



The *Dubai*  
Real Estate Market  
Q1 2018

# Dubai





# Market Summary

## Challenging market conditions across all sectors

Affordability has been a key theme across all segments of the Dubai real estate market in Q1 2018. On the commercial front, tenants are cautious and continuing to seek smaller office units. Residential developers are offering smaller units at competitive prices in areas such as Dubai South, Dubailand and JVC. With a number of retail brands vacating underperforming stores, landlords are offering further incentives to retain existing tenants. Hotel operators remain committed to expanding the price sensitive midscale segment, to meet growing demand.

Lower levels of office supply were

delivered during Q1 2018, which could be attributed to delays in construction. Market conditions led to the double-digit decline in office rents, which has led some developers to reconsider the need (and scale) of office components in their developments. Demand for good quality buildings continues and occupancy rates in the core DIFC buildings remain largely unchanged at 95% on average.

Regulating off plan residential sales is a primary concern for Dubai's Real Estate Regulatory Agency (RERA). The current regulations require developers to own the land and to have deposited 20% of the total construction cost in an escrow account. In terms of performance, rents and sale prices declined across the board, and at a faster rate for villas.

The retail market continues to experience a downturn in performance. F&B, which was previously seen as the strongest sector of the market and something of a 'haven' to shopping malls, is also now undergoing challenges and reduced performance. Retail rents across the board declined in Q1 2018.

The opening of hotels in the midscale and upscale segments continues across the city. While ADRs continue to decline, it is expected that Hotels in the upper segments will start to show signs of rate stabilisation (or at least a further slowdown in the pace of decline) as operators will be unwilling to further dilute their brands' market perception.

## Dubai Prime Rental Clock



\* Hotel clock reflects the movement of RevPAR

Note: The property clock is a graphical tool developed by JLL to illustrate where a market sits within its individual rental cycle. These positions are not necessarily representative of investment or development market prospects. It is important to recognise that markets move at different speeds depending on their maturity, size and economic conditions. Markets will not always move in a clockwise direction, they might move backwards or remain at the same point in their cycle for extended periods.

Source: JLL

*Office*





## Hot Topic

*Dubai has successfully managed to build globally competitive economic sectors, from finance to logistics, placing it on the global radar and establishing the city as the preferred business hub for an increasing region of Africa, Central and South Asia. According to the 2018 Index of Economic Freedom, the United Arab Emirates is ranked the 10th freest economy, positioning it ahead of 14 other countries in the Middle East and North Africa. The regulatory reforms in favour*

*of investment in addition to the lack of income tax have created an efficient system attracting many regional and international companies to establish their operations in the Emirates, particularly in Dubai.*

*Despite the opportunities, Dubai is undergoing a number of challenges, which in the short term will hinder performance in the office market. The increase in supply of better quality stock will result in landlords having to*

*work hard to secure and retain tenants. The latter could be in the form of rent-free periods, and capital contributions towards fit-out, which provide some necessary relief to cost conscious occupiers with capital expenditure restrictions. Globally, the focus is on minimising operational costs, given the limited availability for upfront capital. The less bullish business growth across the region is also likely to reduce government spending and demand for office premises.*

## Supply

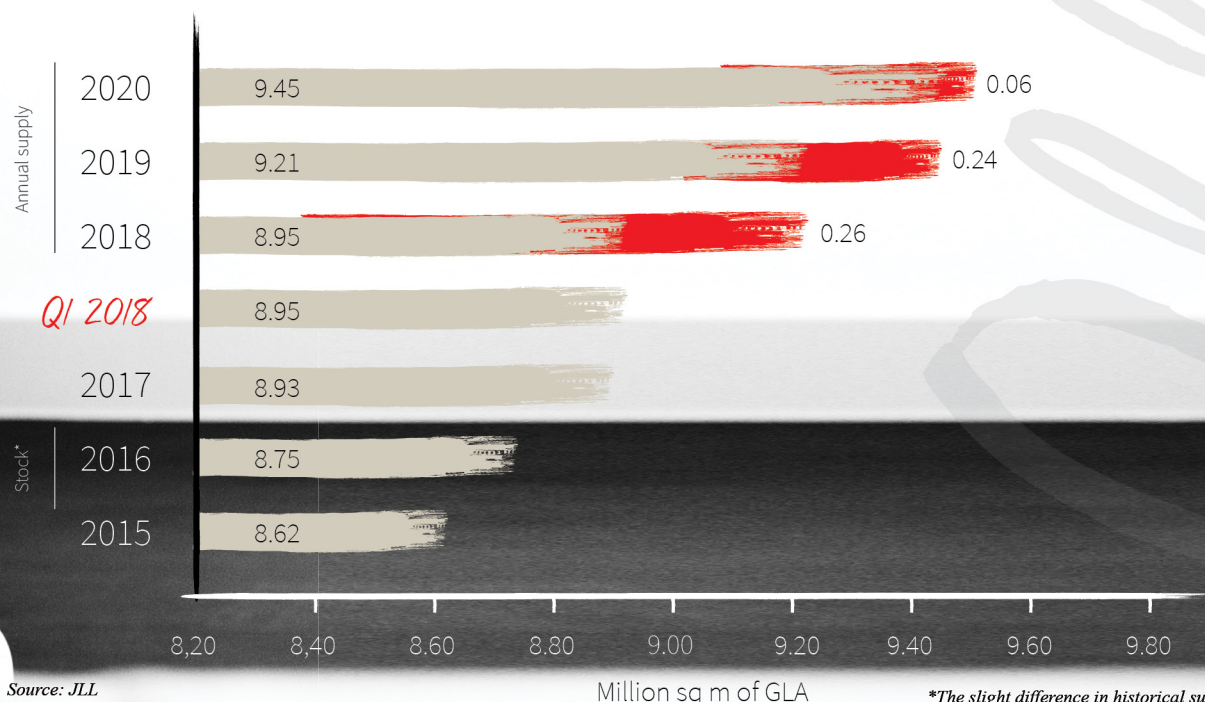
The first quarter of 2018 saw the completion of The Exchange in DIFC (13,700 sq m) and the first phase of Motorsport Business Park in Motor City (6,000 sq m), collectively adding 19,700 sq m of office GLA to the market. This is lower than the levels of completion seen in previous quarters and for some part could be attributed to delays in

