REAL ESTATE MARKET REVIEW

# UAE Real Estate Market Review Q3 2024

The UAE continues to benefit from solid underlying macro fundamentals, specifically from the non-oil sectors, supporting continued growth across the country's buoyant real estate market.

CBRE RESEARCH
OCTOBER 2024

# Transactional activity continued to grow impressively during Q3 2024, as foreign investor demand remains firm

▲ 5.0%
YoY forecast increase in GDP in 2025

▲ 53.8
UAE PMI reading in September 2024, down from 54.2 a month earlier

▲ 6.6%
YoY YTD to August 2024 increase in UAE's RevPAR

▲ 2.2pp
YoY YTD to August 2024 increase in hotel occupancy rates

▲ 19.4%
Increase in average residential rents in Dubai

▲ 11.3%
Increase in prime office rental rates in Dubai

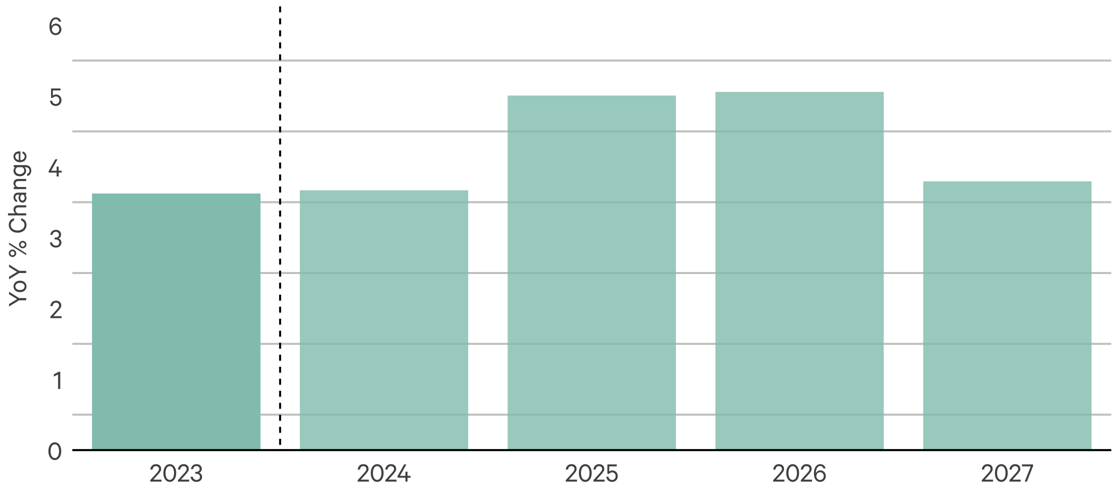
## MACROECONOMIC OVERVIEW

- The UAE's GDP is forecast to grow by 3.7% in 2024, expanding further in 2025 and 2026 to 5.0% and 5.1% respectively on the back of continued non-oil strength.
- However, hydrocarbon GDP growth is expected to be close to 0% in 2024, following a drop in oil prices through the end of Q3, with prices ending the quarter around US$75/barrel having dropped below US$70/barrel at times during September.
- Headline inflation has dissipated through 2024 and is expected to average 2.2%.

Based on Oxford Economics data, the UAE's economy will continue to expand notably in the medium term, with growth from 2024 to 2027 expected to average around 4.4%, at a time when the global macro landscape is set to be notably weaker.

The slight moderation of growth in 2024 has been due primarily to the negative impact of OPEC+ oil supply cuts on the hydrocarbon economy, and the recent softening of oil pricing. As a result, the country's oil sector is expected to remain largely flat this year. Over this period, the non-hydrocarbon will be main driver of growth, as reflected in the continue positive trend in the UAE's Purchasing Managers' Index (PMI), which tracks the performance of the private economy.

FIGURE 1: UAE, Gross Domestic Product




Source: CBRE Research/ Oxford Economics/ Macrobond

# MACROECONOMIC OVERVIEW

In September, the UAE's PMI fell to 53.8, down from 54.2 in August, but remained above the recent low of 53.7 from July, meaning the non-oil sector remained comfortably in expansionary territory above the key 50 reading.

Dubai's PMI declined marginally from 54.2 in August to 54.1 in September 2024, but was still well up on July's 52.9 reading, which was the weakest since January 2022.

The strength of the UAE's private sector was further reaffirmed by the preliminary figures from SCAD for Abu Dhabi's economy, which was estimated to have grown by 4.1% in the year to Q2 2024, at a value of more than AED 297 billion. This was mainly fuelled by the strong expansion of the Emirate's non-oil sectors, which increased 6.6% in the year to Q2 2024, hitting a record AED 164.2 billion, with non-oil sectors now representing +55% of the overall economy.

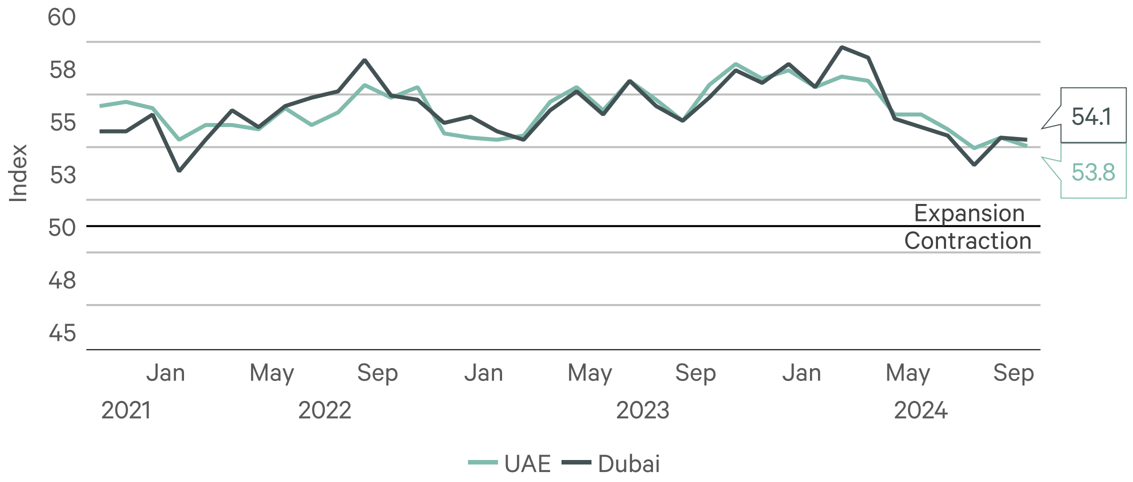
This has all taken place against the backdrop of increasing regional geo-political tensions and subsequently arising economic challenges, with a widening conflict in Lebanon in addition to continued disruptions across the Red Sea shipping channels, which is having a knock effect on Suez Canal revenues for Egypt amongst other noticeable impacts.

