

UAE Real Estate Market Review Q4 2023

The strong activity and performance levels in the UAE's real estate market expected to continue into 2024.

CBRE RESEARCH
FEBRUARY 2024



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▲ 4.7%

YoY forecast increase in GDP in 2024

▲ 57.4

UAE PMI reading in December 2023, up from 57.0 a month earlier

▲ 9.0%

YoY YTD to December 2023 increase in UAE's RevPAR

▲ 4.5pp

YoY YTD to December 2023 increase in hotel occupancy rates

▲ 18.9%

Increase in average residential rents in Dubai

▲ 8.0%

Increase in prime office rental rates in Dubai

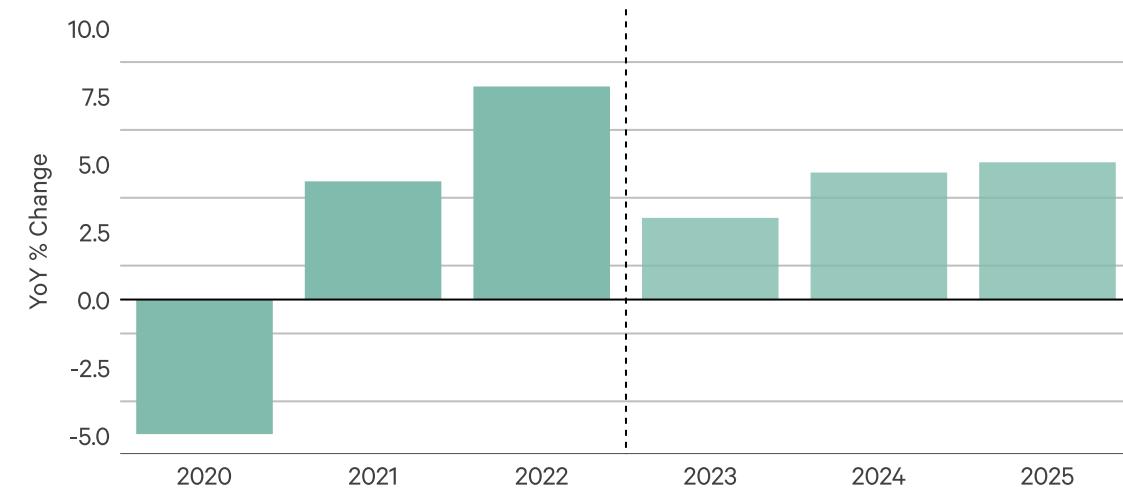
MACROECONOMIC OVERVIEW

- The UAE's GDP is projected to grow by 4.7% in 2024
- Its hydrocarbon GDP is forecast to record a growth rate of 5.7% in 2024
- Over this period, the UAE's non-hydrocarbon sector is expected to grow by 4.3%
- Inflation is forecast to stand at 2.8% 2024

The UAE's GDP is estimated to have grown by 3.0% in 2023, based on data from Oxford Economics, up from the 2.8% forecast published a quarter earlier. This rate of growth is expected to improve further in 2024, to reach 4.7%. This acceleration in growth is expected to be driven by an improvement in the performance of the UAE's hydrocarbon sector, which is forecast to record a growth rate of 5.7%, on the back of the expectations of higher oil production output in 2024. Over this period, the country's non-hydrocarbon sector is expected to grow by 4.3%.

The UAE's Purchasing Managers' Index, which tracks the growth of the non-oil private sector, ended the year on a solid note, reaching a reading of 57.4 December 2023, up from the 57.0 figure registered a month earlier. This is the second strongest level registered since mid-2019, highlighting the strong growth in the UAE's private sector and its strong forthcoming prospects.

FIGURE 1: UAE, Gross Domestic Product



Source: CBRE Research/ Oxford Economics/ Macrobond

MACROECONOMIC OVERVIEW

Data from S&P Global revealed that the uptick in the index has been primarily underpinned by robust increases in both its output and new orders sub-indices. Notwithstanding the softening in foreign demand, the prevailing domestic market circumstances have underpinned the marked upturn in new order levels and, as a result, led to the strongest sales level in the last four and a half years. The increase in the output sub-component has been primarily driven by the **businesses' capacity to finish scheduled tasks.**

In December 2023, Dubai's PMI recorded a reading of 57.7, up from the 56.8 level registered the month prior. This is the strongest figure registered since August 2022 and the second highest level recorded over the past four and a half years. These increases have been driven by a substantial uptick in the new orders sub-index, which registered its second-strongest growth rate since mid-2019.

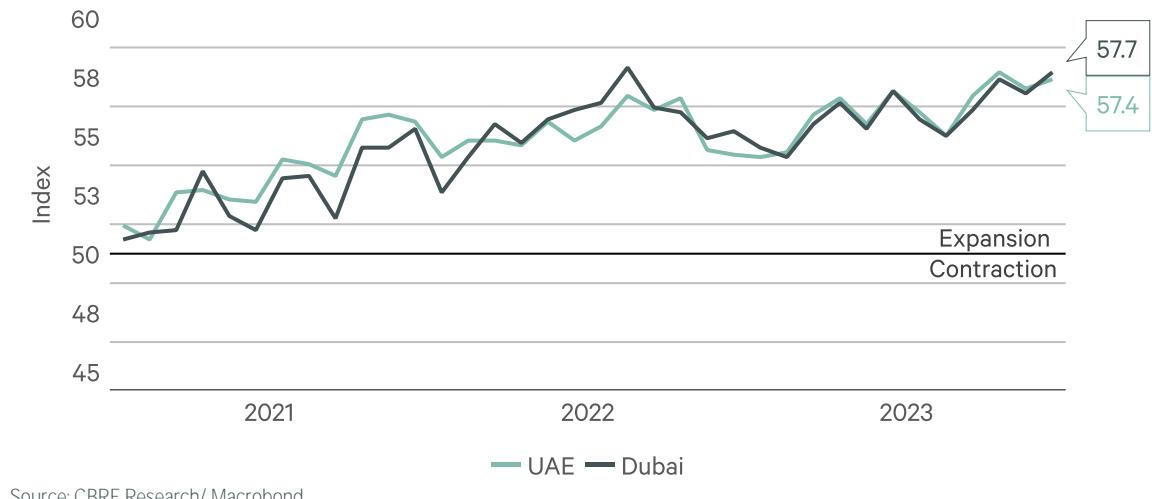
Despite global economic uncertainty, which continues to be material, the UAE's economy has continued to showcase its resilience. Looking ahead, particularly with an expected easing in the **global monetary policy backdrop**, we expect that the UAE's economic outlook remains **steadfast**. The UAE's strong fiscal position, growing levels of inbound investments, strong population growth rate, and safe haven status will continue to underpin strong levels of activity and demand in its real estate sector in the coming year.

