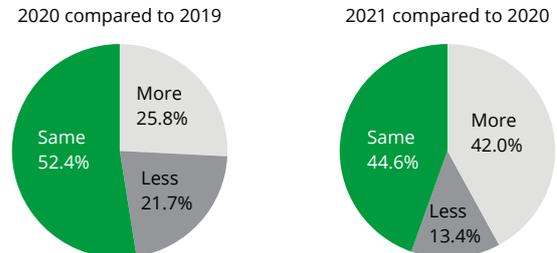
Source: grmc
Note: Percentages may not total 100 due to rounding

UAE retail sales volume growth, 2015 to 2024f



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

Dubai expectations on disposable income



Source: grmc
Note: Percentages may not total 100 due to rounding

Dubai resident shopping preferences

The Dubai Mall and Mall of the Emirates have historically been the most popular malls with tourists, collectively capturing 51% of total tourist retail demand in 2019. Demand from tourists was impacted in 2020 due to travel restrictions and majority of the retail centres have relied on resident footfall and spend. For residents, 'Other Malls', which include smaller community centres and convenience retail, as well as 'Non Mall' outlets continue to dominate in 2020 due to their convenience and proximity to residential areas.

Mobility restrictions have also forced residents to make more online purchases in 2020, including setting up online accounts across multiple platforms and familiarising themselves with the payment and return process, among others. This trend is expected to continue even when restrictions on movement ease. Multi channel retail formats that incorporate online shopping preferences, alongside F&B concepts and experiential retail in brick and mortar offerings are expected to drive consumer preferences in the medium term.

Dubai's industrial and logistics market

The expanding adoption of e-commerce, particularly resulting from mobility restrictions due to COVID-19, has proved beneficial for the logistics sector in 2020.

Review of 2020 performance

Logistics and distribution, e-commerce and cold storage services continue to drive demand for warehouse space in Dubai. Warehouse rents for newly built facilities developed to international standards, which are primarily located in free zones, ranged from AED 30 to 35 per sq ft per year during 2020. Meanwhile Grade B offerings and older stock continue to face downward pressure on rents.

Liquidity considerations due to the constrained business environment during 2020 has meant that a number of small and medium enterprises are now seeking annual lease contracts and yearly rental escalation in comparison to three or five year terms for their industrial units. Additionally, multinational occupiers are increasingly exploring asset-light models, thus presenting greater opportunities to participate in the industrial market through sale and leaseback structures, among others.

UAE imports and exports, 2018 to 2024f



Dubai key logistics indicators, 2019 vs 2020f ('000s)

Period	DWC cargo throughput	DXB cargo throughput	Jebel Ali container throughput	Jebel Ali tonnage throughput	Road freight tonnes
2019e	0.88 m	2.49m	14.11m	7.41m	29.04m
<i>Trend</i>	↓ -5%	↓ -1%	↓ -3%	↓ -2%	↓ -1%
2020f	0.86m	2.46m	13.72m	7.23m	28.85m

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

Dubai average warehouse rents, Q3 2020



Source: Deloitte

Note: Rents are quoted AED per sq ft per year; Rents are average achieved rents for purpose built warehouses exclusive of service charges

Emerging trends



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Cash flow management and lending considerations

Real estate and debt capital have long been synonymous; the impacts of COVID-19 were felt not just by real estate owners and lessors in their capacity as borrowers, but also the lenders that have provided development and operating capital.

Mitigating the impact of COVID-19

Cash flow relief has been well received by the real estate and development sector, affording asset owners and operators the breathing space and time to respond to the challenge.

Asset owners in the retail and hospitality space are looking critically at their operations, including taking actions such as:

- Operating cost reduction including reviewing Hotel Management Agreements (HMAs);
- Pro-active tenant management to support a robust customer base; and
- Facilities Management (FM) optimisation across their portfolios.

