



Middle East Real Estate Predictions: Dubai 2015

#RealEstatePredictions



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Introduction

Welcome to the first edition of Deloitte's Middle East Real Estate Predictions, which focuses on the Dubai market. This report will be followed by an assessment of other key GCC cities and also a series of Deloitte-hosted workshops and seminars.

The aim of this report is to provide Deloitte's insight into Dubai's real estate market and to stimulate debate amongst key stakeholders, land owners, developers, investors and operators. This report assesses trend performance across Dubai's real estate market in 2014 and predicts performance in 2015 for Dubai's residential, hospitality, office and retail sectors. We welcome your feedback and participation in the ongoing debate.



Robin Williamson

Managing Director and Real Estate industry leader

Economy

- Fall in oil prices predicted to have a limited impact on Dubai's economy
- Further improvements to enhance the attractiveness of Dubai's business environment for foreign companies
- Population growth has the potential to drive continued demand for residential and retail assets



Hospitality

- Predicted visitor growth of between 7% and 9%, on target to achieve 20 million visitors per year by 2020
- Stable growth market wide and continued strong growth in Midscale sectors
- Increased development activity in Midscale sectors to capitalise on forecast visitor growth, limited existing stock and government incentives



Office

- A number of new major office schemes will be announced in key districts
- Greater polarisation between prime and secondary districts and heightened differentiation between prime and more peripheral stock
- Pre-lets will return to the market



Residential

- Transaction volumes will reflect the longer term trend of approximately 1,000 per month
- Residential sales prices likely to soften by a further 1% to 5% and stabilise thereafter
- Affordability will become increasingly important for purchasers and government alike



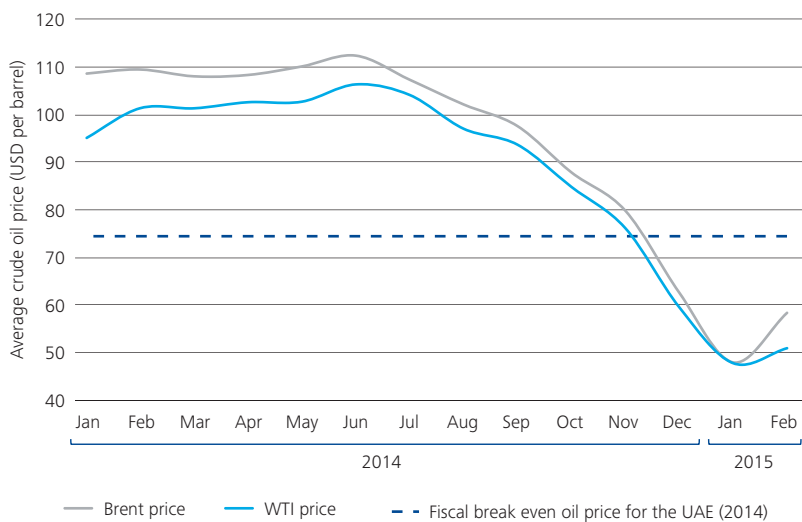
Retail

- Demand for destination retail will drive greater divergence between prime and secondary malls
- International demand will continue to grow, driving footfall and expenditure
- Super prime malls will continue to experience growth in visitors, whilst residents will drive demand for convenience and non-mall retail



The UAE economy – 2014 performance and 2015 outlook

Figure 1 – Average monthly crude oil prices, Dubai, 2014 and 2015 (YTD)



Source: IMF, OPEC

Dubai has reduced its reliance on oil revenues and consequently the impact of lower global oil prices on Dubai's economy is likely to be relatively small

The global price of crude oil fell sharply in H2 2014 from USD 110 to USD 60 per barrel. This decline continued to a post 2009 low of USD 47 per barrel in January 2015, compared to the UAE's 2015 break even oil price of USD 77.

Over the past three decades, Dubai has reduced its reliance on the oil industry and consequently forecasts suggest that the impact of lower global oil prices on Dubai's economy is likely to be relatively small. The 2015 budget shows that oil is expected to account for 4% of Dubai's total revenue, down 5% from 2014.

The Economist Intelligence Unit ("EIU") estimates that the UAE's real GDP growth was 4.6% in 2014. The EIU forecasts the UAE's real GDP growth to slow to 3.3% in 2015 but remain above the forecast global economic growth rate of 2.8%. According to Dubai's Department of Economic Development, real GDP growth in Dubai is forecast to accelerate to 4.5% in 2015.

Free Zones are likely to become an even more important platform for Dubai to attract foreign businesses and drive revenue growth from non-oil industries. The 2015 Ease of Doing Business Index ranked the UAE 22nd globally, having climbed three places from 2014 and the UAE is recognised as a top ten improver.

