First Overview of the UAE Property Market

The UAE Property Report is Savills first comprehensive view of the United Arab Emirates, assessing the state of the current real estate market across the country. The report provides the latest overview across residential, commercial and industrial sectors, with research and insight from the Savills team which operates across three offices in the heart of the UAE.

Savills acquired long-standing regional leader Cluttons Middle East in June 2018 and after a successful integration is now ideally positioned to provide investors, corporates, banks, individuals, families and institutions with the dual benefit of an experienced local team offering the most informed regional advice, combined with the extensive global network of one of the world’s leading international real estate advisors.

The rapid development and progression of the United Arab Emirates has been one of the great success stories of the Middle East, bringing together an increasingly engaged and well informed Emirati population with a large expatriate community to further the economic, technological, social and cultural vision of its focused Government.

There is no doubt that 2018 was a challenging year for the global economy, so it was perhaps inevitable that the UAE would feel a certain ripple effect of pressures beyond its own borders. Positively, within the nation, the Government has taken steps to bolster growth through regulatory changes, increasing federal budgetary spend and a bold move towards visa liberalisation. These integral transformations, contributing towards the UAE Vision 2021 and beyond, have laid the foundations for economic improvement. Through attractive incentives for diversification of non-oil industries, the UAE is competing to be a global hub of future-thinking industries.

At Savills, we take the lessons of the past, combined with analysis of current and progressive trends to provide our unique outlook and perspective for the future. Within this report, we hope you will see that the real estate industry in the UAE is very much a place of opportunity for the committed investor.
Economic growth

Global economic growth has eased

According to the World Bank projections, global economic growth remained flat in 2018. The year started on an upbeat note with strong economic activity recorded during the first half of the year. However, industrial production and trade started to decline because of escalating trade protectionism and increasing geopolitical tensions. A slowdown in demand from emerging markets further contributed to the loss in momentum.

A mixed economic trend was observed across advanced economies. In the US, steady growth was recorded due to strong domestic demand and improvement in employment numbers. The economy expanded from a GDP growth of 2.3% in 2017 to around 2.5% in 2018. In the European Union (EU), growth slipped from 2.0% to 1.7% in the same period. This was attributed to a slowdown in industrial production - the German automotive sector in particular - decline in foreign trade and weaker demand in the EU. Manufacturing slump in the United Kingdom (UK) and ongoing uncertainty surrounding Brexit dragged the GDP growth down to 1.4% from 1.7% in 2017. Growth in Japan also decelerated to 1.0% in 2018 as high oil prices and effects of fiscal consolidation measures slowed the rate of expansion.

Among emerging markets, growth in China edged down to 6.5% in 2018 compared to 6.9% in 2017. The non-oil sector grew by 5% basis points to 6.5% driven by ongoing investments attributed to the upcoming Expo in Dubai and the country’s long-term focus on infrastructure development. At an Emirate level, during 2018 the GDP growth for Abu Dhabi was estimated at 3.7% while for Dubai it was 3.5% and Sharjah at 3.7%.

However, private sector growth witnessed a decline as per the Emirates NBD Purchasing Managers’ Index (PMI). It contracted marginally to 55.5 from 56.1 in 2017 largely due to a slowdown in exports. On the other hand, the introduction of VAT in early 2018 had very limited or negligible impact on business and investment sentiments in the region.

As a knee-jerk reaction, inflation spiked to 3.7% but it is forecasted to revert to 2.0% (observed in 2017) by the end of 2019.

Increase in oil prices support growth in Middle East

The recovery in oil prices from an average USD 54 per barrel in 2017 to an average USD 72 per barrel in 2018 has helped reduce fiscal deficits across major oil exporting countries in the region. The non-oil sector grew by 50 basis points to 5% driven by ongoing investments attributed to the upcoming Expo in Dubai and the country’s long-term focus on infrastructure development. An increase in oil production during the second half of 2018 and sustained activity in the non-oil sector led to a 3.5% increase in the country’s GDP in 2018 compared to a meager 0.8% in 2017. The non-oil sector grew by 50 basis points to 5% driven by ongoing investments attributed to the upcoming Expo in Dubai and the country’s long-term focus on infrastructure development. An increase in oil production during the second half of 2018 and sustained activity in the non-oil sector led to a 3.5% increase in the country’s GDP in 2018 compared to a meager 0.8% in 2017. The non-oil sector grew by 50 basis points to 5% driven by ongoing investments attributed to the upcoming Expo in Dubai and the country’s long-term focus on infrastructure development.