construction. Some developers have temporarily put the office components of their projects on hold (which at present represent approximately 279,000 sq m of GLA) as current market conditions remain in favour of tenants. With supply levels outpacing the demand for office spaces, this trend should persist, although there remains

more than half a million sq m of GLA expected to enter the market in the next three years.

Notable projects under construction and expected to enter the market by the end of 2018 include Amesco Tower in JLT (60,000 sq m), Dubai Hills Square (54,400 sq m), and Dubai Science Park Headquarters (34,500 sq m).

Figure 01: Office supply



\*The slight difference in historical supply figures is due to the addition of two office buildings to our supply

# Performance

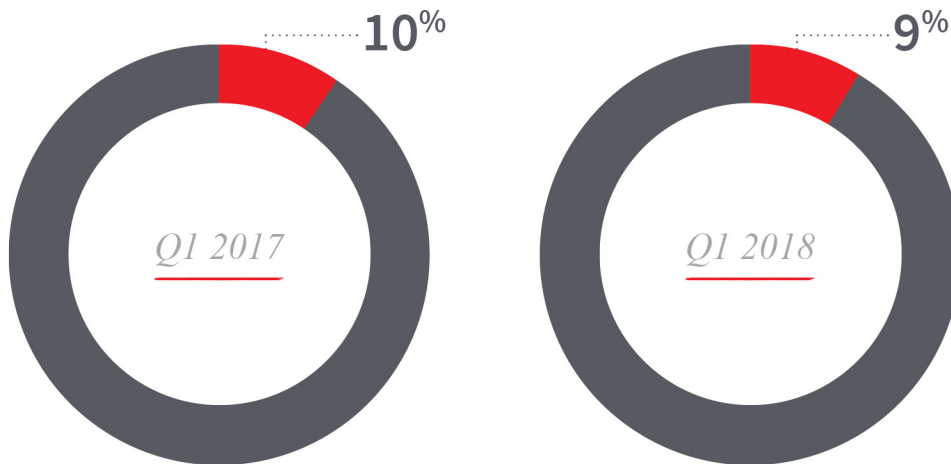
We expect the market to remain relatively flat in the near to midterm future. We do not expect rental rates to increase any time soon, nor do we expect them to fall drastically. What we do expect is for strong covenant clients with large requirements to be offered very competitive terms by landlords. Those tenants that have relative flexibility in their requirements in terms of location, amenities and space layout can expect a large number of options

in the market, where landlords will be motivated to offer attractive terms (rental rates, rent free months, fit-out contributions and other concessions).

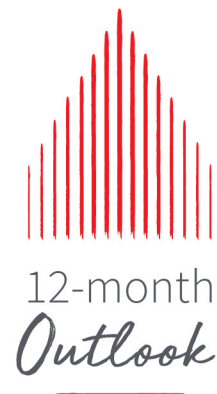
Despite the numerous challenges, demand for premium office space (at attractive rates) continues. Vacancy rates in the core DIFC buildings averaged 5%, compared to those in the periphery of the DIFC at 20%. In line with global market trends, this

illustrates that the demand amongst tenants is for space in premium, quality buildings. This has encouraged developers to introduce new projects within the DIFC, the most prominent of which is ICD Brookfield Place (96,000 sq m of premium office space due for completion in 2019), which is being developed in a joint venture between the Investment Corporation of Dubai and Brookfield Property Partners.

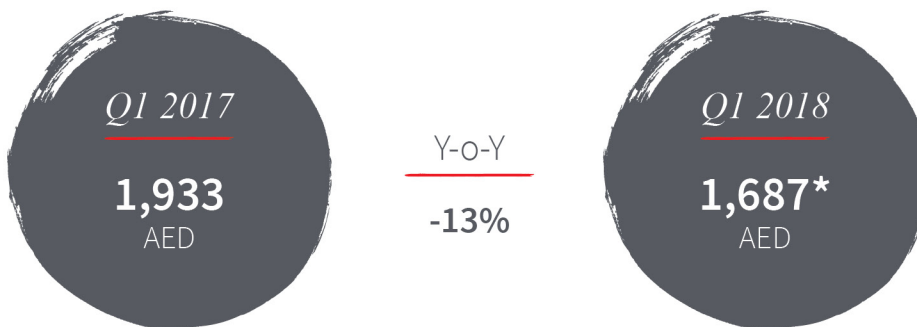
## Vacancy\*



\*Vacancy levels in the table above represent the weighted average vacancy for CBD buildings in Dubai  
Source: JLL



## Rents / AED per sq m



\*While some Grade A buildings were able to retain their headline rents, this figure represents the average rental rate of Grade A buildings based on the basket tracked by JLL.