However, despite this context, the UAE's position only continues to strength, attracting not only increasingly levels of inbound capital from impacted countries regionally but also from more developed markets globally, all whilst maintaining solid fiscal investments across areas such as social infrastructure and tourism, as part of the governments five-year spending strategy.

This was further affirmed by another expansionary budget for 2025, with the UAE Cabinet approving a new budget of AED 71.5 bn in expenditures, which is expected to be evenly balanced by governmental revenues.  This was against AED 64.1 in 2024, hence representing an increase of around 11%.

> "The UAE remains the key beneficiary amid regional challenges, with capital flows rising from affected countries, particularly into the Emirate's real estate market"

FIGURE 2: UAE, Purchasing Managers' Indices




Source: CBRE Research/ Macrobond

FIGURE 3: UAE, Key Economic Indicators, YoY % Change

| | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
|---|---|---|---|---|---|---|
| **GDP** | **7.5%** | **3.6%** | **3.7%** | **5.0%** | **5.1%** | **3.7%** |
| Oil GDP | 7.1% | 6.2% | 4.5% | 4.3% | | |
| Non-Oil GDP | 8.5% | -3.1% | 1.3% | 7.2% | | |
| Inflation | 4.8% | 1.6% | 2.2% | 2.5% | 2.1% | 2.0 |

Source: CBRE Research/ Oxford Economics.

# DUBAI OFFICES

Dubai's office market continues to see strong activity levels against the backdrop of a very positive non-oil economy, which is driving new employment and resulting in robust year-on-year growth in the number of registered commercial Ejari leases.

However, the market reality is slightly different, with new leasing volumes being impacted by a lack of available supply and rising rents, particularly in prominent central and popular freezone locations, driving existing tenants towards lease renewals and refurbishment of their existing office accommodation, as opposed to embarking on new office searches for spaces which are likely to be costlier and potentially inferior.

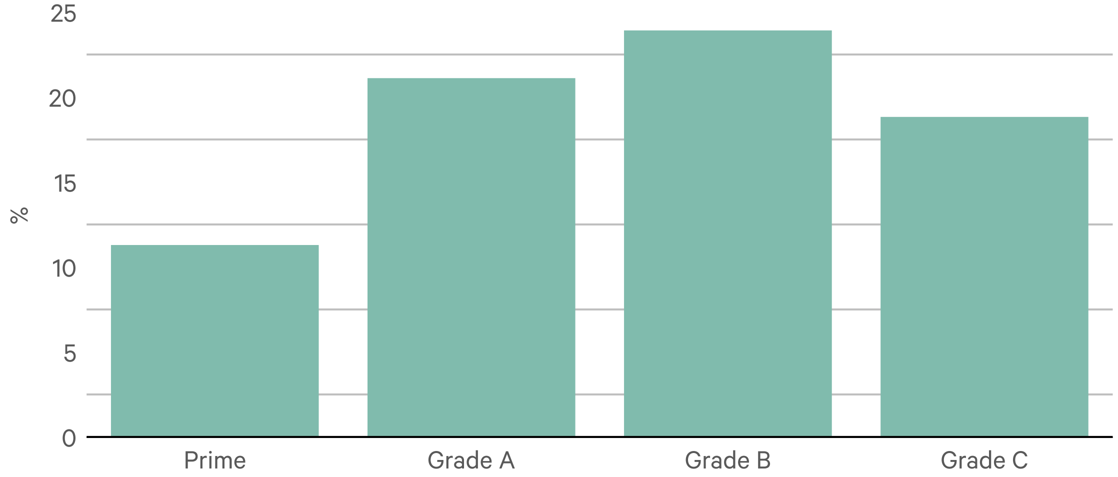
With limited new office deliveries recorded year to date, and or expected over the remainder of the year, Dubai's office sector will remain a heavily landlord-friendly market adding further upward pressure to occupancy rates and rentals in the coming quarters.

As of the end of the third quarter, the average occupancy rate of institutional-grade assets tracked by CBRE currently sits around 93%, up from 92% a year earlier, and this scenario would be expected to continue tightening into 2025 as supply fails to keep pace with the demand emanating from both new market entrants and expansion of existing tenants.

In line with sustained demand, office rentals rates have continued to move on an upward trajectory, with average Prime, Grade A, Grade B, and Grade C rates seeing growth of 11%, 21% and 24%, and 19% respectively as compared to Q3 2023.

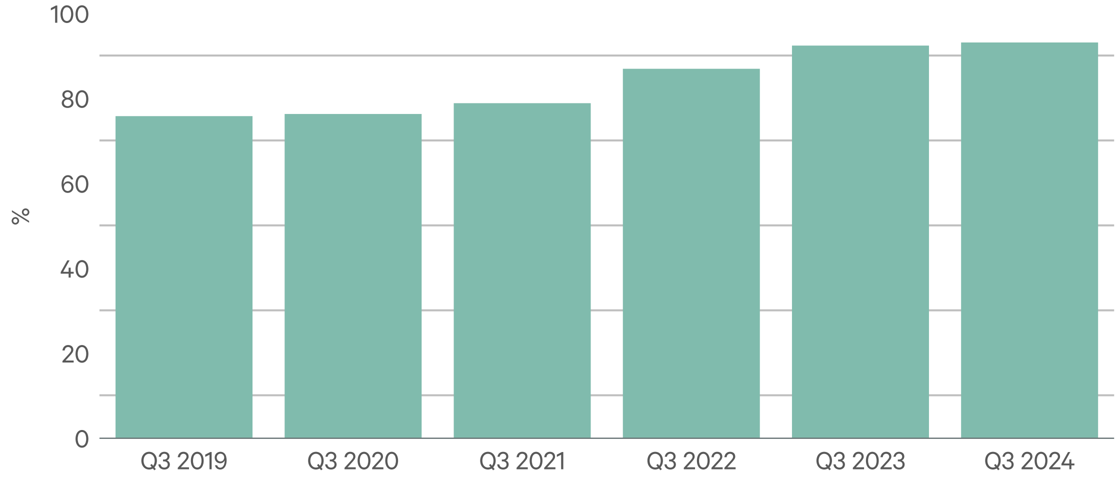
With limited spaces remaining available for lease in popular locations such as DIFC and Downtown, landlords are increasingly pushing the boundaries on rental negotiations, quoting significantly higher than market rents in the hope of finding willing tenants due to the relative scarcity of quality office accommodation.