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Despite global economic uncertainty, which continues to be material, the **UAE's economy has continued to showcase its resilience**. The UAE's GDP is estimated to have grown by 3.0% in 2023, up from the 2.8% forecast published a quarter earlier. This rate of growth is expected to improve further in 2024, to reach 4.7%.

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FIGURE 2: UAE, Purchasing Managers' Indices



Source: CBRE Research/ Macrobond

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

	2020	2021	2022	2023	2024	2025
GDP	-5.0%	4.4%	7.9%	3.0%	4.7%	5.1%
Hydrocarbon GDP	-3.8%	-1.1%	9.5%	-3.8%	5.7%	8.0%
Non-Hydrocarbon GDP	-5.4%	6.5%	7.2%	5.6%	4.3%	4.0%
Inflation	-2.1%	-0.1%	4.8%	3.3%	2.8%	2.2%

Source: CBRE Research/ Oxford Economics.

ABU DHABI OFFICES

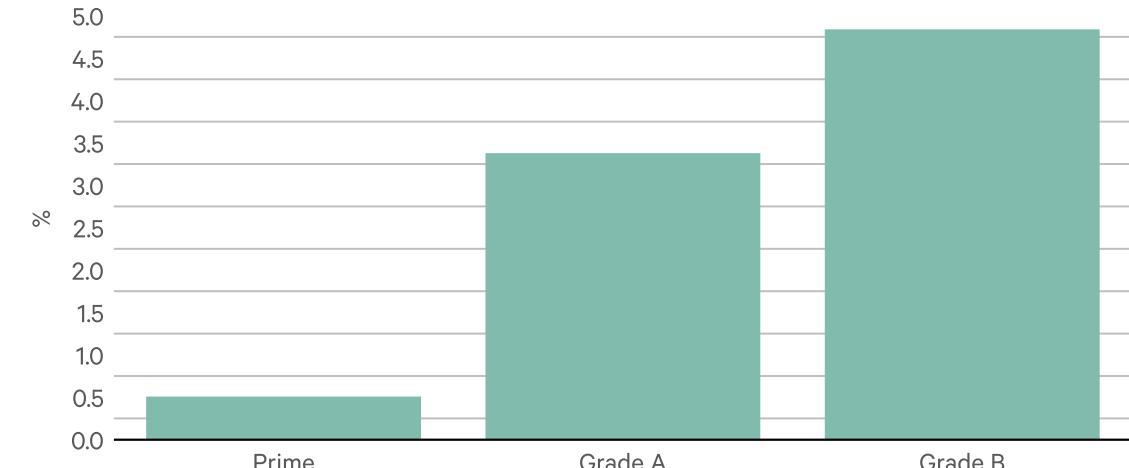
Robust demand levels continue to be seen in Abu Dhabi's occupier market, where in the last quarter of 2023, the total number of rental contracts recorded reached 8,928, an increase of 11.1% from a year earlier. This growth has been underpinned by a 26.8% increase in new registrations, whilst renewed contracts registrations declined by 8.6%. In 2023, a total of 34,641 rental contracts were registered in the capital's office market of the market, up by 9.4% compared to the previous year, making this the highest total on record to date.

A significant portion of demand in Abu Dhabi's occupier market continues to stem from government and semi-government-related entities. Such entities generally have the highest floor space requirements, and many are currently expanding their headcounts in a meaningful manner. However, given the limited availability of quality stock, some of these entities are currently planning to undertake build-to-suit arrangements as a solution to their long-term occupational requirements. Such requirements, particularly those seeking sole occupation, are exclusively focused within core CBD locations. Alongside this, we are continuing to see increasing levels of demand originating from the private sector across several industries. The legal and financial services sectors have been the two notable sectors where we have seen strong levels of occupier activity from both new market entrants and expansion activity from incumbents. Given the dearth of quality stock within the market, incentives provided by landlords have been primarily limited to up to three-month rent-free. That being said, as landlords continue to focus on diversifying their tenant mix, for their desired tenant profile, landlords are willing to offer competitive rental rates and lease terms.

Given the historic levels of demand, the average occupancy rate in institutional-grade buildings that CBRE monitors has increased from 89.3% in Q4 2022 to 91.5% in Q4 2023. On the back of this, we have also seen an improvement in rental rates in the last quarter of the year, where average Prime, Grade A, and Grade B rents grew by 0.5%, 3.4%, and 4.8%, respectively, in the year to Q4 2023.

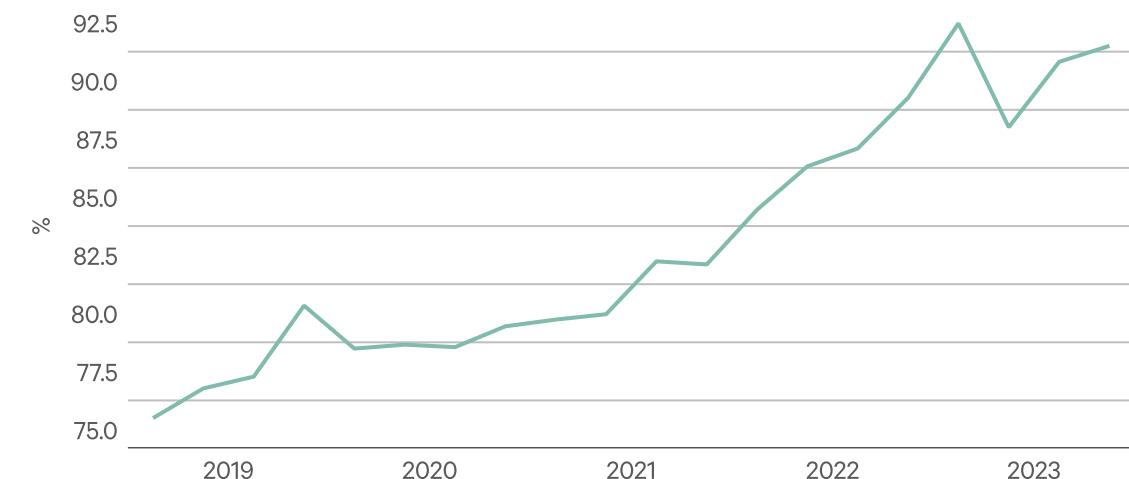
In the year ahead, we will expect to see relatively strong performance in the capital's occupier market. Given the elevated demand for high-quality spaces, we expect that Prime and Grade A assets will outperform the wider market. In terms of occupancy levels, we do not expect any material deviation from the current rate.

