

REAL ESTATE MARKET REVIEW

UAE Real Estate Market Review Q2 2023

The UAE's real estate sector remains strong in the first half of 2023, despite some signs of moderation.

CBRE RESEARCH
AUGUST 2023



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▲ 2.8%

YoY forecast increase in GDP in 2023

▲ 56.9

UAE PMI reading in June 2023, up from 55.5 a month earlier

▲ 3.6%

YoY YTD to June 2023 increase in UAE's RevPAR

▲ 4.1pp

YoY YTD to June 2023 increase in hotel occupancy rates

▲ 22.8%

Increase in average residential rents in Dubai

▲ 17.2%

Increase in prime office rental rates in Dubai

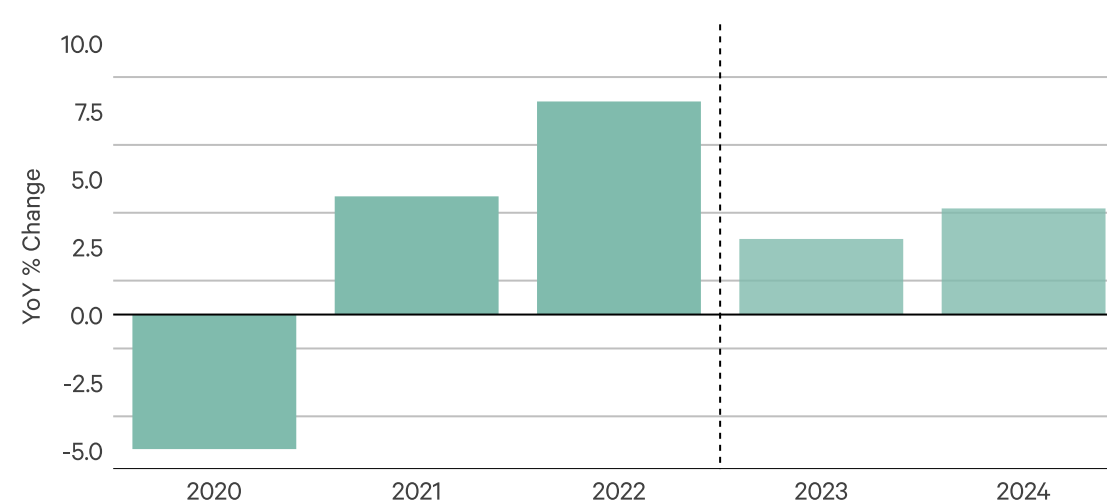
MACROECONOMIC OVERVIEW

- The UAE's GDP is forecast to grow by 2.8% in 2023
- Its hydrocarbon sector is expected to contract by 1.6% in 2023
- Over this period, the UAE's non-hydrocarbon sector is estimated to record a growth rate of 4.5%
- Inflation forecasts stand at 3.4% for the year

Based on Oxford Economics' forecasts, the UAE's GDP is estimated to grow by 2.8% in 2023, a marked decrease from the start of 2023, where GDP growth was forecast at 3.5%. Given the headwinds that the global economy has since faced and shifts in monetary policy, it is not a surprise that we have seen downgrades in headline growth. However, the downgrades have been down to the expected contraction in the hydrocarbon sector, which owing to the OPEC+ output cuts, is forecasted to contract by 1.6%, compared to a forecast growth rate of 2.7% in January 2023. The non-hydrocarbon sector, on the other hand, is estimated to register a growth rate of 4.5% in 2023, this is up from the 3.9% growth rate which was forecast in January 2023.

This expectation of a stronger rate of non-hydrocarbon growth is being portrayed in higher

FIGURE 1: UAE, Gross Domestic Product



Source: CBRE Research/ Oxford Economics/ Macrobond

MACROECONOMIC OVERVIEW

frequency indicators. The UAE’s Purchasing Managers’ Index (PMI), a tracker of private sector non-oil growth, registered a reading of 56.9 in June 2023, up from 55.5 a month earlier. This is one of the highest levels recorded since June 2019, underlining the considerable improvement in the country’s non-oil private economy and its outlook.

According to S&P Global, this increase has been primarily underpinned by an increase in new orders. The new business sub-component of the index showed strong growth, reaching its highest level in the last four years, primarily driven by a rise in foreign demand. A considerable increase in business activity has been witnessed on the back of the elevated levels of new orders and ongoing projects. As a result, employment rose further, marking its fourteenth consecutive month of growth.

Dubai’s PMI registered a reading of 56.9 in June 2023, up from 55.3 a month earlier. This is the strongest level recorded in the last ten months, on the back of higher levels of demand. The index’s three main sub-indices, construction, travel and tourism and wholesale and retail trade, all saw an expansion in activity.

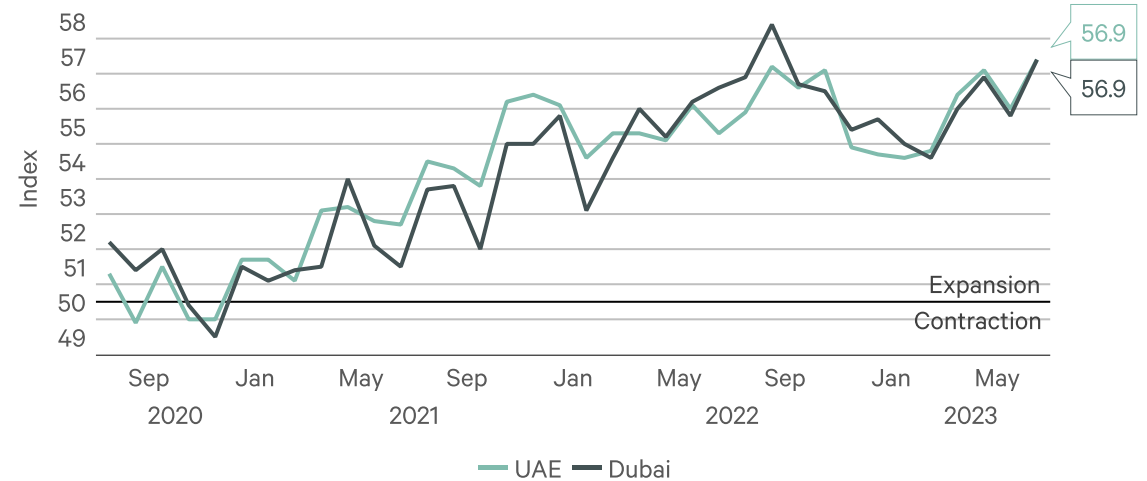
Whilst on the whole, despite, albeit seemingly dissipating, global macroeconomic headwinds, the UAE’s outlook remains relatively strong. The key downside risks that we are monitoring include the impact of higher interest rates, the impact on consumers on the back of higher housing costs, namely in Dubai, and finally, the net impact of a weakening US dollar.