Furthermore, the challenges in the construction sector have been publicly documented following some high-profile distressed situations. Invariably, some developers are taking steps to protect themselves from any potential contagion as a result of delayed construction progress.

Performance bonds have typically played the role of a deterrent to underperformance, but in more recent times, their intended role as a 'last resort' source of finance is becoming more common, evidenced by developers seeking to recapitalise their projects, maintain progress and avoid any spiraling costs of delays.

Despite the pressures, and driven by a sense of optimism that markets have come through the worst of COVID-19, asset owners are assessing recovery options that will unfold in the medium term.

Real Estate as a restructuring lever

Scenario planning is critical at this juncture, particularly for the leveraged. Whilst the Targeted Economic Support Scheme is welcomed, loan payment deferrals are accruing on borrowers' balance sheets, eroding equity value, but ultimately requiring for the most part, a consensual restructuring of terms.

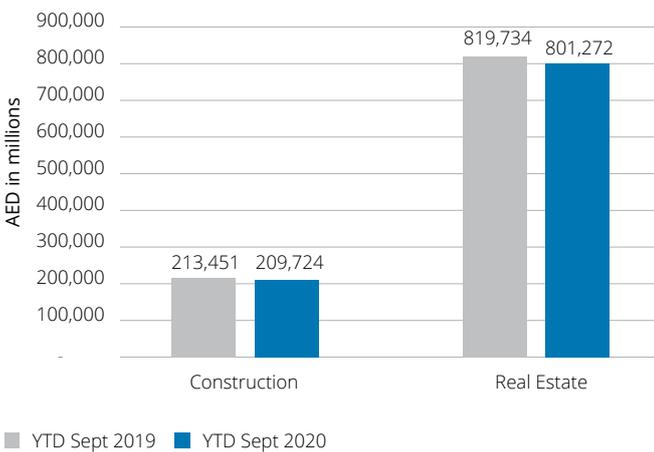
Lenders may approach restructuring differently according to their risk appetite, perceived security cover and status of provisioning, but some of the mainstay restructuring approaches are being implemented.

Tenor extensions	Allocating principal repayments over a longer period of time in line with ability of assets to service the loan.
Back-ended payment structures	Deferral of significant principal balances to final year bullets, which may accrue interest and be settled through refinancing or an asset sale.
Performing / non-performing multi-tranche structures	Splitting loan principal and pricing to reflect an asset's ability to service debt whilst maintaining rights to principal in the event of any disposals of performance upsides.
Principal forgiveness vs. interest pricing	In some cases, reducing debt to maintain a reasonable interest return if the tenor required is beyond the bank's horizon. Similarly interest rate reduction can enhance the ability to service principal.
Real estate assets / equity sweetener to enhance asset cover	Real estate asset contributions being utilised in restructuring to further underwrite debt. First charge security is now highly favoured.

Source: Deloitte

Real estate has typically been an attractive asset class for lenders to deploy capital, though the current data from the UAE Central Bank suggests that the real estate and construction sector lending has marginally decreased from 2019 to 2020.

Lending to the real estate and construction sector, YTD September 2019 and 2020



Source: UAE Central Bank

Sources of finance

Despite the marginal declines, the overall banking sector liquidity is at similar levels as 2019, with a desire to deploy for the right projects. Furthermore, opportunistic investors, particularly in the commercial sector, are looking to deploy costlier mezzanine and term loan B capital, potentially with a degree of subordination to senior lending structures.

The demonstration of the following is key to secure this finance:

- A clear purpose and requirement for debt, which is not directed at filling valuation shortfalls, operating losses or to cover overheads;
- A clear pathway to repayment from operational or disposal proceeds; and
- First ranking asset security based on credible valuations - asset cover ratio requirements are increasing.

The above factors are not new to the UAE market, but the level of scrutiny being applied within the sector by debt and equity investors alike has elevated. There is an opportunity for prospective developers and investors to refocus their strategies on more bankable projects that can fulfil funding obligations and offer medium to long term growth prospects.