Source: JLL





*Residential*





## Hot Topic

*Regulating the off plan sales market and the control of 'property flipping' has long been an objective of Dubai's Real Estate Regulatory Agency (RERA). As the off plan sector of the market has become more*

*significant (accounting for more than 50% of all sales in 2017), RERA has been considering new and tighter restrictions. The current regulations require developers to own the land and to have deposited 20% of the total*

*construction cost in an escrow account. RERA floated the idea of increasing this percentage to 50% of the total project value in Q1 2018, but this change has not yet been implemented.*

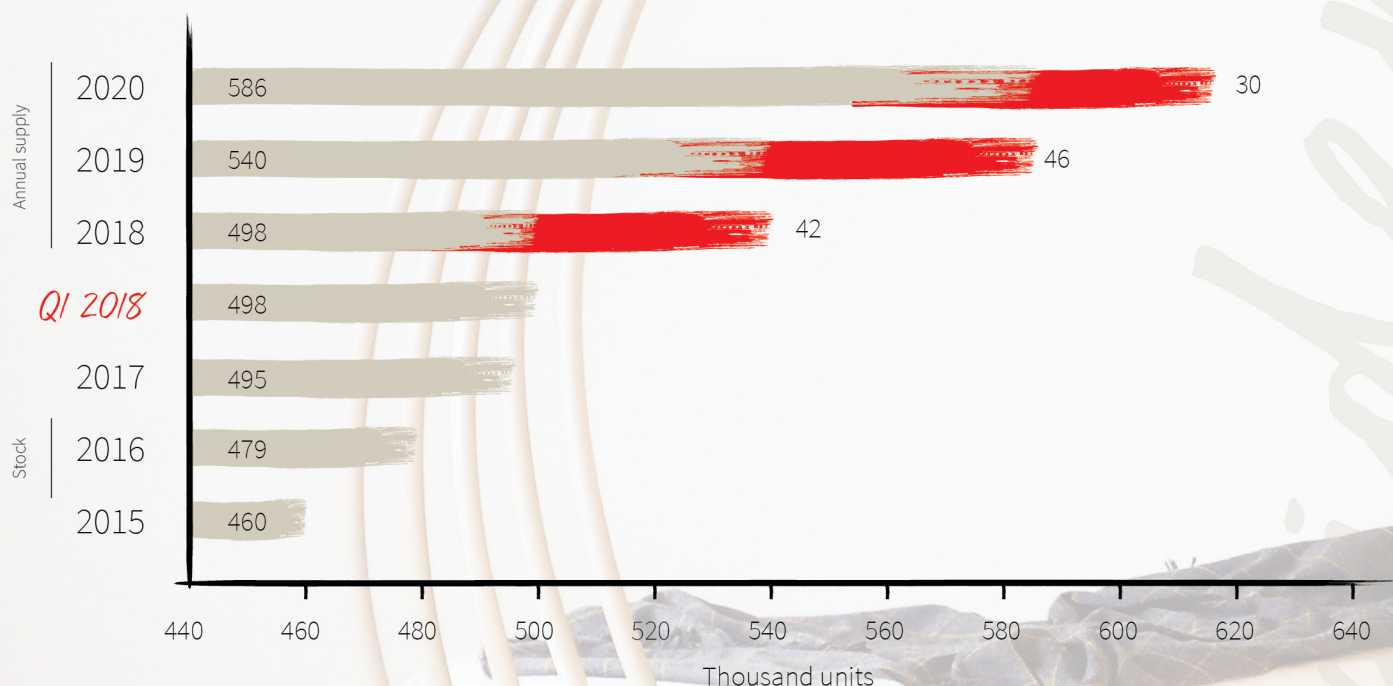
## Supply

Approximately 3,000 residential units entered the market during Q1 2018, with apartments comprising more than 78% of completions. Notable projects included Marina Gate Tower 1 (415 units), Rivington Heights in International City 2 (158 units), and Serenia Residences on the Palm

Jumeirah (250 units). A further 42,000 units are currently under construction and scheduled for delivery by the end of 2018. The three main developers, which collectively account for more than 20% of currently under construction projects, include Damac, Emaar, and Dubai Properties. Private developers

have been active during the quarter, aiming to add a further 3,000 units by the end of the year, and an additional 3,100 units between 2019 and 2020. Their primary focus is on apartments in locations such as International City, Majan and Arjan.

