REAL ESTATE MARKET REVIEW

UAE Real Estate Market Review Q1 2024

Strong performance continues to be seen across all sectors into the first quarter of 2024.

CBRE RESEARCH
MAY 2024

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▲ **3.9%**
YoY forecast increase in GDP in 2024

▲ **56.9**
UAE PMI reading in March 2024, down from 57.1 a month earlier

▲ **6.8%**
YoY YTD to March 2024 increase in UAE's RevPAR

▲ **0.9pp**
YoY YTD to March 2024 increase in hotel occupancy rates

▲ **21.2%**
Increase in average residential rents in Dubai

▲ **7.6%**
Increase in prime office rental rates in Dubai

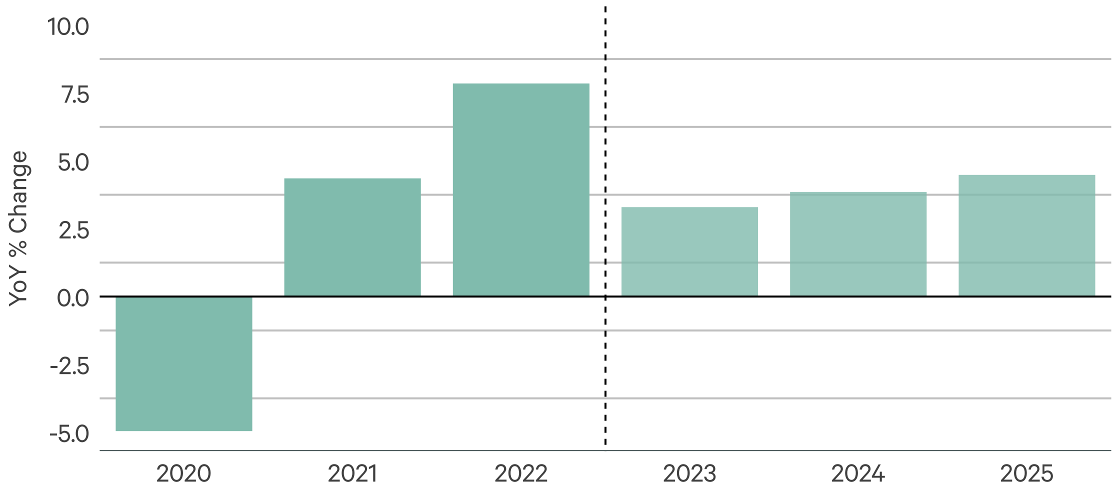
MACROECONOMIC OVERVIEW

– The UAE's GDP is expected to record a growth of 3.9% in 2024.
– Its hydrocarbon GDP is expected to increase by 2.5% in 2024.
– Over this period, the UAE's non-hydrocarbon sector is forecast to grow by 4.3%.
– Inflation forecasts stand at 2.8% in 2024.

Data published by Oxford Economics revealed that the UAE's GDP is expected to record a growth of 3.9% in 2024, down from the 4.7% forecast published a quarter earlier. This weaker growth rate is attributable to OPEC+ oil output cuts, where the hydrocarbon sector is expected to grow by 2.5% in 2024, down from earlier forecasts of 5.7%. The country's non-hydrocarbon sector, is estimated to record a growth rate of 4.3%, over this period.

The UAE's Purchasing Managers' Index, a tracker of private sector activity, reached 56.9 in March 2024, down from the 57.1 level registered in February 2024. Despite this marginal decline, the index is still firmly higher than the 50.0 contraction and growth threshold, highlighting the considerable performance of the country's non-oil private economy. Based on S&P Global, this figure has been largely driven by the robust levels of demand that have led to a significant uptick

FIGURE 1: UAE, Gross Domestic Product



Source: CBRE Research/ Oxford Economics/ Macrobond

MACROECONOMIC OVERVIEW

in the new-orders sub-component of the index. These elevated new-order levels, paired with firms' upcoming projects and promotional efforts, have led to a rise in output levels. That being said, a build-up in workload has been witnessed, as companies encountered some difficulties in completing new work, particularly given the shipping strains originating from the Red Sea, which resulted in companies receiving inputs later than expected. Despite the rise in input costs, price cuts have been witnessed as businesses want to maintain their share of the market.

Notwithstanding the strong performance showcased through high-frequency indicators, material global economic headwinds are underlining concerns as to what extent these robust levels of performance could continue, particularly given the open nature of the UAE's economy. However, even with potential global economic downside risk, we expect that demand and activity levels within the real estate sector will remain strong, as a number of factors, including but not limited to the country's fiscal position, easing of doing business and residency regulations, along with the rising investment and population levels will help offset any major slowdown.

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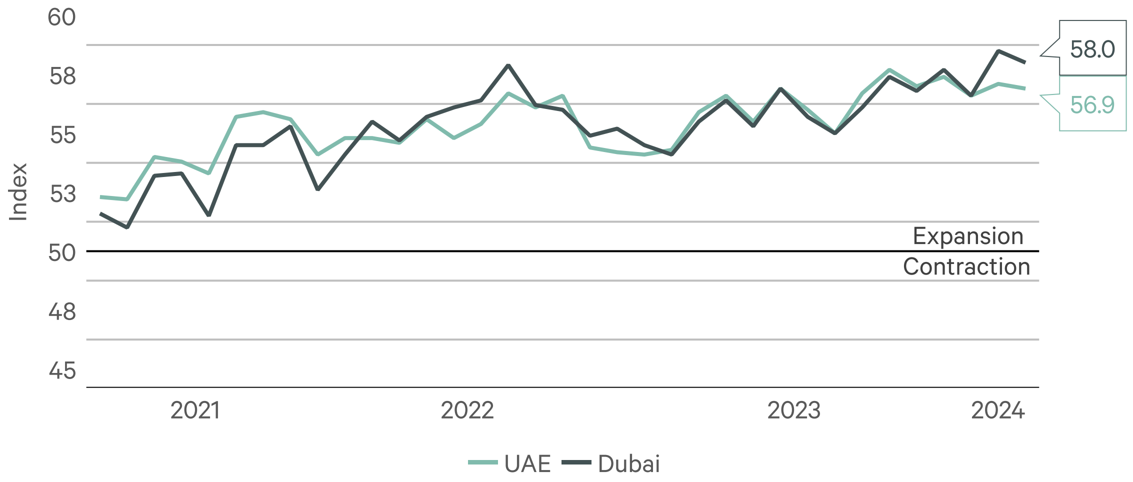
FIGURE 2: UAE, Purchasing Managers' Indices



