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Middle East Real Estate Predictions: Dubai 2017



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Dubai economic overview

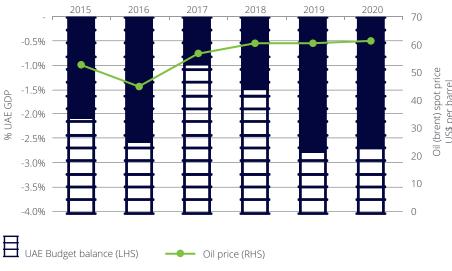
Increasing Real GDP growth in the run up to 2020, despite ongoing economic headwinds

Global and UAE GDP growth, 2015 to 2020



Source: EIU

Global oil price and UAE budget balance, 2015 to 2020



Source: EIU

2016 overview and 2017 outlook

The EIU forecasts that real GDP growth in the UAE will rebound in 2018, averaging 3.2% per year between 2018 and 2020. This represents an increase from the 2.0% real GDP growth forecast for the UAE in 2017. Real GDP growth in the UAE is forecast to outperform the world economy each year between 2018 and 2020.

Despite this, a number of economic headwinds remain. These range from diminishing global economic growth prospects through to relatively large Government and Government Related Entity ("GRE") debt, which according to the EIU currently accounts for approximately one third of the UAE's GDP.

On a more positive note, OPEC agreed to its first oil production cut in 8 years in November 2016. This should push oil prices up towards and ultimately beyond the EIU's estimated fiscal breakeven oil price of US\$60 per barrel for Abu Dhabi, the main contributor to the UAE federal budget.

Data from Oxford Economics forecasts that Dubai's population will increase from 2.6 million in 2017 to 2.9 million in 2021. Average household personal disposable incomes in Dubai are however forecast by Oxford Economics to decline steadily over the same period. This is largely due to inflation increasing at a faster rate than wage growth and the interrelated impact of ongoing subsidy cuts.



Dubai's hospitality market

Occupancy levels are stable but RevPAR continues to decline

Review of 2016 performance

Dubai's hospitality market experienced increasing headwinds in 2016, influenced by slowing economic growth in key source markets and a relatively strong UAE Dirham, making Dubai a more expensive destination for many visitors.

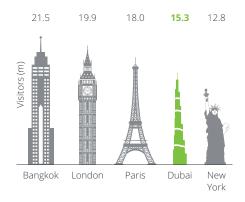
Despite this, tourism fundamentals in Dubai remain strong. Dubai retained its #4 spot on the Mastercard Global Destination Cities Index, with 15.3 million international overnight visitors estimated in 2016.

Increasing competition between operators has driven a reduction in ADR, with a market-wide average fall of 11.5% recorded between November 2015 and YTD November 2016. Popular areas such as the Palm Jumeirah, JBR and Dubai Marina recorded the lowest falls, whilst ADRs in some areas, such as Media City, SZR, Bur Dubai and the Creek, have fallen by more than 12%.

This fall in ADR has been tempered by resilient occupancy. Market wide hotel occupancy in Dubai has remained stable at 76% from November 2015 to November 2016.

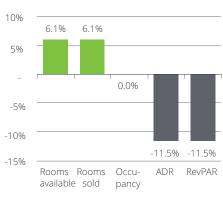
There remains a significant volume of planned hospitality supply in the development pipeline. A total of approximately 16,600 keys are currently under execution and due for delivery by 2020, with 23% of these in the mid market sectors.

