CB RICHARD ELLIS

MarketView

Abu Dhabi, UAE

www.cbre.ae/research

Q4 2009

Trends

Lease Rates	Q4 08	Q4 09
Office	↓	↓
Residential	↑	↘
Sale Prices	**Q4 08**	**Q4 09**
Office	N/A	N/A
Residential	↓	↘

Hot Topics

- First ever Formula 1 Abu Dhabi Grand Prix was successfully held in the capital.
- Boost in tourism and hospitality confidence as hotel occupancy and room rates hit highs during Formula 1 weekend.
- New parking system introduced in selected areas in Abu Dhabi.
- Ten-lane Sa'adiyat Bridge opened to the public.

OVERVIEW

Q4 2009 concluded a tough year for the Abu Dhabi market. The year was characterised by the continued impact of the financial crisis, and the various fiscal measures and stimulus packages designed to combat the ill effects of the economic downturn.

However, the year ended on a positive note with celebrations surrounding the successful inauguration of the F1 Abu Dhabi Grand Prix. The Grand Prix united F1 fans, curious residents and visitors from all ages and nationalities. Importantly, the event significantly bolstered tourism confidence and elevated Abu Dhabi on the tourism and hospitality map.

Over 500,000 people attended the race track and a series of F1 related events, with the benefits immediately apparent in the hospitality sector. Hotels reported full occupancy and achieved exceptionally high room rates.

A new parking scheme was introduced in selected areas of Abu Dhabi Island in Q4, covering Liwa to Baniyas Street and from Hamdan to Khalifa Street. Parking provision in the CBD has been a major issue for some time, causing intense frustration to residents and office users, particularly during peak hours.

Under the new system, vehicles are permitted to stay for a maximum of four hours (AED3/hour) at premium spots, whilst standard spaces (AED2/hour) allow for longer parking durations of up to 24 hours.

The new system aims to test the response of residents to the concept of paid parking, moving away from historic free public parking in town. The aim eventually is to employ a series of measures that will mitigate the chronic parking problems in central Abu Dhabi.

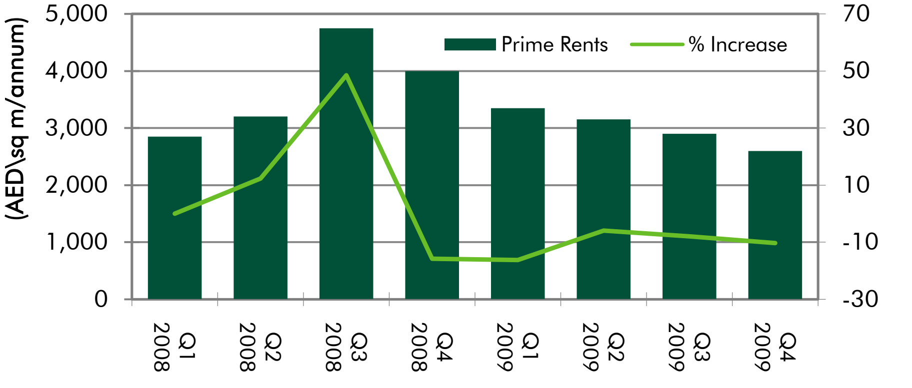
The opening of the ten-lane Sa'adiyat Bridge and Expressway has not only vastly improved connectivity in the Emirate, but also reflects the Government's ongoing commitment to proceed with planned infrastructure developments for the island, amidst a backdrop of domestic and international challenges. The expressway has significantly cut journey times from Dubai to downtown Abu Dhabi and also helped to ease traffic on the more congested island routes.

OFFICE SECTOR

The effects of the global economic crisis were still very much evident in Q4 with office leasing and sales transactions remaining subdued. Prime rents continued to slide from Q3 reaching AED2,600/sqm/annum, a substantial drop of 45% from peak prices achieved in 2008. However, a number of key commercial developments were still quoting rates of AED3,000/sqm/annum.

A drop in the overall rental rate was evident with asking rents for newly completed offices in the CBD available from AED2,000/sqm. Despite the comparatively low rents, finding tenants remains a challenge for both owners and agents.

Abu Dhabi Office Rental Rates – (Q1, 2008 – Q4, 2009)



CBRE
CB RICHARD ELLIS

With increased availability, end-users now have greater accommodation options and improved bargaining power to deal with landlords. Overall demand remains weighted towards smaller office units, typically ranging from 200 – 600sqm. The provision of key facilities especially parking spaces remains a key concern for potential occupiers.

Vacancy rates for office accommodation during Q4 remained low at around 2%. However, the impact of new upcoming stock and weaker demand for office accommodation could see this rate increase during the course of 2010.

Amendments to commercial law reducing the levels of capital required, encouraged an increase in start-up businesses. This expanded the numbers of potential commercial tenants which, it is hoped, will further fuel the demand for commercial space both in the short and long run.

RESIDENTIAL SECTOR

The residential market continued to experience declining rental rates, albeit at a slower rate than in the past four quarters. More affordable rental rates and better quality alternatives in Dubai were amongst the key factors influencing weaker residential demand levels in Abu Dhabi.