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%	3.3%	3.9%	4.5%
Hydrocarbon GDP	-3.8%	-1.1%	9.5%	-3.8%	2.5%	6.1%
Non-Hydrocarbon GDP	-5.4%	6.5%	7.2%	6.0%	4.3%	4.0%
Inflation	-2.1%	0.2%	4.8%	1.6%	2.8%	2.1%

Source: CBRE Research/ Oxford Economics.

ABU DHABI OFFICES

Robust levels of activity have been witnessed in Abu Dhabi's occupier market. In the first quarter of 2024, a total of 10,475 rental contracts were registered, marking a year-on-year growth of 9.1%. This increase has been primarily supported by a 21.2% increase in new rental registrations, whilst renewed contracts registered dropped by 5.1%.

Entities with direct and indirect government links remain the largest source of occupier demand in Abu Dhabi's occupier market in terms of total space required, particularly in on-shore locations. That being said, the limited availability of quality stock remains one of the main challenges being faced. Given this, a number of entities have started considering build-to-suit options, particularly within core CBD locations, in order to account for their future expansion plans. Alongside this, throughout the first quarter of the year, we have seen a marked demand from private businesses, where we saw a number of new and existing market players looking to expand their footprint within the capital, predominantly within off-shore locations. On the back of the current market backdrop, incentives offered remain relatively limited; however, landlords are still prioritising achieving diverse occupiers' profiles, where we are seeing them providing attractive rental rates and longer lease terms for specific client sectors and profiles.

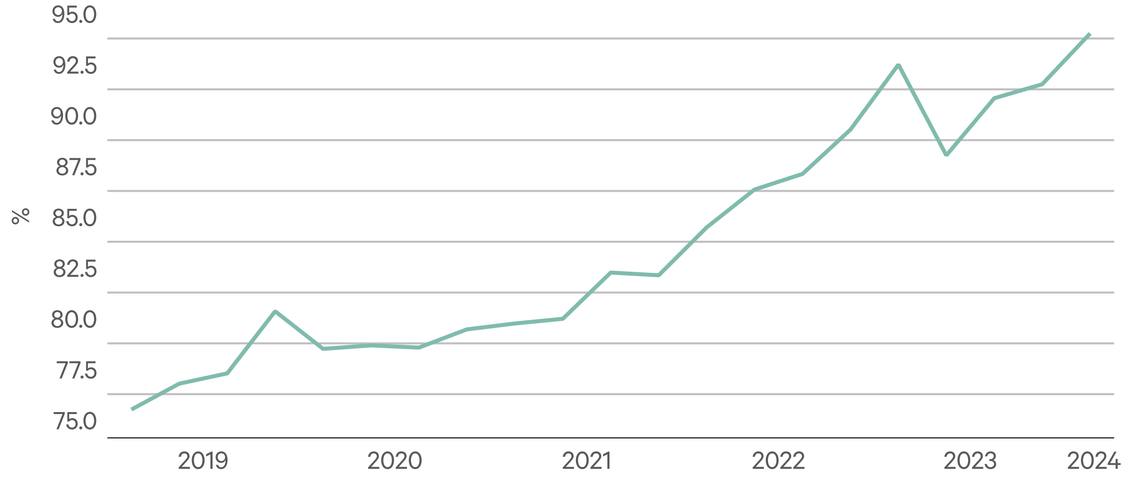
Given the prevailing market fundamentals, the average occupancy rate of institutional-grade buildings tracked by CBRE reached 94.0% in Q1 2024, up from the 92.5% level registered in Q1 2023. These increased occupancy levels have underpinned growth in rental rates, where in the year to Q1 2024, average Prime, Grade A, and Grade B rents registered average growth rates of 6.6%, 3.4%, and 9.7%, respectively.

The strong performance witnessed within Abu Dhabi's office market is expected to continue over the remainder of the year. High-quality assets, particularly Prime and Grade A stock, are expected to continue to register strong performance levels, owing to the rising levels of demand resulting from the ongoing flight to quality trend and scarcity of available supply. That being said, developers have started addressing the supply issue, where we are seeing a number of new developments scheduled for delivery in the upcoming two years, this is something that we have not seen in earnest since 2012.