International overnight visitors, global top 5 destinations, 2016



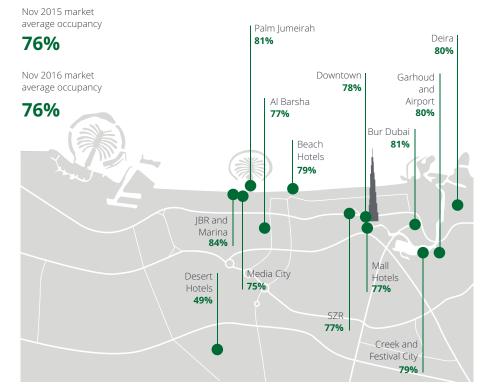
Source: Mastercard

Hotel performance percentage changes, Dubai, November 2015 vs. YTD November 2016



Source: STR Global

Hotel occupancy by location, Dubai, YTD November 2016

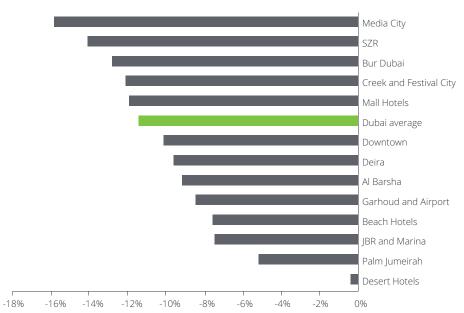


Source: STR Global

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

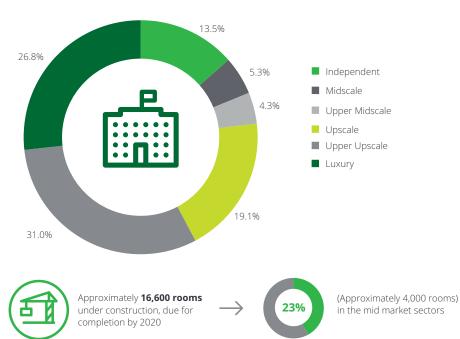
Strong fundamentals but the squeeze on ADR is likely to continue into 2017

ADR percentage change, Dubai, YTD November 2016 vs. November 2015



Source: STR Global

Hotel development pipeline, Dubai, 2017 to 2020



Source: MEED Projects, STR Global

2017 Predictions

Dubai's hospitality market will continue to face challenges in 2017, including slowing economic growth in key source markets and a strong local currency, making Dubai a more expensive destination for many visitors. Despite this, and YOY declines in RevPAR of 11.5% in 2016, Dubai is likely to maintain its position as one of the world's top tourism markets in 2017, both in terms of visitor numbers and hospitality performance metrics. We predict that market wide hotel occupancy in Dubai in 2017 will be approximately 75%, still among the highest in the world.

Dubai continues to invest heavily in its tourism infrastructure. Such investments include Expo2020, the Dubai Water Canal, Dubai Parks and Resorts and IMG Worlds of Adventure. We predict that this should help Dubai to sustain levels of tourism demand growth to 2020 and beyond, and importantly diversify the tourism offering of the Emirate and extend average length of stay.

Dubai is investing heavily in midmarket hotel provision. Between 2017 and 2020, we predict that 23% (4,000 rooms) of hotel rooms developed in Dubai will be in the mid-market sectors, as developers look to capitalise on this market which has been undersupplied historically. We predict that hotel provision in these sectors will cater to increasing demand from currently small but growing source markets in particular China and the wider Asia Pacific region.

Dubai's residential market

Continued decline through 2016 in transaction volumes, sales prices and rents

Review of 2016 performance

Transactions, sales prices and rents for residential apartments and villas in Dubai have all continued to decline through 2016. Average sales prices across all residential submarkets declined by 6.1% over the period Q3 2015 to Q3 2016.

JBR apartments, Downtown primary apartments and Arabian Ranches villas all experienced declines in average sales prices in excess of 10% between Q3 2015 and Q3 2016. Residential sales price declines have been less pronounced in International City (-2.8%), Dubai Marina secondary (-3.2%) and JLT (-3.3%), suggesting an ongoing flight to affordability.

Quarterly transactions have continued to decline through 2016, as purchasers have exercised more caution and have been hesitant to invest whilst prices are falling.

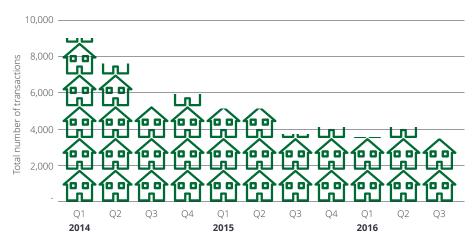
In our report last year, we predicted that, despite forecasts to the contrary, the number of residential units reaching practical completion in 2016 would be approximately 10,000. In the first seven months of the year, approximately 5,000 units were delivered.

Residential off plan transactions, Dubai, YTD 2015 vs. YTD 2016



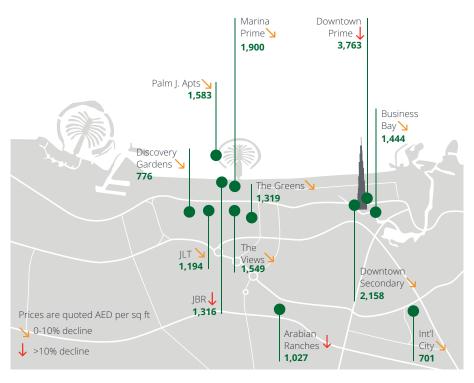
Source: REIDIN

Residential sales transactions, Dubai, Q1 2014 to Q3 2016



Source: REIDIN

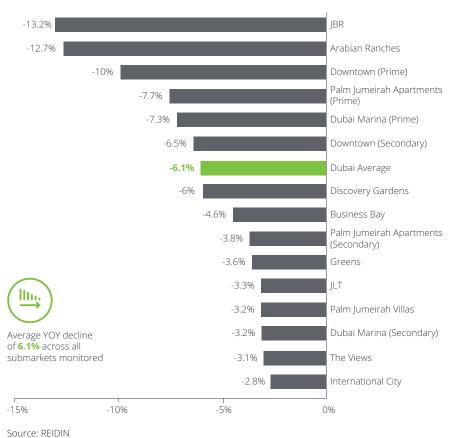
Residential sales prices, Dubai, November 2016