FIGURE 6: Dubai, Office Rents, YoY % Change to Q3 2024




Source: CBRE Research

FIGURE 7: Dubai, Offices, Average Occupancy Rate, %




Source: CBRE Research

# ABU DHABI OFFICES

Leasing activity across Abu Dhabi's office market remained resilient into the third quarter, with total rental registrations increasing against the same nine-month period a year earlier. According to the registered Tawtheeq data, this has been largely underpinned by higher new rental contracts, with renewed registrations surprisingly declining during the same period. However, looking further at the data, this is likely to be due to a sharp increase in lease expiries, which would also perhaps corelate with and explain the rise in new leases.

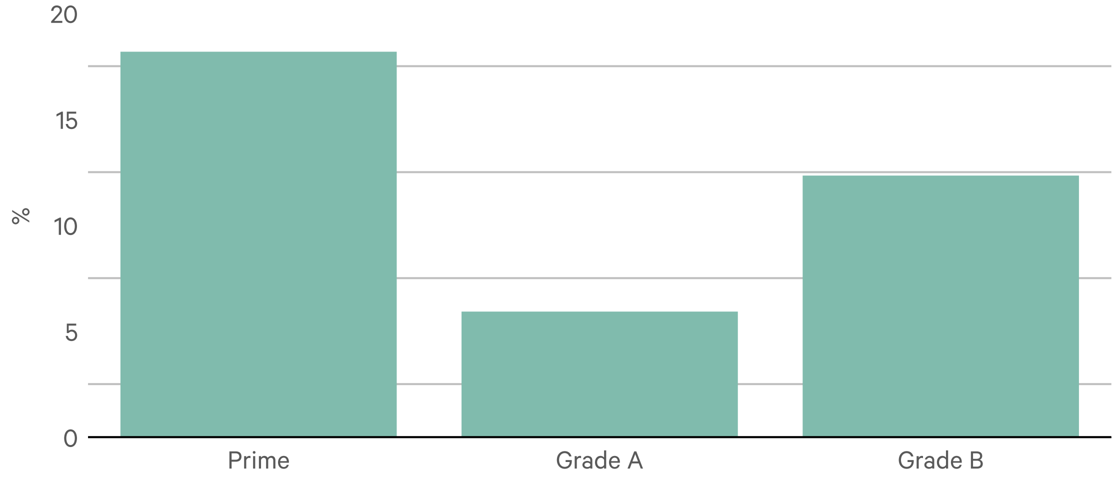
Abu Dhabi's development pipeline is now starting to increase but lack of available Grade A accommodation is likely to remain a challenge over the next few years, with large scale pipeline projects such as the recently announced Aldar Mubadala JV on Maryah Island and Aldar's Yas Business Park not expected to be delivered before 2027. Together these projects comprise +140,000 sqm of new Grade A office accommodation. Over the next 12 months, other anticipated completions include The Link, Masdar Square, and Quartz Tower, but these are smaller sized properties.

On the back of sustained take up, the average occupancy rate of assets monitored by CBRE has increased to more than 94% during Q3 2024, up from close to 91% a year earlier. Similarly, office rentals have also continued to rise robustly, with average Prime, Grade A, and Grade B assets registering year-on-year increases of 18%, 6%, and 12%, respectively.

Following a period of expansion across Finance and Investment firms over the past two years, which helped drive occupancy rates at ADGM Square to ~100%, there is now noticeable activity across the Professional Services sectors, most notably from international Law firms which are strengthening their Abu Dhabi presence again, having consolidated headcount during the period 2015 to 2017 during a weakening oil market. Accordingly, a wave of entrants is being recorded, reflecting the significant turnaround in international attitudes towards the commercial sector post-Covid, amidst active IPO and other investment markets.

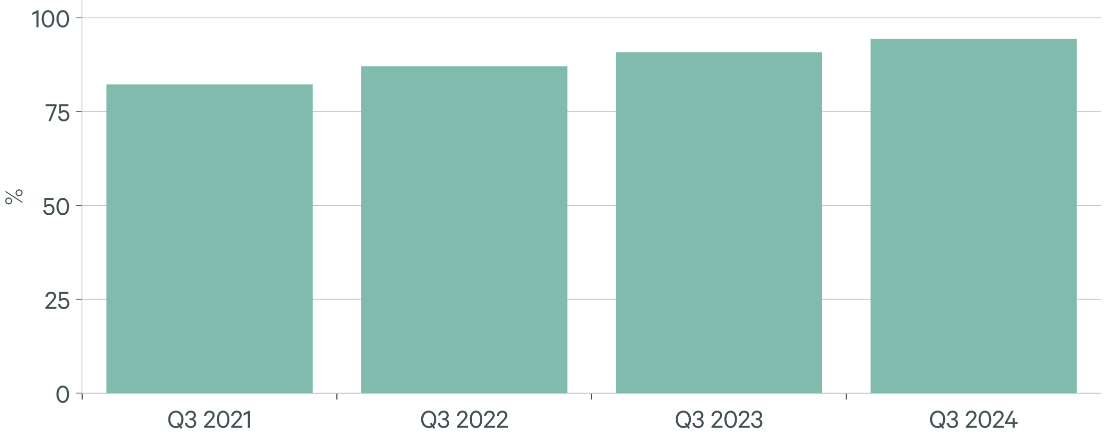
Some larger occupiers are even now exploring own versus lease models, considering their long-term commitment to Abu Dhabi and the potential impact of ownership models on their ICV scoring. In most cases, these occupiers are exploring options to secure commercial land on a leasehold basis, with a view to constructing their own office accommodation.

FIGURE 4: Abu Dhabi, Office Rents, YoY % Change to Q3 2024




Source: CBRE Research

FIGURE 5: Abu Dhabi, Offices, Average Occupancy Rate, %




Source: CBRE Research

## DUBAI RESIDENTIAL

Dubai's residential market has again delivered a very solid performance during Q3 2024, with average prices registering close to a 20% as compared to the year prior. This increase has been underpinned by a 19% rise in average apartment prices and a 23% increase in average villa prices, with average apartment and villa values reaching AED 1,610 per square foot and AED 1,980 per square foot, respectively.