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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%	2.8%	3.9%	5.1%
Hydrocarbon GDP	-3.8%	-1.1%	9.5%	-1.6%	5.8%	10.6%
Non-Hydrocarbon GDP	-5.4%	6.5%	7.2%	4.5%	3.2%	3.1%
Inflation	-2.1%	-0.1%	4.8%	3.4%	2.2%	2.0%

Source: CBRE Research/ Oxford Economics.

ABU DHABI OFFICES

Activity levels within Abu Dhabi’s office market remained robust throughout the second quarter of 2023. Over this period, a total of 8,365 rental contracts have been registered, up 8.9% from a year earlier. This headline growth has been supported by a 12.2% increase in new registrations and a 4.9% increase in renewals.

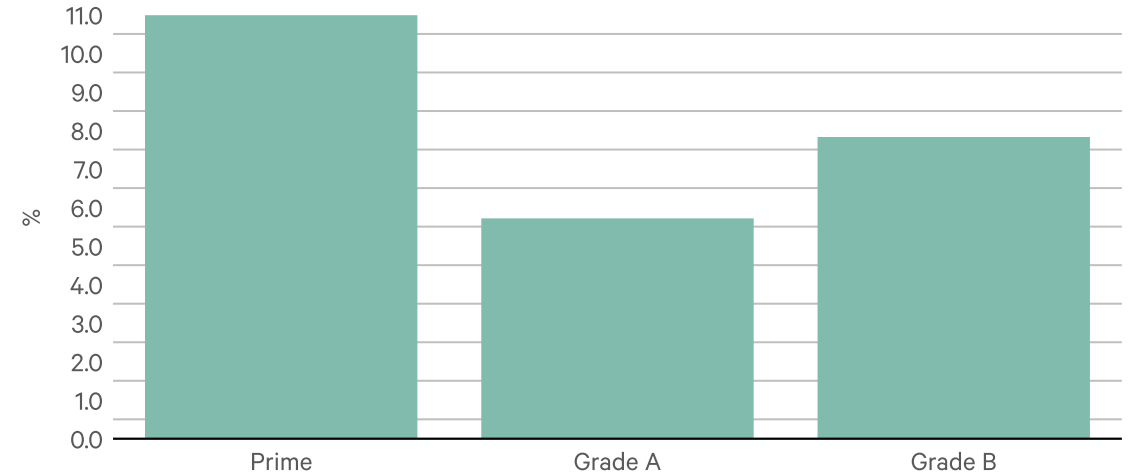
Government and semi-government-related institutions remain the largest source of occupier demand in Abu Dhabi compared to the private sector in terms of the total space demanded. Whilst there is increasing demand coming from private businesses, on average, the quantum of space that they require is usually substantially lower. Within this segment of the market, we are, in particular, seeing high demand from legal entities looking to expand their footprint in the capital.

On a broader level, the lack of available quality supply and scarcity of new developments remain among the main challenges faced by the market. As a result, we are currently seeing some large corporate occupiers planning to undertake build-to-suit (BTS) arrangements in order to upgrade their occupied spaces upon renewal.

The aforementioned market trends have meant that the average occupancy rate in institutional-grade buildings monitored by CBRE has increased from 84.0% in Q2 2022 to 93.7% as at Q2 2023. In the year through to Q2 2023, a substantial improvement in rental rates has been witnessed in Abu Dhabi’s occupier market, where Prime, Grade A, and Grade B average rents increased by 11.0%, 5.7%, and 7.8%, respectively.

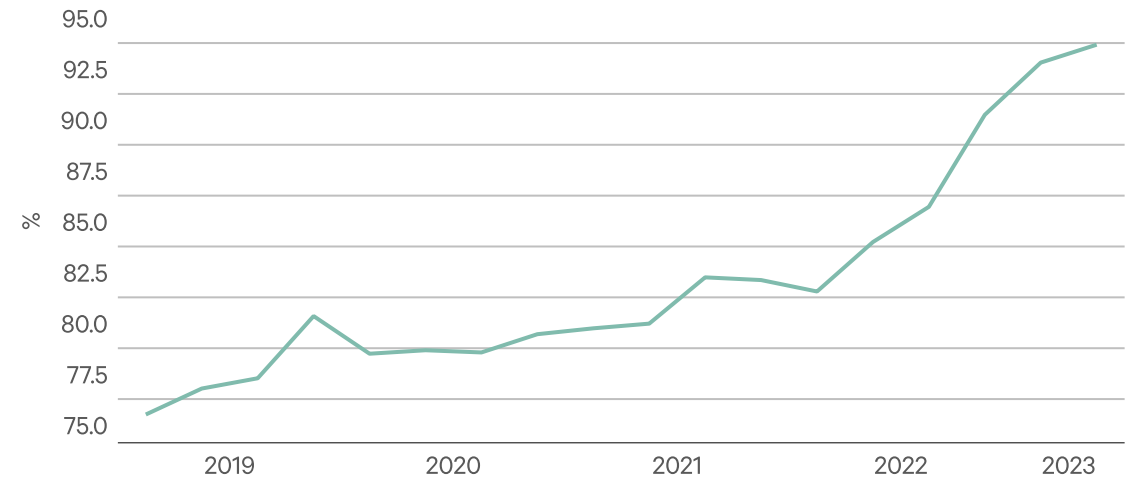
In the second half of 2023, we will likely continue to see strong performance in Abu Dhabi’s occupier market. Prime and Grade A assets are anticipated to maintain relatively robust levels of demand, particularly given the scarcity of available supply and the lack of upcoming new stock. This will continue to result in a landlord-favoured market.