FIGURE 4: Abu Dhabi, Office Rents, YoY % Change to Q1 2024

Source: CBRE Research

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



Source: CBRE Research

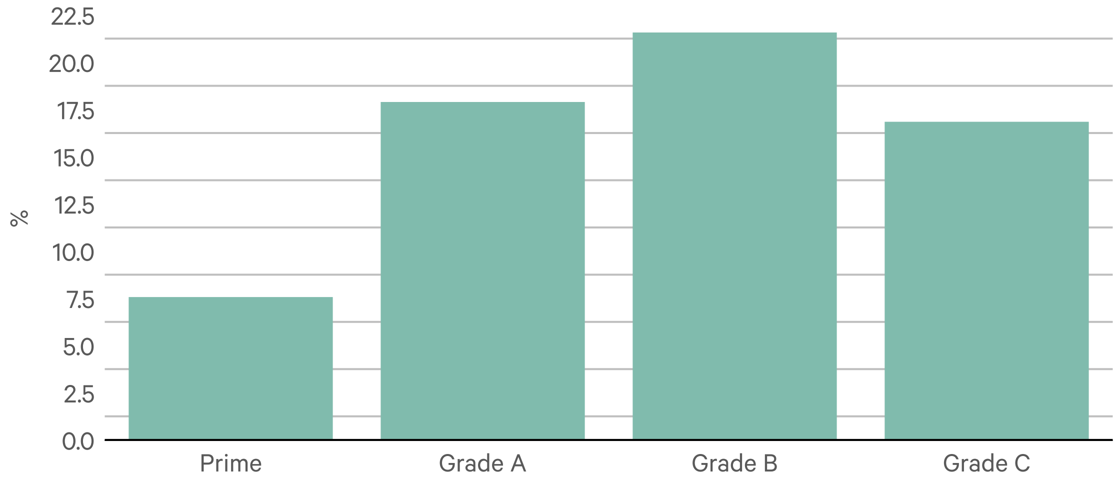
DUBAI OFFICES

Occupier activity remained robust over the first quarter of the year. Data from the Dubai Land Department revealed that the total number of rental registrations increased by 35.8% compared to the year prior, reaching 46,850. Of this total, 94.9% of transactions are less than 2,000 square feet of space, showcasing the growth in demand from SMEs across various occupier segments. More so, this headline growth has been largely underpinned by a 51.1% increase in new rental registrations, which totalled 34,461. That being said, within core CBD areas, the growth rate is lower, where, given the elevated occupancy levels, the total number of new rental registrations of office spaces that are 2,000 square feet and above recorded a year-on-year growth of 10.6%. Overall, renewed contracts registered reached a total of 12,389, marking an increase of 6.1% from the previous year.

Demand continues to stem from a broad range of sectors, with the financial services sector, namely hedge funds and asset management firms, being notable sectors of demand. In comparison to other global markets, the current dynamics within Dubai's occupier market continue to attract global corporates. Free Zone locations are still capturing a substantial share of market activity despite the lack of supply. To cater for this growing demand, we have started seeing developers fast-tracking future developments across a range of Free Zone and Non-Free Zone locations. Demand is largely skewed towards medium-sized office spaces. Another notable trend that has been witnessed is that firms would rather renew their existing leases even if that means that they may incur higher costs, as relocating and fitting out a new office would cost considerably more.

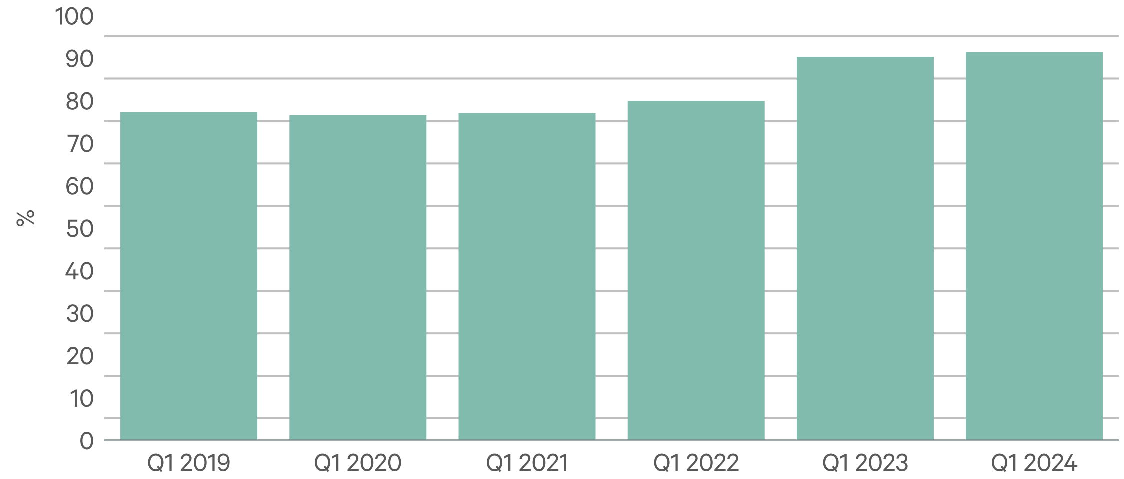
Given the increased level of occupier demand, the average occupancy rate increased from 90.1% in Q1 2023 to 91.3% in Q1 2024. This increase in occupancy levels, paired with the scarcity of quality stock, continues to support growth in rental rates. In the first quarter of 2024, the average Prime, Grade A, Grade B, and Grade C rents registered year-on-year increases of 7.6%, 17.9%, 21.6%, and 16.8%. Average Prime, Grade A, Grade B and Grade C rental rates reached AED 255, AED 192, AED 162, and AED 131 per square foot per year, respectively, as at Q1 2024. With the delivery of new stock remaining limited and given the lack of quality stock, we expect that performance within Dubai's occupier market will remain strong. This is particularly within the Prime and Grade A segments of the market, which, given their limited availability, we expect that these assets will continue to outpace the wider market.

FIGURE 6: Dubai, Office Rents, YoY % Change to Q1 2024



Source: CBRE Research/ Macrobond

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



Source: CBRE Research

ABU DHABI RESIDENTIAL

The total volume of transactions in Abu Dhabi's residential market stood at 2,795 in the first quarter of the year, registering an increase of 22.6% compared to the year prior. This increase has been underpinned by an 18.1% rise in off-plan sales and a 34.5% rise in secondary market sales.

Abu Dhabi's average apartment prices increased by 4.3% in the year to Q1 2024, and average villa prices increased by 2.3%. Based on recent transactional data, average apartment prices in Abu Dhabi's residential market stood at AED 14,922 per square metre in the first quarter of 2024, and average villa prices stood at AED 13,379 per square metre over the same period.

