



COUNTRY RESEARCH
QUARTER 4, 2006

COLLIERS INTERNATIONAL
Residential Market Overview
United Arab Emirates

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DUBAI INTRODUCTION

Compound historical population growth of 7.13% per annum over the past seven years has stretched residential supply in Dubai to the limits. Different categories of residential space are over-subscribed, with vacancy rates at less than 1% across the city. Labour accommodation designed to house eight people is being used for double that, while prosperous expatriates move into multi-family accommodation or subdivide residential units.

From 2002 to 2005 the supply of residential buildings in Dubai increased by more than 42%, rising from approximately 56,000 to 79,000 buildings. The demands for investment property and residential space connected to population growth have ensured that the amount of available units has risen by a remarkable 61% during the same period placing the total estimated supply at 234,930 units by end of 2005.

Demands for housing units continue to grow, with an estimated 100,000 people moving to Dubai every year. When available space is modelled against population growth, it becomes clear that since the year 2000 a reported minimum of 6% of yearly demand for single-family units has been left unsatisfied, creating a market with high latent demand.

Estimates of the total number of residential apartments and villas planned for completion before 2010 are between 170,000 – 240,000 units, with close to 110,000 apartments and 16,500 villa units now confirmed as under development. Projecting this level of new supply of the number of apartments being delivered to the market against demand growth, Colliers forecasts a potential decline in occupancy from current high levels and a softening of rentals.

Any alteration in the relationship between supply and demand is expected to impact most significantly on high-income segment apartments. As additional supply becomes available and rents soften, the market will see a migration from shared accommodation to single occupier units. Tenants will take advantage of the change in the market by either substituting for improved quality or upgrading to larger unit size.

In addition, Colliers forecasts a change in payment structures. The market has already seen a partial transition from rents paid annually in advance to quarterly in advance. Colliers anticipates the continuation of this trend.

MARKET TRENDS

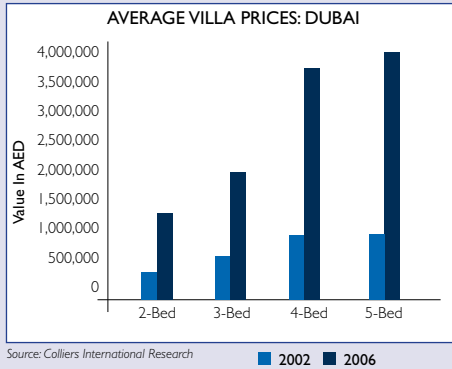
The weight of population growth is now creating a shift from a market defined by speculative investment to one fuelled by the need to accommodate people living and working in Dubai. Within the numerous foreign ownership zones, speculative investments have been surpassed by the appetite from owner-occupiers, especially for properties that have been completed or are nearing occupation.

In a more competitive market, developers are being forced to offer attractive financing options, incentives, and to mount increasingly expensive marketing campaigns. From a maximum loan to value (LTV) mortgage of 75%-80% on most developments as recently as 12 months ago, promotional offers of up to 97% LTV mortgages are now being offered with loan maturity periods of up to 15-25 years at 6.5% - 7.75% interest rates.

While the market is being made more appealing for buyers, developers are facing a more challenging climate. Increased competition and marketing charges are combining with rising construction costs and the reticence of contractors to take on projects with lower margins; adding to developer's risks.

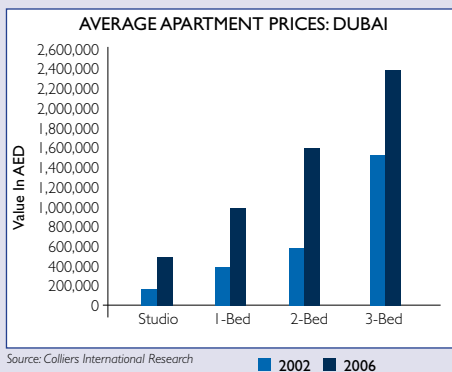
Colliers analysis has established a clear link between project completion dates and developer's ability to sell off-plan. Purchasers show a greater appetite to buy properties that are nearer to completion.