FIGURE 4: Abu Dhabi, Office Rents, YoY % Change to Q2 2023



Source: CBRE Research

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



Source: CBRE Research

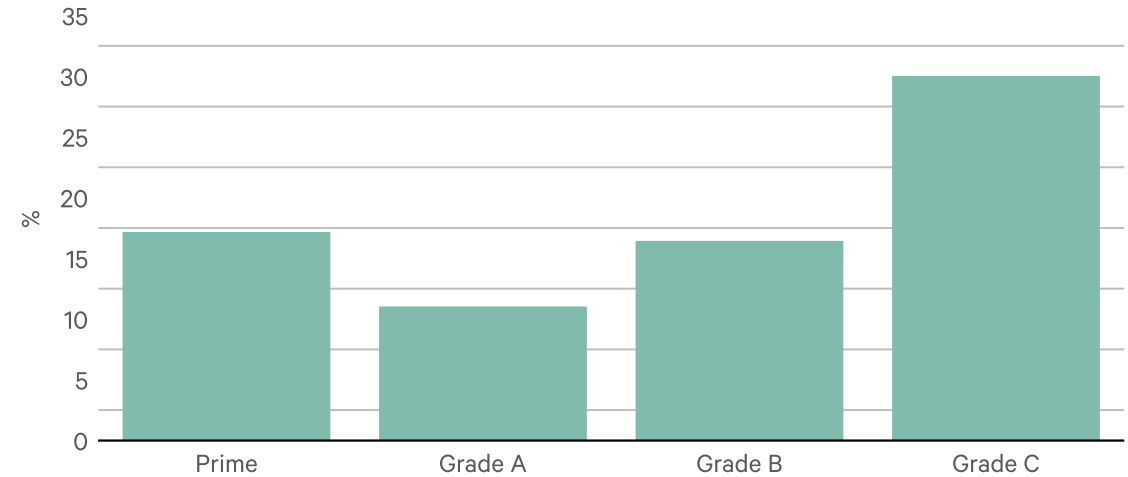
DUBAI OFFICES

Data from the Dubai Land Department revealed that in Q2 2023, the total number of rental contracts registered in Dubai’s occupier market reached 29,932, up 41.6% compared to a year earlier. Over this period, a total of 20,953 new rental registrations were recorded, marking a 58.5% year-on-year rate of growth. Additionally, a total of 8,979 renewed contracts were registered, highlighting an increase of 13.4% from the year prior.

Demand over the second quarter has been relatively balanced between both Free Zone and Non-Free Zone locations and is originating from a broad range of sectors. Two notable sectors of demand have been the technology and financial services (namely investment funds) sectors, the latter of which have almost exclusively gravitated within the DIFC. Another notable trend, given current demand and supply dynamics, has been that occupiers are undertaking exercises to weigh up downsizing their total occupied space, as less is required due to hybrid working, and then are able to use the savings to improve the quality of the current space occupied. Where we have such options being exercised, it has been where the flight to quality has not been possible and is generally more a solution of last resort.

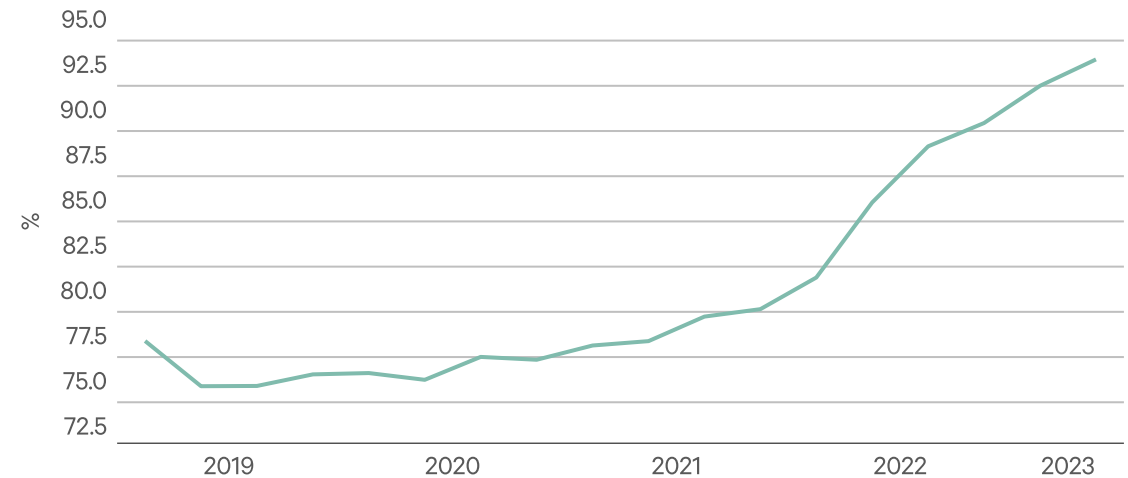
The average occupancy rate reached 92.7% as of Q2 2023, up from 84.8% a year earlier on the back of increased demand and limited availability of quality supply. These elevated occupancy rates continue to drive the increase in average rents in Dubai’s office market, where in Q2 2023, average Prime, Grade A, Grade B, and Grade C rents have grown by 17.2%, 11.0%, 16.4%, and 30.0%, respectively. Average asking rents across all segments have surpassed their comparable 2019 figures, where during the second quarter of 2023, Prime, Grade A, Grade B, and Grade C rates reached AED 244, AED 165, AED 136, and AED 117, respectively. Given the lack of available quality stock and the very limited amount of imminent future supply and strong pre-leasing activity, we expect rents to continue their upward trajectory throughout the remainder of 2023.

FIGURE 6: Dubai, Office Rents, YoY % Change to Q2 2023



Source: CBRE Research/ Macrobond

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



Source: CBRE Research

ABU DHABI RESIDENTIAL

In Abu Dhabi's residential market, a total of 2,487 sales transactions were recorded in the second quarter of 2023, this is a growth of 101.1% compared to a year earlier. Over this period, off-plan transactions increased by 167.9%, and secondary market transactions grew by 14.8%. In the year to date to Q2 2023, the total volume of transactions reached 4,737, registering an 88.6% growth from the previous year. This increase has been underpinned by a 151.1% rise in off-plan market sales and a 10.5% growth in secondary market sales.