Source: REIDIN

Both rents and sales prices are likely to decline further during 2017

Residential sales prices percentage change, Dubai, Q3 2015 to Q3 2016



2017 Predictions

We predict that residential sales prices will continue to decline in Dubai in 2017. This is likely to be driven by low oil prices denting investor confidence in addition to a strong local currency reducing the purchasing power of key international source markets such as India and the UK.

We anticipate that consolidation in oil and gas and related companies, sluggish wage growth in the wider economy and inflation are set to drive down residential rents in 2017 in Dubai.

Based on consultation with key developers active in Dubai, we anticipate that Dubai's residential supply will increase by approximately 2.5% in 2017, representing an addition of around 10,000 new units.

Average residential transaction size, Dubai, 2014 to YTD 2016



Source: REIDIN

Dubai's retail market

Increasing competition between retailers as disposable incomes and retail sales decline

Review of 2016 performance

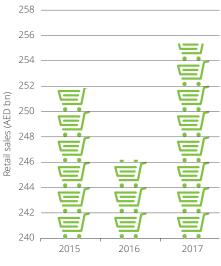
Following several years of strong performance, Dubai's retail market showed signs of decline in 2016. Forecasts by EIU indicate that retail spending in the UAE has decreased in 2016 by between 5% and 6%. This will be the first time retail spending has fallen in the UAE since the Global Financial Crisis.

There are a number of factors driving a fall in retail spending in Dubai. Domestic demand has been constrained by declining disposable incomes as inflation has outstripped wage growth. International demand has been constrained by a strong local currency making purchases relatively more expensive for foreign visitors.

Dubai Mall and Mall of the Emirates, remain the most popular destinations for tourists to shop, with 50% of tourists stating a preference to shop in these two malls. Their popularity with tourists is, however, down slightly, from 54% in 2015. This is likely to be as a result of increasing competition from new, non-mall retail concepts in Dubai, including The Beach, Boxpark and Citywalk. Non-mall retail outlets captured 22% of tourist demand for retail in 2016, up from 16% in 2015.

There remains a significant retail development pipeline in Dubai, with approximately 13.3 million sq ft GFA currently in the execution stage, expected to reach practical completion by 2019.

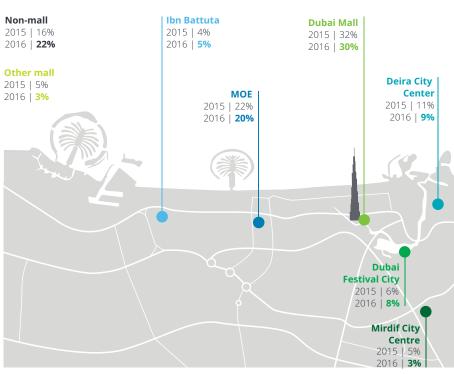
Retail sales, UAE, 2015 to 2017



Retail sales (AED bn)

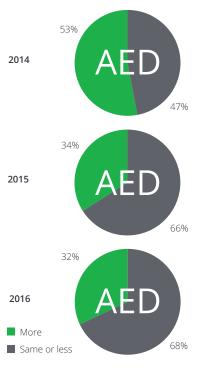
Source: EIU

Tourist retail mall preferences, Dubai, 2015 and 2016



Source: grmc

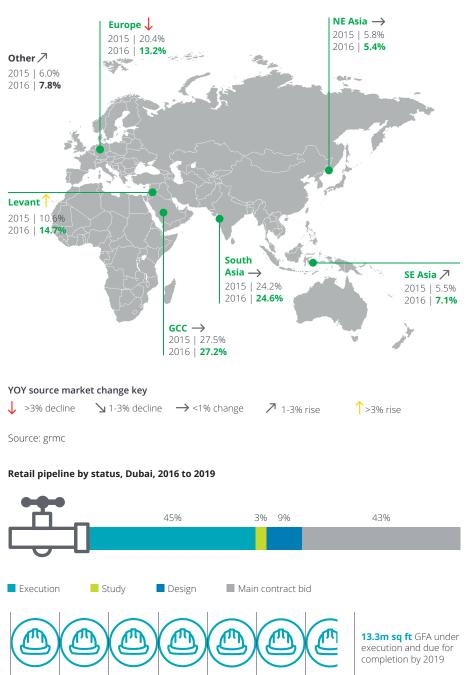
Expectations on disposable income, Dubai, 2014 to 2016