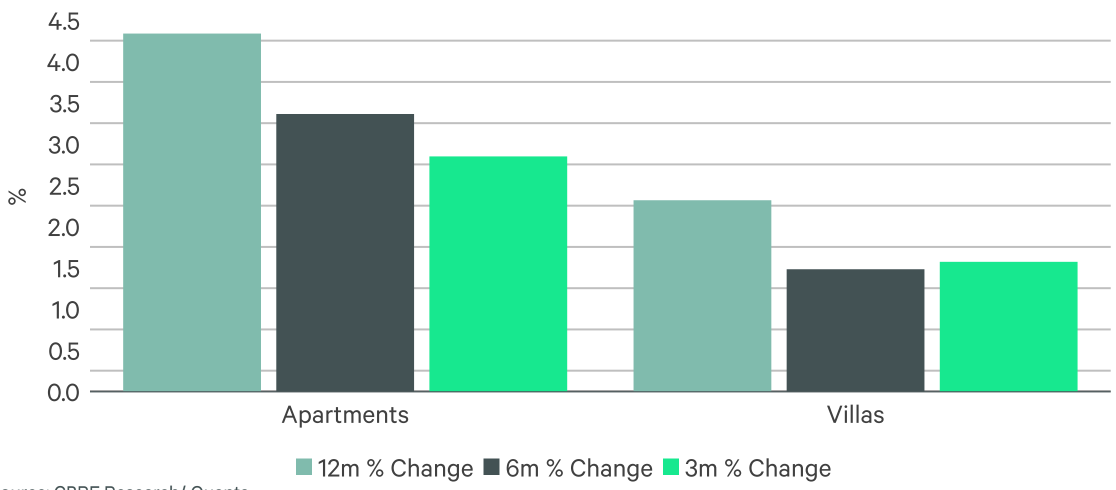
In the rental market, a total of 46,130 residential rental contracts were registered in Abu Dhabi in the first quarter of 2024, marking a drop of 10.9% from the year prior. This decline has been driven by a 15.5% decline in the number of renewed rental contracts registered and a 2.4% drop in new rental registrations over the same period.

In the year to Q1 2024, average apartment rents in Abu Dhabi increased by 4.5%, and average villa rents increased by 1.1%. Considering rental registrations undertaken in the first quarter of the year, average apartment rents in Abu Dhabi reached AED 64,550 per annum and average villa rents reached AED 159,753 per annum.

On the supply front, only 80 units have been delivered in Abu Dhabi in the first three months of the year, with all of this new stock being in Al Raha Beach. An additional 8,660 units are expected to be completed by year-end, with 55.8% of this scheduled stock located in Yas Island, Al Sowwah, and Al Shamkha.

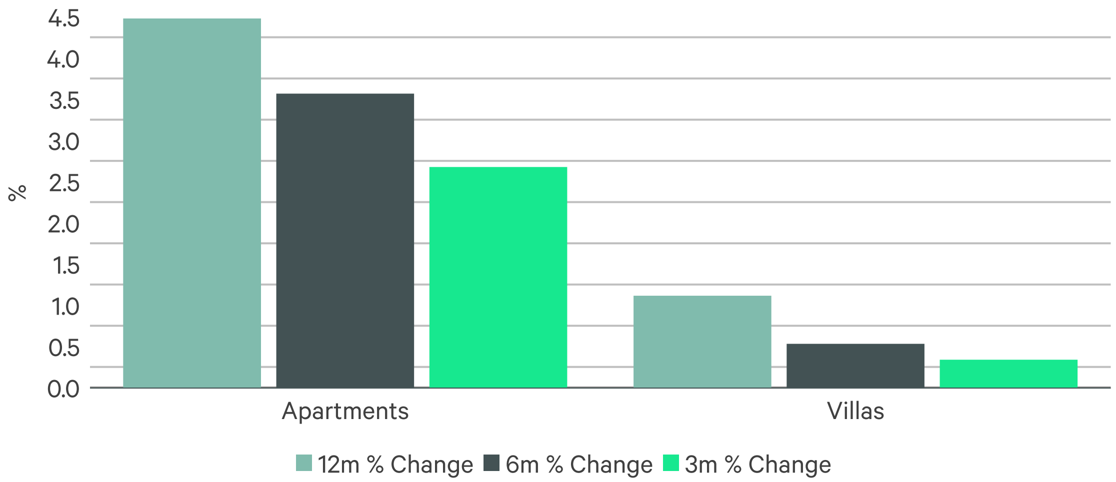
> “Based on recent transactional data, average apartment prices in Abu Dhabi's residential market stood at AED 14,922 per square metre in the first quarter of 2024, and average villa prices stood at AED 13,379 per square metre over the same period.”

FIGURE 8: Abu Dhabi, Residential Price Performance, % Change to Q1 2024



Source: CBRE Research/ Quanta

FIGURE 9: Abu Dhabi, Residential Rents Performance, % Change to Q1 2024



Source: CBRE Research/ Quanta

DUBAI RESIDENTIAL

Price growth has continued to accelerate in Dubai's residential market in the first quarter of 2024, with average prices increasing by 20.7% in the year to March 2024, up from 20.3% in February 2024. Throughout this period, average apartment prices increased by 20.4%, and average villa prices increased by 22.1%. In March 2024, average apartment prices stood at AED 1,486 per square foot, and average villa prices stood at AED 1,776 per square foot. Although headline average sales rates are still marginally below the 2014 highs by 0.1%, a number of key residential neighbourhoods have long outperformed their 2014 figures. Average villa sales rates, on the other hand, are above their 2014 baseline by 22.9%.

Rental growth rates accelerated in 2024, following the moderation witnessed over the course of 2023. In March 2024, average residential rents in Dubai registered a year-on-year increase of 21.2%, up from the 20.4% growth registered a month earlier. Over this period, average apartment and villa rental rates grew by 22.1% and 14.5%, respectively. As at March 2024, the average annual apartment and villa asking rents stood at AED 123,429 and AED 344,658, respectively.