Compared to Q2 2022, average apartment and villa prices in Abu Dhabi registered year-on-year increases of 0.9% and 1.7%, respectively. Considering only transactions undertaken during Q2 2023, average apartment prices reached AED 14,873 per square metre, and average villa prices reached AED 11,232 per square metre.

In Abu Dhabi's rental market, the total number of rental registrations reached 41,483 in Q2 2023, down 2.6% compared to the year prior. This slowdown has been underpinned by a 0.6% decline in new registrations and a 3.8% drop in renewed contracts over the same period.

Average apartment rents in Abu Dhabi marginally increased by 0.1%, and average villa rents grew by 1.0%. Based on rental registrations in Q2 2023, average apartment rents stood at AED 66,259, and average villa rents stood at AED 166,248.

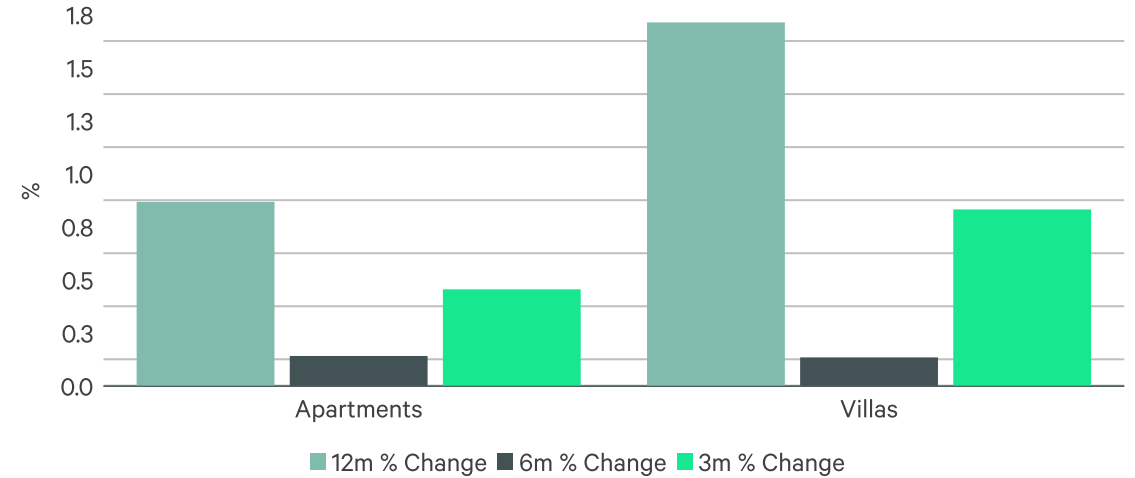
In terms of supply, mid-way through the year, 1,265 units have been completed in Abu Dhabi, where 65.8% of this supply has been delivered in Al Raha Beach and Najmat Abu Dhabi. A further 4,538 units are expected to be completed over the last two quarters of the year, with 49.0% of this upcoming stock scheduled to be delivered in Al Maryah Island.

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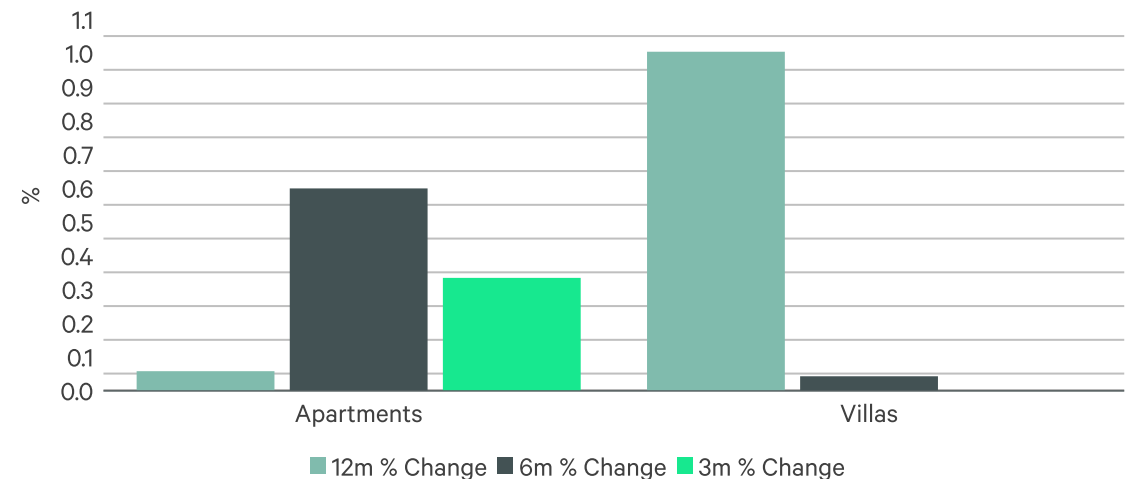
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FIGURE 8: Abu Dhabi, Residential Price Performance, % Change to Q2 2023



