Deloitte.

Middle East Real Estate Predictions

2023

Dubai market review

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Pent-up demand from travellers and increased spending by residents led the post-pandemic recovery of the real estate sector in Dubai. Amidst global economic uncertainty and recessionary fears, Dubai's status as a safe haven has attracted investors to the market throughout 2022. However, inflation remains a concern for consumers and is expected to impact sentiment resulting in price discovery and rent increases leading into 2023.

Hospitality
Occupancy for Dubai averaged 70% at the end of 2022, compared to the same period in 2021, while the average ADR over this period has increased by 37% year-on-year to AED 641. This is higher than the majority of the regional and international markets.

Residential
Average sales prices for residential property in Dubai increased by approximately 12% between Q3 2021 and Q3 2022 to reach AED 1,203 per sq ft. Average rents also increased by approximately 19% over the same period, rising to AED 73 per sq ft as as at the end of 2022. Gross yields reflect 6.1% compared to 5.7% in 2021.

Offices
Office rents have recovered to pre-pandemic levels registering an increase of 12% at the end of 2022 over the same period.

Retail

Consumer spending growth fueled the retail sector recovery in both online and traditional mall formats. The Economist Intelligence Unit (EIU) estimates that the total UAE retail sales volume will increase by approximately 4.2% in 2022, with sales expected to increase by 3.9% on average between 2023 to 2026.

Industrial and logistics

Average warehouse rents have continued to recover as demand from logistics companies remains buoyant and freight movements at the airports surpass 2020 levels by 22% and 3% at Dubai International Airport (DXB) and Dubai World Central (DWC) respectively.

Dubai real estate market performance

Dubai's hospitality market

The hospitality market recovery strengthened during 2022 as key performance indicators tracked higher than the previous year despite total visitor numbers remaining below pre-pandemic levels.

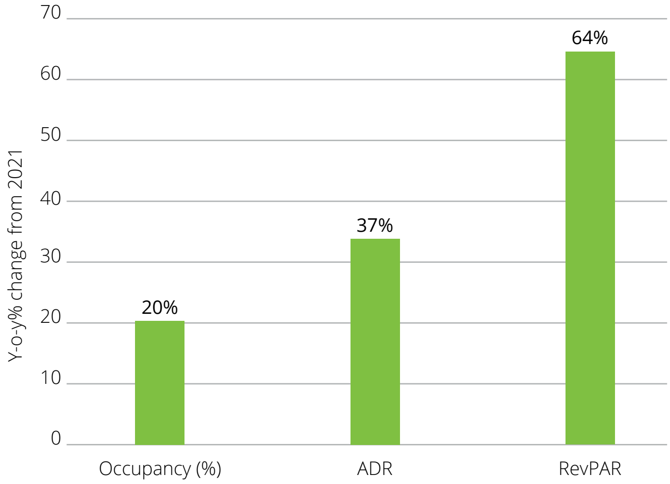
Review of 2022 performance

Dubai welcomed 10.1 million overnight visitors in the first nine months of 2022, with the highest number of international guests arriving from India at 1.2 million and more than double the number of visitors from Oman, KSA and the UK compared to the previous year. International visitors are still lower than pre-pandemic levels, with a total of 12.1 million visitors in Dubai during 2019.

The YTD September 2022 occupancy for Dubai averaged 70% compared to 59% for the same period in 2021, while the average ADR over this period has increased by 37% year-on-year to AED 641. This is higher than the majority of the regional and international markets, as shown on the following page.

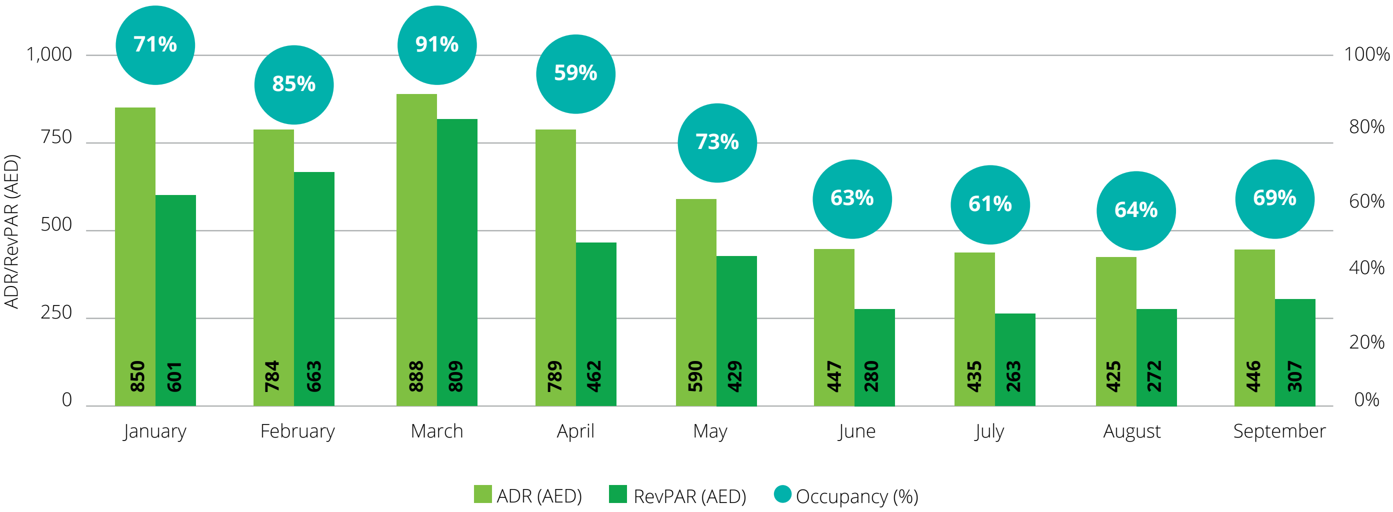
As seen in the adjacent graph, both ADR and occupancy improved significantly from the previous year as a market-wide recovery was supported by ease of travel and the lifting of capacity and personal protective equipment (PPE) related restrictions. The first three months of the year were the strongest for occupancy performance, reaching 91% in March.