Data from the Dubai Land Department revealed that, in the year to date to March 2024, the total number of rental registrations stood at 159,941, marking an increase of 5.8% from the previous year. This growth has been underpinned by a 12.3% growth in renewed rental registrations, whereas new contracts registered recorded a decline of 4.1%, as the current market fundamentals in Dubai's residential market have increased the prevalence of tenants to renew their existing residential leases as they are not prepared or able to pay the higher rates that are evident on new leases, or there is a distinct lack of available stock particularly in prime and core residential areas.

In terms of supply, in the first quarter of 2024, a total of 6,526 units were delivered in Dubai, with 59.7% of this stock being located in Meydan One, Jumeirah Village Circle, and Al Furjan. Over the remainder of the year, a further 46,086 are expected to be handed over, with 31.4% of this stock scheduled for delivery in District Seven, Damac Lagoons, and Business Bay. That being said, given historic materialisation rates, we expect that a limited portion of this upcoming stock will come online as planned.

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

Source: CBRE Research/ REIDIN

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

Source: CBRE Research/ REIDIN

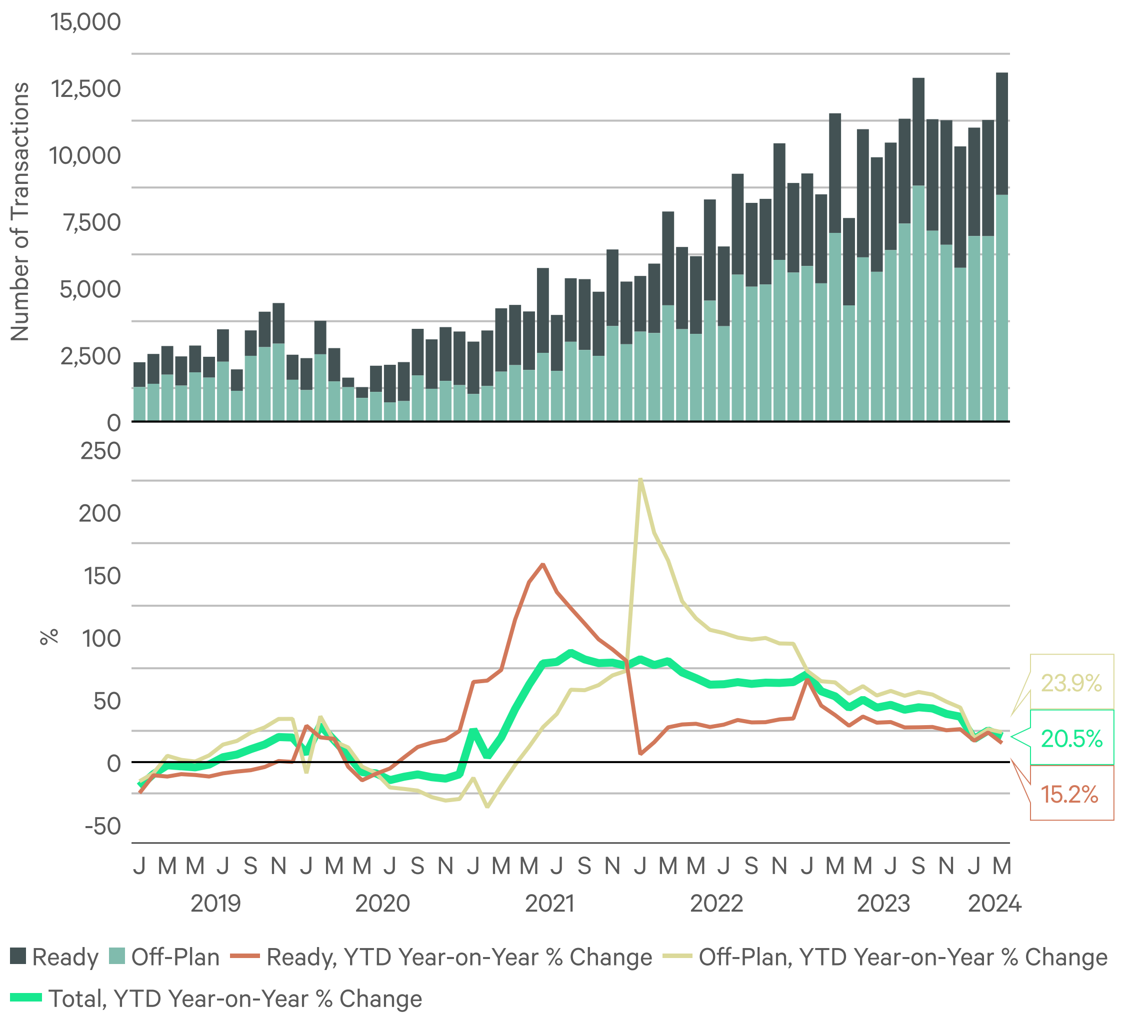
DUBAI RESIDENTIAL

Another record has been witnessed in Dubai's residential market, with the total volume of transactions reaching the highest monthly figure on record in March 2024, where 13,047 residential sales transactions were recorded, marking a year-on-year growth of 13.2%. Off-plan sales increased by 20.2% throughout this period, and secondary market sales increased by 2.2%. In the first quarter of 2024, the total transaction volumes reached 35,310. This is the highest total ever recorded in the first quarter of the year, marking an increase of 20.5% from the year prior. Over this period, off-plan transactions rose by 23.9%, and secondary market transactions rose by 15.2%.

In the first quarter of 2024, the total number of sales transactions above AED 5 million and AED 10 million registered increases of 27.2% and 42.5% to reach respective totals of 2,817 and 1,010. These increases have been largely driven by significant levels of off-plan sales; however, within the traditional prime and super-prime locations* this same trend has not been witnessed. In Q1 2024, the total number of transactions within the prime market segment stood at 458, registering a decline of 2.1% compared to the year prior. Throughout this period, super-prime transactions recorded a drop of 16.5% year-on-year to stand at a total of 227. These declines witnessed in both markets have been largely underpinned by significant declines in off-plan sales. This resulted from the high levels of demand for off-plan properties and the limited level of upcoming supply. In terms of performance, in the first quarter of 2024, average prime prices registered a year-on-year increase of 16.0%, standing at an average of AED 4,661 per square foot, and average super-prime prices grew by 14.8% over this period, reaching AED 4,978 per square foot.