The region’s two largest economies, Saudi Arabia and UAE, grew by 5% and 2.3% respectively.

Economic recovery underway in the UAE

An increase in oil production during the second half of 2018 and sustained activity in the non-oil sector led to a 2.3% increase in the UAE’s GDP in 2018 compared to a meager 0.8% in 2017. The non-oil sector grew by 50 basis points to 5% driven by ongoing investments attributed to the upcoming Expo in Dubai and the country’s long-term focus on infrastructure development. At an Emirate level, during 2018 the GDP growth for Abu Dhabi was estimated at 3.7% while for Dubai it was 3.5% and Sharjah at 3.7%.

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Source: World Bank, various government estimates

Source: Oxford Economics, Average price per barrel each month

Source: IMF, Moody’s Investors Service report
Key policy changes in the UAE

1. Progressive policies at the vanguard of growth
The UAE has made steady progress towards diversifying its economy and achieving its development goals. This has been achieved through policies that allow it to overcome the challenges posed by global/regional economic and political trends. Further progressive policies and strategies were announced throughout 2018 which aim to cement the country’s leadership position as the preferred destination for trade, commerce and leisure. The Government has also been ramping up its annual budget as part of its UAE Vision 2031 strategy. With a focus on social development, education and infrastructure, the 2018 federal budget was increased by 17.5% to AED 610.3bn.

2. Global marketing campaigns for real estate gain momentum
As policies and regulatory framework become more conducive for investments, prominent real estate developers and the Dubai Land Department in particular, have been proactive in promoting the country’s real estate. Recently launched properties were showcased at various international property shows around the world. Special promotions targeting investors from different nationalities were set up throughout the year to appeal to a wider investor base. Delegations from the real estate sector of other countries were also invited to review investment opportunities and take advantage of a maturing real estate market.

3. Capital investments into the oil and gas sector set to increase
Investments into the hydrocarbon sector, which constitutes 23% of the GDP, continue in tandem to the growth in the non-oil sector. In November, the Supreme Petroleum Council (SPC) approved an AED 486bn five-year capital expenditure plan for Abu Dhabi National Oil Company (ADNOC). As per the plan, ADNOC’s oil production capacity is set to increase to 4 million barrels a day by 2020, from the current 3.5 million barrels, with a future target of 5 million barrels by 2050. This will create the world’s largest oil refinery and petrochemical complex in Ruwais city.

4. Further impetus to the manufacturing sector
The contribution of the manufacturing sector in UAE’s GDP has steadily increased over the last few years. Over the past three years, an average 9.2% of the country’s GDP was contributed by the manufacturing sector. To further incentivize the sector, the UAE Cabinet passed a resolution to reduce electricity consumption fees by 20% for large factories, and by 10-25% for small and medium sized factories. Electricity connection fees for new factories has also been waived off.

5. Changes to bank lending laws
A cap on real estate lending in the UAE has been lifted by the Central Bank. The previous cap restricted each bank’s lending to the construction and real estate sector to a maximum of 25% of the total deposit.

6. Further boost to the tourism sector
Warner Bros World Abu Dhabi, one of the largest indoor amusement parks in the world opened during July and Dubai witnessed the opening of the Dubai Frame in January. A new decision was also approved to exempt transit passengers from all entry fees for the first 48 hours and the visa can be extended for up to 96 hours.

Among the landmark developments, two of the largest real estate developers in the region, Emaar Properties and Aldar Properties, entered into a Joint Venture (JV) to develop AED 30bn worth of projects. The first two developments as part of the JV are likely to add approximately 9,000 units. This was followed by Aldar Properties acquisition of 14 operating assets from Tourism Development & Investment Company (TDIC) worth AED 3.6bn. Aldar also revamped its business model and setup an investment arm to manage income producing assets.

Project completion takes precedence
Supply addition in the residential sector witnessed a y-o-y decline as developers focused on consolidating their operations and completion of existing under-construction and launched projects. The majority of new supply was in the form of standalone towers or projects offering less than 2,000 units per project. Prominent new supply in Abu Dhabi included an additional 7,077 units at Al Reem Island, and 3,239 units at A. Shater, as well as 2,977 units at Al Maryah Island.