FIGURE 4: Abu Dhabi, Office Rents, YoY % Change to Q4 2023



Source: CBRE Research

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



Source: CBRE Research

DUBAI OFFICES

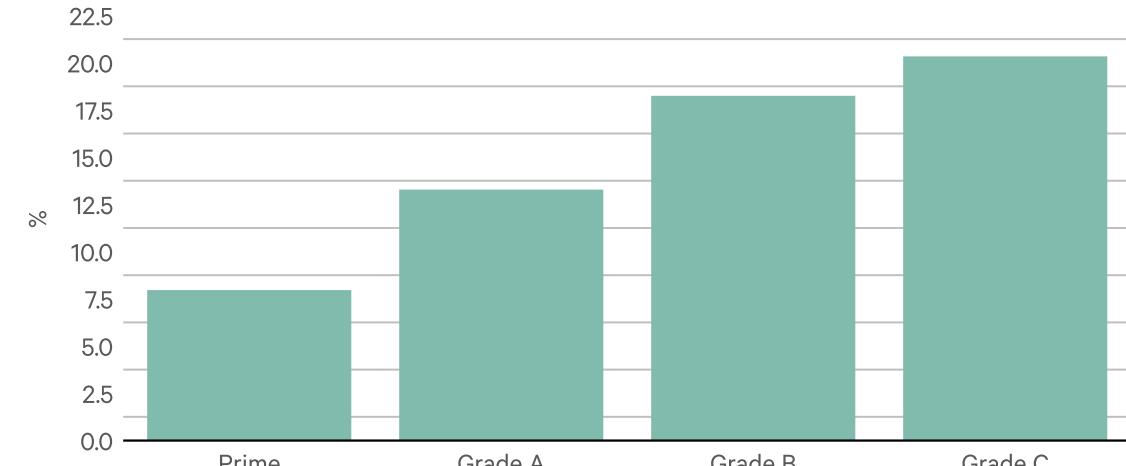
Activity levels in Dubai's occupier market remained resolute throughout the last quarter of 2023, where, based on data from the Dubai Land Department, the total number of rental contracts registered reached 47,234, up by 34.7% compared to the year prior. Over this period, a total of 36,905 new rental contracts were registered, marking a year-on-year increase of 40.9%. Furthermore, the total number of renewed rental contracts registered reached 10,329, increasing by 16.4% compared to the year prior.

Whilst market activity has remained relatively strong compared to historical levels, we have seen a slowdown in enquiries over the last quarter of the year. Demand has originated from a range of sectors for both Free Zone and Non-Free Zone locations. The pharmaceutical and financial services sectors, and particularly hedge funds and asset management firms for the latter, have been the two prominent sectors of demand. However, due to the limited availability of quality stock within Free Zones, particularly for large requirements, continues to hamper potential market activity. The majority of market availability is centred towards medium-sized stock, and when such occupiable space becomes available, it will most likely be directly absorbed, primarily as landlords are still operating on a first-come, first-served basis. The market continues to witness a flight to quality trend; that being said, given the dearth availability of reasonably priced, high-quality stock within this segment, we have seen occupiers renew in situ. Another notable trend witnessed over the last quarter of the year has been the relatively elevated rental rates and buoyant sales levels achieved within strata markets, most notably within the DMCC and Business Bay.

Given the current market fundamentals, the average occupancy rate in Dubai's office market rose from 88.1% in Q4 2022 to 92.6% in Q4 2023. These increased occupancy levels continue to underpin growth in rental rates, where average rents within the Prime, Grade A, Grade B, and Grade C segments of the market have increased by 8.0%, 13.3%, 18.2%, and 20.3%, respectively in the year to the last quarter of 2023. In Q4 2023, average Prime, Grade A, Grade B, and Grade C asking rents stood at AED 250, AED 182, AED 150, and AED 126, respectively.

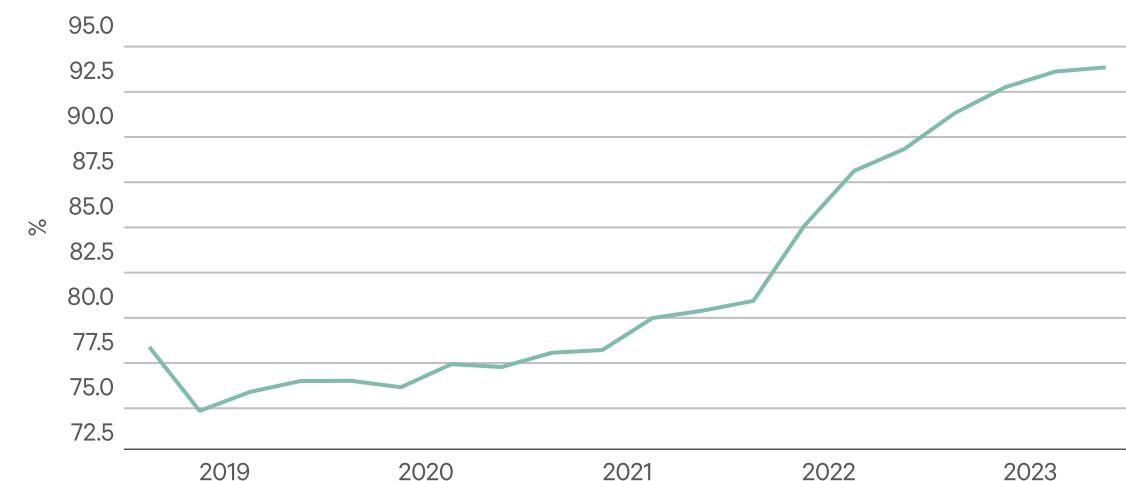
Given the scarcity of available stock and the limited amount of upcoming development, much of which is already pre-leased, we expect rental growth to remain relatively strong over the forthcoming period, and high-quality assets will continue to outperform the market.