The UAE benefits from a strategic geographical location for multinational corporations and the Government of Dubai has invested significantly to develop an attractive business environment with major infrastructure, Free Zone incentives and favorable policy and tax frameworks. These actions contributed towards a 7%

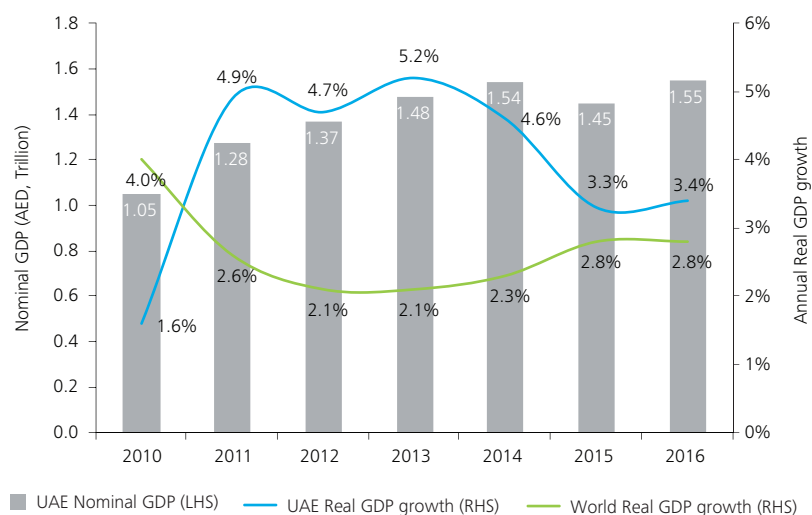


increase in Free Zone trade in the first half of 2014 (year-on-year). Areas where the UAE scored weaker in The Ease of Doing Business Index include protection for minority investors, enforcement of contracts and insolvency arrangements. However, we expect that these are likely to be priority areas for the Government going forward.

The population of Dubai grew by 5% in 2014 to approximately 2.3 million and is forecast to rise at a similar rate in 2015, driven predominantly by in-migration. This level of growth may pose infrastructure challenges over the coming years, requiring additional government investment in infrastructure and utilities.

The age groups between 20 and 35 account for approximately 50% of Dubai's population and constitute a core demand driver for residential property. Mid-to-upper income cohorts within this age group are an important driver of retail demand.

Figure 2 – GDP growth, UAE and World, 2010 to 2016

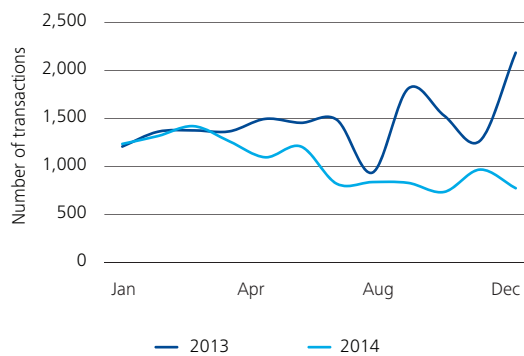


Source: EIU

The 2015 Ease of Doing Business Index ranked the UAE 22nd globally, having climbed three places from 2014. The UAE is recognised as a top 10 improver.

Dubai's residential market – 2014 performance and 2015 outlook

Figure 3 – Residential monthly sales transactions, Dubai, 2013 and 2014



Source: REIDIN

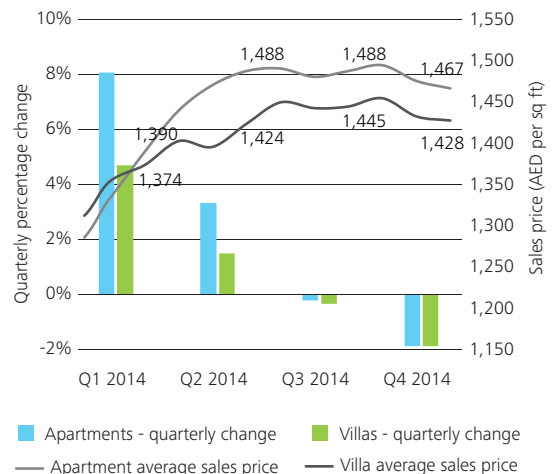
Dubai's residential market continued to experience strong growth at the beginning of 2014, however, transaction volumes slowed and sales price growth flattened towards the end of the year.

2014 residential sales transactions in Dubai totaled 12,515, compared to 17,493 in the previous year, representing a fall of 28%. Analysis of monthly data shows a significant fall in residential transaction volumes in Dubai in September to December 2014, when monthly transactions averaged 828, compared to 1,700 during the same period in 2013.

Notably, in H1 2014, residential sales prices in Dubai exceeded peak prices in 2008 and it is possible that investors are exercising a greater level of caution and this, combined with a decline in demand from key source markets, such as Russia, may have driven down sales volumes towards the end of 2014.

During 2014, average sales prices for apartments across Dubai experienced growth of 14.1% and stood at AED 1,467 per sq ft in December 2014. Average villa prices across Dubai increased by 8.8% during the same period to AED 1,428 per sq ft. Residential prices in Dubai achieved the greatest growth in Q1 and Q2 2014. Growth in H2 2014 was approximately -1.5%.