Increasing pressure on pricing
Existing supply and new launches had a negative impact on price levels across most markets. Both capital and rental values witnessed a y-o-y decline. Across the residential sector in Abu Dhabi, villas on Saadiyat Island are 11% more affordable compared to December 2017 and rental values for high-end villas in Al Bahia Beach have softened to an average AED 31,000 / annum compared to an average AED 33,000 / annum during Q4 2017. Supply and demand imbalance led to increasing pressure on asset pricing across Dubai. Both capital and rental values declined by an average 10 - 12% y-o-y across most markets. In Sharjah, rental decline was prominent in Al Majaz where rents for studios dropped by 22% y-o-y from an average AED 8,500 in 2017 to an average AED 6,800 in 2018. In the office sector, market rents in the CBD of Abu Dhabi, which comprises of locations such as Corniche, Khalifa Street and Al Maryah Island, declined by an average 21% y-o-y. In Dubai, the strongest rental correction was observed across Business Bay (35% y-o-y). In Dubai, the strongest rental correction was observed across Business Bay (35% y-o-y). In Dubai, the strongest rental correction was observed across Business Bay (35% y-o-y). In Dubai, the strongest rental correction was observed across Business Bay (35% y-o-y).

Developers offered generous incentives
Most of the projects that were launched during early 2018 or in the market at an initial stage of recovery are nearing handover. This has led to a buyers’ tenants’ market with plenty of options and ample scope for negotiations. Developers have responded to changing market conditions by offering generous payment plans and special schemes to fully or partly absorb any transaction charges. Landlords on the other hand have been open to negotiations and flexible in terms of the rental payment and lease terms.

The general theme during 2018 can be summarised as one driven by joint ventures, consolidations and cautious optimism.

Summary of the UAE Property Market in 2018

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The Property Report

Residential

Like the global economic trend, Abu Dhabi started the year on a positive note with the Government earmarking AED 50 Bn towards a three-year economic development program. This was accompanied by an order to issue dual licensing for companies operating in the Free Zones. These measures aimed at propelling and further diversifying the economic activity may bode well for the city in the long term. As per Oxford Economics, Abu Dhabi is set to become the second largest city in the Middle East (after Riyadh) in terms of GDP by 2035. It is set to achieve an average annual GDP growth rate of above 3% which will be partly driven by such policy reforms and investments.

The impact of such positive measures, however, has not yet trickled into the property market. The general subdued market sentiment observed across the region was also recorded in the Emirate. Residential real estate performance remained lackluster across Abu Dhabi during 2018. Large quantum of ready-to-move in stock and sizeable upcoming supply resulted in asset price compression across most sub-markets. Demand levels remained low as buyers/occupiers adopted a wait-and-watch approach before committing to any new investments.

Project completions continued to remain strong throughout the year. Close to 6,500 residential units and 2,500 staff accommodation units were completed across the city. Approximately 70% of the new supply was in the form of apartment units while townhouses and villas constituted the remaining 30%. Notable project handovers during the year include, Marina Bloom (225 units) by Bloom Properties at Al Bateen Wharf and Horizon Towers (924 units) by Tamouh Investments at City of Lights, among other projects.

New supply launches also remained largely stable as Aldar Properties and other notable developers launched new projects. Prominent new supply includes Reflections (192 units) at Reem Island and an additional 707 units at Al Ghadeer 2 by Aldar Properties. IMKAN Properties also launched 240 units across seven mixed-use towers called Pixel at the Makers District project on Reem Island.

Sustained supply addition ensued a q-o-q (quarter-on-quarter) price correction across most sub-markets. Capital values for apartments on Reem Island corrected by an average 18% y-o-y while they corrected by 11% y-o-y on Al Raha Beach. Villas on Saadiyat Island are 11% more affordable compared to December 2017. Rental values corrected the most for 1Bed apartments across majority of the sub-markets. 1Bed apartments on Al Reem Island are now leasing for an average AED 55,000 / annum while rental values for high-end 1Bed apartments on Al Raha Beach have come down to an average AED 95,000 / annum from an average AED 120,000 / annum during Q4 2017.