Figure 02: Residential supply



Source: JLL



# Performance

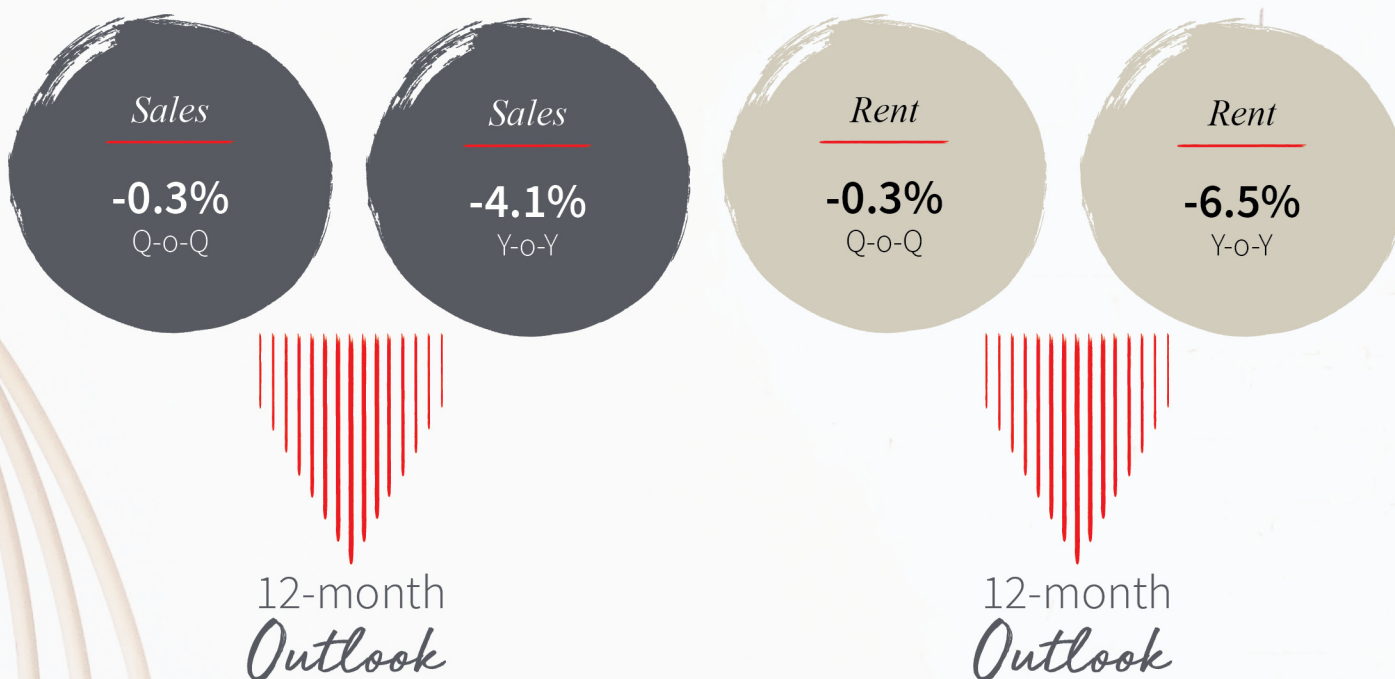
Q-o-Q apartment rents remained largely unchanged in Q1 2018, while villa rents declined at a faster rate (2.8%) compared to the previous four quarters, which averaged a decline of 1.1%. Y-o-Y rents have now declined by 6.5%

and 10.2% for apartments and villas respectively, which is also higher than the rates of decline recorded previously.

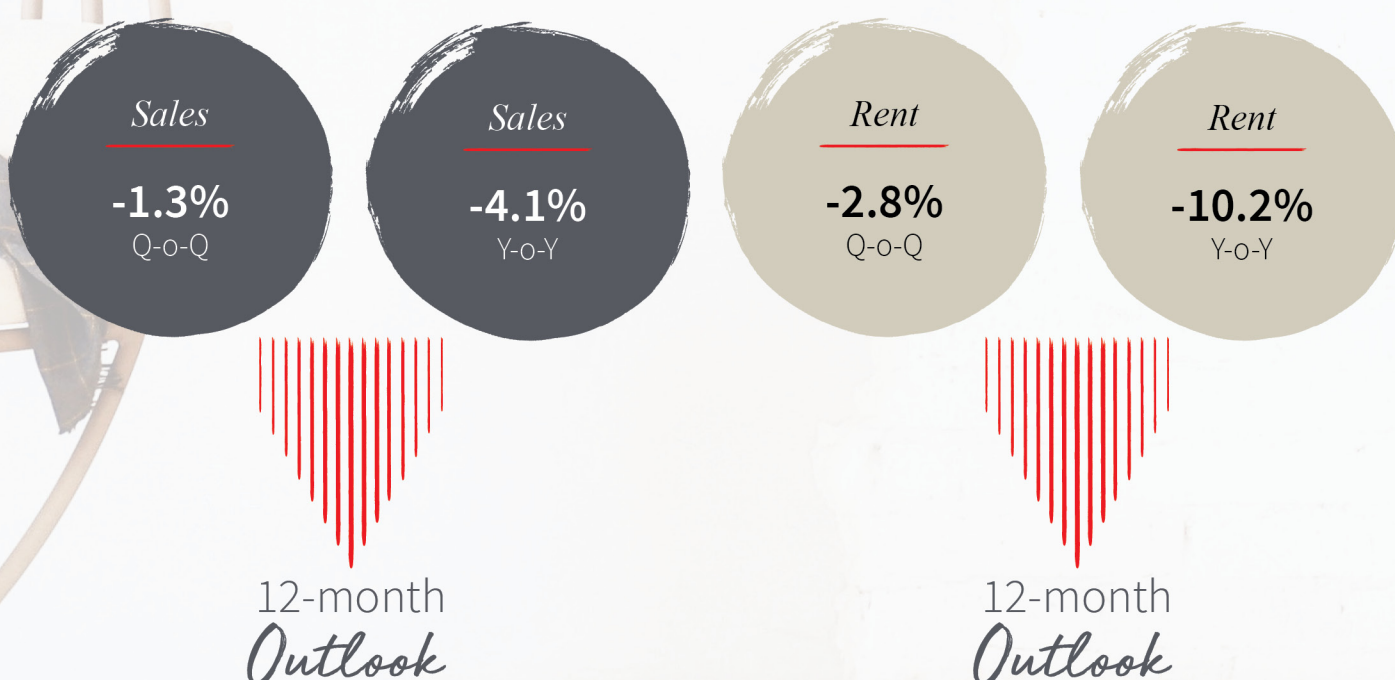
Sale prices have also continued to decline, but at a slower rate than

rentals. Sale prices for villas have declined by 1.3% over the quarter and by 4.1% over the past year, while apartment sale prices have declined by 0.3% and 4.1% respectively.