Figure 4 – Average residential sales prices, Dubai, 2014

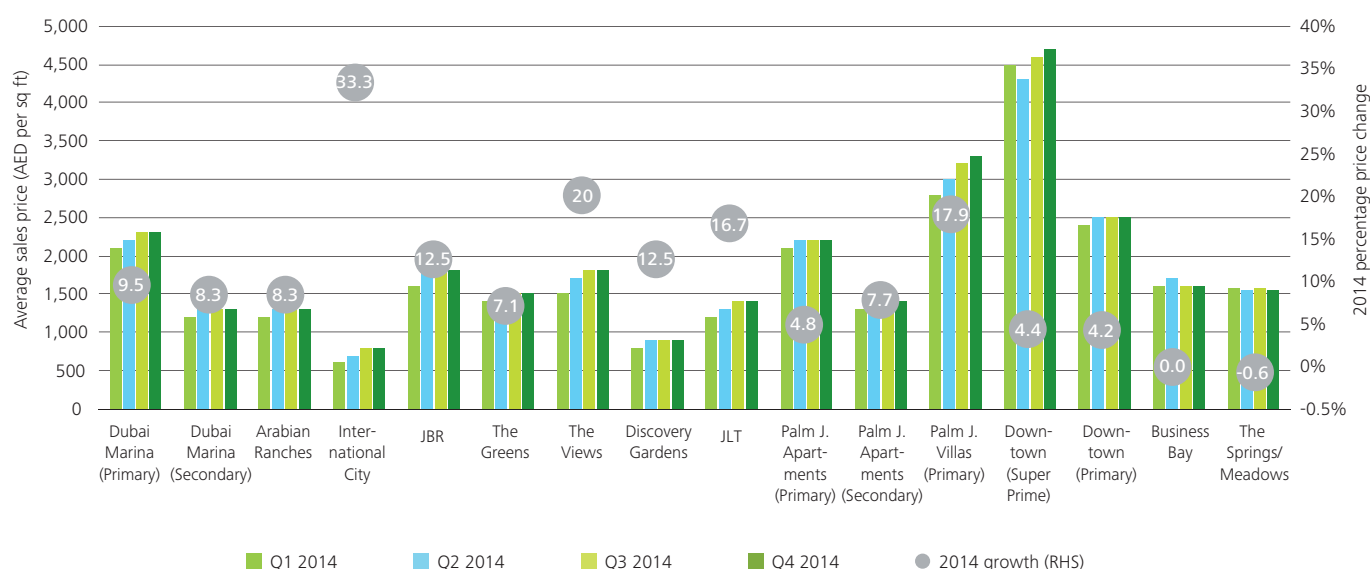


Source: REIDIN

Analysis of key residential submarkets in Dubai reveals varying performance, which is masked when assessing city averages. During 2014, Dubai's traditionally more secondary and tertiary areas such as The Views, Jumeirah Lakes Towers ("JLT") and International City experienced relatively strong growth in average sales prices (albeit from a lower base), as purchasers may have been priced out of the more prime areas. Prime Palm Jumeirah villas witnessed continued strong growth driven by limited availability of stock, whilst Business Bay prices were unchanged, most likely as a result of significant new supply in the market. The Springs/Meadows recorded a marginal decline, which can most likely be attributed to an increase in new villa completions across Dubai.

Dubai's rental index shows that rents in International City increased the most during 2014 (27 percentage points), followed second by JLT (10 percentage points). In contrast, Palm Jumeirah and Arabian Ranches experienced the smallest change in rental prices. During 2014, rents across key Dubai submarkets reached a new high since the Index began in 2009, with the exception of Business Bay, where rental growth was flat from May to December, with rents at the end of the year approximately 9 percentage points lower.

Figure 5 – Average residential sales prices, key Dubai submarkets, 2014

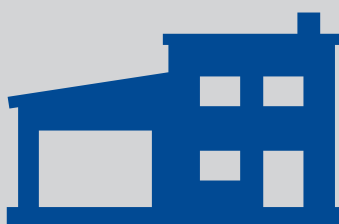


Note: Data comprises averages sales prices for a benchmark set of properties considered representative within each sub-market, compiled and tracked by Deloitte
Source: REIDIN, Deloitte

Predictions – Volumes Down, Prices Stable

- Analysis of sales data from the last four years shows an average monthly residential transaction volume of approximately 1,000 in Dubai. We consider that residential transactions have slowed to a more sustainable level, reflecting the longer term trend, and we predict this level of transactions to continue for the remainder of the year.
- Market wide, residential sales prices in Dubai declined slightly towards the end of the year and we predict that residential sales prices in Dubai will continue to decline by 1% to 5% in H1 2015, before stabilizing in the second half of the year.
- We predict that affordability, for both nationals and expatriates, will gain more attention in 2015 and that areas such as International City and Sports City, where more amenity is planned, will continue to experience strong demand.

- We predict the prevalence of pre-sales in Dubai to continue in 2015, particularly for reputable developers. We are likely to see more creative delivery vehicles, incentives and payment plans offered by lesser known developers and/or landowners in order to capitalise on pre-sales.
- We predict that overseas investors will continue to drive demand but transaction volumes may be impacted by events in other global residential markets and the financial and political issues affecting certain countries.