Dubai hotel performance percentage change, January 2021 to September 2021 vs January 2022 to September 2022



Source: Business Intelligence and Reporting (DTCM)

Dubai hotel market performance, January to September 2022



Source: STR Global

Post-pandemic recovery

The YTD September 2022 data STR shows all performance metrics are tracking above 2019 levels with the exception of city-wide occupancy. In addition to international visitors, activity from residents has supported the recovery of the hospitality sector in Dubai.

ADRs are tracking 22.6% higher than 2019 levels, resulting in a 18% increase in revenue per available room (RevPAR) from 2019 levels.

Data from the Department of Tourism and Commerce Marketing (DTCM) shows an increase in the average length of stay, which was 3.4 nights from January to September 2019 and has increased to 4.0 nights over the same period in 2022.

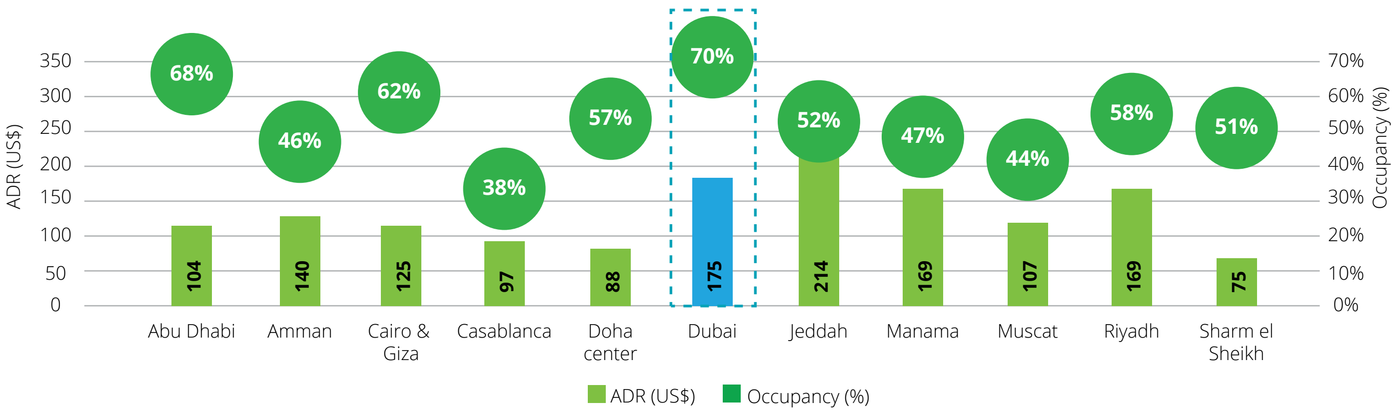
UAE Tourism Strategy 2031

In mid-November 2022, His Highness Sheikh Mohammed bin Rashid Al Maktoum launched the UAE Tourism Strategy 2031, which aims to strengthen the position of the UAE as one of the best destinations in the world for tourism.

The goal is to boost the country's competitiveness as an international tourism destination by attracting AED 100 billion as additional tourism investments and welcoming 40 million hotel guests in 2031.

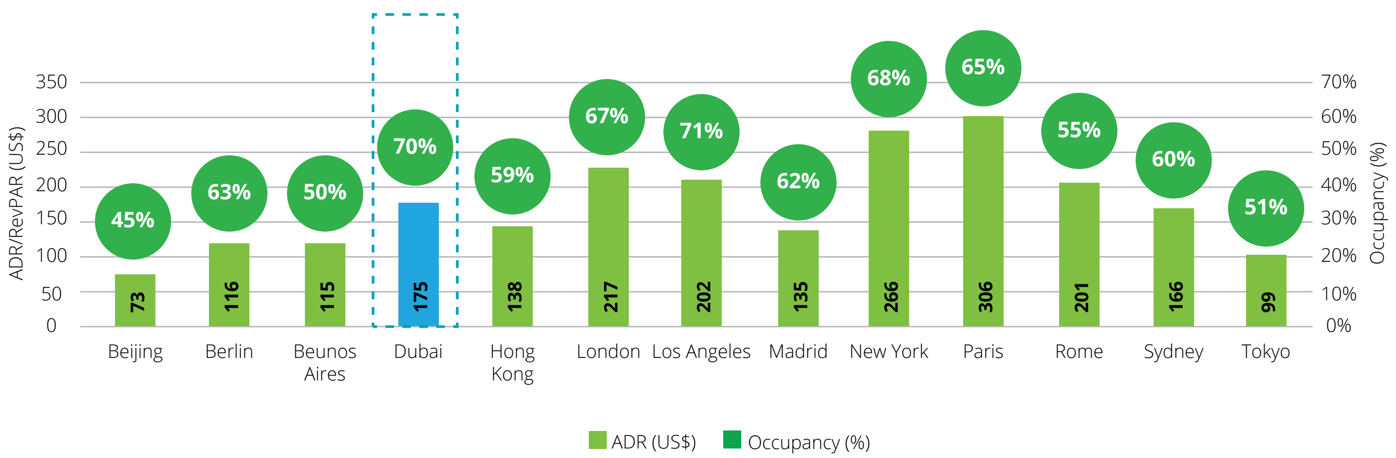
The strategy includes 25 initiatives and policies to support the development of the tourism sector in the country with a targeted gross domestic product (GDP) contribution of AED 450 billion in 2031, representing an annual increase of AED 27 billion.

