

The background of the top half of the page is a low-angle, upward-looking photograph of a modern glass skyscraper. The grid of window frames creates a strong geometric pattern against a bright sky.

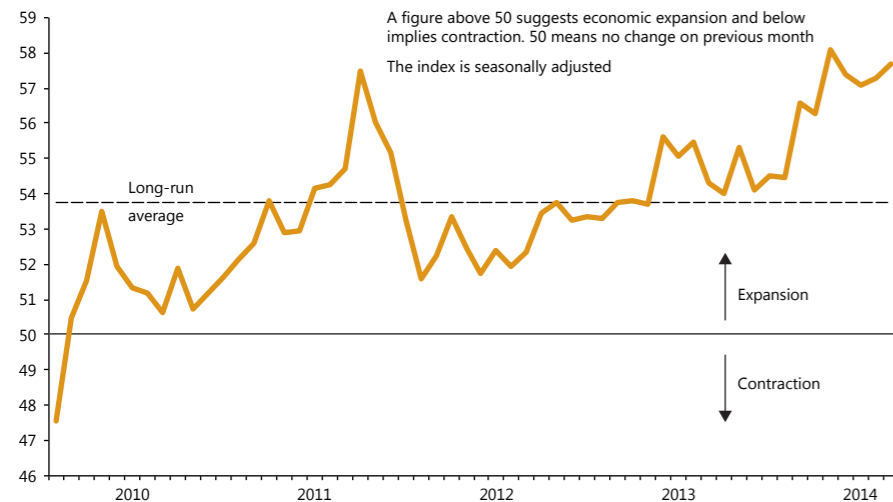
Q1 2014
DUBAI
OFFICES
Market update

HIGHLIGHTS

- Consistent with Dubai's strong economic performance, businesses have been increasing the size of their workforces. What's more, with workloads anticipated to rise, firms' hiring intentions remain positive.
- While demand for prime office space has been picking up, supply has simultaneously been rising. This in turn has kept market-wide vacancy rates stable at around 50%. It is worth noting, however, that the prime office vacancy rate edged down to 16% in Q1 2014.
- Underpinned by rising demand from corporates and SMEs, and the low supply of good quality office space in prime locations, rents in Dubai are projected to see annual increases of around 20% and 10% in 2014 and 2015, respectively.

Economic overview

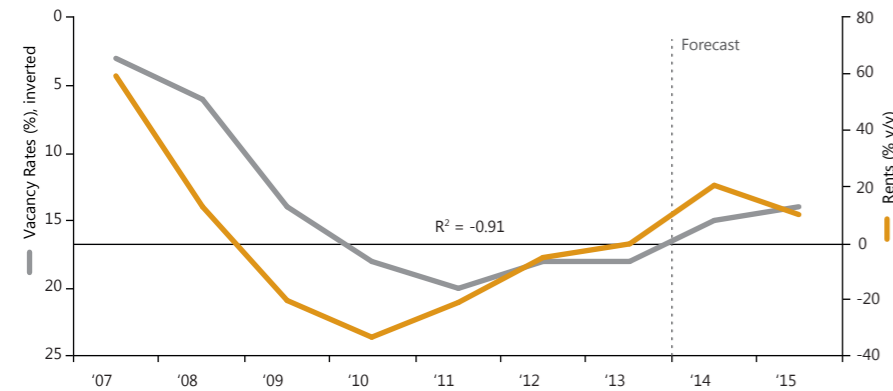
Figure 1
HSBC United Arab Emirates Purchasing Managers Index



Source : HSBC / Markit

- In March, the HSBC UAE Purchasing Managers Index (PMI) posted 57.7 – the second highest reading since the series began and well above its average (53.7). That suggests that conditions in the federation’s private non-oil sector remained very healthy, with activity growing at a quickening pace. Moreover, 8% of survey participants reported a rise in their staffing levels.
- Furthermore, data from Dubai’s Department of Economic Development (DED) showed that, in 2013, the number of new business licenses issued rose by 11.4% year-on-year to more than 18,000, with the strongest growth seen in the professional services category.
- At 144.3, the latest reading from the DED’s composite Business Confidence Index was the highest since the series began in Q2 2011, suggesting that the outlook for overall business activity in Dubai was bright in the short-term. Prospects for hiring were also strong, with 39% of businesses outlining their intention to increase the size of their workforce. By comparison, just 2% of respondents expected to cut their employment levels.