Residential demand and affordability

The pandemic has impacted global investment sentiment and as such capital protection has been the priority for the majority of real estate investors in 2020.

Decline in capital values and rents for residential property in Dubai has continued into 2020 from the last market peak observed in Q2 2014. A combination of factors including new stock additions averaging 15,000 to 20,000 units per annum in the last five years has contributed to this trend.

The adjacent chart shows data on transaction value over this period. The total value of residential transactions has declined by 16% year-on-year between YTD September 2019 and YTD September 2020.

Top buyer segments

COVID-19 caused a disruption in transaction activity from Chinese buyers in Dubai, the fastest growing segment among residential property buyers in Dubai in the recent years.

To offset the decline in transactions from Chinese buyers, developers have renewed their focus on local market segments including young Emirati buyers, GCC nationals, Indian, Pakistani and Russian expatriates, amongst others.

Dubai residential sales, 2014 to YTD September 2020



Source: REIDIN

Resident home ownership

More than 90% of Dubai’s population are expatriates and their participation in the residential market is a key determinant of housing demand in the Emirate. Data on expatriate residents’ participation in the Dubai residential market as buyers is unavailable at the time of reporting, however, if we consider the mortgage transaction volumes as a proxy for evaluating expatriate home ownership, it is clear that there is an opportunity to attract a wider base of buyers from this segment.

As shown in the adjacent chart, mortgage transactions for residential properties averaged 39% of total transactions between 2015 and 2019.

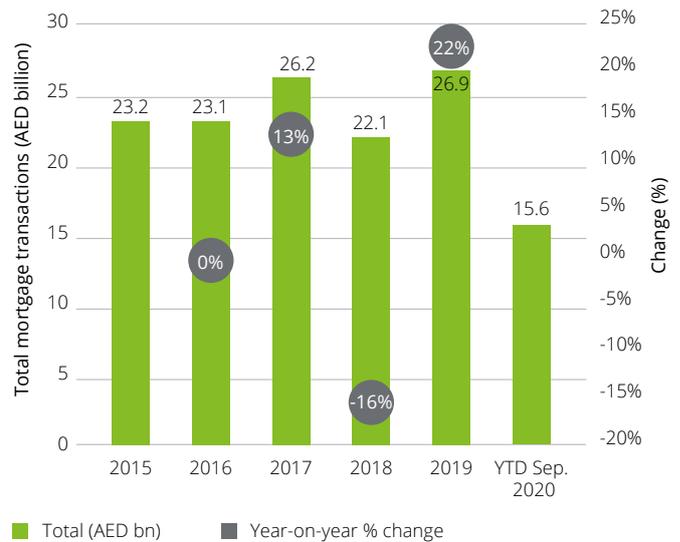
The Central Bank of UAE issued a decree in March 2020 allowing banks to increase the loan-to-value (LTV) for first time buyers by 5% for both expatriates and UAE nationals, thus increasing the LTV to 80% and 85% respectively.

Further, incentives and offers from banks such as a reduction or waiver of loan arrangement fees, in addition to a low interest rate environment, presents an opportunity for developers to encourage a wider base of residents to become home owners.

From January to September 2020, residential mortgage transactions totaled AED 15.6 billion in value, a decline of 17% over the same period in 2019.

Looking ahead, an improvement in transaction volumes is predicated on demographic and economic factors alongside targeted offerings from developers and banks to enhance participation from both the investor and resident owner/occupier segments.

Mortgage transaction value, 2015 to YTD September 2020



Source: REIDIN

Note: Mortgage values may represent mortgage component of the sales or refinance amount.

Changing role of the office

The office of the future will blend the virtual and physical environments to enhance employee, contractor and key stakeholder engagement through collaboration tools and dynamic work locations.