Dubai ADR and occupancy vs regional markets, YTD September 2022



Source: STR Global

Dubai ADR and occupancy vs international markets, YTD September 2022



Source: STR Global

Dubai's residential market

Amidst global economic uncertainty and recessionary fears, Dubai's status as a safe haven has attracted investors during 2022, with transaction levels rising year-on-year surpassing 2019 levels.

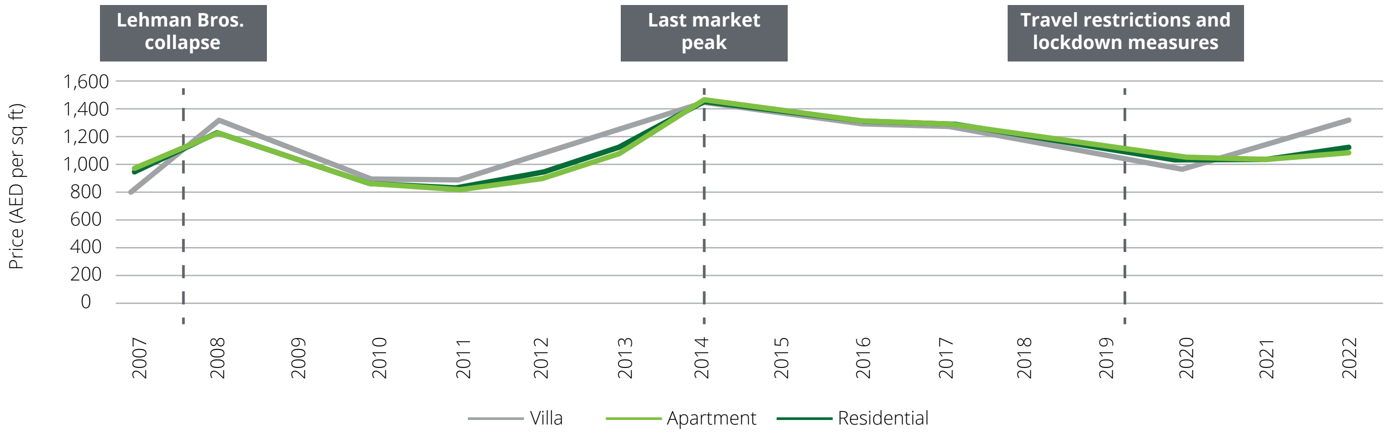
Review of 2022 performance

Average sales prices for residential property in Dubai increased by approximately 12% between Q3 2021 and Q3 2022 to reach AED 1,203 per sq ft. Average rents have also increased by approximately 19% over the same period, rising to AED 73 per sq ft as of September 2022. Gross yields reflect 6.1%, compared to 5.7% in YTD September 2021 as rental growth has outpaced growth in prices.

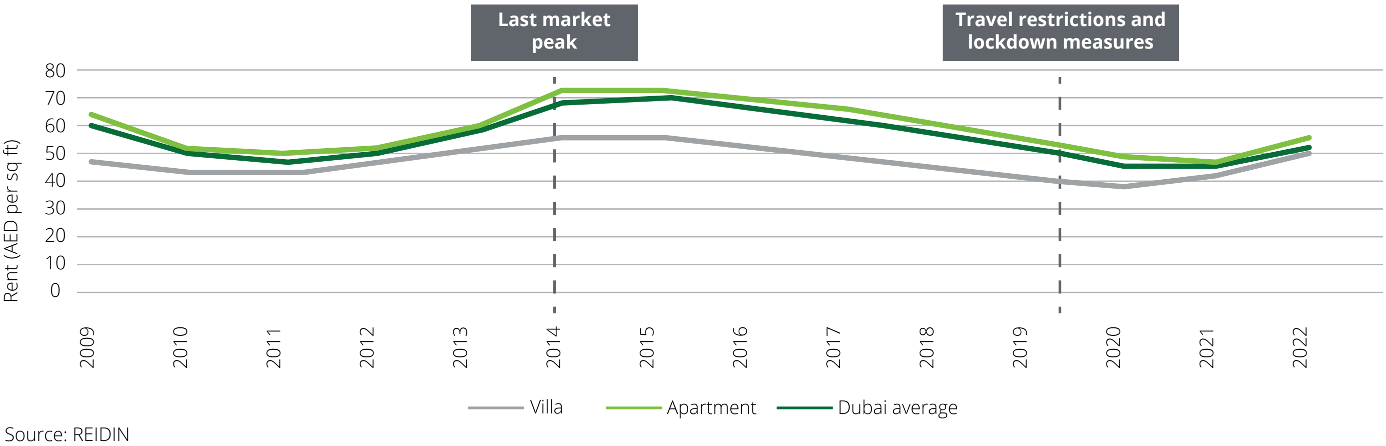
The average trend masks a much more varied sub-market picture with Mohammed Bin Rashed City, Palm Jumeirah and Business Bay being the top three sales price growth areas year-on-year against Dubai Land, Dubai South and Dubai Creek Harbour as the locations with the highest price declines. By comparison, rent increases were highest in Jumeirah, Palm Jumeirah and Downtown Dubai ranging from 38% to 43% and Deira was the only location to record a decline of 5%. Transaction volumes have increased by 56% YTD September 2022 when compared to the same period in 2021 and have more than doubled from 2019 levels for the same period. Secondary market properties constituted 55% of the total transactions in the first nine months of this year, with Business Bay, Dubai Marina and Jumeirah Village Circle recording the highest number of transactions.

