



Real value in a changing world

MENA Office Markets

and their impact on CRE function

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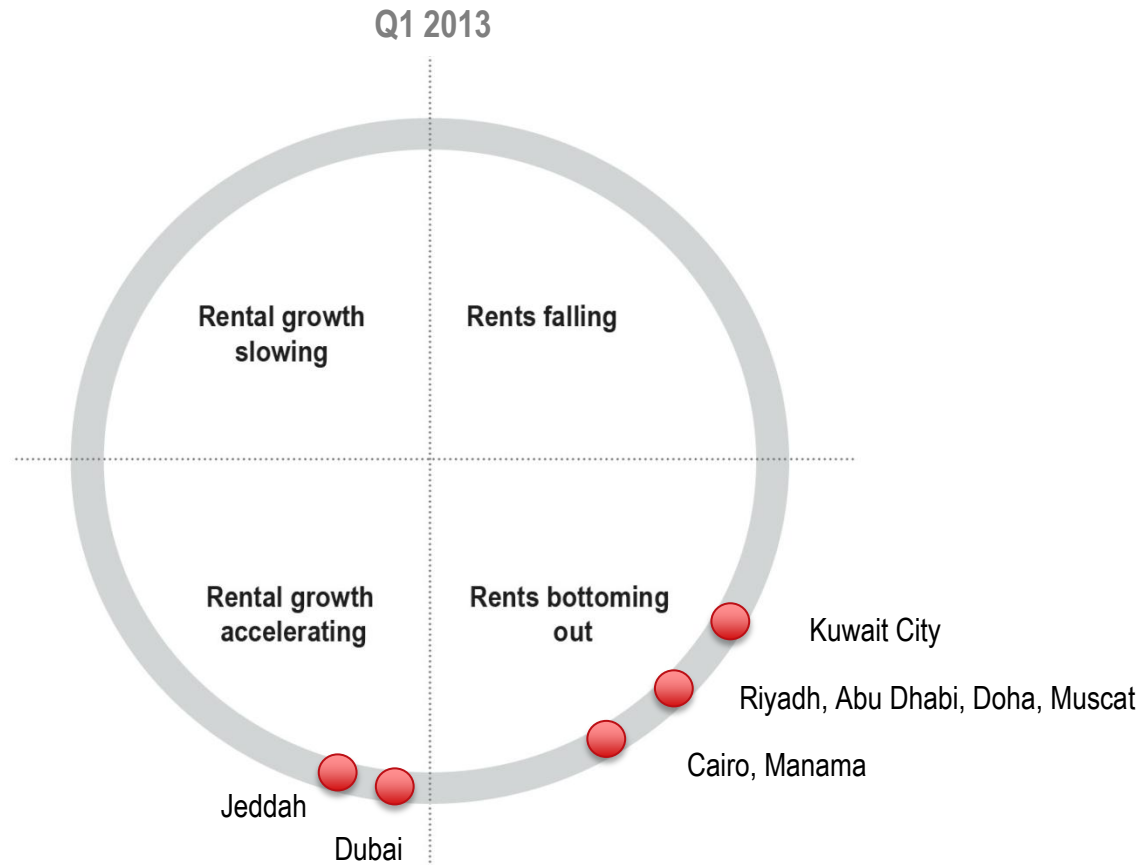
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Q & A

Prime Office Markets - MENA



Note: The property clock illustrates where Jones Lang LaSalle estimate each prime market is within its individual rental cycle as at end of relevant quarter.

Source: Jones Lang LaSalle

Global and Regional Office Rental Clock

The Jones Lang LaSalle Property Clocks SM

Working Draft



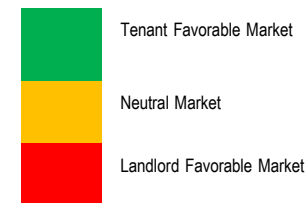
Source: Jones Lang LaSalle, 2013. Rents for Grade A space in CBD or equivalent. In local currency.