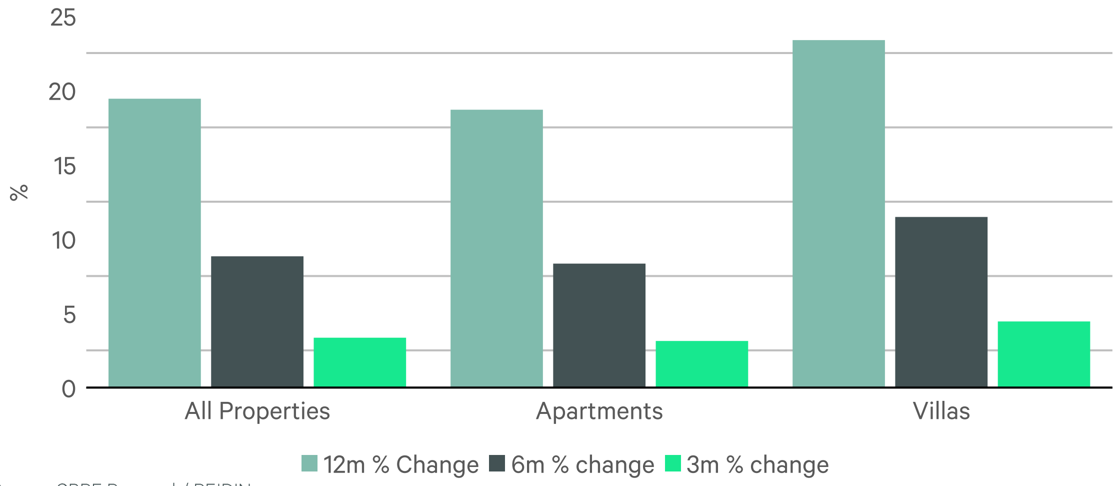
Jumeirah Bay Island registered the highest sales rates per square foot across both the apartment and villa segments of the market, with average apartment rates reaching AED 11,841, due primarily to the luxury and branded nature of units across the community.

Rental growth has also continued almost unwavering, averaging 18% in the year to September 2024, with 19% growth in average apartment rents and 13% growth in average villa rents. This means as of September 2024, average apartment and villa rents stood at nearly AED 72k and AED 215k per annum, respectively, and are anticipated to continue rising in the coming year due to the shortage of supply across core communities.

Based on data from the Dubai Land Department, rental contract registrations have continued to increase year-on-year versus the same period in 2023, primarily supported by a 14% increase in the total number of registered renewal contracts, whilst new registrations declined marginally. This appears to align with the current market dynamics, with tenants wherever possible choosing to renew existing leases as opposed to renting new units, within which would almost certainly be at significantly higher costs on a like for like basis.

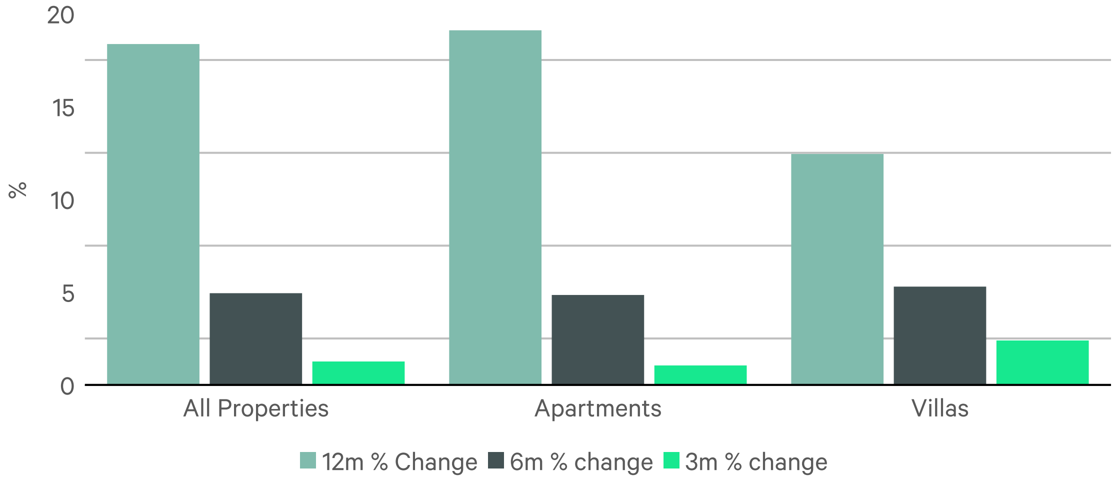
New launch activity continues to grow as reflected in the marked shift towards off-plan sales, which now represent around 70% of all residential transactions in Dubai. However, in the short term this is pipeline expansion won't be abundantly obvious to occupiers, with less than 30k new units expected during 2024, and close to 40k in 2025. However, 2026 and 2027 will likely see a much more significant increase in the number of new deliveries.

FIGURE 10: Dubai, Residential Price Performance, % Change to September 2024




Source: CBRE Research/ REIDIN

FIGURE 11: Dubai, Residential Rents Performance, % Change to September 2024




Source: CBRE Research/ REIDIN

# DUBAI RESIDENTIAL

Dubai's transaction volumes continue to rise quickly, largely on the back of sustained growth in the number of registered off-plan sales. In the nine months to September 2024, the total number of residential transactions topped 125,000, up more than 36% from close to 93,000 during the same period in 2023. As with the previous quarter, the weight of growth has been from rising off-plan transactions, which are up over 50% on the same period last year, with no obvious slowdown in activity levels for new sales launches.