The market continues to be dominated by cash buyers while demand for affordable villas and townhouses from existing residents has driven rental activity in this segment. Rents in this category began to recover by the end of 2020, while the apartment segment began to show signs of improved performance from the first half of 2021.

Dubai residential sales prices, Q1 2007 to Q3 2022

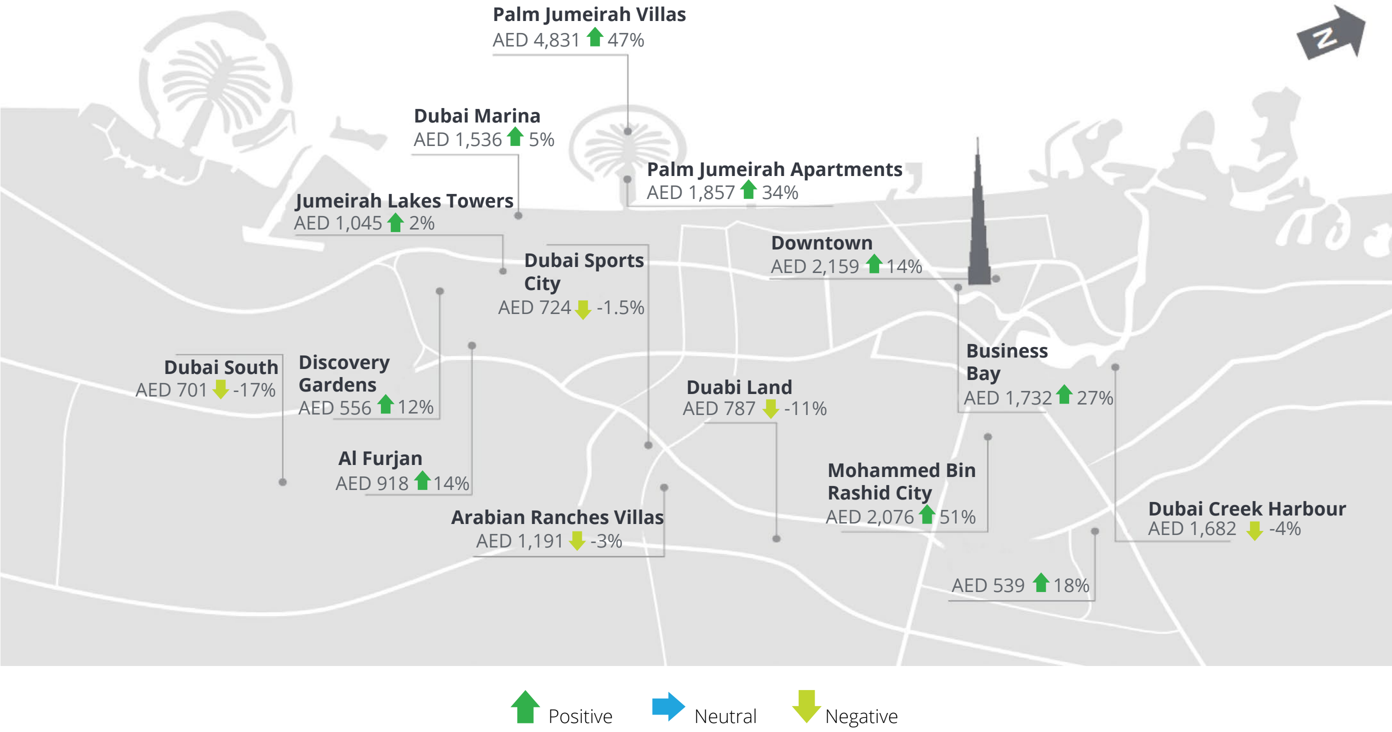


Dubai residential rents, Q1 2009 to Q3 2022



Source: REIDIN

Dubai residential sales prices by location, Q3 2022



Source: REIDIN

Note: Sales prices are quoted in AED per sq ft with year-on-year change in %

Metric	Apartment rent (AED per sq ft per year)	Apartment sales price (AED per sq ft)	Villa rent (AED per sq ft per year)	Villa sales price (AED per sq ft)	Dubai average rent (AED per sq ft per year)	Dubai average sales price (AED per sq ft)
2021	AED 64	AED 1,027	AED 58	AED 1,126	AED 61	AED 1,076
2022	AED 74	AED 1,105	AED 70	AED 1,302	AED 73	AED 1,203
Y-o-y trend	17%	8%	21%	16%	19%	12%

Dubai’s office market

Office rents have recovered to pre-pandemic levels registering an increase of 12% YTD in September 2022 compared to the same period last year. Occupiers continue to assess relocation and consolidation opportunities in an environment of increasing fit-out costs.