FIGURE 6: Dubai, Office Rents, YoY % Change to Q4 2023



Source: CBRE Research/ Macrobond

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



Source: CBRE Research

ABU DHABI RESIDENTIAL

In the last quarter of 2023, the volume of residential transactions in Abu Dhabi totalled 3,107, marking a year-on-year increase of 40.3%. This growth has been supported by a 41.0% increase in off-plan transactions and a 38.1% increase in secondary market transactions. In 2023, the total volume of sales transactions reached 11,235, up by 77.8% compared to the year prior. This increase has been largely supported by a growth of 104.0% in off-plan sales and an increase of 27.7% in secondary market sales.

Average apartment prices in Abu Dhabi's residential market increased by 1.1% in the year to Q4 2023, whereas average villa prices remained almost unchanged from the comparable period a year earlier. Considering residential sales transactions undertaken in the last quarter of 2023, the average apartment sales rate reached AED 15,785 per square metre, and the average villa sales rate reached AED 12,914 per square metre.

In Abu Dhabi's rental market, in the last quarter of 2023, the total number of rental registrations stood at 42,268, down by 12.6% compared to a year earlier. This slowdown in growth has been underpinned by an 18.4% decline in renewed rental registrations and a 2.2% drop in new rental contracts registered.

In the last quarter of 2023, average apartment rents registered a year-on-year increase of 2.0%. Over this period, average villa rents marginally increased by 0.8%. Based on the rental transactions that occurred in Q4 2023, the average annual apartment rents stood at AED 64,996, and average villa rents stood at AED 163,098.

In terms of supply, in 2023, 2,961 units are estimated to have been completed in Abu Dhabi's residential market, where 59.4% of this supply has been handed over in Shams Abu Dhabi and Najmat Abu Dhabi. In the year ahead, a further 4,438 units are expected to be completed, where 69.1% of this upcoming supply is expected to be located in Yas Island and Al Maryah Island.

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Considering residential sales transactions undertaken in the last quarter of 2023, the average apartment sales rate reached AED 15,785 per square metre, and the average villa sales rate reached AED 12,914 per square metre.

FIGURE 8: Abu Dhabi, Residential Price Performance, % Change to Q4 2023

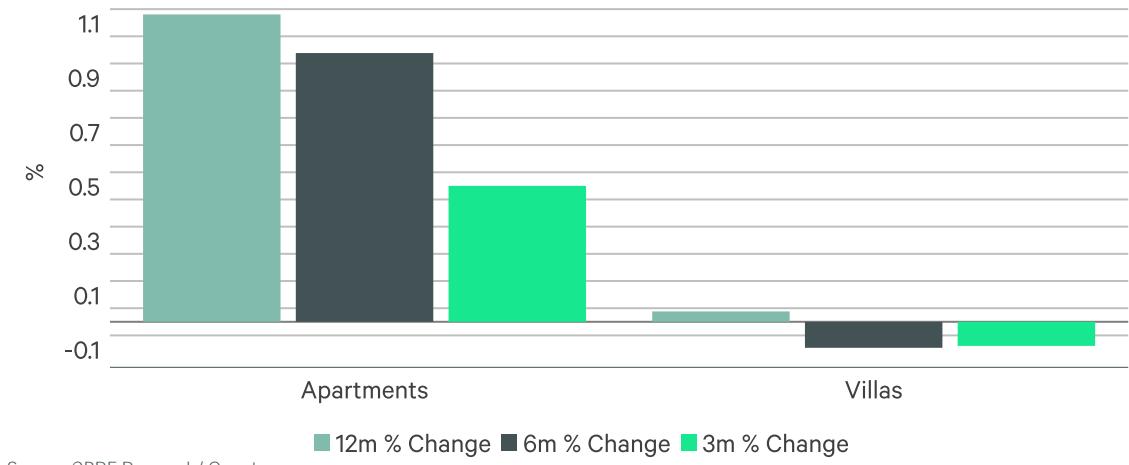
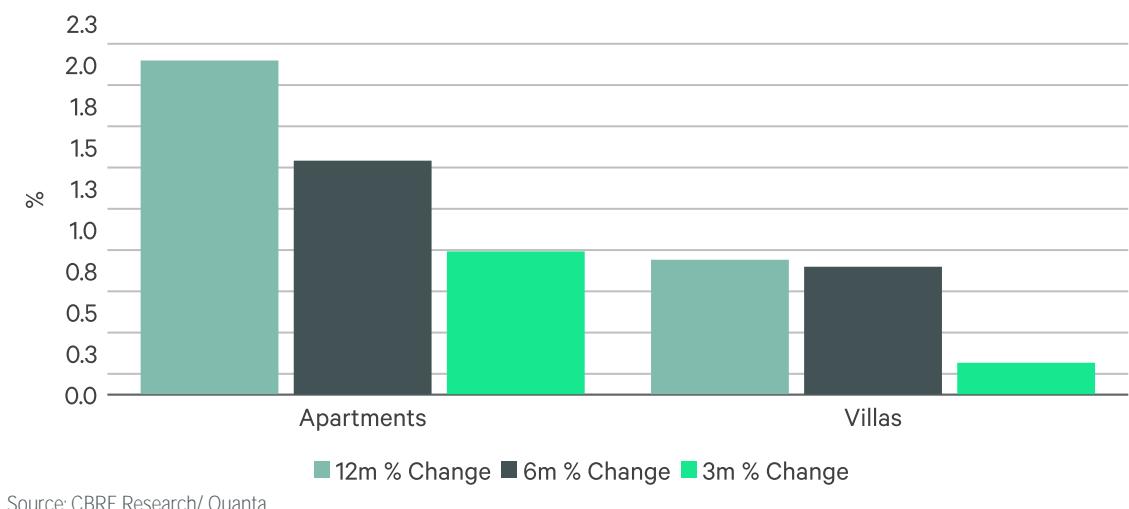


FIGURE 9: Abu Dhabi, Residential Rents Performance, % Change to Q4 2023



DUBAI RESIDENTIAL

Dubai's residential sales market continues to register strong levels of price growth, where average prices increased by 20.1% in the year to December 2023, up from the 18.9% growth registered a month earlier. Over this period, average apartment prices rose by 19.8%, and average villa prices rose by 21.8%. As at December 2023, average apartment prices reached AED 1,399 per square foot, and average villa prices reached AED 1,686 per square foot. Compared to the highs witnessed in late 2014, these average apartment sales rates are still 5.9% below this peak, although a number of key and prime submarkets have long surpassed their 2014 benchmark. That being said, average villa sales rates currently sit at 16.7% above their 2014 levels.