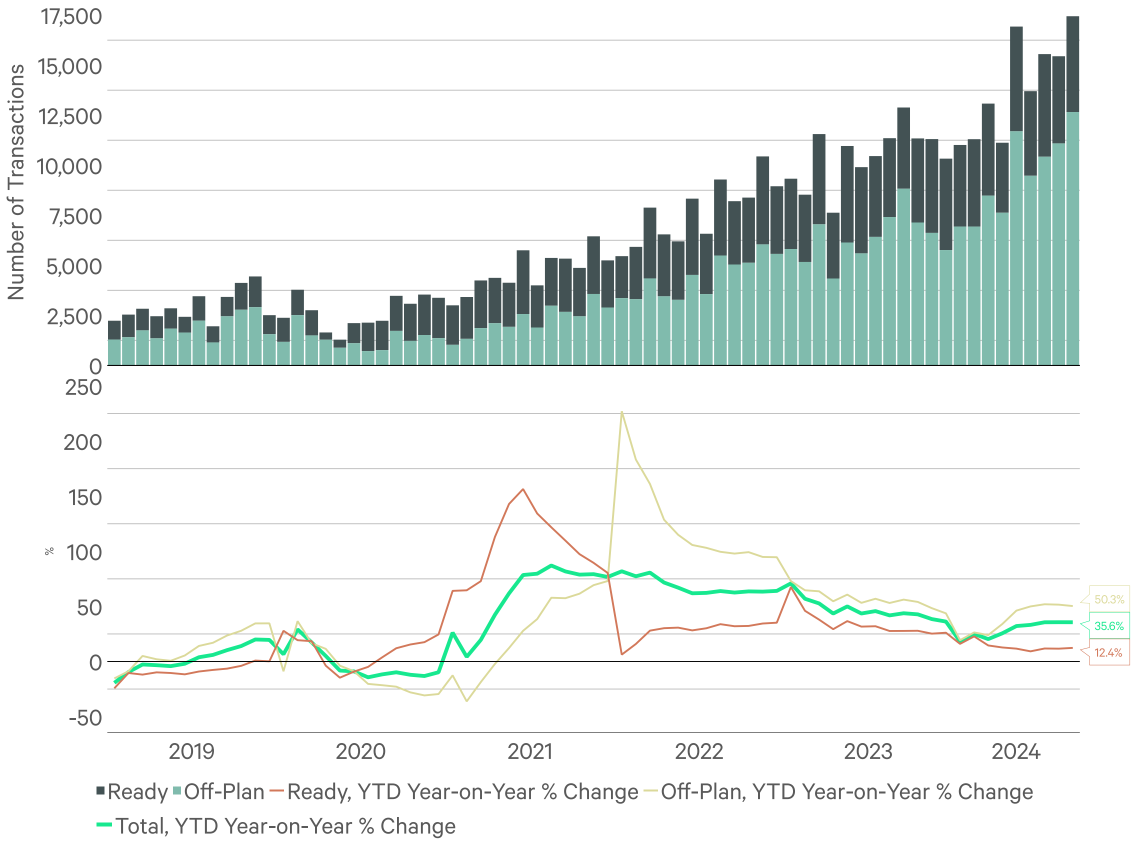
Whilst this is obviously reflective of rising and sustained demand for new properties, the growing disparity between ready and off-plan volume is a slight cause for concern from a fundamental perspective, given there has been a slight drop off in demand for ready units, which would suggest greater speculation in the market.

However, there are other important factors to consider, in terms of investor preference for new projects, the significant impact of payment plans on an investor's ability to acquire an asset, and the diminishing availability of ready and available properties for sale, which is reflected in the lower number of listings year-on-year, particularly in the luxury segment of the market.

Residential sales values have also continued to climb, totalling more than AED 86 billion for off-plan transactions and AED 33 billion for ready, respectively. In total, Q3 saw nearly AED 120 billion in residential sales, which was up more than 30% on the same three-month period last year.

Given the current lack of available supply, performance in Dubai's residential sector is set to remain positive in the coming quarters for both sales and rentals, although it is likely that there is some normalisation of growth rates away from recent highs as new supply is delivered, with a slowdown and greater stability being regarded as healthy for the longer-term success of the market.

FIGURE 12: Dubai, Residential Transactions




Source: CBRE Research/ REIDIN

*Notes: Prime and super-prime areas are defined as follows: Downtown Dubai, Emirates Hills, Jumeirah Bay Island, Palm Jumeirah and District One. Prime properties refer to properties sold in these areas for more than AED 5m, and super-prime properties are those sold for more than AED 10m.

# ABU DHABI RESIDENTIAL

In the third quarter of 2024, almost 2,000 residential sales transactions were recorded in Abu Dhabi, representing a -40% drop as compared to the same period last year. The slowdown in activity was primarily driven by a large decline in off-plan activity, whilst ready sales rose impressively by around 45%.

In the first nine months of the year, the total volume of transactions stood close to 7,000 sales, down by around 16% from the year prior. This was despite ready market sales increasing 43%, as off-plan sales registered a drop of 35%. However, there does tend to be a lag in the registration of sales transactions in Abu Dhabi, including in some cases entire communities which are yet to be added, such as Modon's Hudayriyat Island.

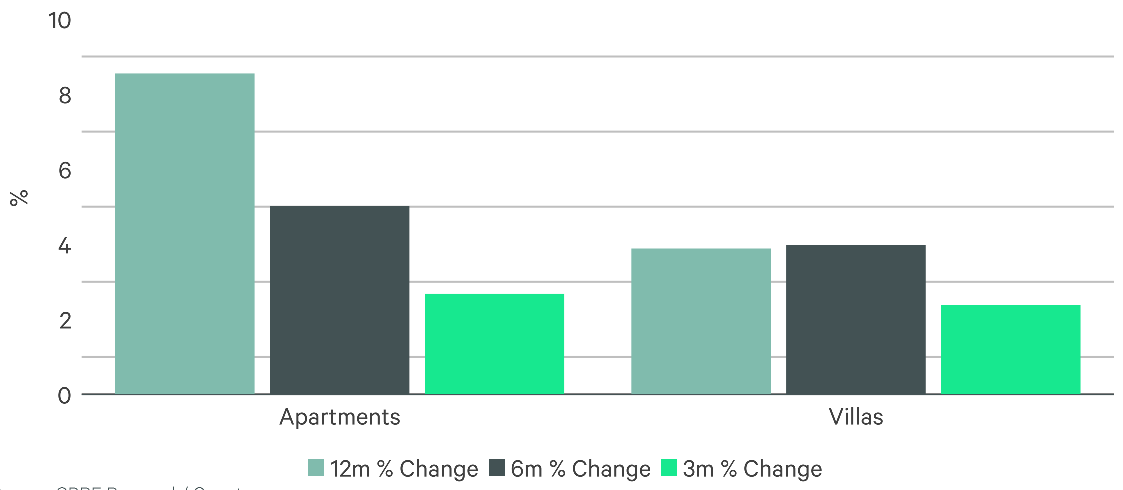
During Q3 2024, Abu Dhabi's average apartment prices registered a year-on-year increase of nearly 9%, and average villa prices grew by just over 8% during the same period. Based on sales transactions that occurred during the quarter, average apartment values have now reached AED 12k per square meter, whilst average villa values were recorded at AED 10.5k per square meter.