Source: grmc

Significant pipeline and declining sales likely to

put increasing pressure on landlords Key retail mall source markets, Dubai, 2015 and 2016



10

GFA (sq ft, million)

12

14

2017 Predictions

We predict that 2017 will be a challenging year for retailers in Dubai, as domestic disposable incomes decline and a strong local currency erodes the purchasing power of international visitors. Slowing demand, combined with a substantial volume of new retail supply, is set to put pressure on retail rents in Dubai, leading landlords to offer incentives to attract and retain key tenants.

Despite 2017 being a challenging year for retailers in Dubai, we predict that prime retail assets, including the Dubai Mall, Mall of the Emirates and City Walk, will consolidate their position and continue to attract strong levels of footfall and tenant demand.

We predict that effectively differentiated retail concepts will outperform the market average in Dubai in 2017. Connectivity to public transport infrastructure and licensed F&B premises, outside of hotels, are both also likely to drive footfall.

Source: MEED Projects

Dubai's office market

Market polarisation and occupier consolidation will be key themes in 2017

Review of 2016 performance

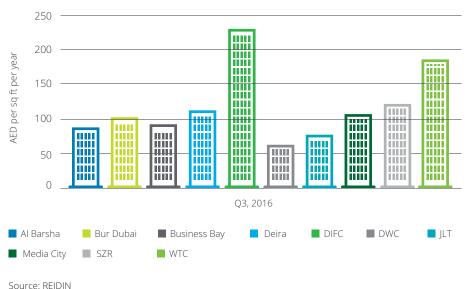
Dubai's office market achieved modest rental growth in 2016, with average rents for shell and core accommodation in most of Dubai's key submarkets increasing between 2% and 5%.

Offices specified to international Grade A standards with single, institutional ownership have continued to perform well, due to the sustained under-supply of this product in the market. Reflecting demand for quality office space in Dubai, schemes such as One Central and ICD Brookfield Place are predicted to secure pre lets.

Dual licensing and connectivity to transport infrastructure have also proved to be key differentiators for new office schemes in Dubai and are likely to remain so for the foreseeable future.

There remains a significant quantity of office space in the development pipeline. Across key business districts, such as DIFC, Business Bay and DWTC, we estimate that there is approximately 9.9m sq ft GFA of office space under construction and due for completion by 2020.

Average office rents, Dubai, Q3 2016



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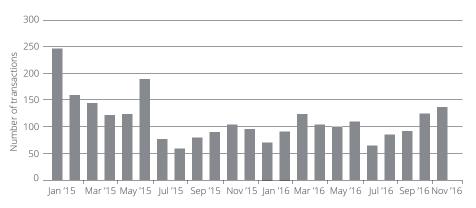
Average office rents, Dubai, Q3 2016 DIFC 220-250 Al Barsha 80-100 **Business** WTC Bay 180-220 90-100 70-90 50-70 Bur Dubai 100-110 Media City 120-130 100-120 Deira 110-120

Source: REIDIN

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

Grade A schemes to perform well, demand to soften in secondary schemes

Strata office transactions, Dubai, 2015 to 2016



Source: REIDIN

Key submarket office pipeline, Dubai, 2017 to 2020





9.9m sq ft GFA under construction due for completion by 2020

Source: MEED Projects

2017 Predictions

We predict that international Grade A offices will continue to perform well in Dubai in 2017, with well-specified, single-ownership assets having the potential to secure pre-lets from large corporate occupiers. Conversely, strata title office supply in secondary locations is likely to see further downward pressure in 2017, particularly in areas with a significant development pipeline.

We anticipate that facilities and amenities will continue to be big differentiators in Dubai's office market in 2017. The provision of quality amenities is one of the reasons DIFC has historically performed so well. The construction of the DIFC retail spine is likely to drive demand for space in existing DIFC developments such as Central Park Towers, Index Tower and Liberty House. Leading retail, hospitality and F&B amenity is also set to continue to drive demand at One Central, WTC.

We predict that occupier consolidation may begin to occur in Dubai's office market in 2017, as corporate occupiers bring regional offices into a central location to minimise costs and maximise operational efficiencies.

Key contacts

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