Over the course of 2023, a continued moderation in the rate of growth has been witnessed in the rental market despite the elevated levels of demand, where in the year to December 2023, average residential rents in Dubai grew by 18.9%, down from the 19.2% growth registered in November 2023. Over the same period, average apartment rents grew by 19.3%, and average villa rents by 16.1%.

In 2023, based on the latest data published by the Dubai Land Department, the total number of Ejari registrations reached 588,609, registering a 7.3% increase compared to the year prior. This year-on-year increase has been largely driven by a 24.6% growth in renewed contracts registered, whilst new registrations dropped by 11.8%. This decrease in new registrations has resulted from the strong rate of rental growth that we have seen over the course of 2023, where tenants are choosing to remain within their existing accommodation in a bid to manage their rental increases, given the protection that is provided by the RERA rental regulations.

On the supply front, a total of 39,190 units are expected to have been completed in 2023, where 34.4% of this new stock is estimated to have been delivered in Meydan One, Downtown Dubai and Business Bay. In 2024, an additional 68,880 units are expected to be completed, where 22.7% of this stock is scheduled to be delivered in Business Bay, District Seven, and Damac Lagoons.

FIGURE 10: Dubai, Residential Price Performance, % Change to December 2023

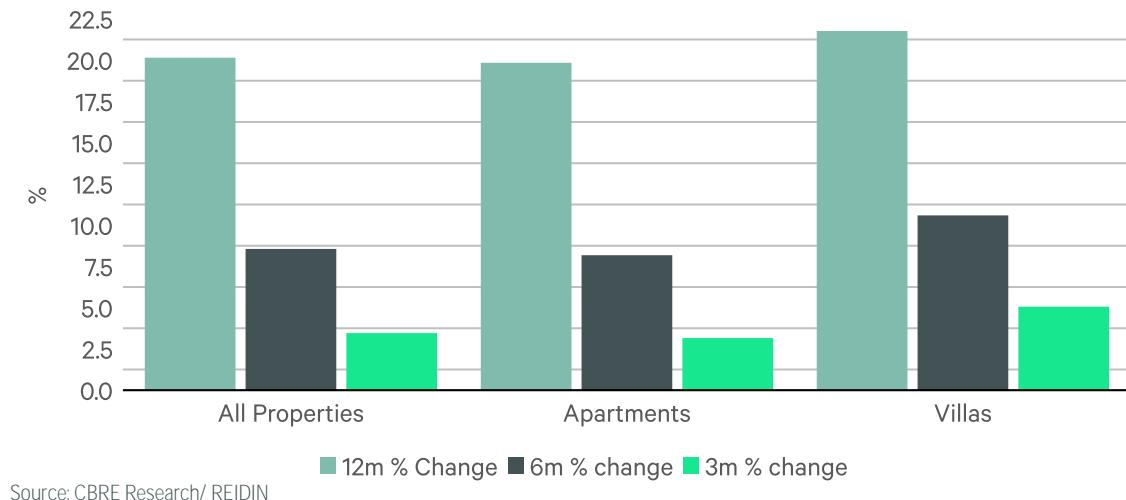


FIGURE 11: Dubai, Residential Rents Performance, % Change to December 2023



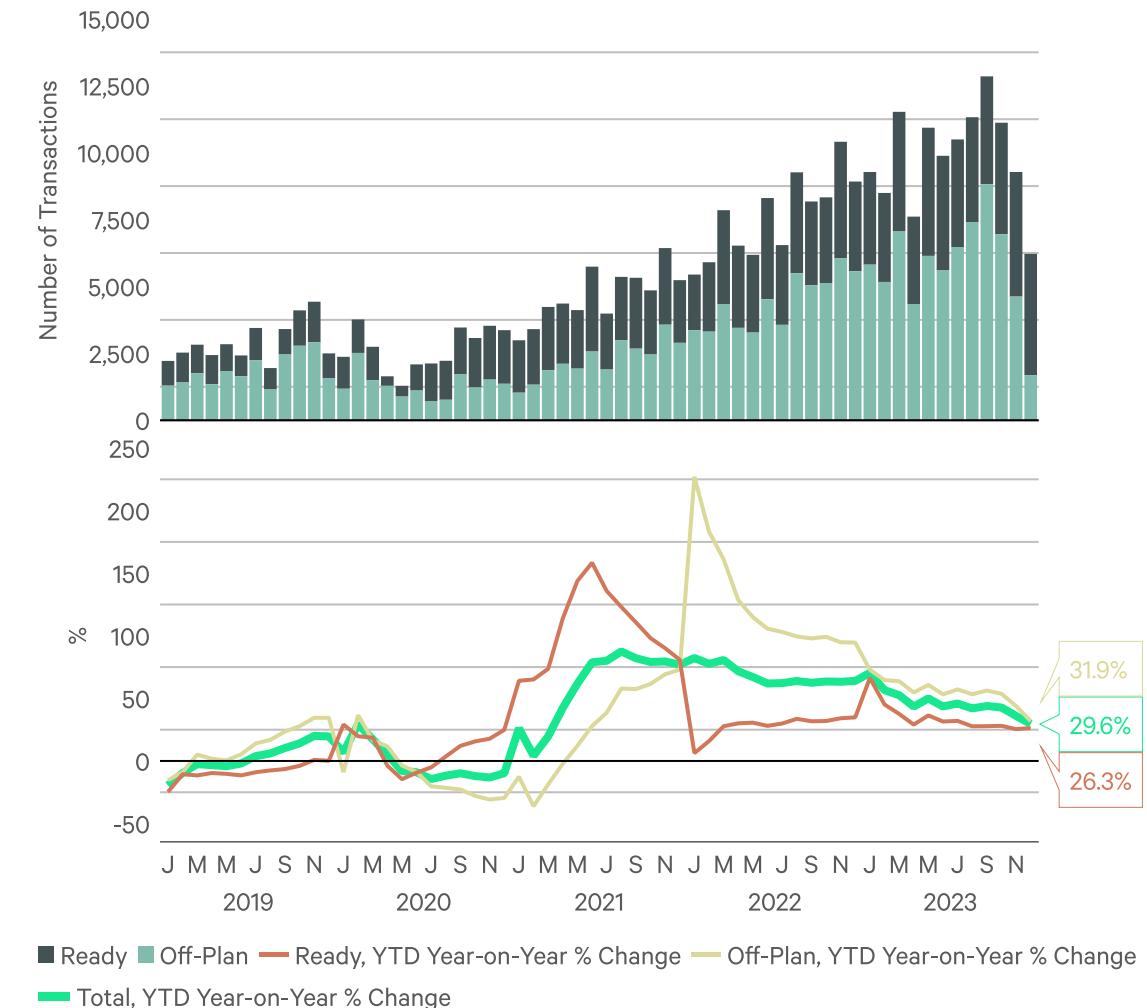
DUBAI RESIDENTIAL

In December 2023, a slowdown in activity levels was witnessed in Dubai's residential market, where the total number of transactions reached 6,216, marking a decline of 30.3% compared to the previous year. Over this period, off-plan transactions significantly declined by 69.7%, whereas secondary market transactions grew by 35.3%. Notwithstanding this recent drop-off in off-plan transactions, in 2023, a total of 118,993 residential transactions had been registered; this is the highest total recorded to date, surpassing the 2022 record figure by 29.6%. Off-plan sales grew by 31.9% throughout this period, and secondary market sales increased by 26.3%.

In Dubai, residential sales transactions above AED 5 million and AED 10 million hit unprecedented levels in 2023, reaching totals of 10,296 and 3,806 while registering year-on-year increases of 54.5% and 68.4%, respectively, primarily underpinned by significant levels of off-plan sales. That being said, this has not been much the case in the traditional prime and super-prime locations*. In 2023, the number of transactions within the prime segment of the market declined by 15.5% compared to the year prior to reach a total of 1,968. Over this period, within the super-prime market segment, the volume of sales transactions totalled 1,003, down by 3.1% compared to the year prior. These slowdowns