Review of 2022 performance

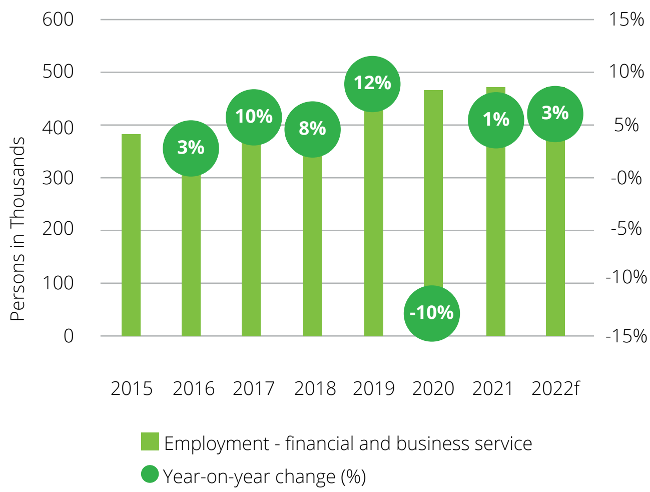
The post-pandemic workplace forms an integral part of corporate occupier recovery strategies as issues of staff retention and employee engagement came to the fore over the last two years. The office market in Dubai has historically been driven by international companies looking to establish a regional market base in the Emirate. This segment of the market typically seeks prime central business district (CBD) properties, where rents were the quickest to recover in 2022.

Limited grade A stock within or in proximity to the central business district of DIFC/Downtown has allowed building owners to maintain rent levels this year. Inflation linked rental escalations have impacted ongoing leases for corporate tenants, even as the role of the office continues to be reassessed. Capital investment for fit-outs has previously been provided on stock outside of CBD locations as an incentive to tenants and this trend is expected to continue.

Dubai Statistics Centre forecasts GDP growth forecast at 4.5% in 2022 led by the hospitality, food and beverage (F&B), real estate, wholesale and retail, transport, manufacturing and financial services sectors. As a result, hiring levels across key sectors is expected to increase and will have a positive impact on office demand.

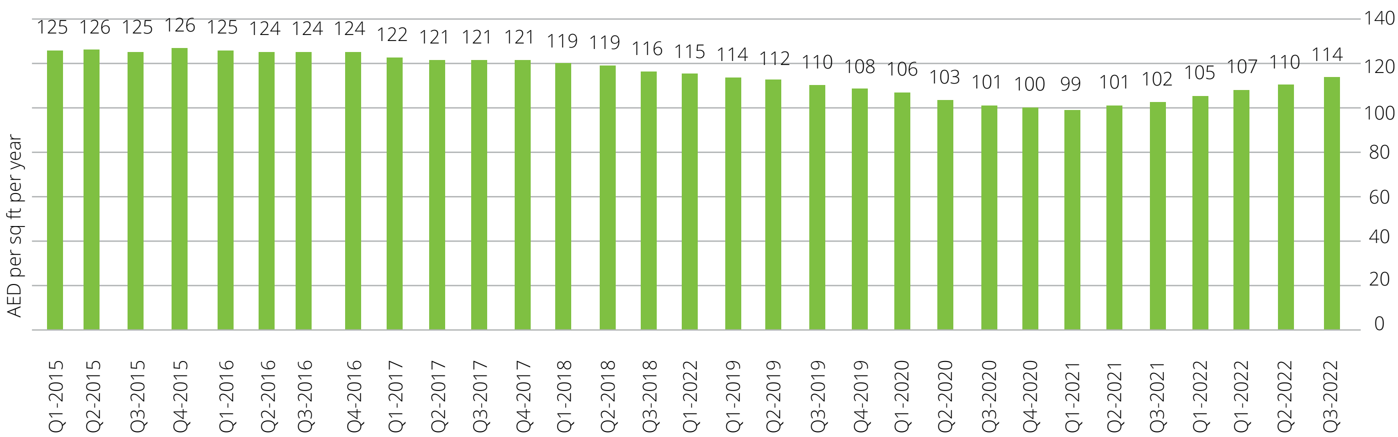
The majority of government services, banks and professional services companies have returned to the office while media, technology and design firms have largely embraced hybrid working models. Demand for office space continues to be defined by growth in business operations in key sectors of the economy.