Figure 2
Office rental values and vacancy rates, Dubai



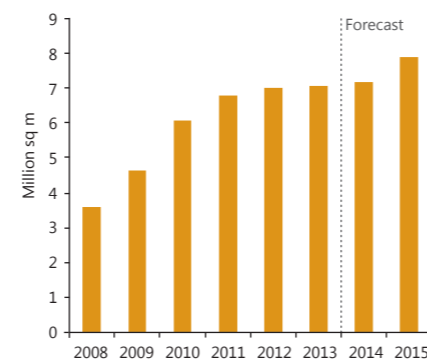
Source : Knight Frank

*The vacancy rate hit its high in 2011 - a year after rents reached their trough. This is explained by the fact that, despite the tough economic environment, some developers persisted and delivered new office stock.

MARKET COMMENT

- Dubai’s office sector made a strong start to the year, with the number of leasing transactions up significantly in both annual and quarterly terms in Q1 2014. However, the value of transactions were down markedly on the previous quarter – not surprising given that a flurry of high-value leasing contracts were signed by corporates before year-end.
- Furthermore, owner-occupiers of strata commercial space have increasingly been expressing an interest in purchasing accommodation in freehold locations. The rationale appears to be that, not only will they be able to build equity in the property over time, but also potentially benefit from capital value gains in the medium term, as well as rental savings.
- Recent completion of projects along Sheikh Zayed Road, in Business Bay and Al Barsha has increased the level of office supply in those areas, providing greater tenant choice and helping to stabilise rents.

Figure 3
Dubai office stock (2008-2015)



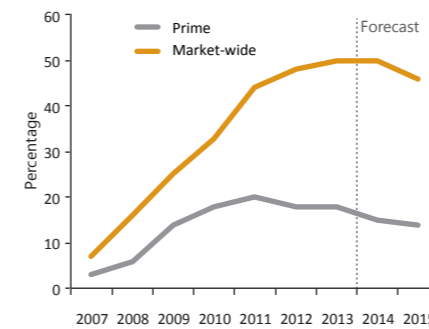
Source : Knight Frank

Figure 4
Tenant market indicators

| | | |
|------------------------------|-------|----|
| Prime rents | 1,950 | ▲ |
| Grade A | 1,660 | ▲ |
| Grade B | 1,075 | ▲ |
| Market-wide vacancy rate | 50% | ◀▶ |
| Average rent free Inducement | 10% | ◀▶ |

Source : Knight Frank

Figure 5
Total vacancy rates



Source : Knight Frank

Figure 6
Indicative rents by district Q1 2014 (AED/sq m)

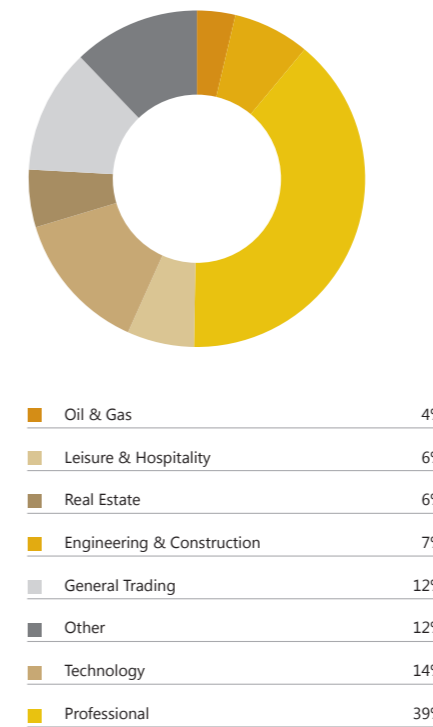
| | Indicative for fitted accommodation | Trending |
|-------------------------|-------------------------------------|----------|
| TECOM C | 810 | ▲ |
| Bur Dubai / Oud Metha | 860 | ◀▶ |
| Deira | 1,075 | ◀▶ |
| JLT | 1,075 | ▲ |
| Business Bay | 1,185 | ▲ |
| Festival City | 1,290 | ▲ |
| Emaar Business Park | 1,350 | ◀▶ |
| Sheikh Zayed Road | 1,510 | ▲ |
| Media City | 1,615 | ◀▶ |
| Internet City | 1,615 | ◀▶ |
| Knowledge Village | 1,615 | ◀▶ |
| Emaar Square / Downtown | 1,950 | ▲ |
| DIFC | 2,530 | ◀▶ |