## Apartments



## Villas





*Retail*



## Hot Topic

*The retail sector is experiencing contraction in many parts of the world. In 2017, more than 25 retail companies filed for bankruptcy in the US, with this trend continuing into 2018. This global trend has trickled down to Dubai, affecting the retail market, which is currently experiencing increased levels of store closures. Some brands are pulling out of the Dubai market entirely, whilst others are rationalising their footprint by disposing of surplus space and concentrating on their better performing stores.*

*The F&B sector, which was the positive game changer during the past few years, has also started experiencing a downturn in recent months with a number of high profile new projects seeing F&B tenants closing their operations despite spending large sums on fit-outs.*

*Challenging economic conditions are generally accompanied by falling spending patterns, therefore it is not surprising that the retail market is undergoing pressure. While economic*

*conditions are expected to improve, with GDP growth forecasts of 3.5% and 4.0% for 2018 and 2019 respectively, retail spending is forecast to decline by 1.4% and 1.2% for the same period. (according to Oxford Economics). While the overall market may continue to decline, there will always be both winners and losers, and the increasingly competitive market increases the importance for malls to remain relevant and provide the right balance of retailing, F&B and leisure offerings.*

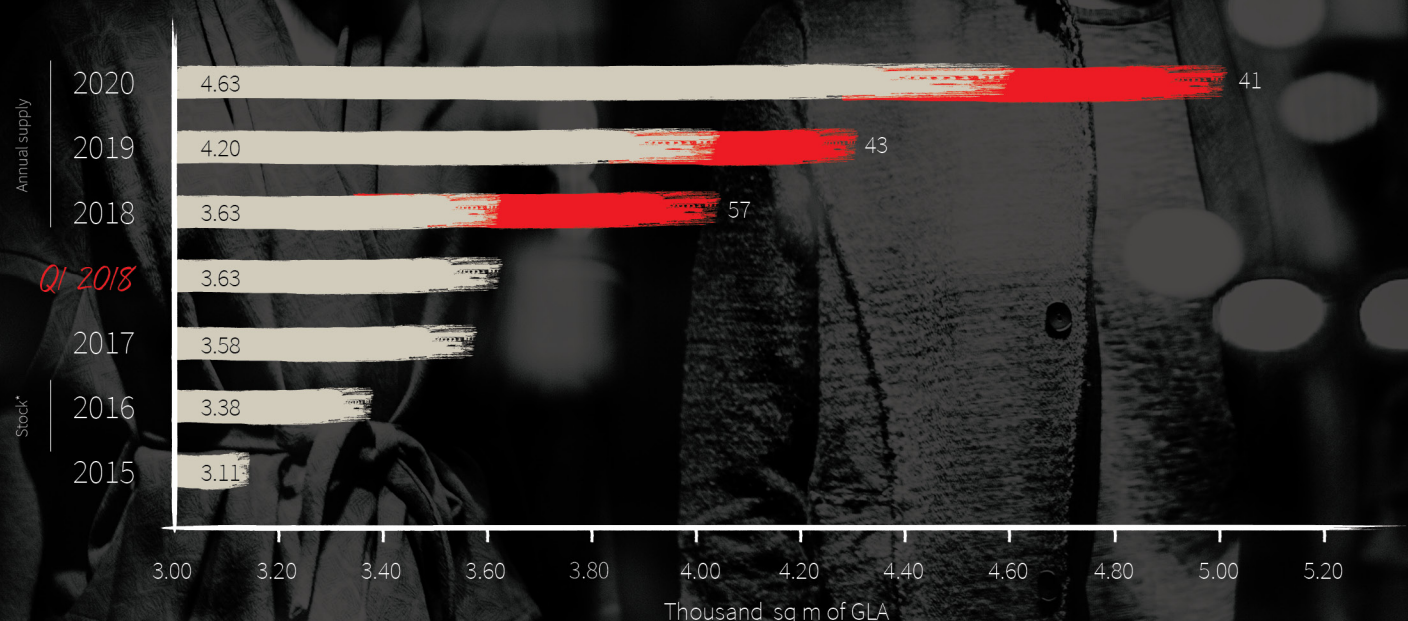
## Supply

Q1 2018 saw the long anticipated completion of the Dubai Mall Phase 2, which added 52,400 sq m of retail GLA to the market. A further 565,000 sq m of retail GLA could enter the market by the end of the year, with the potential completion of the retail component of Al Seef Phases 2 and 3 (53,400 sq m),

in Al Hamriya. The remaining pipeline comprises a number of super-regional retail spaces, with Nakheel Mall (111,500 sq m) on Palm Jumeirah being a notable example. Other expected completions also include neighbourhood and convenience retail parts of residential developments, such

as The Springs Village and the new Al Furjan Community Centre. Looking ahead, approximately 429,000 sq m of retail GLA is forecast to enter the market in 2019, although some delays can be expected, particularly for larger centres.

Figure 03: Retail supply



\*The slight reduction in historical figures is due to the current status of Lamecy Plaza, which is undergoing refurbishment and is therefore classified as 'under construction' in our supply list.