Looking ahead, we expect Dubai's residential sales market to maintain its upward trajectory. Prices in both the apartment and villa segments of the market will continue to grow, however, not at the same pace. On the rental front, we forecast that residential rents will continue to increase. That being said, the rate of growth will likely moderate.

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.

UAE HOSPITALITY

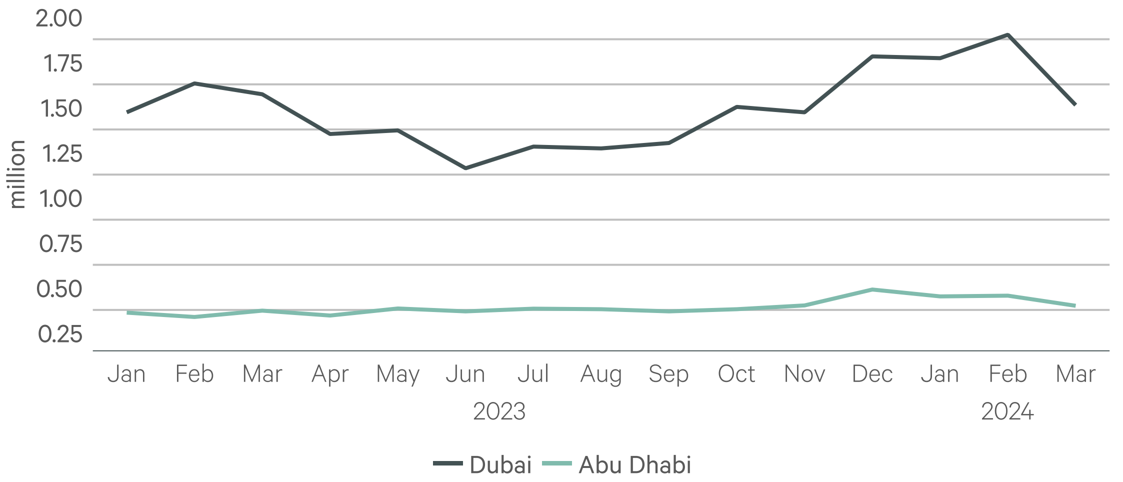
Globally, in the first quarter of 2024, the average number of daily flights stood at 118,689, surpassing the 2019 pre-pandemic baseline by 11.5% and registering a year-on-year increase of 11.0%. In March 2024, data from IATA revealed that the global passenger load factor (PLF) reached 82.0%, up by 1.0% from the comparable 2023 figure, and the available seat kilometers (ASKs) registered a year-on-year increase of 12.3%.

In the year to date to March 2024, the total number of hotel guests in Abu Dhabi stood at 1.30 million, a growth of 22.0% compared to the year prior and a 16.1% growth from the 2019 comparable figure. In Dubai, in the year to date to March 2024, the total number of international visitors stood at 5.18 million, marking a year-on-year increase of 10.9%, and a 9.1% increase from the 2019 level.

The UAE's Key Performance Indicators (KPIs) continue to showcase strong performance levels on the back of robust visitation. Year-on-year, in the year to date to March 2024, the average occupancy rate registered a marginal increase of 0.9 percentage points, and the country's ADR increased by 5.6%. As a result, we have seen the average RevPAR increase by 6.8%. In the year to date to March 2024, the UAE's average ADRs stood at 24.9% above the 2019 comparable figure. This has been underpinned by higher ADRs in Sharjah, Dubai, Abu Dhabi, Fujairah, and Ras Al Khaimah, recording respective increases of 27.9%, 24.0%, 18.0%, 11.1%, and 1.9%. As a result, we have seen these cities' RevPARs outperform their 2019 pre-pandemic levels by 34.3%, 22.3%, 19.7%, 40.6%, and 3.0%, respectively. In terms of citywide occupancy, the majority of locations have topped their 2019 pre-pandemic levels; however, Dubai is the only city that sits marginally below its 2019 baseline by 1.2 percentage points, owing largely to lower visitation during Ramadan.

Over the remainder of the year, strong performance will continue to be seen in the UAE's hospitality sector as the elevated visitation levels will likely be maintained given a number of key upcoming local and regional events.

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 - March 2024 vs March 2019			Year to Date - March 2024 vs March 2023		
	Occ PP Change	ADR % Change	RevPAR % Change	Occ PP Change	ADR % Change	RevPAR % Change
UAE	0.2%	24.9%	25.2%	0.9%	5.6%	6.8%
Abu Dhabi	1.2%	18.0%	19.7%	6.3%	8.0%	17.2%
Dubai	-1.2%	24.0%	22.3%	-0.7%	5.4%	4.5%
RAK	0.8%	1.9%	3.0%	-1.5%	8.0%	5.8%
Sharjah	4.0%	27.9%	34.3%	4.2%	3.8%	9.4%
Fujairah	15.8%	11.1%	40.6%	10.5%	-2.2%	13.7%
Ajman	-	-	-	1.4%	0.9%	2.6%