Clock weightings according to GDP of 2012: Europe 31%, APAC 29%, Americas 36%, Mena 4%
(Source: Global Insights)

Red Amber Green (RAG) Profiles - MENA

City	2013	2014	2015	2016	2017
Dubai	Tenant Favorable Market	Tenant Favorable Market	Neutral Market	Neutral Market	Neutral Market
Abu Dhabi	Tenant Favorable Market	Tenant Favorable Market	Tenant Favorable Market	Neutral Market	Neutral Market
Riyadh	Tenant Favorable Market	Tenant Favorable Market	Tenant Favorable Market	Tenant Favorable Market	Neutral Market
Jeddah	Tenant Favorable Market	Tenant Favorable Market	Tenant Favorable Market	Neutral Market	Neutral Market
Cairo	Tenant Favorable Market	Tenant Favorable Market	Tenant Favorable Market	Neutral Market	Neutral Market
Doha	Tenant Favorable Market	Tenant Favorable Market	Tenant Favorable Market	Neutral Market	Neutral Market
Kuwait City	Tenant Favorable Market	Tenant Favorable Market	Tenant Favorable Market	Tenant Favorable Market	Neutral Market
Manama	Tenant Favorable Market	Tenant Favorable Market	Tenant Favorable Market	Neutral Market	Neutral Market
Muscat	Tenant Favorable Market	Tenant Favorable Market	Tenant Favorable Market	Neutral Market	Neutral Market

Source: Jones Lang LaSalle, Q1 2013



Office Market Performance Indicators – MENA

City	Cost	Choice
Dubai	AED 1,615/ sq m pa	31%
Abu Dhabi	AED 1540 / sq m pa	37%
Riyadh	SAR 2,000 / sq m pa	15%
Jeddah	SAR 1,450 / sq m pa	25%
Cairo	US\$ 480 / sq m pa	29%
Doha	QAR 190 / sq m per month	20%
Kuwait City	KWD 7 / sq m pm	45%
Manama	BD 8.00/ sq m pm	25%
Muscat	OMR 8.0 / sq m pm	25 - 30%

Source: Jones Lang LaSalle, Q4 2012



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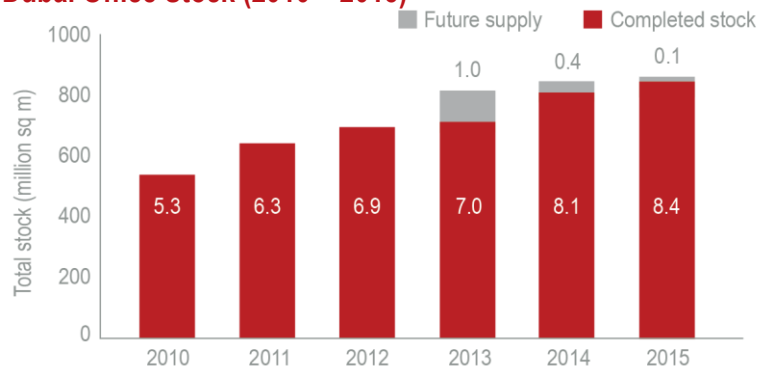


Dubai *office* market overview – Q1 2013

Office supply

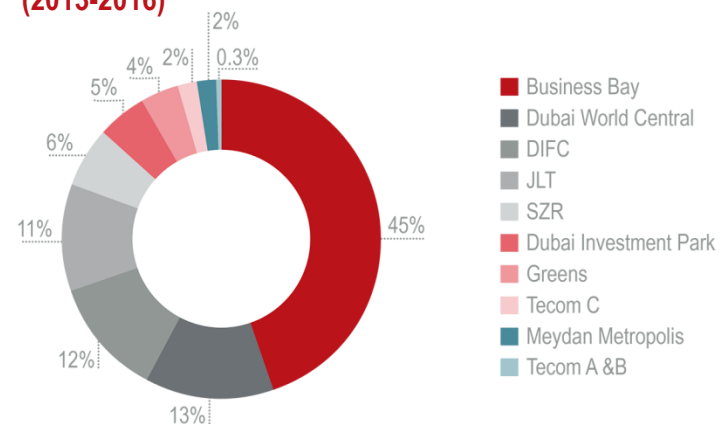
- The total office stock of approximately 7 million sq m at the end of Q1 2013.
- 145,000 sq m of office space completed in Q1 2013 including Conrad Tower on SZR, two buildings in Dubai World Central, Grosvenor Business Tower and Iranian Business Tower in Business Bay and the S.I.T project in Silicon Oasis.
- There remains around 1.0 million sq m of office supply that could enter the market before the end of the year but some of the proposed space might be postponed beyond 2013..
- Some previously stalled projects are re-starting, such as the Central Park project in DIFC and the Dubai World Trade Centre District.
- The potentially significant new office supply in Business Bay over the next two years could be reduced as some projects in the area are being converted from office to residential use.
- As of Q1 2013, around 47% of office space was located in free zones with the remaining 53% in onshore areas.
- Single ownership buildings constitute the majority of the existing office stock (60%) while the remaining (40%) is strata space.