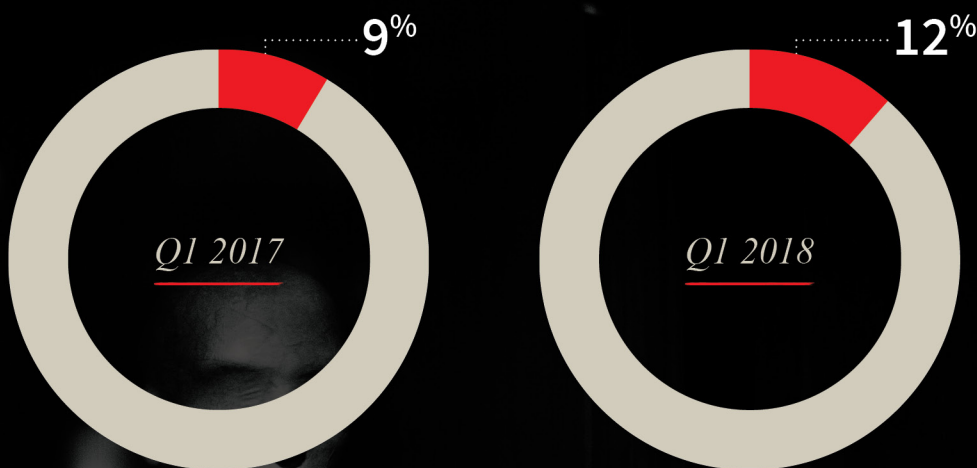
# Performance

Market rents for new leases in both regional and super-regional centres in Dubai have declined significantly in recent months. While it is difficult to quantify the exact extent of this decline, we estimate that average rents have fallen in the order of 25% over the past year.

Market wide vacancies have increased from 9% to 12% as the retail market has softened over the past year. Although the full extent of increased vacancies is being partially offset by the growth of 'pop up shops', these concept stores are only taking up a fraction of the space

vacated and typically pay only a fraction of the asking rental price for line stores.

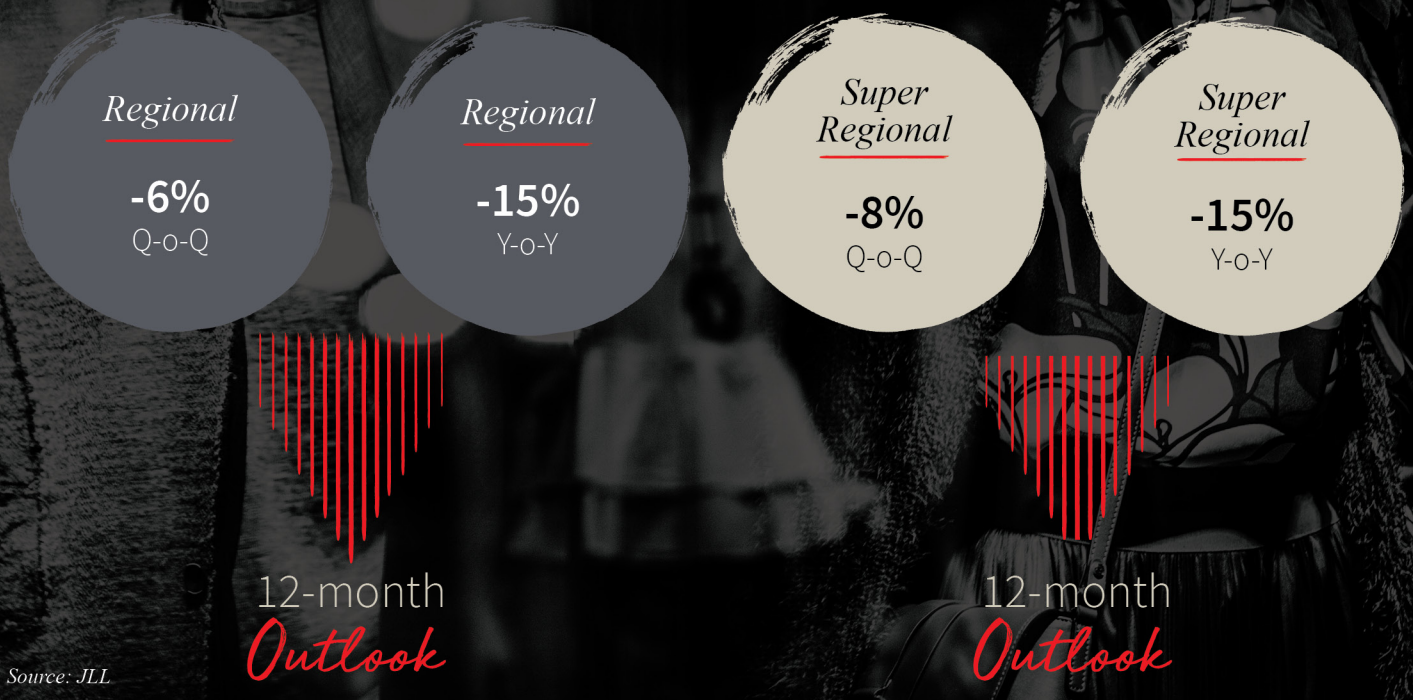
## Vacancy Rate



Source: JLL

12-month  
*Outlook*

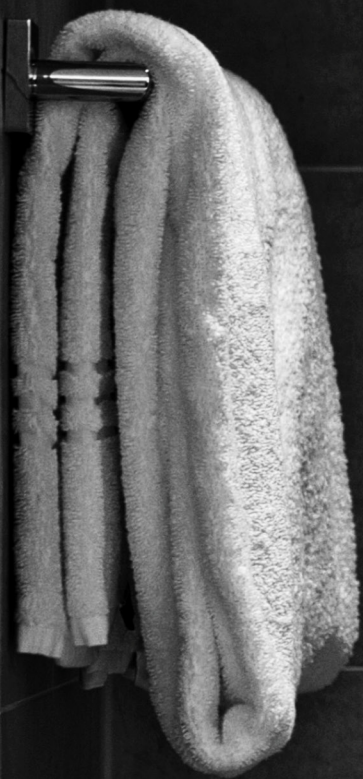
## Rents / AED per sq m



Source: JLL



*Hotel*



## Hot Topic

*Dubai airports has recently announced the renovation of one of its runways, which will commence in April 2019. Although the partial closure of the*