In the rental segment, total registrations fell slightly on the previous year, albeit the number of new contracts increased by 2% as tenants continued to favour newly completed projects against the aging legacy stock, which probably explains the drop in renewal registrations. There was a similar story for year to date to September 2024, with new lease registrations seeing stronger growth than for renewals.

Abu Dhabi's average apartment rents increased by 9% in Q3 2024 as compared to a year earlier, whilst average villa rents grew by 4%. Based on rental registrations, as of Q3 2024, the average annual apartment and villa rent in Abu Dhabi equated to AED 71k and AED 163k respectively.

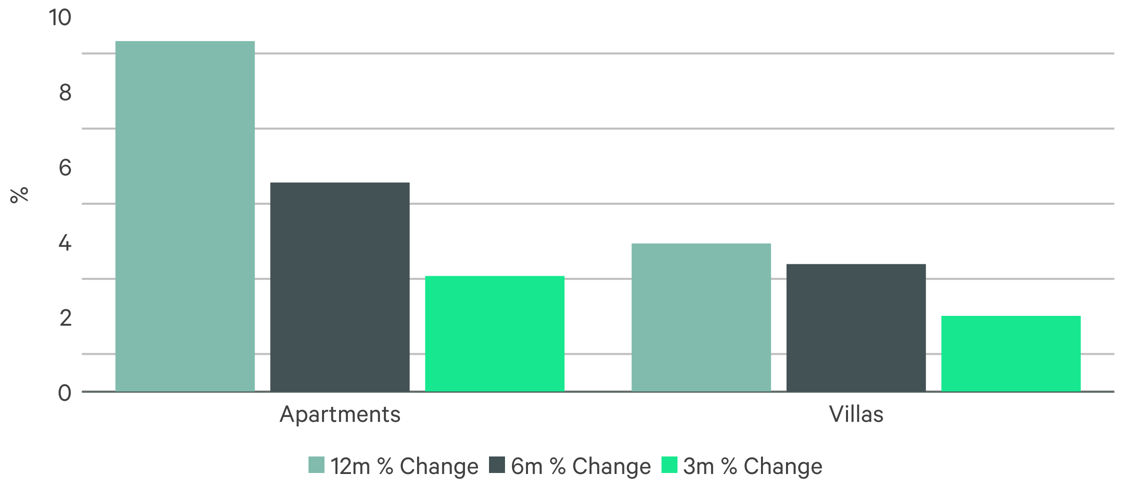
With a large number of new off-plan launches recorded during the nine months to September, particularly across locations such as Yas Island, Hudayriyat Island, Ramham Island and Saadiyat Island, the development pipeline is continuing to increase, with a spike in annual deliveries likely to occur during the period 2025 to 2027, as the increased development activity during and post covid starts to be reflected in the market.

FIGURE 8: Abu Dhabi, Residential Price Performance, % Change to Q3 2024




Source: CBRE Research/ Quanta

FIGURE 9: Abu Dhabi, Residential Rents Performance, % Change to Q3 2024




Source: CBRE Research/ Quanta

# UAE HOSPITALITY

Dubai has continued to set new monthly visitor number records during 2024 and is on track to deliver the highest ever annual total, assuming momentum continues into the final quarter. Already during the first seven months of the year, more than 10.6 million overnight visitors have been recorded, which is up by around 8% on the same period in 2023, with Dubai Economy and Tourism having set a very ambitious target to reach 23-25 million visitors by 2025.

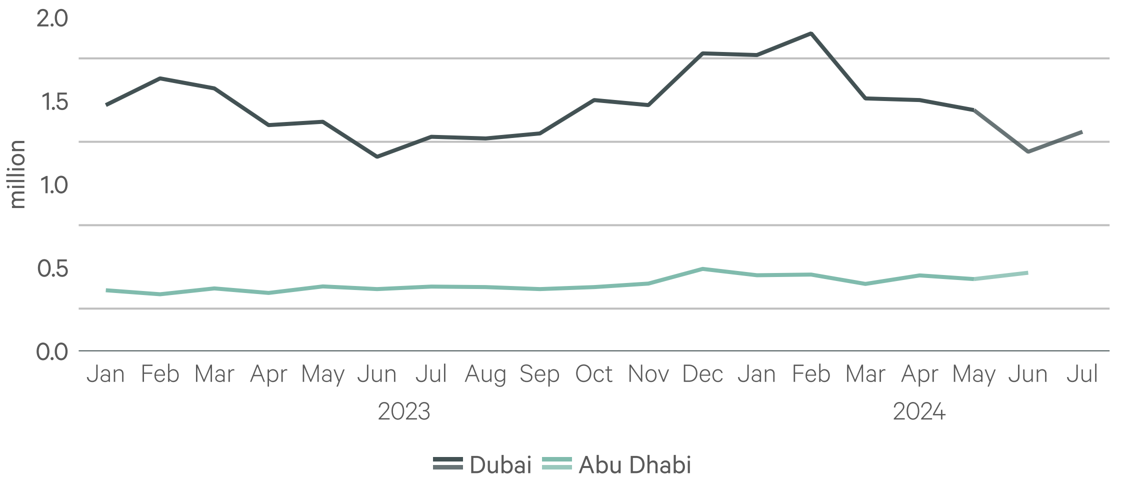
Dubai Airport (DXB) is also on track to hit new highs, raising an earlier passenger forecast of 91.8 million to 93.0 million in August, on the back of stronger than expected demand, with passenger traffic up 8% during H1 2024.

In Abu Dhabi, the number of hotel guests surged to nearly 2.9 million in the six months to June 2024, registering a 20% year-on-year growth. Over this period, the number of international visitors in Dubai increased by 9.9%, reaching a total of 8.12 million.

Amidst strong visitation levels, the UAE hospitality market has similarly maintained its positive year-on-year performance, with average occupancy rates rising across most Emirates against the same period in 2023, and with the UAE also delivering the highest average occupancy within the GCC region.