RESIDENTIAL PRICES



The historic performance of property prices suggests dramatic rewards for those investment buyers who entered the market early. A property index of key residential developments maintained by Colliers International shows residential property prices to have close to tripled between 2002 and end 2006, with the prices of two-bedroom and three-bedroom villas increasing from an average of AED 474,000 and AED 705,000 to AED 1,360,450 and AED 2,110,000 respectively. Over the past four years individual villa prices have increased by as much as 226%, with the average price per sq. ft. rising from AED 331 in 2002 to AED 764 in 2006.

Apartment prices show similar levels of inflation with studios and three-bedroom units rising from averages of AED 194,000 and AED 1,475,000 in 2002 to AED 554,000 and AED 2,410,000 by the end of 2006. This suggests that over the past four years the cost of apartment units has increased by almost 100%, with the average price per sq. ft. rising from AED 533 to AED 949.



SECONDARY MARKET

The secondary market has also performed for investors with residential developments in Dubai showing dramatic capital increases on resale. Colliers International Research tracks the emerging secondary market in some completed major residential developments; the results of this index suggesting that price inflation in the secondary market is rising.

At completed projects in the Arabian Ranches, Meadows, Jumeirah Islands and Springs, villa units typically demonstrate 50-70% capital appreciation within two to three years. Apartment units in The Greens have appreciated by approximately 100 – 120% from original sales price, whilst apartments in Dubai Marina are reselling at 40-55% increase.

ANNUAL RENTALS – HIGH-END APARTMENTS	
Apartment Type	Annual Rentals (AED)
One-bedroom	90,000 - 110,000
Two-bedroom	115,000 - 130,000
Three-bedroom	130,000 - 170,000

Source: Colliers International Research

RENTAL RATES

For the last three years, tenants in Dubai have been affected by dramatic increases in rental rates. Rents for typical apartment units with two-bedrooms and three-bedrooms have inflated by 72% and 84% respectively between 2002 and 2005, implying a respective 20% and 23% annual rental increase.

Despite soaring rental prices, residential apartment landlords are reporting approximately 98% annual occupancy rates. While owners are rewarded by the current rental trend, there is a steady increase in the number of middle-income tenants seeking to relocate to alternative centres such as Sharjah and Ajman.



AVERAGE RESIDENTIAL PRICE/Ft²: DUBAI



AVERAGE RENTS FOR 3 BEDROOM APARTMENTS AND VILLAS: DUBAI



ABU DHABI

ANNUAL RENTALS – HIGH-END APARTMENTS

Apartment Type	Annual Rentals (AED)
One-bedroom	50,000 - 65,000
Two-bedroom	75,000 - 100,000
Three-bedroom	120,000 - 180,000
Four-bedroom	125,000 - 200,000

Figures from the Department of Planning and Economy indicate that the number of Abu Dhabi's households will increase from 105,500 in 1990 to 215,500 by 2010. Colliers estimates that to meet this growth, an additional 120,000 new housing units will be required in Abu Dhabi City by 2010. Between 150,000 and 200,000 new units are now planned for completion by 2010.

Currently the market faces a shortage of all types of apartments. New buildings are being occupied at a rapid rate with large corporations and tenants from the public sector reserving apartments in advance. Practically all properties surveyed showed a 100% (or close) occupancy level supporting the strong demand profile.

On average, rents are increasing by between AED 5,000 and AED 10,000 per annum, with Colliers research suggesting an average increase of 10% to 15% on lease renewal. The table below gives an indication of the going rentals in early 2006.

Until November 2006, rental increases in Abu Dhabi were limited to a 20% increase every two years. This has traditionally been adhered to, as the Khalifa Committee has managed the majority of the buildings in Abu Dhabi. The government is now seeking to end this reliance on the Khalifa committee, and from 2006 onwards, there has been a gradual shift with the Committee returning responsibility for management of properties to the actual owners.

Anticipating the consequences of the transfer of management, the President of the UAE, H. H. Sheikh Khalifa Bin Zayed Al Nahyan, in his capacity as Ruler of Abu Dhabi has issued Law No. 20 of 2006, which stipulates that rentals may only be increased by 7% annually, provided the lease duration is for three years or less.