in transaction levels in both markets have been primarily driven by a drop-off in off-plan sales. The elevated levels of demand for off-plan properties, paired with the deteriorating supply levels resulting from the limited number of new launches, have led to this decline in transaction levels. In terms of sales rates, as at Q4 2023, average prime prices reached AED 4,604 per square foot, up by 22.5% from the year prior. Over this period, average super-prime prices reached AED 4,900 per square foot, registering a year-on-year increase of 20.4%.

In the year ahead, price growth in both the apartment and villa segments of the market are likely to remain relatively strong; however, we do expect that the rate of price growth will taper off. In the rental market, on the back of the prevailing market fundamentals, the lack of supply and heightened demand levels, we expect that residential rents in Dubai will maintain their upward trajectory; that being said, the rate of growth will likely moderate further.

FIGURE 12: Dubai, Residential Transactions



*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.

Source: CBRE Research/ REIDIN

UAE HOSPITALITY

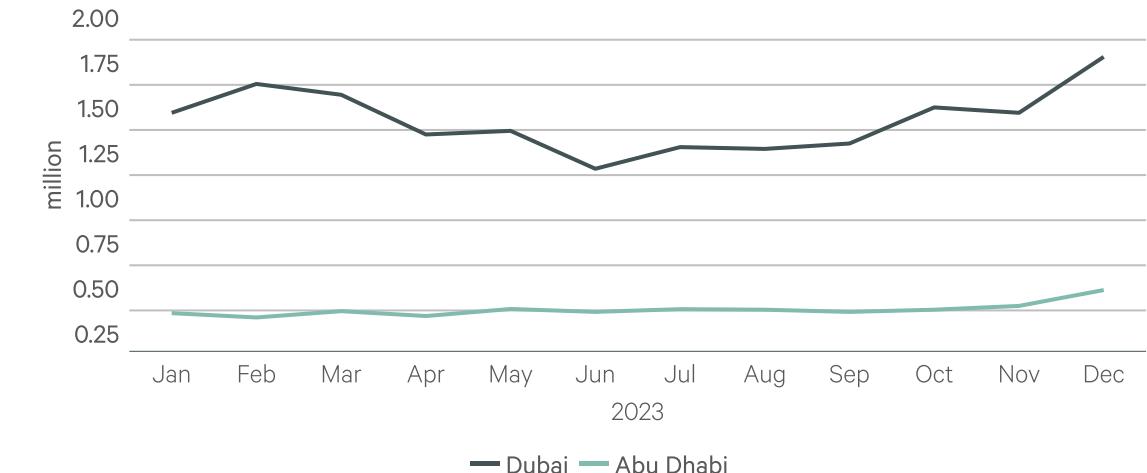
On a global level, in 2023, the average number of daily flights reached 120,038, up by 22.3% compared to the prior year while marking an increase of 4.4% from its 2019 pre-pandemic benchmark. Furthermore, according to data from IATA, the Passenger Load Factor (PLF) stood at 82.3% in the month of December 2023; whilst this is up by 3.6% compared to a year earlier, this figure is still marginally below its 2019 level by 0.3%. The available seat-kilometers (ASKs) still sit below their pre-pandemic baseline by 5.6%.

In Abu Dhabi, in 2023, the total number of hotel guests stood at 4.94 million, marking a year-on-year growth of 29.0% and a 9.9% growth compared to the 2019 level. In Dubai, in 2023, the number of international visitors reached 17.15 million, registering an increase of 19.4% from the previous year and a 2.5% growth from the 2019 comparable period.

Strong performance continues to be seen in the UAE's hospitality segment of the market throughout 2023, given elevated visitation levels. The UAE's average occupancy rate rose by 4.5 percentage points year-on-year in 2023. Over the same period, the ADR increased by 2.6%, and as a result, the country's RevPAR rose by 9.0%. The average ADRs across the UAE in 2023 outperformed the 2019 figures by 25.7%, supported by the stronger ADR levels in Dubai, Sharjah, Abu Dhabi, Ajman, and Fujairah, which have registered increases of 25.5%, 24.7%, 22.5%, 18.7%, and 8.3%, respectively. Resultantly, these locations' RevPARs surpassed their 2019 baselines by 30.3%, 34.2%, 20.9%, 28.0%, and 27.7%, respectively. Average occupancy rates across the majority of cities in the UAE have already surpassed their 2019 figures. That being said, Abu Dhabi is the only location that is still marginally below its pre-pandemic threshold by 0.9 percentage points.