Source: CBRE Research/ Quanta

FIGURE 9: Abu Dhabi, Residential Rents Performance, % Change to Q2 2023



Source: CBRE Research/ Quanta

DUBAI RESIDENTIAL

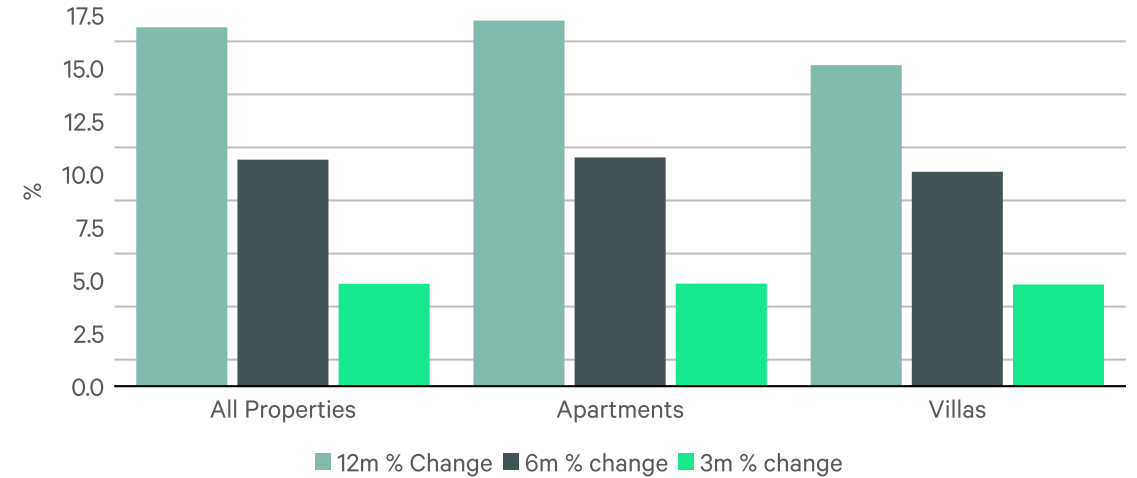
Average prices in Dubai’s residential market increased by 16.9% in the year to June 2023, with average apartment prices increasing by 17.2% and average villa prices by 15.1%. As at June 2023, average apartment prices stood at AED 1,294 per square foot, and average villa prices stood at AED 1,525 per square foot. Despite that the average apartment sales rates are still 13.1% below the high records of 2014, average villa prices currently sit at 5.5% above this peak. That being said, a number of neighbourhoods have long outperformed their 2014 levels.

The rate of rental growth continued to moderate for the fifth consecutive month in Dubai, with rents increasing by 22.8% in the year to June 2023, down from 24.2% in May 2023. Over this period, average apartment rents increased by 22.7%, and average villa rents increased by 23.1%.

In the second quarter of 2023, according to data published by the Dubai Land Department, a total of 130,219 rental contracts have been registered, up by 5.9% compared to the previous year. Over this period, new registrations have dropped by 15.5%, whilst renewed rental contracts have grown by 25.8%. This highlights that tenants are more likely to renew their existing tenancies to avoid both higher rental rates when signing new tenancies and incur the moving costs, but also to benefit from the protection offered by the RERA rental regulations.

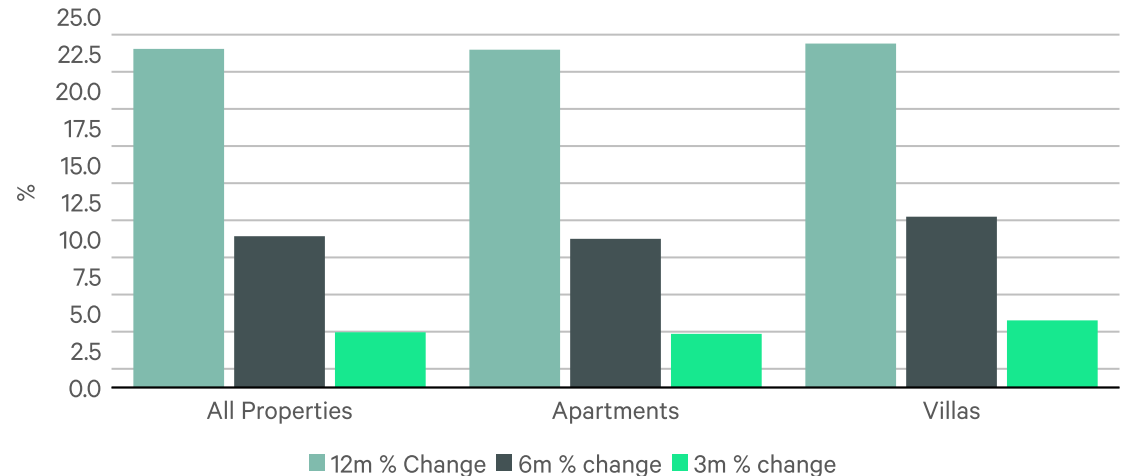
On the supply front, a total of 16,499 units have been completed and delivered in the year’s first two quarters, where new stock in Downtown Dubai, Dubai Creek Harbour, and Business Bay accounted for 44.6% of this recent supply. By the end of this year, an additional 45,380 units are expected to be completed, with 39.6% of this upcoming supply being developed in Meydan One, Business Bay, and District Seven. However, we do not expect that the full schedule of this stock will be delivered over the remainder of the year as planned.

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



Source: CBRE Research/ REIDIN

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



Source: CBRE Research/ REIDIN

DUBAI RESIDENTIAL

In June 2023, a total of 9,876 transactions were registered, marking an increase of 18.8% compared to the year prior. Over this period, whilst off-plan market sales increased by 44.9%, secondary market sales marginally dropped by 0.5%.

Despite the recent marginal drop-off in secondary market sales, activity levels in Dubai’s residential market remained robust in the year’s first two quarters, where in the year to date to June 2023, the total transactions volume reached 57,738. This is the highest total on record over this period and marks an increase of 43.2% compared to the same period a year earlier. This growth has been underpinned by a 75.3% growth in off-plan transactions and an 18.9% growth in secondary market transactions.