Source: CBRE Research/ STR Global

UAE RETAIL

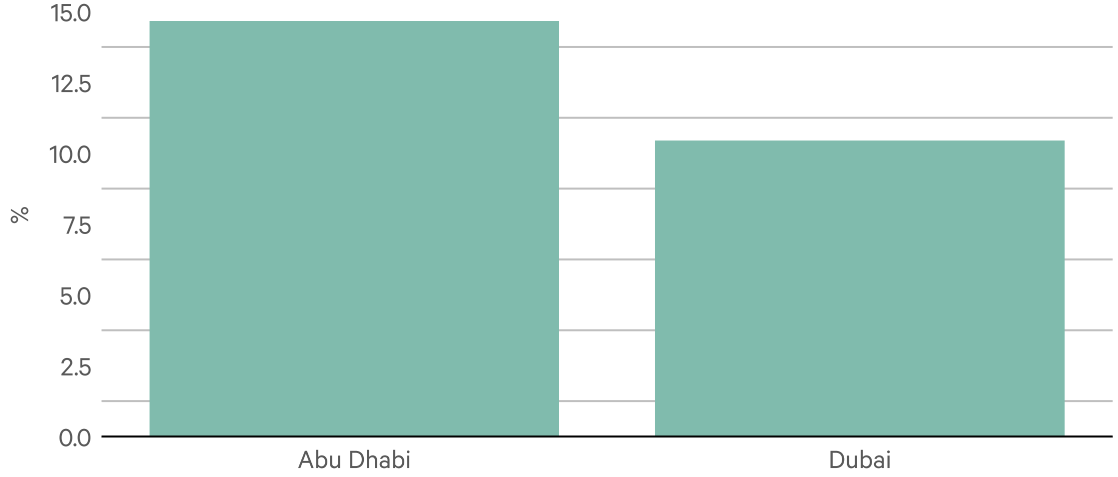
A slowdown in activity levels has been witnessed in Abu Dhabi's retail market during the first quarter of 2024. A total of 7,779 rental contracts were registered over this period, down by 8.1% compared to a year earlier. This decline has been primarily driven by a slowdown of 8.8% in renewed rental registrations and a drop of 6.6% in new contracts registered.

In the first quarter of the year, the total number of rental contracts registered in Dubai's retail market stood at 23,139, marking a marginal increase of 0.2% compared to the previous year. Throughout this period, despite that, new rental registrations increased by 1.6%, and renewed tenancy contracts registered recorded a drop of 3.4%. Although demand within Dubai's retail market continues to primarily originate from the food and beverage sector, we are seeing a rising number of global and international retail brands looking to establish or expand in Dubai's core locations despite the limited availability of quality stock and elevated occupancy levels, particularly within the Prime segment of the market, hampering market activity. These prevailing conditions have led to a more landlord-favoured market where limited incentives are being provided.

Given the supply-and-demand imbalance, rents in both Abu Dhabi and Dubai continued to register increases. In the year to the first quarter of 2024, average retail rents in Abu Dhabi grew by 14.7%, and in Dubai, average rents rose by 10.5%. As of Q1 2024, average lease rates in Abu Dhabi and Dubai reached AED 2,150 per square metre and AED 493 per square foot, respectively.

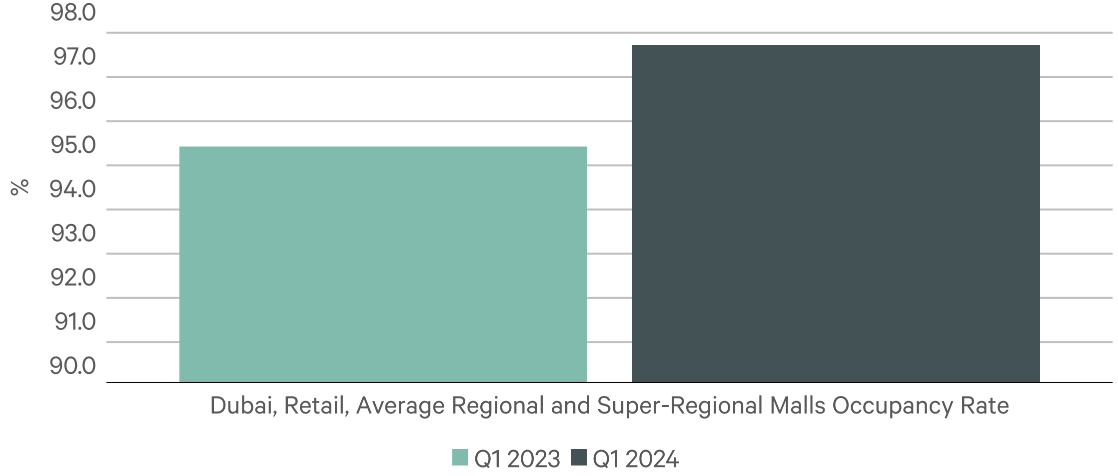
Demand within both Abu Dhabi and Dubai is still biased towards quality assets, particularly within core locations; that being said, the lack of availability of such stock is still one of the main challenges being faced. This has resulted from the lack of upcoming developments, particularly in Dubai, and we expect this to continue to underpin rental growth moving forward. Given this, we expect new rental registrations to continue to edge down, although total demand will remain net positive.