Office

ABU DHABI

As per Oxford Economics, Abu Dhabi is set to become the second largest city in the Middle East in terms of GDP by 2035.
The Abu Dhabi Government has undertaken initiatives over the past few years to promote the role of industries in the Emirate’s economy. The estimated AED 18 Bn In-Country Value (ICV) spend by ADNOC in 2018 is further driving investments and promoting local manufacturing. As a result, the share of manufacturing in the GDP has increased from 5.4% in 2010 to an estimated 6.5% in 2017 with further growth anticipated in the coming years.

The Government has also been pro-actively reaching out to prospective foreign partners for long term strategic investments and recent agreements with state-owned Chinese firms was a positive step towards this direction. The 50-year agreement with Chinese Jiangsu Provincial Overseas Cooperation and Investment Company (JOCIC) is anticipated to attract an investment of AED 12 billion to the Khalifa Port Free Trade Zone. These positive measures have led to robust demand for industrial space in the city. Various small-to-medium sized transactions were observed from Third Party Logistiques Providers (3PL) and manufacturing sector companies. KIZAD was one of the most sought-after micro-market for industrial activity in the Emirate. It has further expanded its product offerings with the launch of new free zone warehouses and Light Industrial Units (LIUs).

However, during 2018, economic weakness, combined with rising stock in submarkets has led to rental pressure, with a growing number of deals closing below headline asking rates. Rental rate correction was strongest in secondary locations further from the city. Grade A warehouse rents have dropped from AED 25 / sq. ft. / annum to AED 20 / sq. ft. / annum. In Mussafah, the gradual introduction of new supply led to a y-o-y decline in rents with properties being offered at an average rate of AED 18 / sq. ft. / annum. Similarly, in KIZAD, values have dropped to an average AED 19 / sq. ft. / annum.

Despite the steady enquiry levels and deals, vacancy levels across most sub-markets have increased as companies look to consolidate and optimise their real estate portfolio. The rental decline was recorded across micro-markets with prime rents witnessing the biggest decline. Compared to 2017, rents across Grade A buildings have reduced by 14%, while Grade B and Grade C rents have scaled down by 32% and 8% y-o-y respectively. Rental values for buildings in the Central Business District (CBD) which comprises of locations such as The Corniche, Khalifa Street and Al Maryah Island were offered at an average AED 165 / sq. ft. / annum, rents at Outer CBD which includes Khalifa City, ADNEC Area, Ministries Area and Rawdhat were offered at an average AED 115 / sq. ft. / month. Rental values for properties Off Island in the North (Al Raha Beach, Masdar, AlKh, Yau Island) declined by 6% y-o-y and were being offered for an average AED 23 / sq. ft. / annum.

The Abu Dhabi Government has undertaken various initiatives over the past few years to promote the role of industries in the Emirate’s economy. The estimated AED 18 Bn In-Country Value (ICV) spend by ADNOC in 2018 is further driving investments and promoting local manufacturing. As a result, the share of manufacturing in the GDP has increased from 5.4% in 2010 to an estimated 6.5% in 2017 with further growth anticipated in the coming years. The Government has also been pro-actively reaching out to prospective foreign partners for long term strategic investments and recent agreements with state-owned Chinese firms was a positive step towards this direction. The 50-year agreement with Chinese Jiangsu Provincial Overseas Cooperation and Investment Company (JOCIC) is anticipated to attract an investment of AED 12 billion to the Khalifa Port Free Trade Zone. These positive measures have led to robust demand for industrial space in the city. Various small-to-medium sized transactions were observed from Third Party Logistiques Providers (3PL) and manufacturing sector companies. KIZAD was one of the most
Dubai’s residential real estate market was firmly in a correction phase during 2018. Inventory levels piled up across micro-markets as large schemes launched during 2014–2016 were handed over to the market. A slowdown in global trade and financial markets also weighed down on demand. Uncertainty surrounding Brexit and a 12–14% y-o-y currency devaluation of key source markets such as India and Pakistan were the other major factors impacting demand during the year. As a result, transaction activity declined by approximately 22% y-o-y and buyers adopted a wait-and-watch approach.

Off-plan (58% share) dominated transactions, however, its popularity in overall demand has declined from 67% in 2017. On the other hand, demand for ready-to-move properties increased due to the spike in project completions over the last twelve months. Developers offered generous post-handover payment plans and other incentives such as partial or full waiver of associated fees to spur interest across completed properties. Dwindling sales, regulations surrounding VAT on ready unsold inventory and the IFRS 15 (International Financial Reporting Standards) standard for revenue recognition were among the primary factors driving the generous post-handover payment plans. This has led to the creation of a third and progressively popular type of segment along with off-plan and secondary sales.