Average room rates (ADRs) have also remained broadly positive through YTD August, with Abu Dhabi seeing an 12% increase in ADRs year-on-year, with RAK at 10% and Dubai 3%. RevPAR growth in Abu Dhabi was even stronger at nearly 24% increase from 2023, reflecting the low base which the market has being growing from.

FIGURE 13: Abu Dhabi and Dubai Visitation Levels




Source: CBRE Research/ Department of Culture and Tourism Abu Dhabi/ Dubai Department of Economy and Tourism

FIGURE 14: UAE, Hospitality Market, KPIs, YoY % Change

| | Month on Month Year to Date - Sep 2024 vs Sep 2023 | | | Year to Date - Sep 2024 vs Sep 2023 | | |
|---|---|---|---|---|---|---|
| Emirate | Occ PP Change | ADR % Change | RevPAR % Change | Occ PP Change | ADR % Change | RevPAR % Change |
| UAE | 2.1 | 4.1 | 6.2 | 6.6 | 0.4 | 2.5 |
| Abu Dhabi | 10.1 | 12.2 | 23.6 | 22.8 | -0.6 | 9.4 |
| Dubai | 0.3 | 2.5 | 2.7 | 3.5 | 0.7 | 1.0 |
| Ras Al-Khaimah | -4.3 | 10.1 | 5.3 | 4.9 | -0.4 | -4.7 |
| Sharjah | 8.5 | -1.0 | 7.5 | 6.7 | -0.7 | 7.8 |
| Fujairah | 8.8 | 2.6 | 11.5 | 12.5 | 0.9 | 9.7 |
| Ajman | -0.1 | 1.3 | 1.2 | 1.2 | 0.1 | -0.0 |

Source: CBRE Research/ STR Global

# UAE RETAIL

The UAE's retail market continues to perform strongly leading into the end of the year and with limited available supply and high occupancy rates, unsurprisingly rental rates continue to rise. This is creating a challenging environment for both existing and new market entrants looking to expand across the country.

Available retail supply remains particularly tight across Dubai, with most prime assets already running at close to full capacity, some even with extensive waiting lists of interested tenants.

Whilst the dynamics are not quite as strong in Abu Dhabi, major destination malls such as Yas Mall and Maryah Mall also continue to see increasing tenant demand and limited vacancy.

Fundamentals for retail rents also remained positive, with average rates in Abu Dhabi increasing by over 8% year on year, with average Dubai rents rising by close to 3% during the same period, averaging around AED 500 per square foot, albeit quoting rates across the top centres such as Dubai Mall and Mall of Emirates for the limited remaining units are found to be significantly higher, in what is very much a Landlord's market.

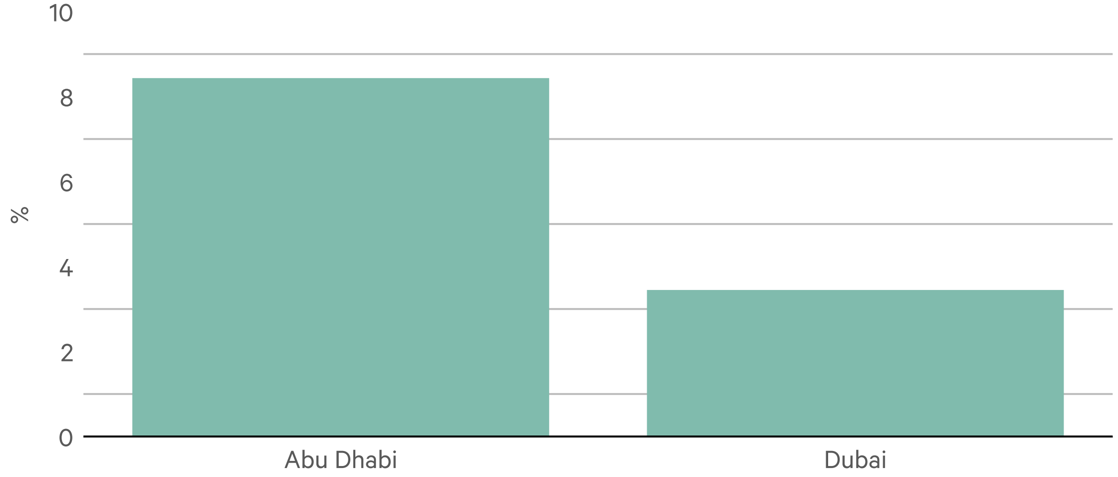
The short to medium term retail supply remains well below historical annual delivery norms, with delays to and redesign of several largescale mega malls and other super regional sized centres, such as Meydan One Mall, Dubai Square and Triangle Mall, resulting in a more depleted pipeline of new supply in recent years.

However, these projects are now back in the longer-term pipeline, and are expected to enter the market before 2028, although in the short-term new completions will remain limited, compounding the current supply and demand dynamics.

Accordingly, rental rates are likely to see further growth over the next year, albeit on much more limited completed transactions, with registered Ejari leases barely seeing growth on either a quarterly or annual basis, due to the restricted availability.

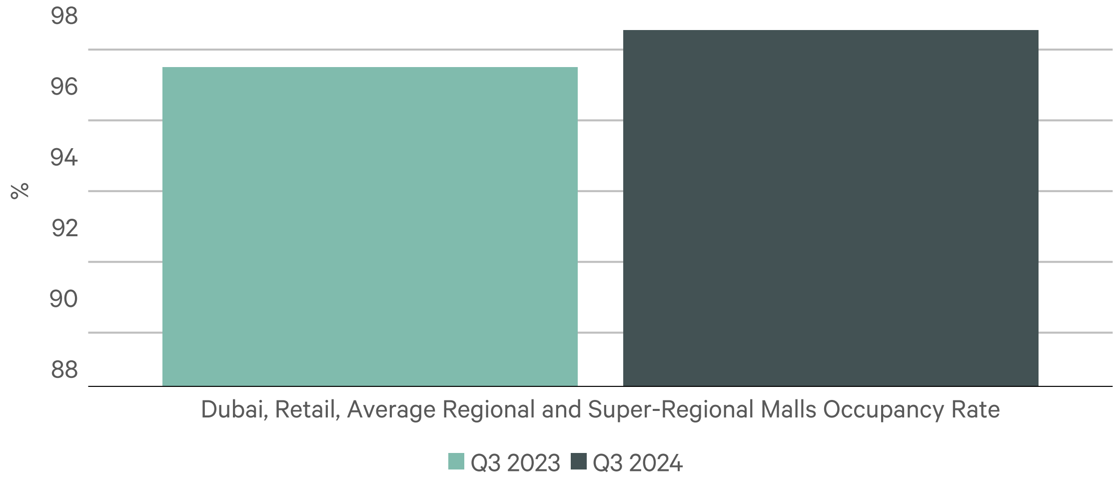
This dynamic was even more pronounced for new Ejari leases, with a -7% decline year-on-year versus the same 9-month period in 2023, reflecting the tightness of the market.  For Abu Dhabi, it was a similar pattern for registered Tawtheeq contracts.