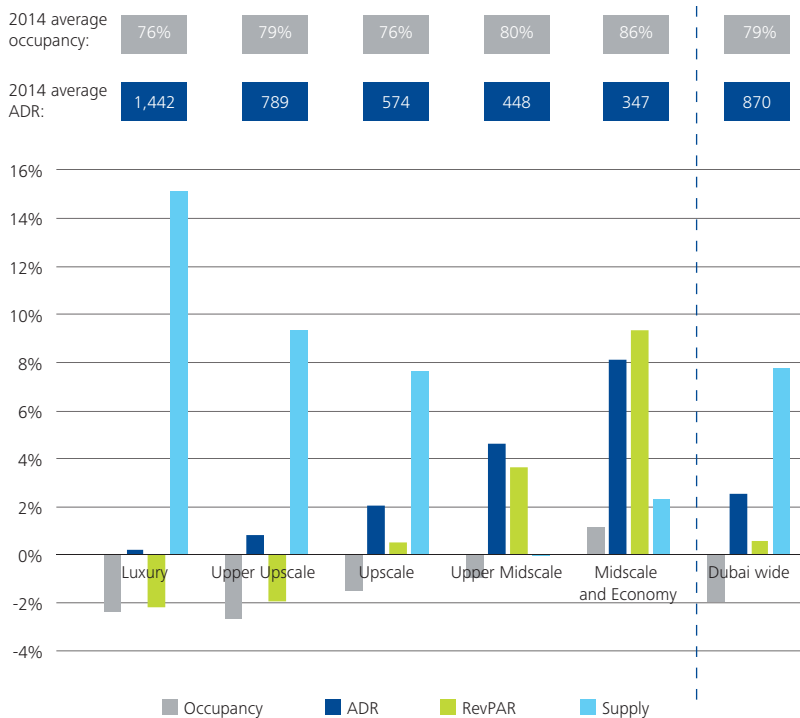


Dubai's hospitality market – 2014 performance and 2015 outlook

Dubai was ranked fifth in Mastercard's 2014 Global Destination Cities Index with an estimated 11.95 million international overnight visitors, up 7.5% on the previous year. According to the Mastercard report, in the event that Dubai's current growth rate continues, then the Emirate could overtake both Paris and Singapore within five years to reach third place behind London and Bangkok. During 2014, Dubai International Airport also surpassed London Heathrow to become the busiest international airport in the world with 70.4 million passengers, up 6.1% from 2013.

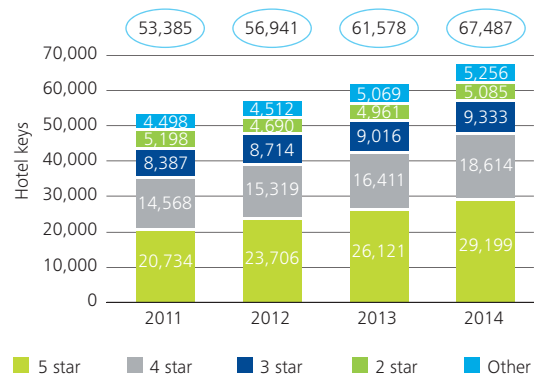
During 2014, relative to other GCC cities, Dubai had one of the highest RevPARs at approximately USD 190, which is a function of high average occupancies (79%) and Average Daily Rates ('ADRs') (USD 242). Jeddah was the only GCC city to perform better than Dubai in 2014, having experienced 9% growth in ADR to USD 258, resulting in RevPAR of USD 192.

Figure 6 – Hotel performance metrics, key sectors, Dubai, 2014 vs 2013



Source: STR, Deloitte

Figure 7 – Hotel key growth by star rating, Dubai, 2011 to 2014



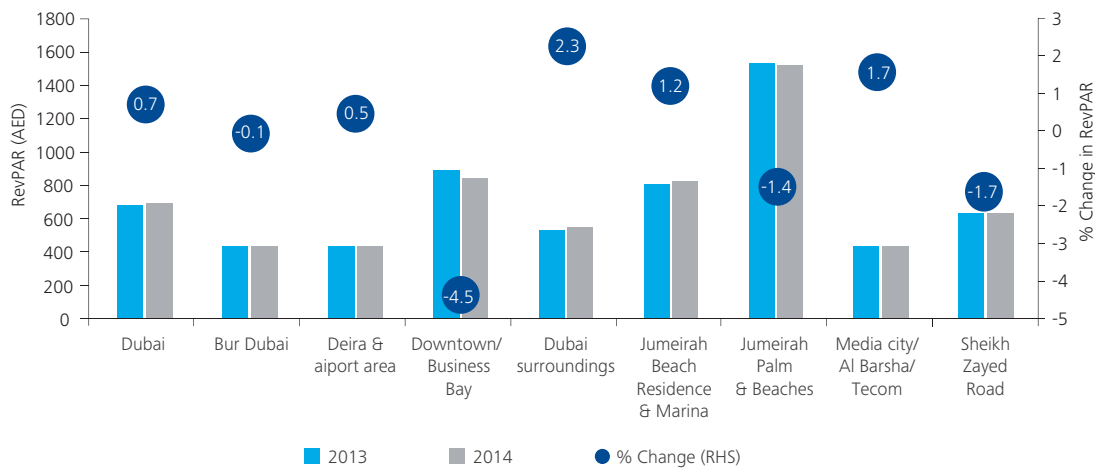
Source: DTCM

Compared to 2013, average hotel occupancy across Dubai was down 1.9% in 2014, although ADR increased by 2.5%, resulting in RevPAR growth of 0.6%. Dubai's Luxury and Upper Upscale sectors experienced the greatest pressure on occupancy, with a fall of 2.4% and 2.7% respectively, predominantly due to the significant increases in supply. Conversely, supply increases in Dubai's Upper Midscale, Midscale and Economy sectors were marginal, which is likely to have driven higher ADRs due to increased demand from the growth in visitor numbers. As a result of inflated land prices in Dubai, the feasibility of Midscale hotel developments has been challenging. However, with the introduction of Municipality tax exemptions for Midscale hotels and a wider tourism campaign to promote Dubai as a destination to a diverse audience, heightened activity in this sector is likely.