New project launches were limited to small and medium sized schemes. Supply addition was led by eminent developers with proven track records. Among other projects which were introduced to the market, Emaar Properties launched Beach Vista (447 units) at Dubai waterfront, Seven Tides Developments launched Seven City (3 towers comprising of 2,667 units) at Jumeirah Lake Towers (JLT) and Dragon Towers (1,142 units) was launched by Nakheel near Dragon Mart, International City.

Dubai South East (DSE) was the most preferred market for occupier demand. Close to 48% of the total transactions were concluded across sub markets in DSE such as Emaar Hills, Dubai Hills and Meydan. Dubai Marina and Palm Jumeirah in Dubai West, Business Bay and Downtown Dubai in Dubai Central were among the other active markets for transactions in 2018. Close to 89% of the total transactions were observed for apartments. Studios and 1Bed units constituted 70% of the total demand across apartments while 3Bed and 4Bed units were the sought-after villa and townhouse configuration.

Supply and demand mismatch led to increasing pressure on asset pricing across the emirate. Both capital and rental values declined across most sub-markets. Across established locations, capital values for apartments fell by 9.5% y-o-y on the Palm Jumeirah and by 5–7% y-o-y across Dubai Marina and JLT. Capital values for apartments in Downtown were down by 16% while values in the Burj Khalifa are 12% lower than the 2017 average. Across the villa and townhouse segment, capital values on an average were down by 9% in Arabian Ranches, 12% in Meadows and Palm Jumeirah and around 14% at Jumeirah Park when compared to December 2017.

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<tr>
<th>Micro-market</th>
<th>Configuration</th>
<th>Average Annual Rent (AED)</th>
<th>Y-o-Y Change (%)</th>
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<tbody>
<tr>
<td>Villas/Townhouses</td>
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<tr>
<td>Al Furjan Villas</td>
<td>4 Bedroom</td>
<td>145,000</td>
<td>-9</td>
</tr>
<tr>
<td>Springs – Townhouses</td>
<td>3 Bedroom</td>
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<tr>
<td>Mira – Townhouses</td>
<td>3 Bedroom</td>
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<td>-8</td>
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<tr>
<td>Arabian Ranches 1 – Alvorada Villas</td>
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<td>Apartments</td>
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<tr>
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<td>1 Bedroom</td>
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<tr>
<td>Business Bay</td>
<td>2 Bedroom</td>
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<td>Jumeirah Lake Towers</td>
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<tr>
<td>Dubai Marina</td>
<td>2 Bedroom</td>
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<td>The Greens</td>
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Office

Dubai’s office market witnessed diverging trends across its various sub-markets. Select micro-markets and certain buildings witnessed an increase in enquiry levels and a marginal uplift in occupancy rates while vacancy levels have increased across projects offering secondary space and inefficient floor plans. The rental premium achieved by projects offering a freerent license was also rationalised (due to dual licensing) thereby expanding the available options for tenants.

Demand was driven by consolidation and space optimisation strategy across sectors as requirement for new large office space remained limited. Space take up was concentrated across established markets with support infrastructure and easy access. Transaction activity was mainly observed from technology media and the telecom sector, legal consultants and education & healthcare firms. There was also an increase in demand from boutique gyms towards leasing space within commercial office buildings. Landlords were receptive to this type of occupier taking advantage of available rents rather than previous preference for ground floor retail units.

On the whole, tenants were cost conscious and postponed any significant spend on capital expenditure. This drove demand for high quality CAT A & secondary fitted space. Landlords were receptive to offering incentives to secure tenants (new & existing). Incentives include rent free periods, additional parking allocation, delayed rental escalations and in some cases fit out contribution.

There has been an emphasis on serviced office space, with serviced office providers being extremely proactive in 2018 with a number of new centres opening up, as well as new partnerships with Free Zones and joint ventures with landlords.

The Government’s vision of embracing technology and creating an efficient platform for business, garnered interest from emerging technology start-ups and it was also observed in the office space take-ups during the year. Among the prominent projects has been a partnership between Astrolabs, DMCC Free Zone, IBM & Google providing a co-working community and learning academy for digital technology companies in Dubai.