Source : Knight Frank

MARKET VIEW

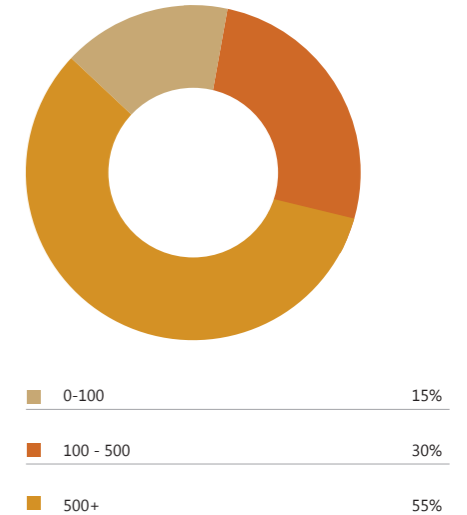
- Broadly, while office take-up in Dubai has been rising, new supply continues to be released into the market. Consequently, the market-wide vacancy rate has held steady at 50% over the past year. That said, the prime vacancy rate edged down to 16% as strong economic conditions provided corporates with the impetus to expand their operations.
- Consistent with that, rental values in locations such as Emaar Square/Downtown, Tecom C and Business Bay have seen double-digit increases over the past year. However, this has largely been limited to prime office buildings under sole ownership.
- In the first quarter of this year, demand was strongest from the professional sector, which accounted for almost 40% of all enquiries. The technology (14%) and general trading (12%) sectors were the next biggest sources of demand, while engineering & construction (7%), leisure & hospitality (6%), real estate (6%) and oil & gas (4%) sectors featured further down the list.

Figure 7
Demand by sector Q1 2014



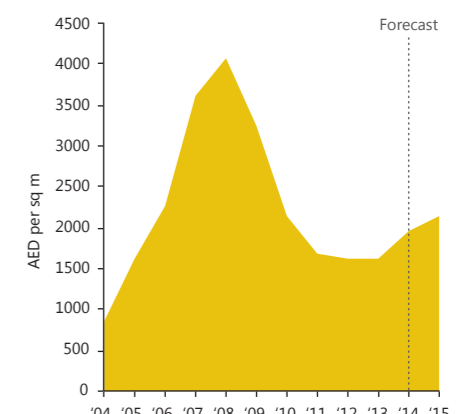
Source : Knight Frank

Figure 8
Enquiries Q1 2014
Size of requirement (sq m)



Source : Knight Frank

Figure 9
Prime rental rates for office space in Dubai excluding DIFC



Source : Knight Frank

BUSINESS BAY INSIGHT

- Both enquiries and leasing transactions within well specified buildings in the Business Bay area have remained fairly healthy over the past quarter.
- What’s more, with Regal and Prism Towers now at near full occupancy, and limited space available within Vision Tower, rents for good buildings in decent locations have risen by around 10% over the past year.
- However, the delivery of new developments in Business Bay, such as Bay Square, Bay Gate, The Burlington and Prime Tower, should cause rental values to more or less flatten over the next 12 to 18 months.

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Technical Note

- Floorspace has been sub-divided into Prime, A & B grade accommodation, reflecting high and low quality respectively. Whilst subjective, this categorisation is based on an assessment of each property's age, car parking ratio, specification, quality of finish, location, situation and overall attractiveness.
- Category A works comprise services, lift safety elements and basic fittings and finishes for the operation of lettable work space, including but not limited to suspended ceilings; raised floors and skirting; cooling and heating services.
- A Tenant Inducement % is the proportion of rent free period over the term certain.
- The U.A.E Dirham is pegged to the US Dollar at a rate of USD 1 : AED 3.673.

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