For selected Dubai locations, 2014 average occupancy ranged from 74% on Sheikh Zayed Road ("SZR") to 85% in Deira. 2014 ADR was highest on the Palm Jumeirah due to the high concentration of Luxury hotels and lowest in the Dubai Creek Districts due to a relatively large proportion of unaffiliated and Midscale hotels, particularly in proximity to Dubai International Airport.

Strong performance in the hospitality market in 2014 was reflected through keen investor interest. This was evidenced by a number of high profile transactions including the Movenpick JBR and Movenpick Bur Dubai.

Figure 8 – RevPAR, key Dubai submarkets, 2013 and 2014



Source: STR, Deloitte

Predictions – Stable Growth, Midmarket Focus

- Dubai's ambition is to attract 20 million visitors per year by 2020. Growth in international overnight visitors since 2010 averaged 9.2% per year, and if this rate of growth continues, the 20 million target will most likely be met. We predict that growth of between 7% and 9% in 2015 is realistic, driven by ongoing expansion of Dubai's tourism offer.
- The hospitality market in Dubai performed strongly in 2014 and we predict that occupancy and ADR levels will be broadly maintained at current levels, although they may decline slightly from Dubai's recent high performance. We predict that growth in the Upper Upscale and Luxury segments will be constrained by recent increases in the hotel key inventory and relatively strong growth will be seen in the Upper Midscale, Midscale and Economy

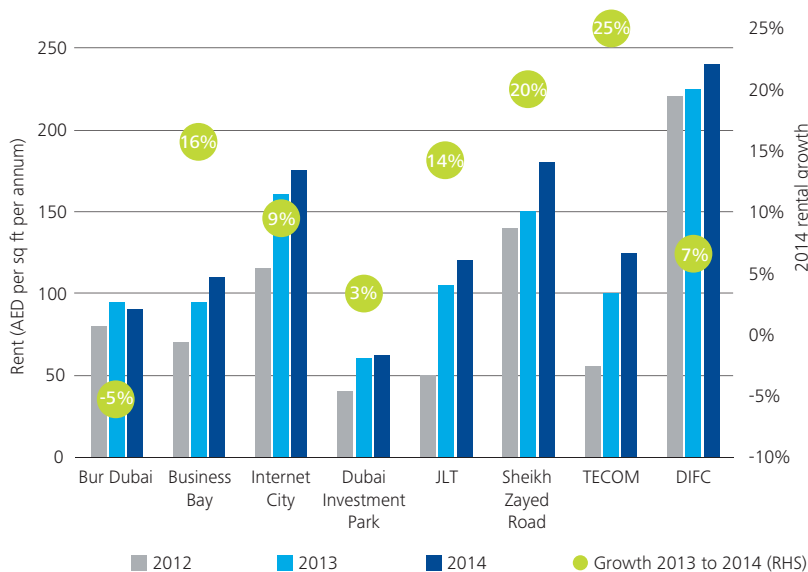
sectors, based on limited completions planned this year.

- As a result of strong demand in the Midscale sector, we predict developers will focus more on this segment in 2015. The Midscale sector offers potential to target transit passengers and forecast growth in visitor numbers, particularly from China and Africa, and benefit from Municipality tax exemptions on room rates. Notably, Emaar Hospitality Group has announced that it plans to open 10 Midmarket lifestyle hotels in central locations in Dubai and across the region by 2022, under a new Rove Hotels brand. Meanwhile, the Department of Tourism and Commerce Marketing ("DTCM") revealed that it received over 51 applications for three and four star hotels in November 2014 alone, indicative of continued interest in this sector.



Dubai's office market – 2014 performance and 2015 outlook

Figure 9 – Office rents, key Dubai submarkets, Dubai, 2012 to 2014



Note: Data comprises average rents for benchmark office schemes in each district
Source: REIDIN, Deloitte