Dubai employment in financial and business services, 2015 to 2022f

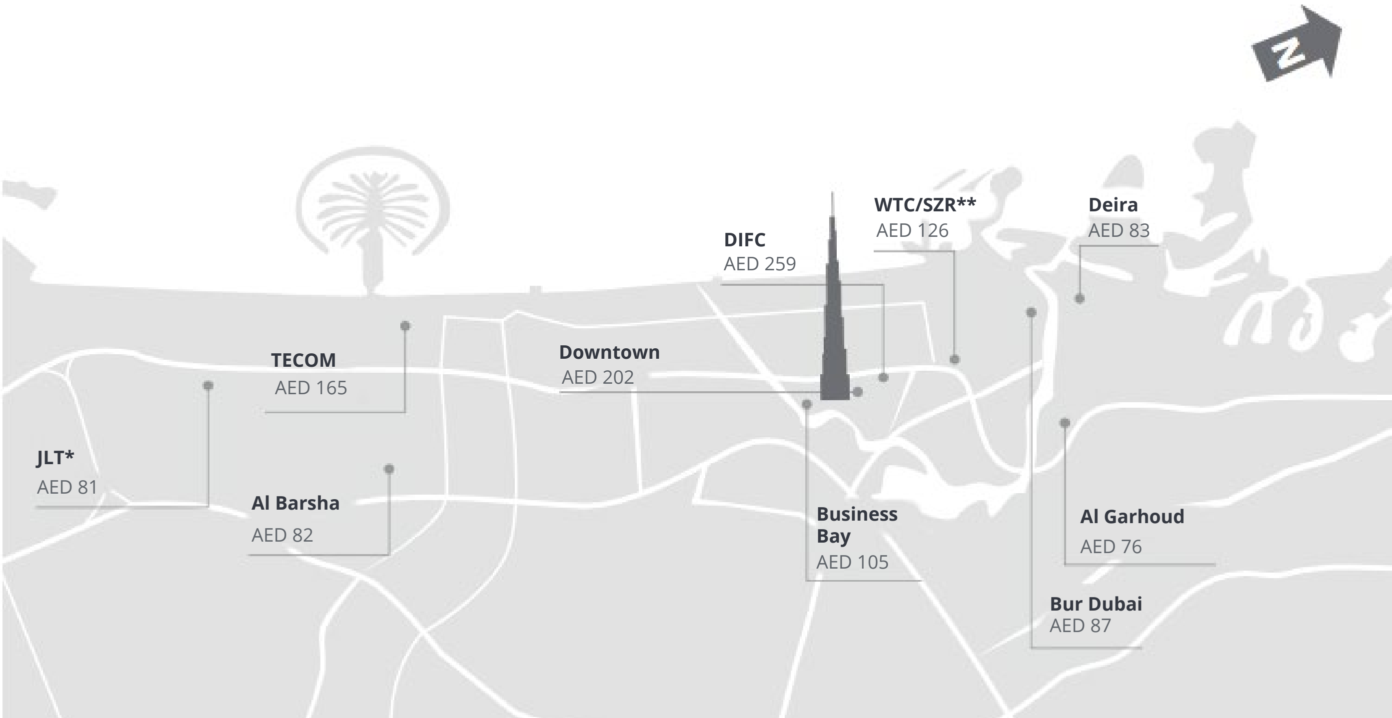


Source: Oxford Economics; Note: f:forecast

Dubai average office rents, Q1 2015 to Q3 2022



Source: REIDIN
Note: Rents quoted above exclude service charge



Rents are quoted AED per sq ft per year
Rents are average achieved rents for shell and core offices exclusive of service charges
*Jumeirah Lakes Towers
**World Trade Centre/Sheikh Zayed Road

Area	DIFC	Bur Dubai	Al Garhoud	Deira	WTC/SZR	Al Barsha	Business Bay	Downtown	TECOM	JLT	Dubai average
2020	216	90	75	86	111	77	84	177	166	71	101
2021	239	82	69	80	109	75	87	164	167	72	102
Y-o-y trend	8%	6%	10%	4%	16%	9%	21%	23%	-1%	13%	12%
2022	259	87	76	83	126	82	105	202	165	81	114

Source: REIDIN, Deloitte

Dubai's retail market

Consumer spending growth fueled retail sector recovery in both online and traditional mall formats.

Review of 2022 performance

The EIU estimates that the total UAE retail sales volume will increase by approximately 4.2% in 2022, with sales expected to increase by 3.9% a year on average over the remainder of the forecast period.

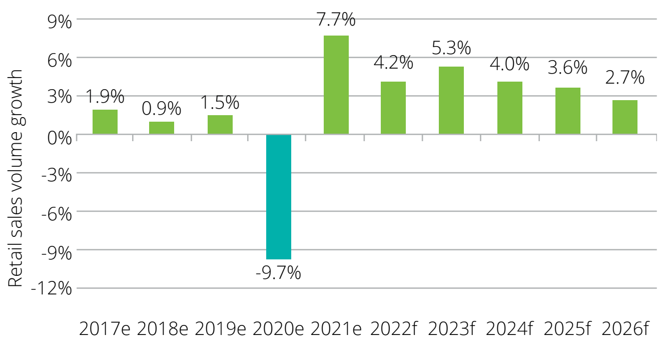
Emaar Malls, which owns and operates approximately 6.8 million sq ft of retail gross leasable area (GLA)[1], registered 24% growth in revenue during the first nine months of 2022, when compared to the same period in 2021. Meanwhile average occupancy for the Emaar portfolio, which includes Dubai Mall, Dubai Marina Mall, Gold & Diamond Park, Souk Al Bahar and other community retail centres stood at 96% as of September 2022. Dubai Hills Mall, the newest entrant among the portfolio opened in February 2022 and had achieved an occupancy of 87% as of September 2022.

Meanwhile, Majid Al Futtaim (MAF) point of sale (POS) data[2] shows that overall, consumer spending increased by 20% from January to September 2022 compared to the same period in 2021 and retail sector growth was 15%, with non-retail up 29%. According to the MAF data, fashion spending was the highest growth category increasing 23% from 2021 levels and gaining 25% on 2019 levels. January to March recorded the strongest sales through YTD September, contributing 44% of the growth for the first nine months compared to the same period in 2021. This mirrored the highest performing months in the hospitality sector as highlighted previously.

Dubai consumer preferences

The Dubai Mall and Mall of the Emirates have historically been the majority of the demand from visitors, collectively capturing 51% of total tourist retail demand in 2022. Demand from tourists recovered during 2022 due to ease of travel and the lifting of restrictions. Additionally, retail centres continue to rely on resident footfall and spend.

UAE retail sales volume growth, 2017 to 2026f



Source: EIU a:actual, e:EIU estimate, f: EIU forecast

For residents, 'other malls', which include smaller community centres and convenience retail, as well as 'non-mall' outlets continue to dominate in 2022 due to their convenience and proximity to residential areas. Majid Al Futtaim footfall data reveals an increase of 15% in mall visitors during YTD September 2022 compared to the same period in 2021.