In a survey conducted by Deloitte in October 2020 among companies across the Middle East, more than 70% of the respondents stated that they do not expect a change in their office space requirement once their office lease expires. For those considering a reduction in office space in the future, reduction in staff numbers due to the COVID-19 business impact was noted as the primary reason.

As companies were pushed to test remote working during the lockdown, varying models of work from home and onsite presence are expected to emerge in the return to work.

Increased flexibility

Pre-allocation of space is expected to make way for more ad hoc arrangements that increase the opportunities of collaboration and communication. Offices will be reconfigured to allow more ideation and team discussions, while independent activities will move online, provided there are enhancements in digital infrastructure to support remote working as needed.

Workplace design and planning needs to evolve and incorporate on-demand, user centered models that remain dynamic and easy to adapt to the changing requirements of the organisation. For asset managers, technology and data analytics will become essential tools to assess building usage and peak versus average facilities/utilities demand.

Future of work transition

The following practical steps can aid companies in evaluating future workplace requirements:



Use existing tools and practices to assess remote working capabilities and develop team norms.



Undertake a firm-wide digital assessment to develop a long term vision of necessary tools, systems and practices.



Run an employee experience study to understand what it would take to develop a great workplace for staff and business partners, irrespective of location.



Drive investment in technology, people, practices and real estate based on learnings to reduce any future threats.



Measure impact and value of the changes made on a continuous basis to fine-tune real estate usage and digital capabilities.

Source: Deloitte

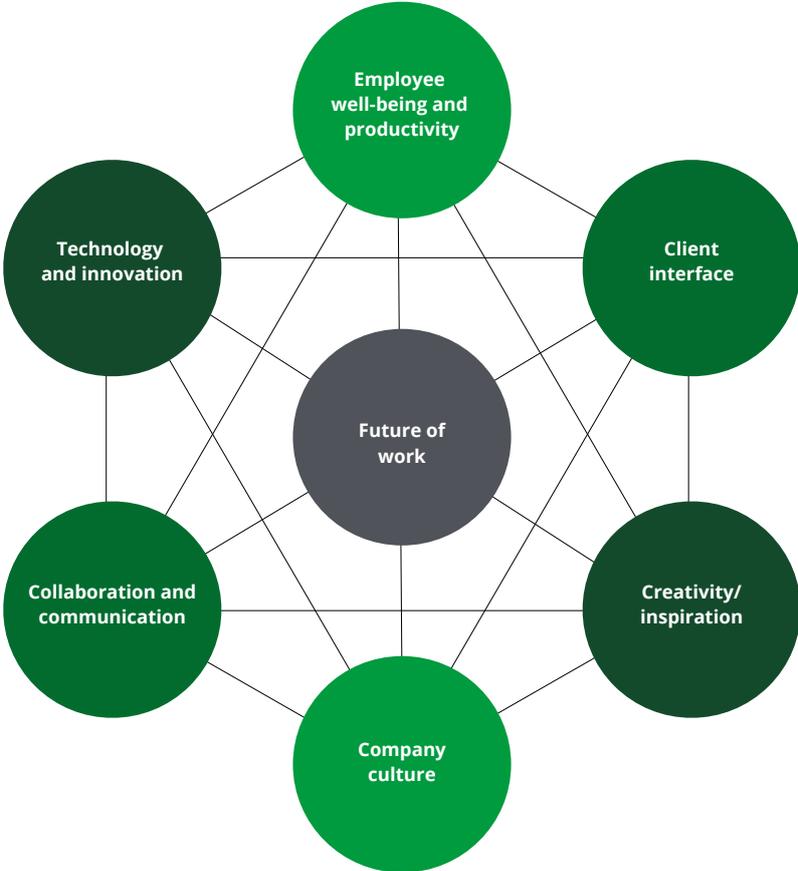
Productivity has been rated as the most important reason for staff attending the office as companies in the Middle East returned to work after COVID-19 restrictions were lifted.