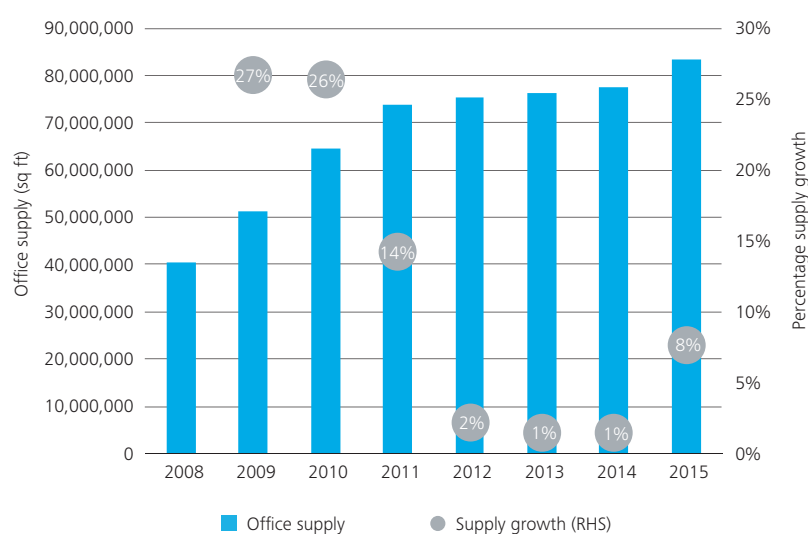
2014 saw relatively limited new office supply come to the market in Dubai, driving rental growth in some areas. The greatest rental increase was experienced in TECOM, at 25%, followed by Sheikh Zayed Road, Business Bay and JLT, where rents grew more than 10%, albeit from a relatively low base.

Dubai International Financial Centre ("DIFC") achieved the highest rents, which averaged AED 240 per sq ft per annum, up from AED 225 per sq ft per annum in 2013. More central DIFC office buildings, such as Gate Village and Currency House, located in proximity to retail and F&B outlets, reached near full occupancy in 2014. This resulted in upward pressure on rents with landlords able to command in excess of AED 300 per sq ft per annum. Strata stock in DIFC trades at a significant discount to this.

Vacancy rates vary between different key office areas in Dubai. One factor influencing take up trends is tenure. Office buildings with strata title are considered impractical by many large occupiers seeking an entire floor, or multiple floors, and consequently strata owned buildings do not tend to attract the larger requirements in the market. The leasing of office space in Business Bay, which is mostly strata title, was relatively subdued in 2014, whilst TECOM and DIFC free zones experienced a relative supply shortfall.

A number of new Grade A office schemes were announced in 2014, and together with some schemes already under construction, should ease current office supply constraints in key markets. Approximately 1.4 million sq ft is expected to be delivered to the market in 2015 in key international Grade A schemes such as Central Park, One JLT and C1 Dubai Trade Centre District ("DTCD") and a further 3.8 million sq ft by 2018 based on confirmed pipeline for a basket of key benchmark quality office schemes, which does not represent total pipeline office supply in Dubai.

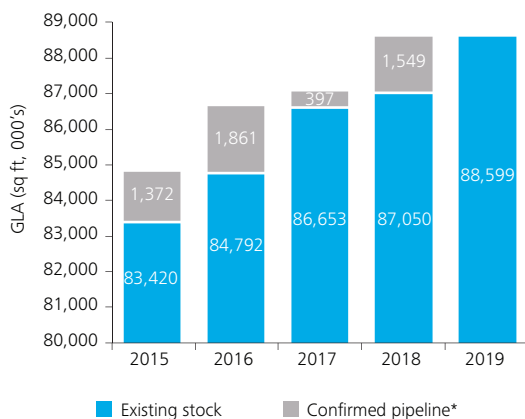
Figure 10 – Office supply, Dubai, 2008 to 2015



Source: REIDIN



Figure 11 – Major international Grade A office confirmed pipeline, Dubai, January 2015



*Confirmed pipeline refers to a basket of key benchmark international Grade A office schemes and does not represent total pipeline office supply in Dubai

Source: Deloitte

The average office area acquired in Dubai during 2014 was approximately 1,320 sq ft, at an average price of AED 1,200 per sq ft. This represents an annual capital value increase of 24%. In 2014 there was also evidence of strata offices seeking to consolidate their share of ownership in a building to gain greater control and drive higher investment returns.

Due to the prevalence of strata title in Dubai's office market, there are few assets which meet the requirements of institutional investors and restrictions on foreign ownership of real estate are likely to continue to inhibit greater levels of investment activity, particularly for assets in excess of AED 500 million. Consequently, we predict that investment transaction activity is likely to remain predominantly GCC onshore.

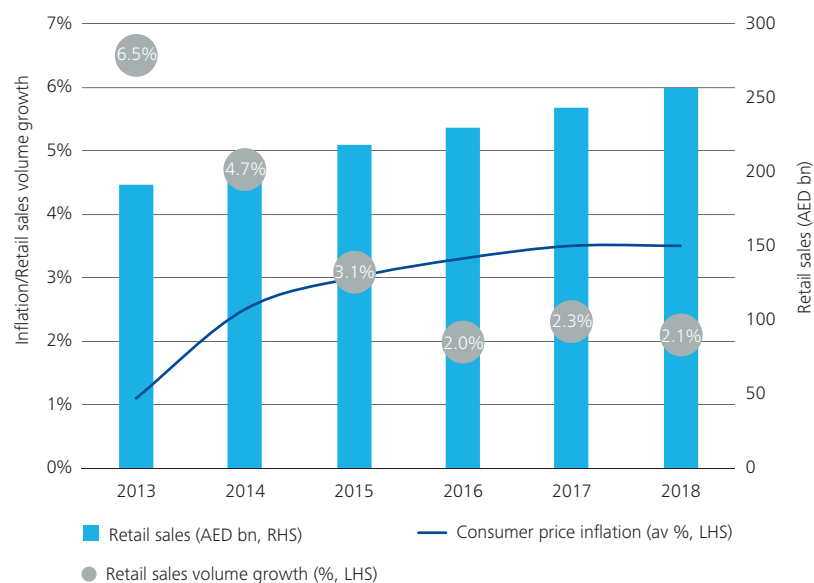
Schemes which are located centrally with good access to public transport, a competitive car parking ratio, high quality specification and a range of amenities will achieve the highest occupancies and rates