Inflation remains a concern for consumers and is expected to impact the overall discretionary spending in 2023. Omnichannel formats are allowing consumers to search for discounts and deals, with retailers focusing on a seamless shopping experience through an increased use of data and technology. The UAE e-commerce market is expected to reach US$ 9.2 billion in 2026 according to the analysis by the Dubai Chamber of Commerce. This growth will be supported by increasing mobile e-commerce transactions through the availability of applications.

Note:
(1) Emaar Malls, Q3 2021 Results Presentation
(2) Majid Al Futtaim 'State of the UAE Retail Economy' Q3 2022 Report

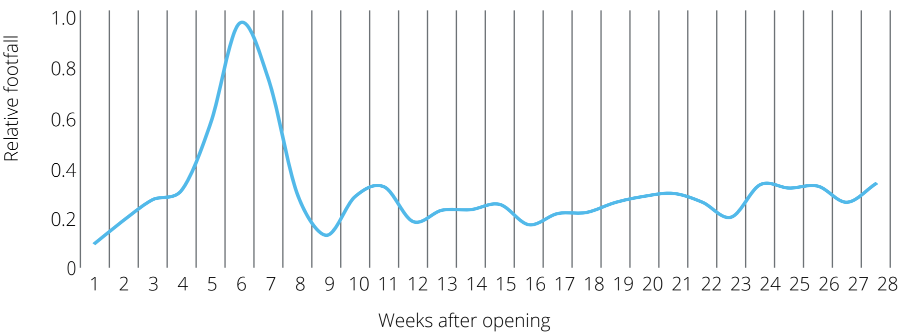
Cannibalising shopping malls: how does a newly opened asset and its location affect consumer behaviour?

Spatial cannibalisation, also referred to as, customer loss to competition or to one’s own assets, is of crucial importance to retailers and commercial developers alike.

Deloitte has partnered with Perigon AI to analyse the impact of a new mall on existing retail developments. If you could reliably estimate spatial cannibalisation when planning for retail expansion, developing a new mall or monitoring the performance of your assets, will consumers previously populating other locations switch to your location? How does the location, e-commerce, marketing campaigns and tenant mix affect this expansion?

Utilising mathematical modelling and AI to process a vast array of data ranging from human mobility data to geographically granular credit card spend allows spending patterns for established centres and the impact of new centres to be assessed.

As a case study to demonstrate this approach we review the impact the newly opened Dubai Hills Mall has had on it's catchment. Below we see the weekly relative footfall in Dubai Hills Mall starting from week 1 of operations. We can see a steady growth in the number of visitors to the mall in the first few weeks, mounting to a spike in week 6.



1. Weekly relative footfall
A spike in visitors to Dubai Hills Mall in the first few weeks, called a honeymoon period , known as a phase of discovery, exploration and 'checking it out'.

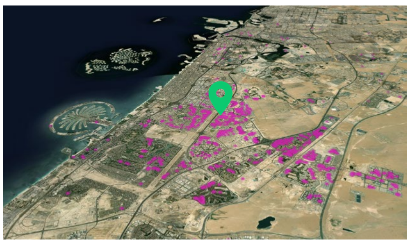
● Dubai Hills Mall visitation

Note: The indicated relative footfall is a score obtained from streams of big data, depicting footfall on a given week between its all-time minimum (0) and all-time maximum (1). As seen on the graph, footfall in Dubai Hills Mall reached its maximum on week 6 during the period analysed.

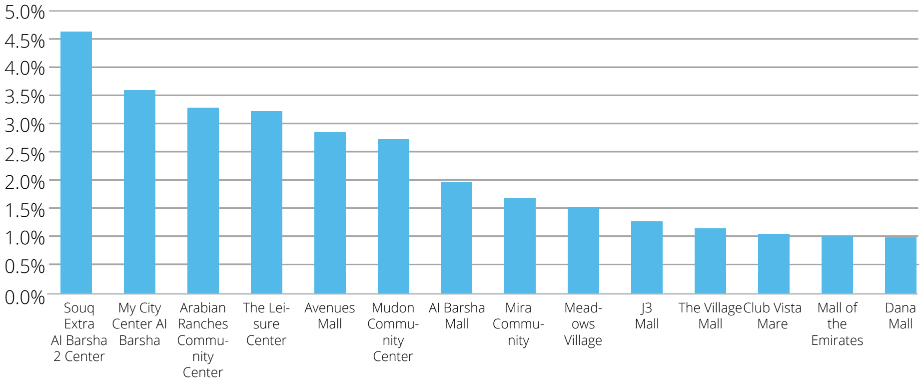
2. Where do these customers come from?
We see the trade areas clustered around Dubai Hills Mall (green pin) in the first week, expanding to cover larger swathes of Dubai reaching peak coverage on week 6. The primary trade areas of the mall then come back to 'normal' with the mall and the Arabian Ranches - Mira Community axis, along Umm Suqeim Street. The honeymoon period attracted customers from a wide range of neighbourhoods such as Palm Jumeirah, Dubai Marina, and JLT, considered as high-end central high-end central areas with an abundant supply of retail destinations.