*runway will result in a short-term (-45day) decline in movements, the long-term result will be an increase in capacity. This is testimony to the commitment of*

*the Dubai government to raise tourist numbers from the 15.8 recorded in 2017, to 20 million by 2020.*

## Supply

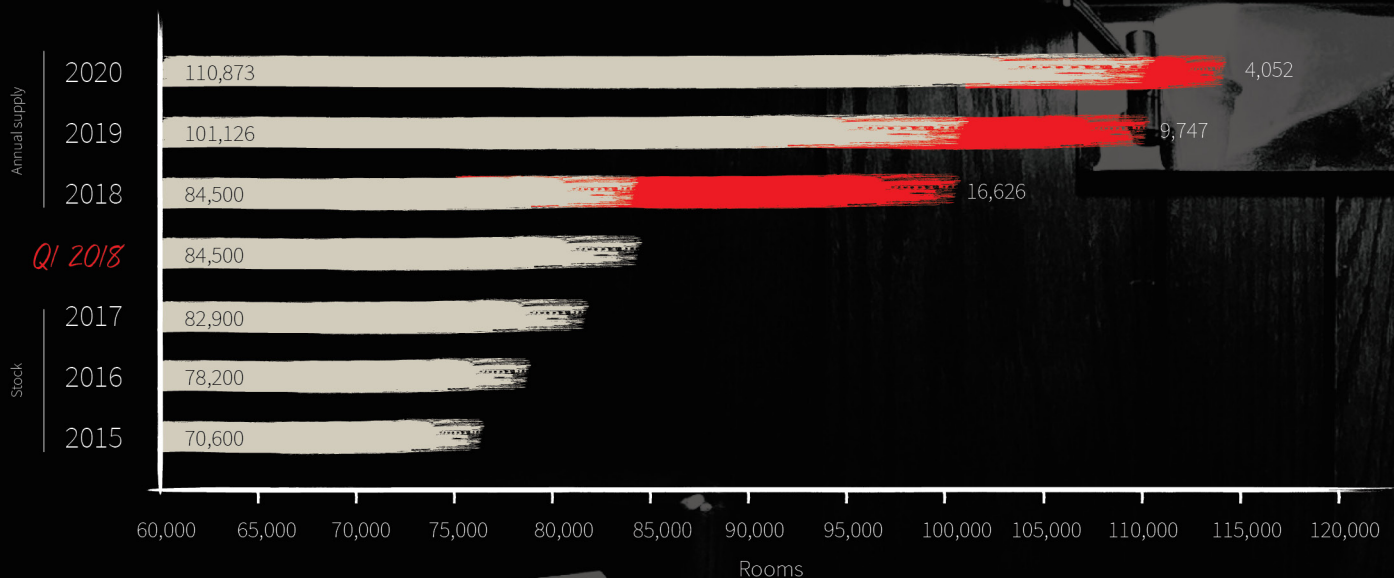
Major hotel openings in Q1 included the new Zabeel House MINI by Jumeirah in Al Seef district (150 keys), Al Bandar Arjaan Rotana (190 keys), Aloft International Media Production Zone (221 keys), Aloft Palm Jumeirah (206 keys), Radisson Blu Hotel, Dubai Waterfront (432 keys), and Gevora Hotel (560 keys). These openings bring the total number of quality hotel keys in Dubai to around 84,500. With a number of properties currently in advanced stages of construction, a further 16,600 keys could potentially enter the market

in 2018. However, some properties are likely to be delayed to 2019. Likely completions in 2019 include the Hampton by Hilton Dubai Al Qusais (420 keys), and Novotel – Central Hotel the Palm (208 keys).

The market continues to see more openings in both the midscale and upscale segments with increasing exposure from major international operators as well as local players. The continued increase in supply levels is not entirely to serve visitors to the Expo in 2020, but is also keeping pace

with increases in both regional and international visitors experienced in recent years. The latter is supported by continued government initiatives, which include visas upon arrival for more nationalities and various marketing campaigns of the Emirate. The opening of entertainment parks such as IMG World, Dubai Parks and Resorts and Bluewaters Island (not a waterpark) have also helped drive growth in tourism to Dubai.

Figure 04: Hotel supply



Source: JLL



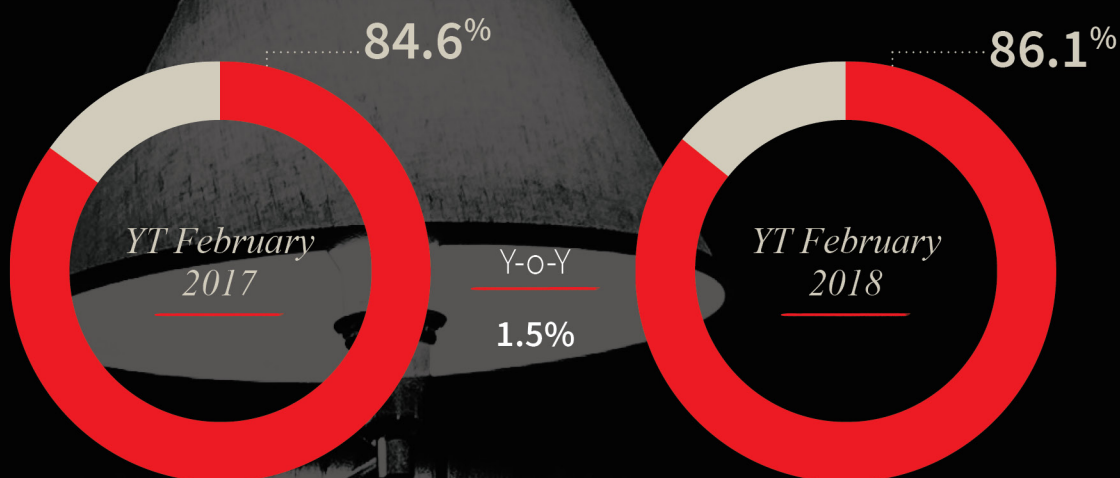
# Performance

YT February 2018 ADRs decreased by 3% compared to the same period in 2017 to USD 214, with RevPAR declining by a similar rate to USD 184. Hotel performances may weaken further in

the year as the negative impact of VAT takes effect. Occupancy levels remain strong at 86%, a continuation of the same trend seen in previous quarters. These high levels of occupancy and

performance are likely to decline with Ramadan in May and then the relatively quiet summer season.