Predictions – Increasing Supply, Greater Polarisation

- We predict that there will be increasing polarization between office areas in Dubai during 2015, as well as a greater divergence within districts, as a result of planned supply increases and competition to attract occupiers.
- In addition to the known supply pipeline, we predict that a number of additional schemes will be announced during 2015 in prime locations such as DIFC where relatively strong demand was experienced in 2014.
- In DIFC and DTCD there is nearly 2.5 million sq ft of office GLA planned between now and 2018, equating to approximately 58% of major international Grade A pipeline office schemes across Dubai. We predict that this will result in a more pronounced differentiation between prime and more peripheral stock in DIFC and DTCD. We predict that schemes which are located centrally with good access to public transport, a competitive car parking ratio, high quality specification and a range of amenities will achieve the highest occupancies and rates.
- Across Dubai we anticipate that incentives, particularly in Free Zones, will become more competitive. We predict that flexibility of licensing will be considered a key differentiator, whereby those schemes which can accommodate both onshore and offshore requirements are likely to benefit from the consolidation of major occupiers.
- We predict that pre-lets for office space will be more prevalent in 2015, following a period of virtually no pre-let transactions since 2009. Office schemes delivered by reputable developers are likely to attract the most interest, as occupiers demand assurance of quality and delivery. For occupiers who are prepared to commit to pre-let agreements, we predict that there will be attractive deals available as developers compete to secure tenants with good covenant strength.

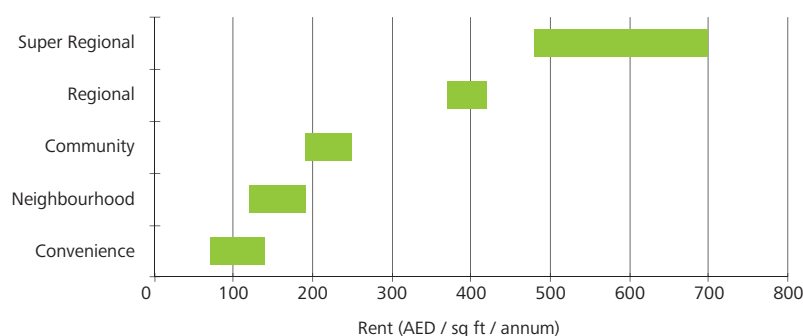
Dubai's retail market – 2014 performance and 2015 outlook

Figure 12 – Retail sales and consumer price inflation, UAE, 2013 to 2018



Source: EIU

Figure 13 – Average retail rents according to catchment profile, Dubai, 2014



Source: Deloitte

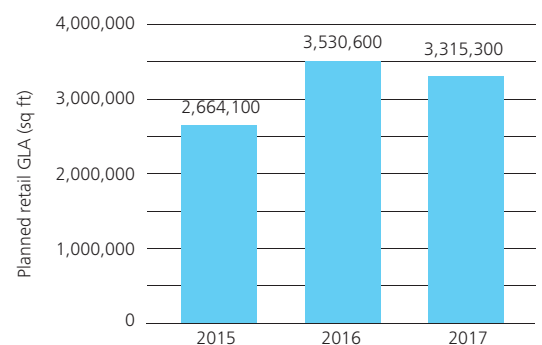
More than 50% of consumers surveyed anticipate more disposable income in 2015 than they did in 2014

Demand for Dubai's retail sector was strong in 2014 driven by growth in resident spend, a relatively large demographic of young affluent adults, increasing tourist demand and growth in GDP. The Dubai Mall attracted a record 80 million visitors in 2014 and retailers experienced 14% growth in sales compared to 2013, accounting for approximately 5% of Dubai's GDP.

Data from H1 2014 shows that Wholesale, Retail Trade and Repairing Services was the industry that contributed most to Dubai's GDP, generating 28.4% of total GDP during this period. Initial estimates show that retail sales are expected to have grown by 4.7% in 2014 up from AED 191.3 billion in 2013, despite rising Consumer Price Inflation.

Activity in the retail market during 2014 showed a heightened focus on community retail and diversification of traditional retail formats in Dubai, in response to higher expectations from consumers and greater demand for convenience. The Beach, at Jumeirah Beach Residence, launched in 2014, and City Walk (Phase One) saw a number of new outlets open during the year, including brands from outside of the GCC. Both of these schemes are outdoor lifestyle destinations offering a mix of retail, F&B, wellness and entertainment. Nakheel also announced the development of a number of community retail centres in 2014, with Discovery Gardens and Jumeirah Park Pavillion now open.