Looking ahead, visitation levels are expected to remain relatively elevated, and we will likely see continued growth in the sector's KPIs, primarily driven by the UAE's status as a global tourism and business hub and further relaxations in visa regulations.

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

	Year to Date - December 2023 vs December 2019			Year to Date - December 2023 vs December 2022		
	Occ PP Change	ADR % Change	RevPAR % Change	Occ PP Change	ADR % Change	RevPAR % Change
UAE	2.6%	25.7%	30.3%	4.5%	2.6%	9.0%
Abu Dhabi	-0.9%	22.5%	20.9%	2.9%	19.8%	24.8%
Dubai	2.8%	25.5%	30.3%	4.6%	0.2%	6.6%
RAK	1.8%	-0.5%	1.9%	12.4%	-4.5%	14.8%
Sharjah	5.1%	24.7%	34.2%	2.3%	8.0%	11.5%
Fujairah	10.5%	8.3%	27.7%	5.5%	-7.4%	0.6%
Ajman	6.0%	18.7%	28.0%	3.8%	-1.3%	3.5%

Source: CBRE Research/ STR Global

UAE RETAIL

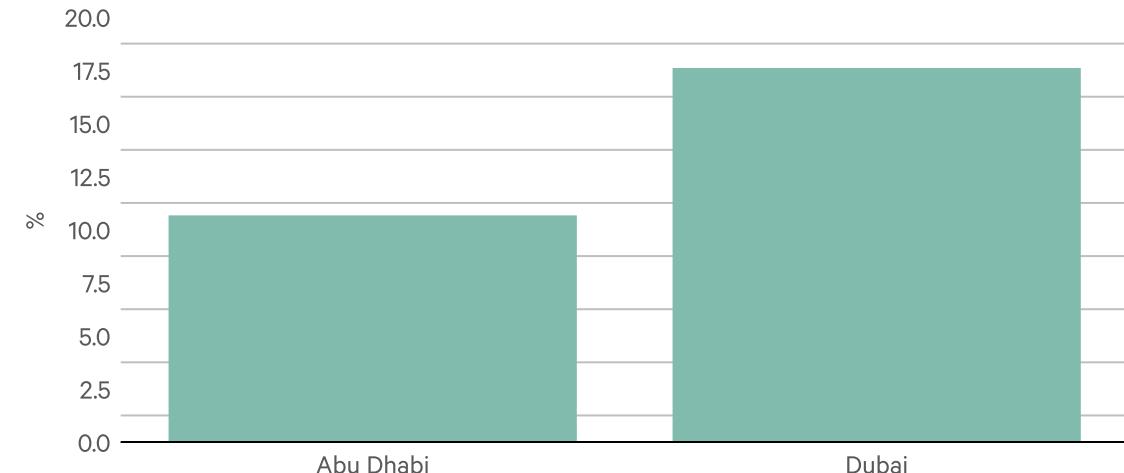
In the last quarter of 2023, activity levels in Abu Dhabi's retail market remained relatively subdued, where, in the year to Q4 2023, the total number of rental contracts registered declined by 6.5% to reach 6,913. This slowdown in activity levels has been underpinned by a 3.4% drop in new registrations and a 7.9% decline in renewal registrations. For the full year, a total of 29,513 rental contracts were recorded, a year-on-year increase of 1.9%.

In Dubai's retail market, the total number of rental registrations reached 17,894, marginally up by 0.7% compared to the year prior. Over this period, new registrations declined by 7.7%, and renewed contracts grew by 5.6%. In 2023, a total of 75,976 rental contracts have been recorded in Dubai, marking an increase of 2.5% from a year earlier. The Food and Beverage sector remains the largest source of occupier demand. Alongside the emerging interest from large international Food and Beverage operators, demand from homegrown brands has been on the rise, where we have been witnessing a growing number of new market entrants and existing market players looking to expand in both Dubai's core locations and globally. Furthermore, we have also seen an uptick in new and expansionary demand from several international sports retailers in the last quarter of 2023, primarily centred towards prime and lifestyle areas.

Rental performance has improved further on the back of current market fundamentals, where in the year to the last quarter of 2023, average retail rents in both Abu Dhabi and Dubai grew by 10.7% and 17.6%, respectively. In Q4 2023, average rental rates in Abu Dhabi stood at AED 2,075 per square metre, and average rental rates in Dubai stood at AED 490 per square foot.

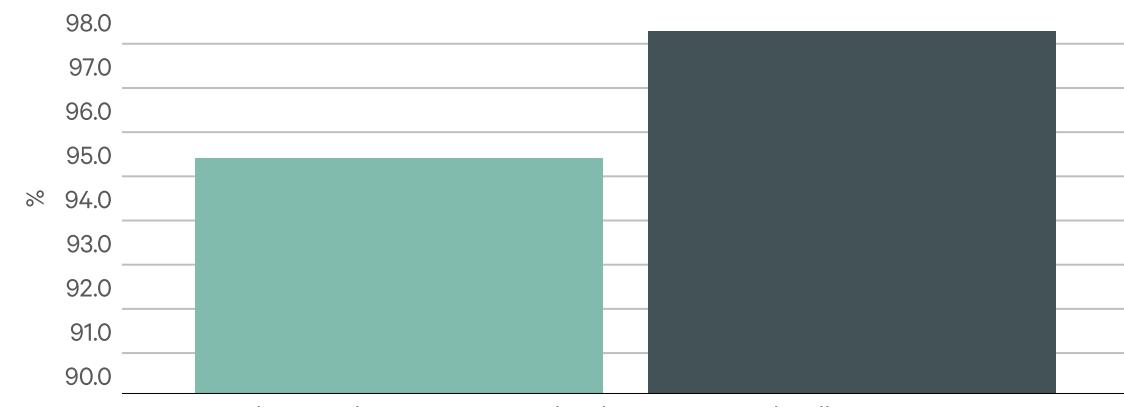
Despite the relatively elevated demand levels, the availability of quality stock remains a concern. This is particularly the case in Dubai – where whilst there is an estimated 3.9 million square feet of new retail space due to be delivered, largely in non-core areas – where the lack of available space is likely to curtail some market activity.