The relative importance of having traditional office space versus a remote working model is expected to vary by industry. It is possible that companies may gravitate towards a hybrid model combining the core leased/owned space and additional on-demand flexible offices, while incorporating a higher ratio of work from home policies than pre COVID-19.

Resizing of a firm’s footprint is largely dependent on existing leases or the amount of owned office space. The extent of reconfiguration or changes in office space will depend on a combination of factors including technology readiness, company culture and expected benefits of real estate savings.

The workplace plays a pivotal role in attracting talent and retaining employees, and companies will also need to factor the behavior and feedback of this brand of customers in all future strategies.

Interconnected universe of key workplace functions



Source: Deloitte

E-commerce boost to the logistics sector

Growth in the e-commerce segment has increased the requirement for storage and fulfilment centres, thus boosting the demand for warehouses.

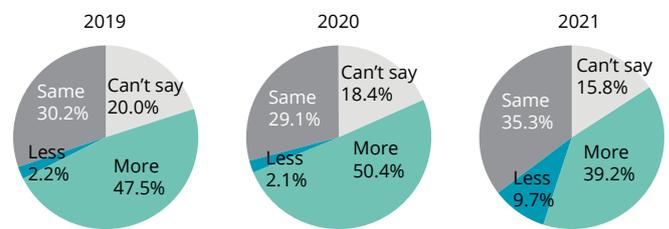
The challenges posed by lower spending and fewer shoppers in bricks and mortar retail stores has driven faster adoption of digitisation and online sales among many retailers.

In Dubai, e-commerce players such as Amazon, Noon and Namshi already occupy fulfilment facilities and warehouses in locations such as Dubai South, Dubai Investment Park and Umm Ramool. Notably, the e-commerce market in the Middle East and Africa is expected to reach USD 26 billion in 2022, with the UAE accounting for 18% as further expansion in industrial accommodation footprint is expected from key players.

Online retail sales growth

The UAE e-commerce landscape 2020 survey conducted by VISA, reported that UAE residents are the biggest online spenders of the Middle East, North Africa and South Asia region, spending USD 1,648 annually. The average transaction value was USD 122 in 2019-20, compared with USD 76 in mature markets and USD 22 in emerging markets. The survey also showed that online e-commerce will account for 21.9% of all card payments in the UAE in 2020, up from 19.7% in 2019.

Online shopping preferences among Dubai residents, 2019 to 2021



Source: grmc

Note: Percentages may not total 100 due to rounding

Further expansion from the e-commerce and cargo sector occupiers is expected in the short to medium term, with more design and build for specific end users as opposed to speculative build.

Additionally, next-day or same-delivery options are expected to create a requirement for last-mile delivery hubs, close to the residential and business districts



Purpose-built e-commerce and logistics facilities

The dual-bonded 920,000 sq m EZ Dubai logistics zone in Dubai South and the 195,000 sq m Commercility in Dubai Airport Free Zone have launched in the last 18 months to cater to logistics and distribution companies. As of September 2020, EZ Dubai is reported to have achieved an operating rate of 20% within its first phase, in addition to 27% under development. Meanwhile the Commercility logistics cluster consisting of 105 logistics units and a leasable area of 53,000 sq m is expected to have staged openings until the project is completed in 2023, with the first phase opened in November 2020.

In addition to standard specification warehouses, the growth of segments such as online groceries is also expected to increase the requirement for cold storage facilities.

Average logistics prime yields in established industrial locations in Europe were 6% pre COVID-19 and averaged 5.3% as of Q3 2020. Increasing investor interest in this segment is expected to compress yields, with funds increasing the weightage of industrial properties in their portfolio.

In Dubai the shortage of investment stock has historically led to more forward funding investment deals. Moreover, speculative development is expected to be slower with construction finance becoming harder to obtain.

The positive demand side factors and limited availability of international grade assets is expected to enhance investment opportunities for properties where occupier covenant strength can be demonstrated by parent company guarantees for 15+ year lease terms.

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