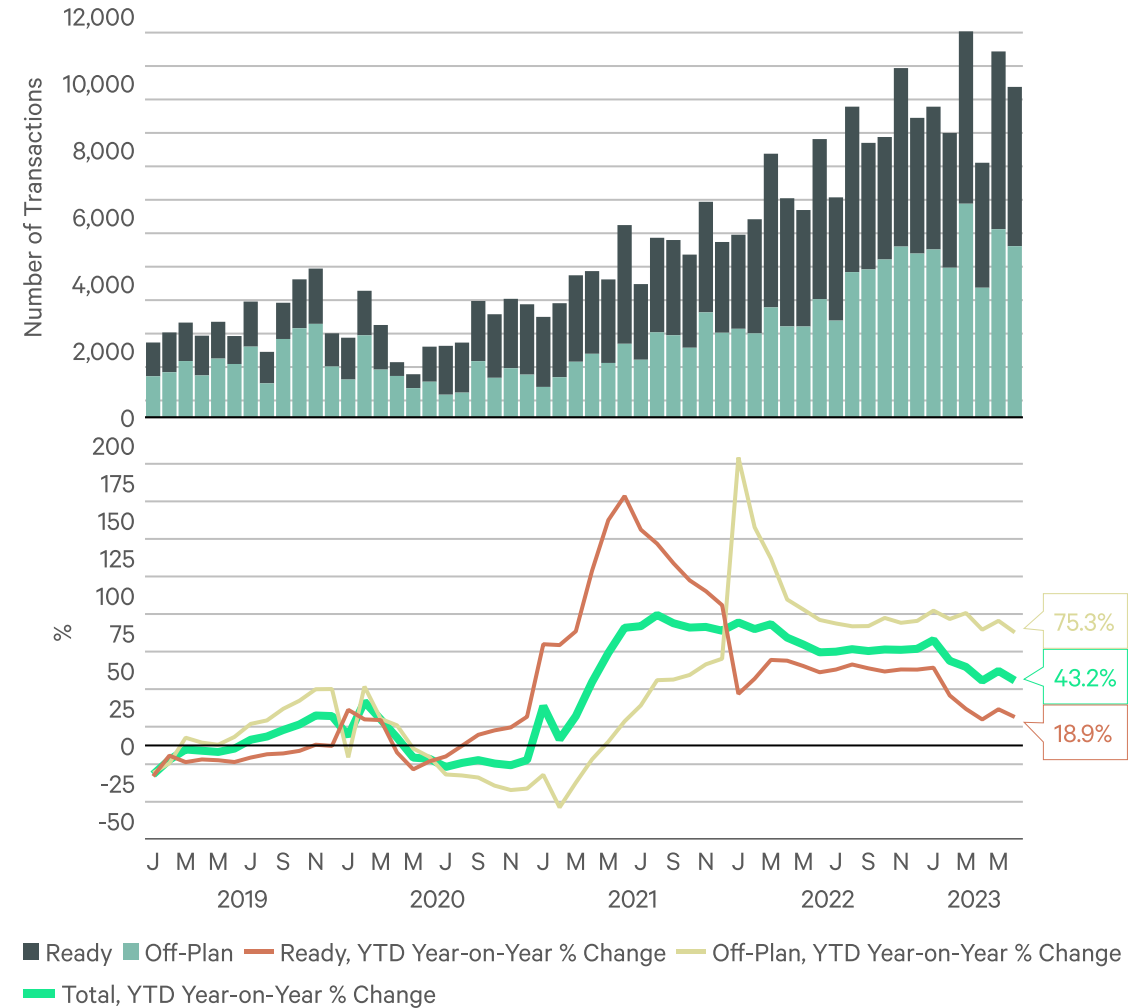
Moving forward, we expect that rental rates will continue to moderate. This is due to a reduction in asking rents in a number of key residential areas, particularly in the apartment segment of the market, where rents in several prime communities are now heading towards a single-digit growth. However, multiple secondary areas are now recording significant increases in their rental growth rates, albeit these areas are behind the curve compared to the wider market. We expect that, over the course of the year, the growth rate in this segment of the market is likely to flatten faster than what we have seen in the prime market to date.

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FIGURE 12: Dubai, Residential Transactions



Source: CBRE Research/ REIDIN

UAE HOSPITALITY

On a global level, the average number of daily flights in the year to date to Q2 2023 reached 114,779. This figure has surpassed its 2019 comparable level by 3.0% and is the second consecutive quarter where we have seen this level remain above 2019 levels. According to data published by IATA, as of May 2023, the global passenger load factor (PLF) stood at 81.8%, unchanged from the same period in 2019, highlighting solid progress compared to previous figures. The available seat kilometers (ASK), on the other hand, remain below their 2019 levels by 3.9%. Whilst not all KPIs are above their 2019 levels, we have generally seen an earlier than expected return to travel.

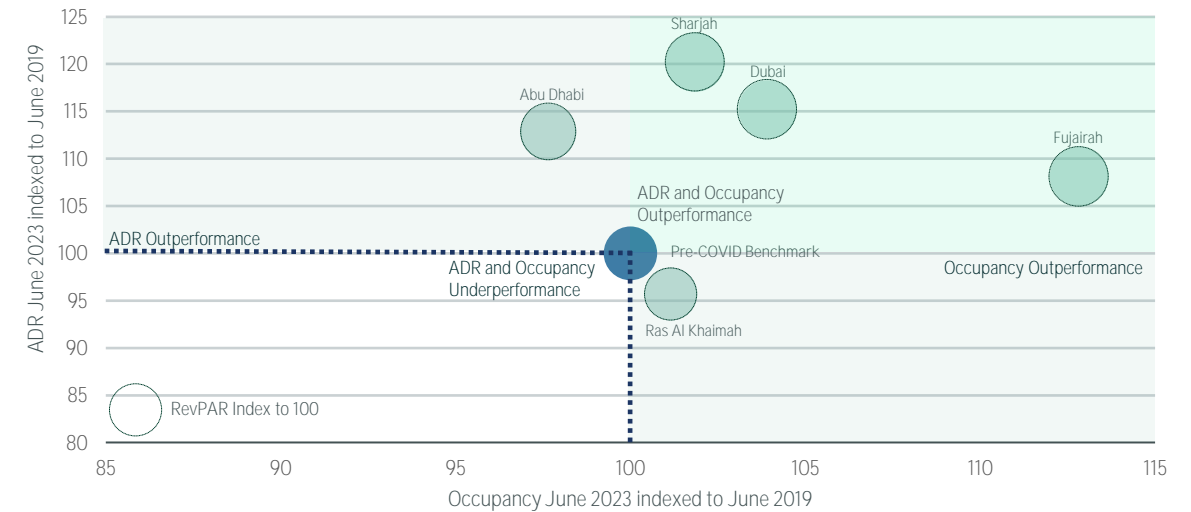
In the year to date to May 2023, Dubai has received a total of 7.4 million international visitors, marking an increase of 19.8% from the previous year and surpassing the comparable 2019 period by 3.2%.