The impact of this law on the freehold and long-term leasehold market in Abu Dhabi remains to be seen, as the growth of the property market in Dubai was underpinned by surging rentals.

RESIDENTIAL PRICES

SALES PRICES ON AL RAHA GARDENS

Type	PRICES* (AED)	AED/M ²
3 BR Townhouse	1,500,000	6,550
4 BR Townhouse	2,000,000	7,813
3 BR Villa	2,500,000	10,163
4 BR Villa	3,000,000	10,753
5 BR Villa	3,500,000	9,859
5 BR Deluxe	4,000,000	9,412

* Colliers estimates

When the first villas at Aldar's Al Raha Gardens were released in 2005, the purchases signified the first release of sold property to the Abu Dhabi market. At the time of offering, only UAE nationals were allowed to own property and the sale of approximately 350 units reportedly took place in less than 45 minutes.

The sale of approximately 1,400 units within Al Raha Gardens within 48 hours has also demonstrated the presence of speculators in the market. A number of the Al Raha Gardens villas and townhouses are now available on the secondary market at premiums of approximately 10% to 15%.

A number of apartments have also been released on Al Reem Island; prices here range from approximately AED 710 to AED 110/ft² of gross leasable area.

A number of other major developments are planned or under construction in the Emirate. Development activity is moving away from Abu Dhabi city into the suburbs and outside the island.

Whilst residential development in Abu Dhabi is becoming every bit as vibrant as in Dubai, a comparatively later start to development activity means that Colliers does not forecast residential oversupply in the medium term.

The market may shift between 2011 and 2012 when large projects such as Al Reem Island and Saadiyat Island are completed. However, by this point demographic and economic growth may result in a significant increase in demand, making the future relationship between supply and demand difficult to forecast accurately.

NORTHERN EMIRATES

ANNUAL RENTALS – HIGH-END APARTMENTS	
Apartment Type	Annual Rentals (AED)
One-bedroom	25,000 - 35,000
Two-bedroom	25,000 - 50,000
Three-bedroom	45,000 - 75,000

The Northern Emirates continue to absorb overflowing demand from Dubai. Residents continue to move outwards in order to take advantage of lower costs, and large-scale new residential developments are planned for Ras al Khaimah, Ajman and Umm al Quwain.

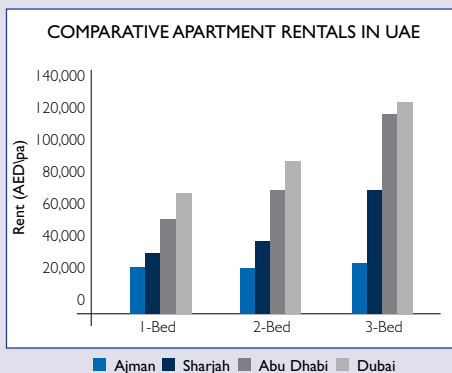
These developments include Tameer's Al Salam City, a project in Umm Al Quwain which is expected to house as many as 500,000 people, the Umm Al Quwain Marina and Sharjah's Nujoom Islands, a development of 1400 villas and 37 residential towers on ten reclaimed islands.

Sharjah remains the most high-profile property market amongst the Northern Emirates. According to the UAE Ministry of Planning, in 2006 more than 80% of the Sharjah workforce is employed in Dubai.

Sales and rental costs in the Northern Emirates have risen dramatically. From mid-2005 to mid-2006 rents have typically increased by 20 – 25%, whilst occupancy remains close to 100% for all sizes of unit. Studies suggest that rental rates on apartments have increased up to 70% over the past three years, with the largest increments on one and two bedroom apartments. Despite the increments, prices remain 25 – 50% lower than in Dubai.

Expatriate demand is an important part of the rental market in Sharjah, although the lack of rights for non-GCC nationals to buy property is believed to be inhibiting sales. While demand has encouraged tenants to move into apartment buildings, the lack of expatriate buyers in Sharjah ensures that the market for sold property remains focused on villas.

Sales rates on apartment buildings have been slower than in neighbouring emirates and a high proportion of purchasers are believed to be buying for investment, whilst a strong secondary market has yet to develop.



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