Demand from financial services and fintech firms also remained stable and was concentrated across the Dubai International Financial Center (DIFC). Omnit Bridgeways, a global litigation and arbitration funder, Singapore-based fintech start-up We_fund and Berkshire Hathaway Specialty Insurance were among the firms that leased space at DIFC.

Across other micro-markets, occupier demand remained strong across Dubai Design District (D3). Most of the buildings in D3 had very limited or negligible vacancy levels. Tenant profile of the micro-market further improved in 2018, as YouTube opened a 6,000 sq. ft. incubator space, while London-based architectural firm Design International opened its first office in the Middle East. Dubai Media City was another preferred market for occupiers as Riot Games, Fashion TV and Virgin Hyperloop One marked their Dubai entry by opening an office in the micro-market.

DIFC has seen several key corporates expand, consolidate and renew within the Free Zone with Smiths Medical & Boeing all occupying substantial office space within the Free Zone.

Despite continued leasing and renewal activity, rental values witnessed a decline across a few markets as supply continued to outstrip demand, a trend which has been observed over the past few years. The strongest rental correction was observed across Business Bay (-25% y-o-y) followed by Dubai Science Park and Bur Dubai at 15% (y-o-y decline) each. On the other hand, values remained stable across office properties in DAFZA, Dubai South, Dubai Silicon Oasis and Al Barsha.

Industrial

Demand for good quality industrial and warehousing stock across the city remained largely stable throughout 2018. There was a notable increase in enquiry levels driven by ‘flight-to-quality’ requirements. Supply addition also spiked as speculative projects launched during 2015 and 2016 were handed over, largely concentrated towards the Dubai South micro-market. However, transaction closures across such speculative supply remained limited. Renewal activity on the other hand increased as landlords became flexible on rental expectations and lease terms in a bid to compete with the newly completed supply.

In terms of occupier profile, demand was observed from Fast Moving Consumer Goods (FMCG) companies, automobile manufacturers, e-commerce companies and retailers. Notable space take-up during the year include the 800,000 sq. ft. warehouse opened by Carrefour for its distribution centre at the National Industries Park, Souq.com opened an approximately 250,000 sq. ft. fulfillment centre at Dubai Industrial Park (DIP). Demand for cold storage warehousing facility remained largely limited, apart from Al-Futtaim Logistics that opened a cold storage warehousing facility at Jebel Ali South Free Zone.

Mismatch in the supply / demand equilibrium has created a tenant’s market in Dubai for the last few years. New project completions during the year led to a further deterioration in rental values across most micro-markets. Grade A rents for National Industries Park declined by 27% y-o-y and by 22% y-o-y at Ras Al Khor. Al Quoz was another market to witness a rental decline during 2018. Rentals for Grade A properties have dropped by 18% y-o-y. Dubai Investment Park (20% y-o-y) and Dubai Industrial Park (33% y-o-y) were the other markets to witness rental correction during the year.
SHARJAH AND NORTHERN EMIRATES

Residential

Sharjah benefits from a competitive advantage over other Emirates due to its low-cost cost of living and doing business. It has established itself as an affordable alternative to its neighbouring Emirate of Dubai. A sizeable number of employees working in Dubai, prefer to live in Sharjah due to the comparative rental advantage and developed social infrastructure. This has helped foster demand for residential projects across prominent micro-markets in the past, a trend which was observed in 2018 as well. Occupancy levels across most of the mid-to-high-end buildings remained high during the start of the year. However, fluctuations to property prices in Dubai has a visible impact on the residential demand in Sharjah. As a result, a y-o-y decline in rental values in Dubai (driving reverse migration of expats into Dubai) during 2018 along with other socio-economic factors led to a decline in occupancy levels across properties in Sharjah. The Savills Sharjah Residential Index dropped from 95% in January to around 90% by December 2018. Rising vacancy levels by the second half of the year prompted property owners and management firms to actively offer discounted rentals in order to retain and attract tenants. Alternative leasing incentives now also form a key part of property leasing strategies. Whilst charging for parking is now a rarity, a growing number of properties are offering 1-2 months rent free and in some cases owners are accepting to pay agency fees to leasing agents so as to compete with those properties that are “direct from owner”.