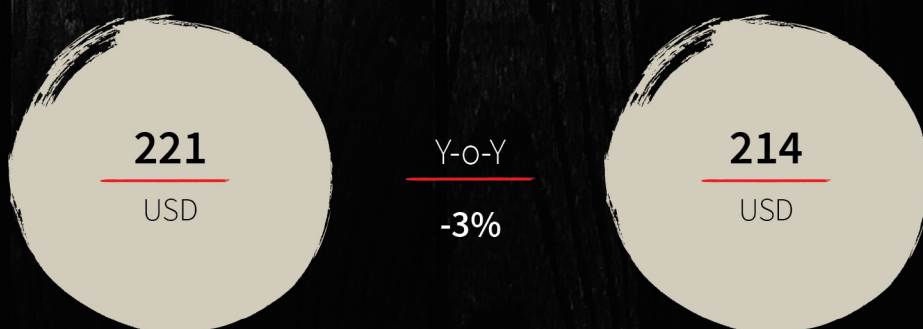
## Occupancy



Source: STR

12-month  
*Outlook*

## ADR (USD)



Source: STR

12-month  
*Outlook*

# Definitions

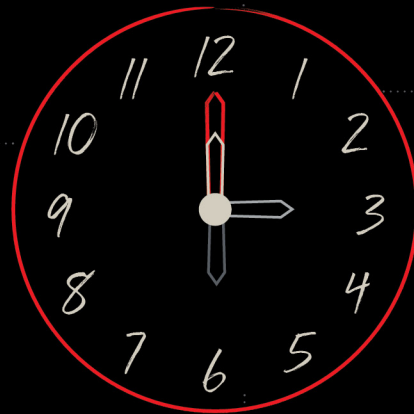
## Clock Definitions

### 12 O'clock

Indicates a turning point towards a market consolidation / slowdown. At this position, the market has no further rental growth potential left in the current cycle, with the next move likely to be downwards.

### 9 O'clock

Indicates the market has reached the rental growth peak, while rents may continue to increase over coming quarters the market is heading towards a period of rental stabilisation.



### 3 O'clock

Indicates the market has reached its point of fastest decline. While rents may continue to decline for some time, the rate of decrease is expected to slow as the market moves towards a period of rental stabilisation.

### 6 O'clock

Indicates a turning point towards rental growth. At this position, we believe the market has reached its lowest point and the next movement in rents is likely to be upwards.



# Definitions

## Office

Supply data is based on our quarterly survey of 32 sub-markets. Completed buildings refer to those handed over for immediate occupation. Future supply is based on projects under construction. Central Business District includes DIFC, DTCD, Sheikh Zayed Road, Burj Khalifa Downtown. Prime Office Rent represents the top open-market net rent (exclusive of service charge) for a new lease that could be expected for a notional office unit of the highest quality and specification in the best location in a market, as at the survey date. Data relates to headline rents, exclusive of incentives. Vacancy rate is based on estimates from the JLL Agency team. It represents the weighted average rate across a basket of buildings in the CBD that make up around 80% of the CBD supply and 15% of the total current supply.

## Retail

Classification of Retail centres is based upon the ULI definition and based on their GLA:

- Super Regional Malls have a GLA of above 90,000 sq m
- Regional Malls have a GLA of 30,000 - 90,000 sq m
- Community Malls have a GLA of 10,000 - 30,000 sq m
- Neighborhood Malls have a GLA of 3,000 - 10,000 sq m
- Convenience Malls have a GLA of less than 3,000 sq m

Supply data is based on our quarterly survey of 45 sub-markets. Malls are categorized based on turnover levels. Primary Malls are good performing with high levels of turnover. Secondary Malls are average performing with lower levels of turnover. Average rents represent the top open market net rent expected for a standard in line unit shop of 100 sq m in a basket of regional and super regional centres. Given the variation in rentals, we quote % change for retail rents rather than actual figures. Vacancy rate is based on estimates from the JLL Retail team, and represents the average rate across standard in line unit shops at super regional malls.

## Residential

The supply and stock data has been updated based on data from the Dubai Government. Our quarterly survey now covers 158 sub markets (the entire Dubai market) starting from 2010. This data excludes labour accommodation and local Emirati housing supply. Completed buildings refer to those handed over for immediate occupation. Future supply is based on projects under construction. Residential performance data is based on the REIDIN monthly index. REIDIN Dubai Residential Property Price Indices (RPPIs) use monthly sample of offered/asked listing price data and land registry price data (trans- action data). Index series are set at 100 starting at the beginning of each data set.

## Hotel

Hotel room supply is based on existing supply figures provided by DTCM as well as future hotel development data tracked by JLL Hotels. Room supply includes all graded supply and excludes serviced apartments. STR performance data is based on a monthly survey conducted by STR Global on a sample of more than 55,000 rooms across Dubai.







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