FIGURE 15: UAE, Retail Rents, YoY % Change to Q4 2023



Source: CBRE Research/ Macrobond

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



Source: CBRE Research

UAE INDUSTRIAL

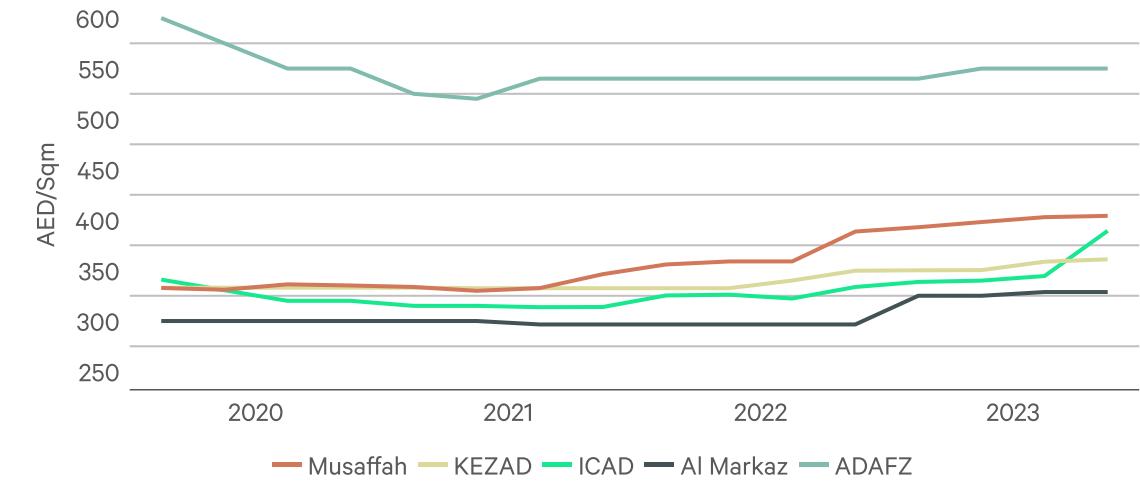
Performance within the UAE's industrial and logistics sector remained strong over the last quarter of the year despite the lack of availability of quality stock that continues to impede potential market activity. As a result, occupiers are more likely to comply with landlords' lease demands, which has led to a landlord-favoured market where limited incentives are provided.

Demand remains relatively elevated within Abu Dhabi, where the total number of rental registrations in the industrial and logistics market has increased by 15.3% in the year to the last quarter of 2023. This growth has been underpinned by a 24.0% increase in new rental contracts registered and a 9.6% increase in renewed rental registrations. The manufacturing sector is one of the most prominent sectors of demand. The reasonable costs of employment and power continue to drive occupier demand within Abu Dhabi's industrial and logistics market. Alongside the built environment and infrastructure that are continuously improving within the capital, we have started seeing a number of developers beginning to develop new industrial stock in several key areas on the back of depleted stock levels.

In Dubai, based on data from the Dubai Land Department, in Q4 2023, the number of rental registrations totalled 2,417, level compared to the year prior. This slowdown in activity levels does not mean that demand has weakened. Despite the heightened levels of demand but significantly depleted levels of available quality stock, we have seen new registrations decline by 26.4%, whereas renewed rental contracts registered increased by 18.8%. While this sector has substantial development prospects, the lack of appropriate infrastructure to execute such projects remains the main challenge being faced.

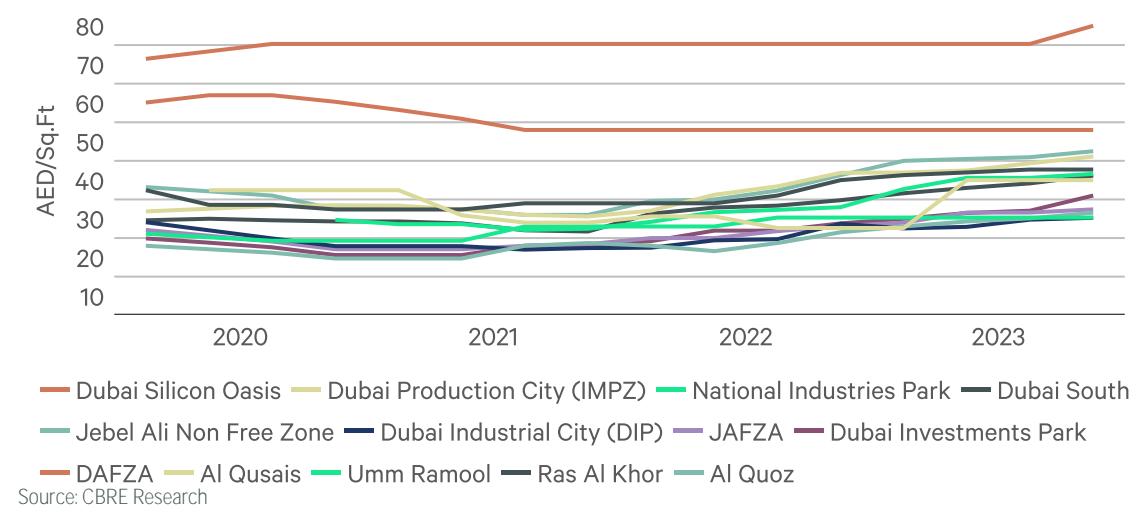
The supply and demand imbalance witnessed over recent years continues to support rental growth in both Abu Dhabi's and Dubai's industrial and logistics markets. In the year to the last quarter of 2023, average rental rates in Abu Dhabi grew by 7.3% and in Dubai by 14.8%. As at Q4 2023, average asking rents in Abu Dhabi and Dubai stood at AED 407 per square metre, and AED 43 per square foot, respectively. Given these market fundamentals, this is the limited availability of quality stock paired with the elevated demand levels, we expect that rental rates within the UAE's industrial and logistics sector will continue to improve moving forward, albeit at a slower pace. New stock, which is of institutional quality, on the other hand is expected to reach new record rates.

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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