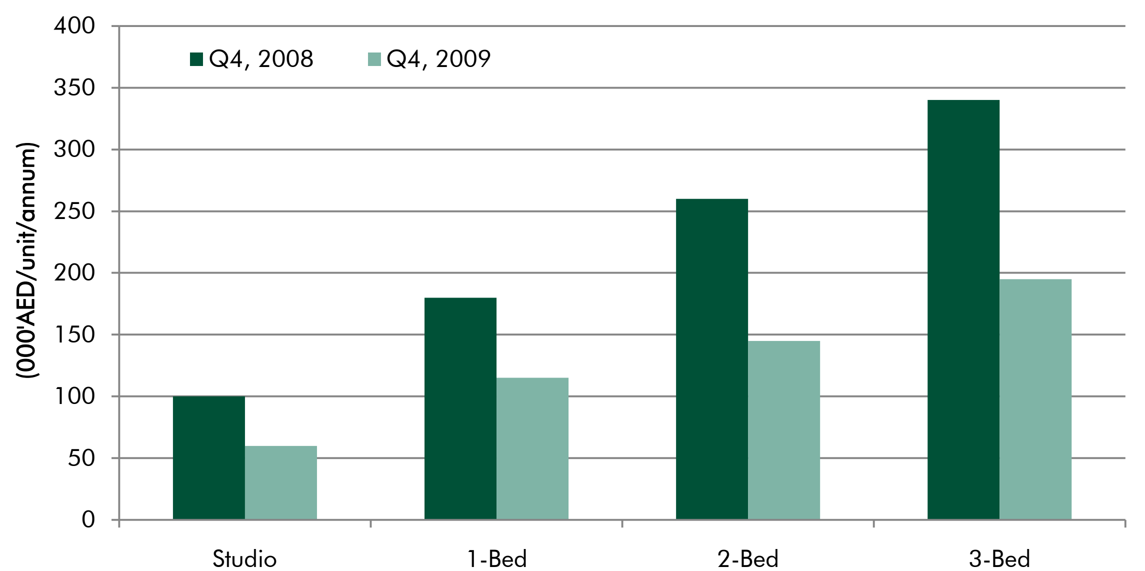
A substantial portion of planned residential stock was temporarily put on hold with delays in the delivery of units from Reem Island (specifically Marina Square, Sun Tower and Sky Tower) and the Al Raha Beach Development. These units are intended to cater to the needs of the upper middle and high-income segments and are symptomatic of the imbalance in demand and supply that continues to exist in the low to middle-income markets. However, imminent completions at both the Khalifa A and Al Reef projects will further assist in easing rents, relieving pressure for both residents and occupiers looking to expand their workforce within the Emirate.

The clamour for more affordable housing units has become increasingly evident within the current pressing economic climate as a number of companies have implemented salary cuts and/or a deduction in housing benefits. Tenants are also now typically more cautious with their spending as concerns remain over job cuts and as value for money becomes a greater concern of everyday life during the downturn.

Annual rents for apartments within the CBD posted the strongest performance with a 1 bedroom apartment at AED90,000 to AED130,000 per annum, a slight decline of just 4% compared to the previous quarter, although, landlords and agents in general were more open to negotiations with tenants. Landlords of properties situated in central locations continued to enjoy comparative advantages over properties off-island. Residents who prefer close proximity to work, existing facilities and amenities are paying the relevant location premiums.

As for the residential sales market, the sector started to show initial indications of a slight upturn in fortunes during the quarter, with increases in both inquiries and the number of sales transactions. In contrast to the situation one or two years ago, developments nearing completion now register the strongest rates and demand, as interest in off-plan property has become almost negligible. On average residential apartments on Reem Island and Al Raha Beach ranged between AED1,200 – 1,400/sqft in Q4 2009. Continued growth in the Abu Dhabi population could see a further recovery in transactional activity, as financial constraints slowly ease and credit facilities become more readily available.

Abu Dhabi Prime Residential Rental Rates – (Q4, 2008 vs. Q4, 2009)



OUTLOOK

Unlike the vast majority of global economies, market fundamentals in Abu Dhabi have remained in relatively healthy shape during the downturn and with optimistic potential for future growth. Indeed, a more positive outlook awaits Abu Dhabi as oil prices look set to remain at relatively high levels and the economy stabilises.

Strong capital flows, particularly from the Government sector, will remain a key economic driver for the economy but the ability of Government-led initiatives to reinvigorate the local property market remains a challenge. Transactional volumes are anticipated to rise gradually, however there will be no imminent return to the levels reached during H1 2008.

The key challenge now is for developers to ensure the delivery of residential units on schedule. With the changes in the economic climate, the attractiveness of developments is now viewed as strongly correlated to its actual delivery.

Notwithstanding the fact that a substantial volume of new product is anticipated to enter the market from 2010 onwards, wider options will be available to investors/end-users. Softening of rents and increasing negotiating power of tenants are thus expected to continue at least in the short term.

For more information regarding the MarketView, please contact:

Matthew Green
Associate Director
CB Richard Ellis Middle East
Building 6, 8th Floor
Emaar Square
Dubai, UAE
t: +971 4 437 7200
e: matthew.green@cbre.com

Arlene Jimenea
Research Analyst
CB Richard Ellis Middle East
Villa 1, 13 Street
Al Khalidiyah
Abu Dhabi, UAE
t: +971 2 681 4399
e: arlene.jimenea@cbre.com