FIGURE 15: UAE, Retail Rents, YoY % Change to Q3 2024




Source: CBRE Research

FIGURE 16: Dubai, Retail, Average Regional and Super-Regional Malls Occupancy Rate, %




Source: CBRE Research

# UAE INDUSTRIAL

The UAE industrial & logistics sector continues to see supportive macro environment and positive fundamentals for new demand, which is resulting in more aggressive actions from Landlords, with rising rentals being quoted across available projects in locations most notably in prime areas of Abu Dhabi and North Dubai.

Whilst some tenants are willing to accept these new terms, due primarily to the chronic lack of good quality available facilities, there is a growing disconnect between the rental values from landlords for larger built-to-suit facilities and the current quoting rents for smaller industrial units, which will be adding notable pressure to the operational businesses.

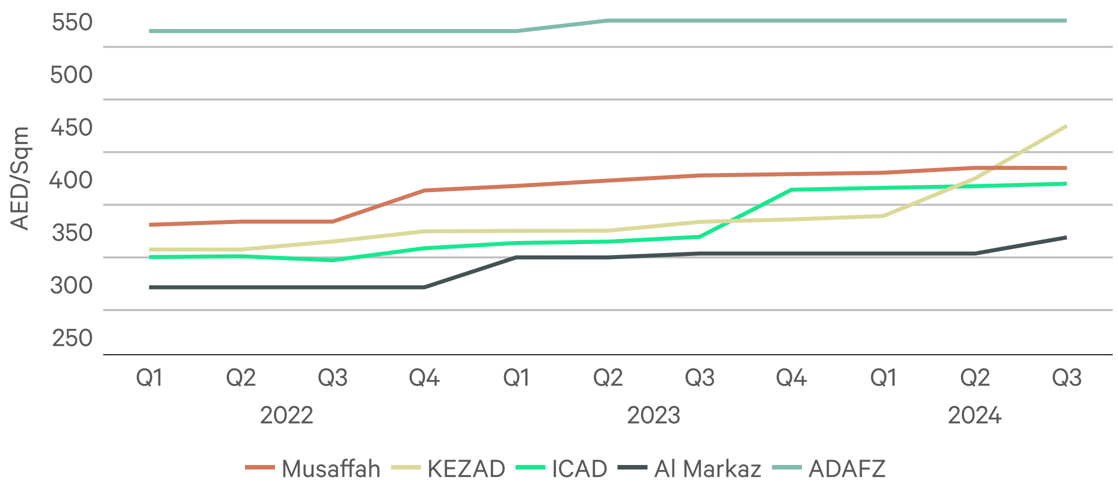
The persistent lack of quality available assets ready for lease is however constraining market activity and creating a challenging environment for corporate occupiers, particularly on new lease negotiations. During the quarter, industrial Ejari registrations in Dubai were measured up by around 5% year-on-year, with new leases rising by 4% and renewals close to 6% for the same period.

The total number of industrial Tawtheeq rental registrations in Abu Dhabi were relatively stable, although there was a 6% increase in the number of new registrations year-on-year. However, with the government firmly behind the industrial sector as a key pillar of the Emirate's diversification strategy, and in line with the Abu Dhabi 2030 which is aiming to increase the manufacturing sector to AED172 billion by 2031, we expect to see further sustained growth in the sector in the coming years.

In the 12 months to Q3 2024, Dubai's industrial warehousing rents have increased by more than 5%, and now sit at an average of AED 46 per square foot. For Abu Dhabi, rental growth has also been evident, with 3% growth during the quarter and 9% in the 12 months to September, with average rentals now at around AED 430 per square metre.

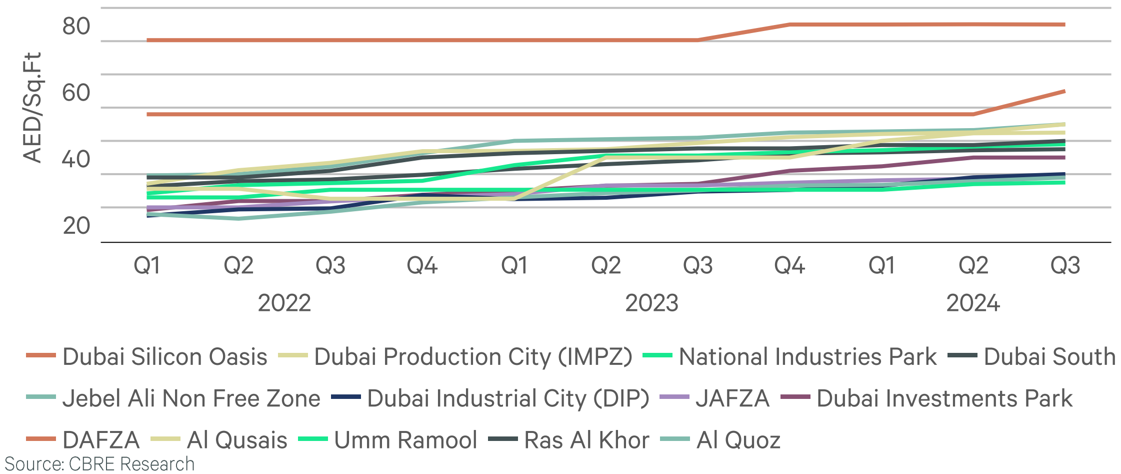
The strength of the non-oil economy has been fundamental to the growth of both markets over the past two years, and we expect the positive performance to continue into 2025, with occupier demand outpacing available accommodation. Accordingly, rental rates are set to remain on the current upward trajectory.

FIGURE 17: Abu Dhabi, Industrial Rents, AED/SQM




Source: CBRE Research

FIGURE 18: Dubai, Industrial Rents, AED/SQ.FT.




Source: CBRE Research

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