Year-on-year, in the year to date to June 2023, the average occupancy rate in the UAE rose by 4.1 percentage points. Over the same period, ADRs dropped by 1.9%, however average RevPARs saw an increase of 3.6%. Despite this year-on-year moderation in ADR figures, in the year to date to June 2023, the average ADRs across the UAE have surpassed the 2019 benchmark by 16.4%, given the elevated ADR levels in Sharjah, Dubai, Abu Dhabi, and Fujairah, which have recorded increases of 20.1%, 15.2%, 12.8%, and 8.1%, respectively. As a result, these cities' RevPARs have outperformed their 2019 levels by 22.4%, 19.7%, 10.1%, and 22.0%, respectively. Average occupancy rates across the majority of locations within the UAE have topped their 2019 levels. Nonetheless, Abu Dhabi is the only city that is still below its pre-pandemic benchmark by 1.7 percentage points.

Currently, the UAE is also benefiting from the reopening of the European tourism market. Given the UAE's hub status, tourists are both deciding and being induced into breaking-up their trips to the continent, which is helping drive demand and profitability in what is usually low season.

Over the remainder of the year, we will likely see continued growth in the sector's KPIs on the back of several key upcoming events, including but not limited to the Abu Dhabi F1 Grand Prix, the COP-28 summit and the gradual return of key source markets, which have only recently been able to freely travel post COVID.

FIGURE 13: UAE KPIs Performance, Indexed to June 2019



Source: CBRE Research/ STR Global

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

	Year to Date - June 2023 vs June 2019			Year to Date - June 2023 vs June 2022		
	Occ PP Change	ADR % Change	RevPAR % Change	Occ PP Change	ADR % Change	RevPAR % Change
UAE	2.4%	16.4%	20.3%	4.1%	-1.9%	3.6%
Abu Dhabi	-1.7%	12.8%	10.1%	1.4%	25.8%	28.2%
Dubai	2.9%	15.2%	19.7%	4.5%	-5.6%	0.2%
RAK	0.8%	-4.3%	-3.2%	14.7%	-7.0%	16.7%
Sharjah	1.3%	20.1%	22.4%	1.7%	8.6%	11.2%
Fujairah	7.2%	8.1%	22.0%	3.5%	-8.3%	-2.9%
Ajman	-	-	-	3.7%	0.3%	5.0%

Source: CBRE Research/ STR Global

UAE RETAIL

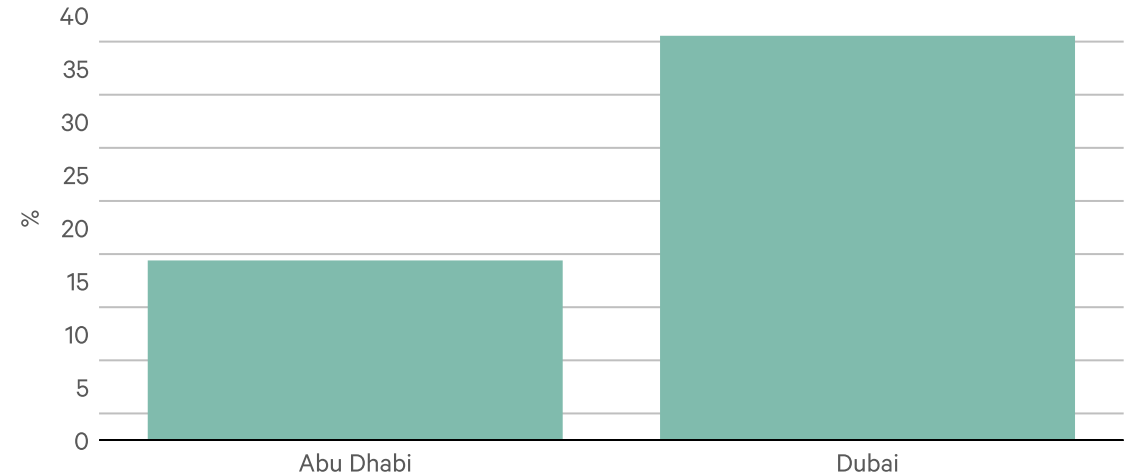
Strong levels of take-up continue to be seen in Abu Dhabi’s retail market in the second quarter of 2023, where the total number of retail rental contracts registered reached 7,494, up by 7.4% compared to the year prior. Over this period, new registrations increased by 1.9%, and renewed registrations increased by 10.2%.

In Dubai’s retail market, a total of 17,463 rental contracts were registered in Q2 2023, marking a growth rate of 1.3% compared to the year prior. Over this period, the number of new registrations dropped by 15.3%, whereas renewals grew by 11.9%.

In both cities, the trends have been relatively uniform, demand is highest for prime retail spaces or for retail spaces which have desirable catchment areas and a range of destination drivers. With both markets lacking the availability of such units, we are seeing remerchandising or the introduction of new destination drivers to attract and cater to such occupier requirements. Those who have carried such projects out successfully are attracting a range of premium to mid-end retailers from a large of sectors.

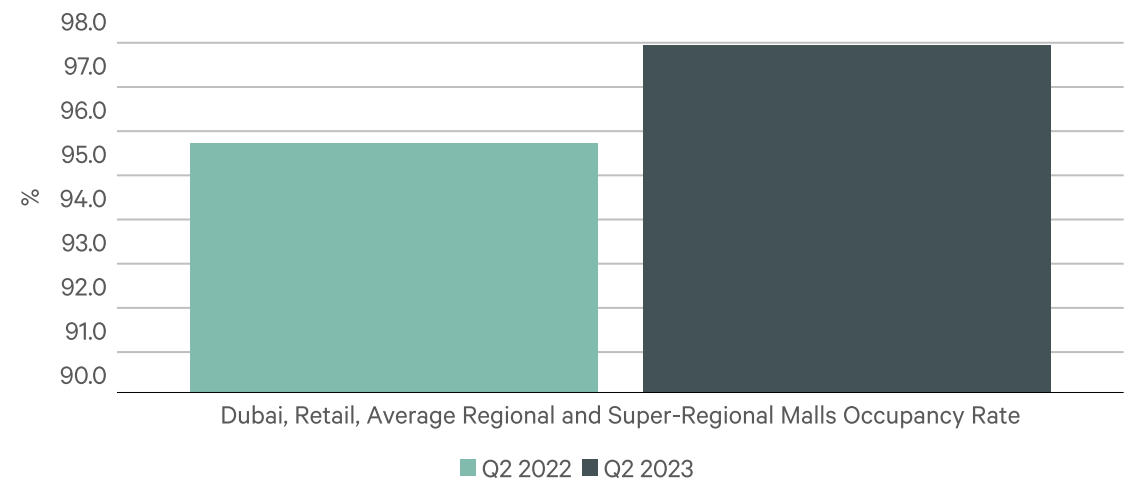
Given these high levels of demand and very limited levels of availability in prime and core assets, we are surprisingly seeing strong rates of rental growth in both Abu Dhabi and Dubai. As at Q2 2023, average retail rents in Dubai reached AED 472 per square foot, a 38.0% increase from a year earlier. Over the same period, lease rates in Abu Dhabi have grown by 16.9% reaching an average of AED 2,075 per square metre.