The existing dynamics led to rental correction across most sub-markets. Rental decline was prominent in Al Majaz where rents for studios dropped by 22% y-o-y from an average AED 23,000 in 2017 to an average AED 18,000 in 2018. Similar to Al Majaz, rents for studios in Al Qasimia dropped by 20% y-o-y to AED 16,000 and by 18% y-o-y at Butina, Al Nabaah to AED 14,000 / annum. Rental values for 1Bed apartments declined by an average 12% y-o-y across markets while 2Bed and 3Bed apartments are on an average 9% and 15% more affordable compared to 2017. New supply is likely to remain strong, which may result in further rental moderation in the coming few years. There are more than 60 projects which are currently in the planning or under-construction across various established and emerging sub-markets. Close to 80% of this upcoming supply is the form of apartment buildings while the remaining 20% is expected to be villa / townhouse projects.

Residential real estate across Ajman and Ras Al Khaimah followed a similar trend as Sharjah. Rental values declined across segments, with high-end properties witnessing a steep correction. At the end of 2018, residential developments in Ajman were the most affordable in the UAE. The current market dynamics in the Northern Emirates has made it more affordable to upgrade to larger unit size or move into a villa or townhouse.

Note: The Savills Sharjah Residential Occupancy Index reflects the average monthly occupancy levels across mid-end and high-end apartment and villa projects managed by Savills.

<table>
<thead>
<tr>
<th>Micro-market</th>
<th>Configuration</th>
<th>Average Annual Rent (AED)</th>
<th>Y-o-Y Change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Al Muwaileh</td>
<td>2 Bedroom</td>
<td>70,000</td>
<td>-13</td>
</tr>
<tr>
<td>Al Majaz</td>
<td>3 Bedroom</td>
<td>52,000</td>
<td>-15</td>
</tr>
<tr>
<td>Al Khan</td>
<td>2 Bedroom</td>
<td>42,000</td>
<td>-11</td>
</tr>
<tr>
<td>Abu Shagara</td>
<td>2 Bedroom</td>
<td>30,000</td>
<td>-14</td>
</tr>
<tr>
<td>Al Gassim</td>
<td>2 Bedroom</td>
<td>38,000</td>
<td>-3</td>
</tr>
<tr>
<td>Butina, Al Nabaah</td>
<td>2 Bedroom</td>
<td>28,000</td>
<td>-10</td>
</tr>
</tbody>
</table>

"Alternative leasing incentives now also form a key part of property leasing strategies."
The various proactive measures adopted by the Government in 2018 will have a positive impact on housing demand and help the maturing real estate market. This will be supplemented by a recovery in the local economy which is projected to grow by 2.9% in 2019. The completion of ongoing infrastructure projects, upcoming supply of investment grade developments and work surrounding the upcoming EXPO 2020, will have a lasting, sustainable and positive impact on the region.

Along with mainstream investors comprising Emiratis, Indians, Pakistanis and British, we anticipate demand from other nationalities such as Chinese, Americans and others to increase on the back of Dubai Land Department’s investor outreach program.

Challenges surrounding supply and demand mismatch may continue to influence asset pricing over the next twelve months. This will help in improving occupancy levels across assets, with demand drivers likely to remain divergent across the emirates. Companies from the non-oil sector are likely to drive demand for office space in Dubai, while Abu Dhabi may witness steady demand from infrastructure and logistics companies and benefit from any projected improvement in oil prices. Across warehousing projects, demand is likely to be driven by companies from the manufacturing, trading, e-commerce and retail sector. It is anticipated that companies will capitalise on the subdued rental sentiments and enter into long term partnerships with developers for their regional distribution centers.

Across the Emirates, a correction in asset pricing will create opportunities and advantages for developers that invest more at the design stage of development. There is a growing trend towards more contemporary building designs based on market generated data. Developers offering more modern and well thought out properties, are experiencing clear advantages upon completion, often outperforming the market. A number of key new projects, that are likely to complete in 2019, depart from traditional design and specifications. These projects vary in their offerings and therefore may be able to achieve sizeable occupancy upon completion.

The Government’s focus on digitalisation, with measures such as the Ejari smart application, which enable landlords to register and renew lease contracts and digitally send contracts to tenants for approval and vice versa, will improve transparency and further cement the region’s leadership position as preferred place to live, work and invest.
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Formerly known as Cluttons Middle East, Savills has been the regional leader and real estate advisor of choice in the Middle East for over 43 years. With on-ground presence in seven cities across five Middle East countries, Savills has the largest reach of any real estate consultancy in the region.

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