Figure 14 – Confirmed retail supply pipeline, Dubai, 2015 to 2017

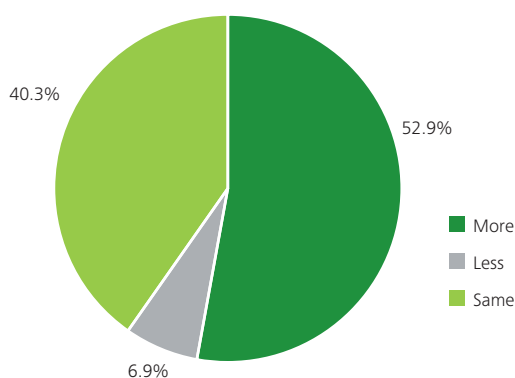


Note: Confirmed pipeline comprises projects where construction has commenced and includes expansion to existing malls
Source: Deloitte



2014 saw super prime inline rents in Dubai reach more than AED 700 per sq ft per annum as a result of increased visitor numbers, significant demand from retailers and constrained supply. In response, a number of major prime malls are currently undergoing expansion to accommodate a waiting list of occupiers. This includes The Dubai Mall and Mall of the Emirates, as well as other locations including Ibn Battuta Mall and Dragonmart, following relatively subdued supply increase during 2014.

Figure 15 – Expectation on disposable income levels in 2015 compared to 2014, Dubai, Q4 2014

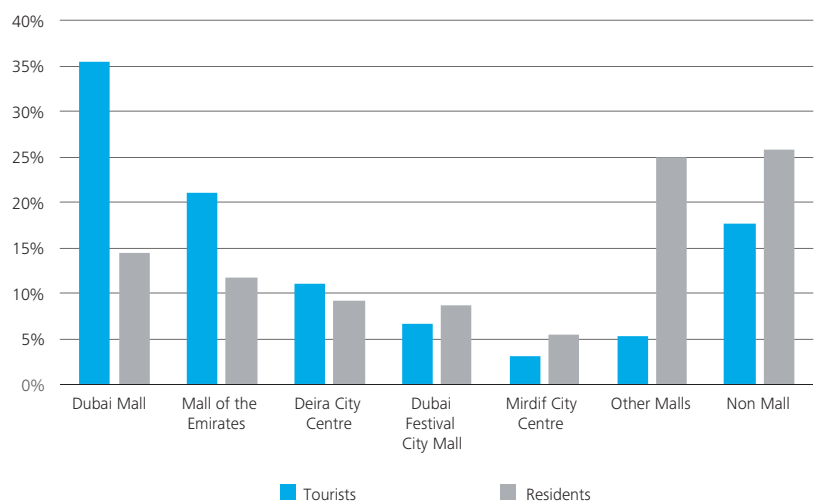


Source: grmc Advisory Services, Q4 2014, 683 respondents

Primary research undertaken by grmc Advisory Services reveals generally positive sentiment regarding disposable income in 2015. More than 50% of respondents expect to have a higher disposable income in 2015, compared to 2014. Trends regarding retail destination preferences show that tourists predominantly prefer the super prime malls such as Dubai Mall and Mall of the Emirates for shopping, whilst Dubai residents tend to prefer non-mall and more local retail formats.

Two significant retail IPOs took place in 2014 in Dubai. The first of these was Marka, the UAE's first public joint stock company focused on retail and hospitality investment, and secondly, Emaar Malls Group. These listings mark a key change in retail market sentiment, evidence by significant investor interest in the IPO and oversubscription, following a five year IPO lull since the onset of the global financial crisis and political unrest in the region.

Figure 16 – Popularity of retail locations for tourists and residents, Dubai, Q4 2014



Source: grmc Advisory Services, Q4 2014, 729 tourist respondents; 2,339 resident respondents

Predictions – Retail Destination Focus, Further Global Traction

- Retail trends witnessed in 2014 show that consumers are demanding more than just shopping amenity from malls. Retail environments have evolved to integrate wellness, leisure, F&B and lifestyle to enhance the visitor experience and appeal to wider demographics. We predict this trend will continue in 2015 and will differentiate further between prime and secondary malls, especially in the context of large planned increases in supply.
- Dubai's status as a leading retail destination globally is predicted to continue to drive demand from world renowned retailers. Apple has announced that it will open a new regional store in Dubai in 2015, which is expected to be their biggest outlet in the world. We predict additional demand from leading retailers for flagship stores, who have not yet debuted in Dubai.
- Given the size of Dubai's retail industry, e-commerce penetration to date has been relatively low. With widespread access to the Internet and the prevalence of smart phones, PCs and tablets, we predict gradual growth in this sector is likely as internet payment security improves, the number of retail websites increase and retailers establish appropriate logistics and supply chains. We predict that the impact of increased online retail will result in a growth in retail revenue (predominantly from electronic goods), which is unlikely to draw revenue from malls, as these will remain a key part of lifestyle in the region for shopping, socialising, dining and entertainment.
- With rising disposable incomes expected, we predict that retail sales in Dubai will continue to grow. We predict super prime malls will experience further growth in tourist numbers whilst residents will drive demand for convenience retail and non-mall retail concepts.

Key contacts

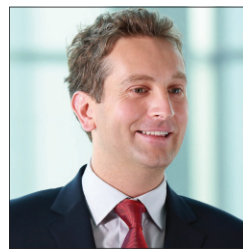
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