Week 1

Week 6



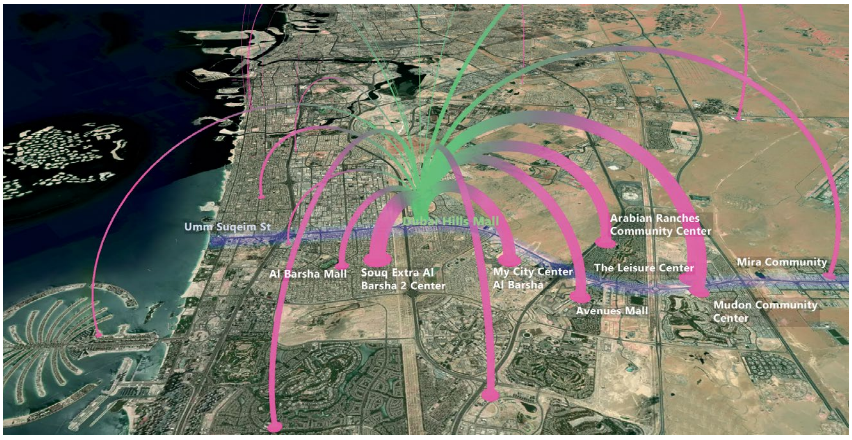
Week 11



Percentage of customers cannibalised by Dubai Hills Mall

3. Mall cannibalisation

What happened to the visitation patterns for other retail destinations after Dubai Hills Mall opened? Is there any cannibalisation effect? As seen on the left graph, 4.6% of all of all regular visitors to Souq Extra Al Barsha 2 switched to Dubai Hills Mall. On the right tail, 1.1% of all the visitors to Mall of the Emirates switched to Dubai Hills Mall. We can immediately see that the retail destinations affected the most are primarily community centers and smaller retail lifestyle destination concepts, rather than big shopping malls.



Mall cannibalisation 1% 2% 3% 4% 5%

4. Cannibalisation string plot

If we look at the spatial distribution of the retail destinations most cannibalised by Dubai Hills Mall, we can see an interesting pattern: They are concentrated near the mall, and spread along Umm Suqeim Street and its extension, Al Qudra Road (highlighted in blue), serving Dubai's outer communities, to include Al Barsha 2 and Dubai Hills, to Arabian Ranches, Sustainable City, and beyond.

5. A quick look at the tenant mix at Dubai Hills Mall

Dubai Hills Mall is placed on the artery connecting the upscale outer communities to Downtown Dubai. Dubai Hills Mall has accordingly been positioned to attract residents from these communities as its primary trade area. The tenant mix reveals how community-oriented its offerings are, to include family entertainment, F&B concepts, DIY hardware shops and barbershops. We can also see a selection of comparison goods, offering brands seen in Dubai's 'super regional centres' in a more accessible format.

Dubai's industrial and logistics market

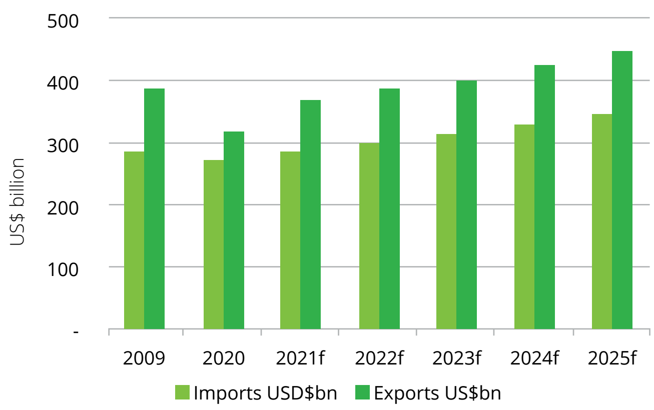
Average warehouse rents continue to recover as demand from logistics companies remains buoyant and freight movements at the airports surpass 2020 levels.

Review of 2022 performance

The two Dubai airports (DWC and DXB) have a combined capacity of almost 2.8 million tons and are supported by airport adjacent as well as city-wide warehousing facilities. At the end of 2021, freight movements at the two airports had increased in comparison to the 2020 levels, although they were still below 2019 levels. DXB is currently the third busiest hub in the world for international air freight with rapid transfer time to Port Rashid or Jebel Ali. Meanwhile, DWC's dedicated bonded link to Jebel Ali Port has enabled a rapid transit of sea to air cargo, supporting a swifter recovery for the industrial and logistics market in Dubai.

E-commerce focused zones such as Dubai CommerCity and Dubai South's e-commerce cluster have been added to the supply in recent years, while JAZFA is also developing additional logistics capacity. Meanwhile, there are still limited international grade specification warehouses in other parts of Dubai and this could lead to redevelopment projects in older areas such as Al Quoz, Umm Ramool among others.

UAE imports and exports, 2018 to 2025f



Source: Fitch Solutions; Note: f:forecast

Dubai key logistics indicators, 2021 vs 2022 (millions)

Metric	DWC cargo throughput	DXB cargo throughput	Jebal Ali tonnage throughput	Road freight tonnes
2021f	0.94 m	2.65 m	7.05 m	30.64 m
Y-o-y trend	↑ 5%	↑ 3%	↑ 1%	↑ 3%
2022f	0.99 m	2.73 m	7.14 m	31.46 m

Source: Fitch Solutions
f: forecast

Dubai average warehouse rents, Q3 2022

Rents are quoted AED per sq ft per year
Rents are average achieved rents for purpose built warehouses exclusive of service charges
Source: Deloitte

Key contacts

Stefan Burch
Partner
Head of Real Estate
Deloitte Middle East
sburch@deloitte.com

Oliver Morgan
Partner
Head of Real Estate Development
Deloitte Middle East
omorgan@deloitte.com

Jaime Liversidge
Director
Head of Real Estate Valuations
Deloitte Middle East
jliversidge@deloitte.com

Dunia Joulani
Director
Head of Travel, Hospitality and Leisure (EMEA)
Deloitte Middle East
djoulani@deloitte.com

Manika Dhama
Director
Head of Research, Real Estate Development
Deloitte Middle East
mdhama@deloitte.com

Deloitte.