FIGURE 15: UAE, Retail Rents, YoY % Change to Q1 2024



Source: CBRE Research/ Macrobond

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



Source: CBRE Research

UAE INDUSTRIAL

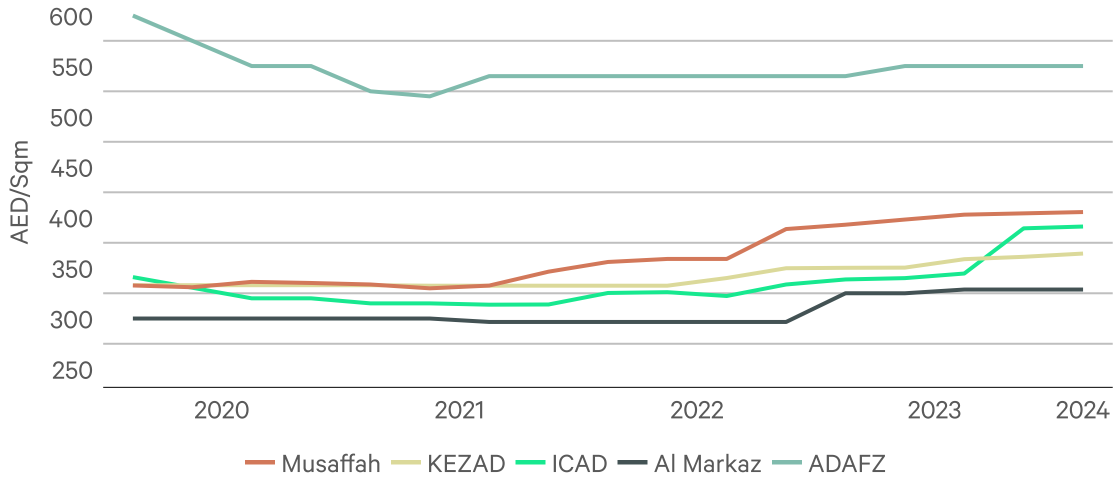
Notwithstanding the limited availability of quality stock, robust levels of demand continued to be witnessed in the UAE's industrial market in the first quarter of 2024. The total number of rental registrations in Abu Dhabi's industrial and logistics market registered an increase of 4.7% in the year to Q1 2024. Throughout this period, new rental contracts registered grew by 9.0% and renewed registrations increased by 2.0%. Demand continues to primarily stem from the manufacturing sector largely driven by the capital's relative competitiveness on labour and energy costs. In order to meet the rising demand levels, we have started seeing a number of new developments taking place, given the significant lack of available quality stock, that being said, even following the materialisation of this scheduled stock, demand will continue to substantially outstrip the available supply.

Data from the Dubai Land Department revealed that a total of 2,914 rental registrations occurred in Dubai's industrial market over the first quarter of the year, marking a year-on-year increase of 3.2%. This growth has been supported by a 3.4% increase in new rental registrations and a 3.1% increase in renewed rental registrations. The elevated levels of demand within Dubai, along with the limited number of new developments witnessed in the past period, have resulted in a lack of quality stock. The primary inhibitor that is limiting new developments is the absence of the necessary infrastructure required or available land plots.

Given the marked increase in demand, rental performance in both Abu Dhabi and Dubai's industrial and logistics markets has significantly improved. In the first quarter of 2024, average rents in Abu Dhabi stood at AED 408 per square metre, registering a year-on-year increase of 5.1%. Over this period, average industrial rents in Dubai grew by 14.3% to reach AED 43 per square foot as at Q1 2024.

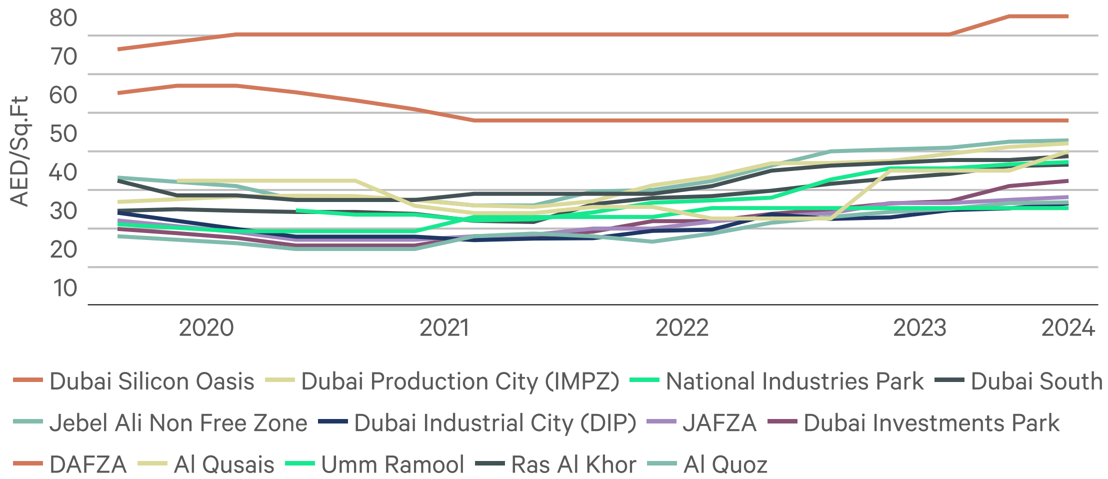
The current market backdrop has led to an increasingly landlord-favoured market, where tenants are pressured to accept the requirements set forth by landlords and incentives offered remain limited. Looking ahead, although a number of new developments are scheduled for delivery over the upcoming period, we do not expect that this will result in some pressure on rates. Average rents of new institutional-grade assets are expected to continue their upward trajectory and reach record levels, unlike dated stock, which is expected to register a more subdued performance.

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



Source: CBRE Research

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



Source: CBRE Research

Contacts

Middle East

Taimur Khan
Head of Research
+971 52 281 6953
taimur.khan@cbre.com

Tatiana El Bazi
Senior Analyst
+971 52 414 6791
tatiana.elbazi@cbre.com

Michael Young
Head of Advisory & Transactions
+971 56 603 9160
michael.young@cbre.com

Lindsay McQuillan
Head of Property Management
+971 52 640 9532
lindsay.mcquillan@cbre.com

Daniel McCulloch
Head of Valuation
+971 50 656 8325
daniel.mcculloch@cbre.com

Harish Nair
Head of MENA Consulting
+966 11 254 9777
harish.nair@cbre.com

Ali Manzoor
Head of Hotels & Tourism
+971 58 149 2583
ali.manzoor@cbre.com

Scott Keaney
Head of Project Management
+971 52 640 9525
scott.keaney@cbre.com

Inci Gecekusu
Head of Marketing and Communications
+971 52 100 5122
inci.gecekusu@cbre.com

Global Research

Richard Barkham
Global Chief Economist, Head of Global Research & Head of Americas Research
richard.barkham@cbre.com

Henry Chin, Ph.D.
Global Head of Investor Thought Leadership & Head of Research, Asia Pacific
henry.chin@cbre.com.hk

Abhinav Joshi
Head of Research, India, Middle East & North Africa
abhinav.joshi@cbre.co.in