FIGURE 15: UAE, Retail Rents, YoY % Change to Q2 2023



Source: CBRE Research/ Macrobond

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



Source: CBRE Research

UAE INDUSTRIAL

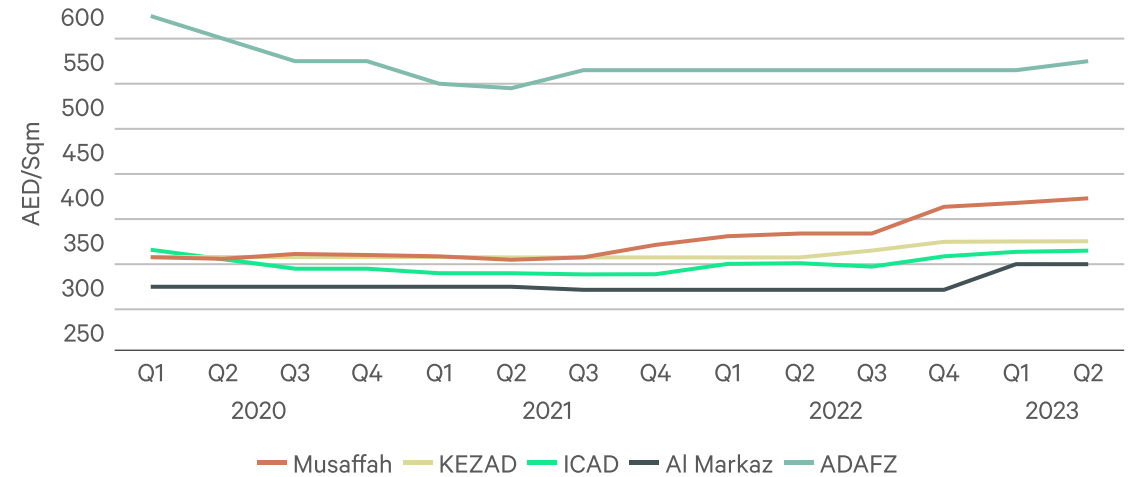
The UAE’s industrial and logistics sector has seen relatively strong levels of activity over the course of the second quarter of 2023. In the year to Q2 2023, the total number of rental registrations in Abu Dhabi’s industrial and logistics market grew by 18.8%. Over this period, new registrations increased by 8.2%, and renewed contracts registered grew by 26.2%. In Dubai, a total of 2,248 rental transactions were registered in the second quarter of 2023, based on data from the Dubai Land Department, increasing by 3.6% compared to the year prior. Over this period, new registrations considerably dropped by 24.9%, whereas renewals grew by 22.5%.

On the back of strong demand, in the year to Q2 2023, average rental rates in Abu Dhabi and Dubai increased by 6.4% and 19.0%, respectively. As at Q2 2023, average rents in Abu Dhabi stood at AED 393 per square metre and in Dubai at AED 41 per square foot.

A significant portion of demand continues to originate from existing occupiers looking to expand, this is an evolution from last year, where new-to-market occupiers accounted for a significant majority of occupier activity. Although it has to be said that activity levels could have been much higher from this existing cohort, the lack of available institutional quality stock has forced many occupiers to renew their existing leases, preventing them from expanding. Given that the market is so heavily landlord-favoured, landlords are able to secure considerable rental increases from existing tenants.

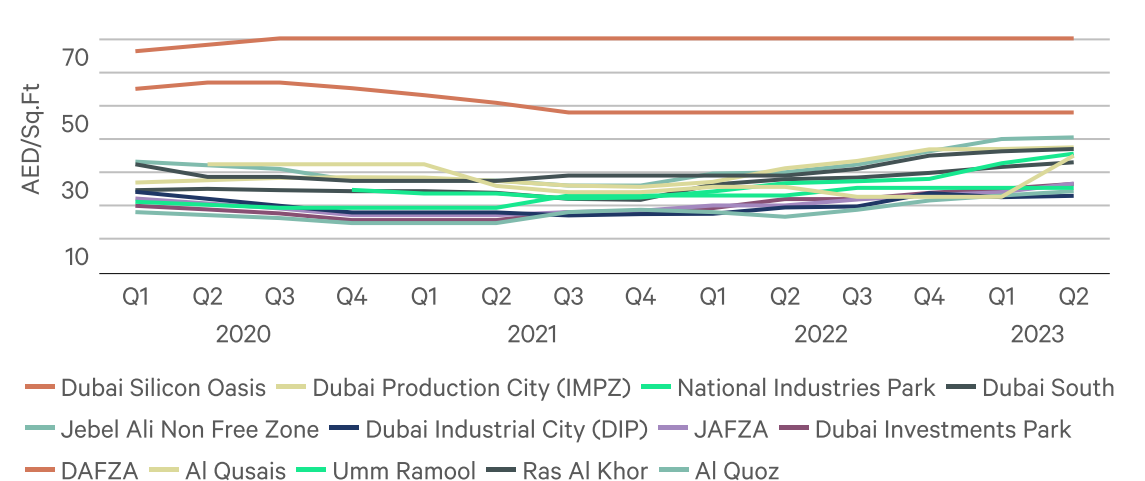
The scarcity of available quality stock resulting from the lack of new developments will continue to drive rental growth over the second half of 2023, albeit we expect that growth rates will now begin to moderate on average. In Dubai, developers are highly interested in building stock on-shore. That being said, the availability of appropriate infrastructure to do so is the largest inhibitor. In Abu Dhabi, on the other hand, both infrastructure and lands are available for such developments; however, that is not currently matched by developer demand.

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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