Dubai Office Stock (2010 – 2015)



Source: Jones Lang LaSalle, Q1 2013

Breakdown of Expected Completions by Sub Market (2013-2016)



Source: Jones Lang LaSalle, Q1 2013

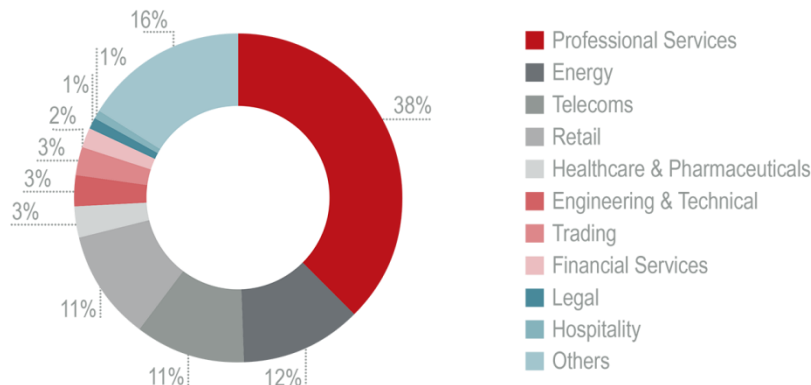
Major office completions - 2012/2013



Office demand

- With market confidence and optimism improving, demand for office space is picking up.
- Activity remains focused on prime buildings in the top locations, while demand for dated and poor quality space continues to be weak. The market continues to see a “flight to quality” as occupiers are relocating from the old areas to New Dubai.
- Jones Lang LaSalle is aware of approximately 190,000 sq m of current potential demand for office space. Professional Services firms account for 38% of total active tenant demand, followed by energy (12%), and telecoms (11%). Most demand continues to result from existing tenants with few new entrants to the market.
- Demand continues to be driven by portfolio optimisation, especially among global occupiers. However, the emphasis is now shifting from reducing floor space to a more efficient use of space.
- Global corporates aiming to achieve occupational density of 7 or 8 sq m per person. This is often not achievable in Dubai, as the design and floor plate of most buildings in Dubai do not allow for efficient space utilisation. In general, ratios of 9 or 10 sq m per person are the best that can be achieved in the Dubai market.

Distribution of Current Tenant Demand



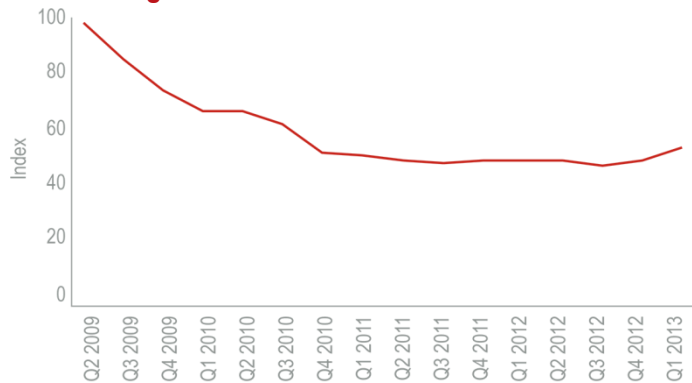
Examples of recent deals			
Industry	Area Acquired (sq m)	Location	Comment
Energy	5,575	Business Bay	Relocation / expansion
Services	5,575	DIFC	Relocation
Consumer Goods	2,000	JLT	Expansion from TECOM
Chemicals	1,700	The Galleries, Jebel Ali	Expansion from JAFZA

Source: Jones Lang LaSalle, Q1 2013

Rental performance

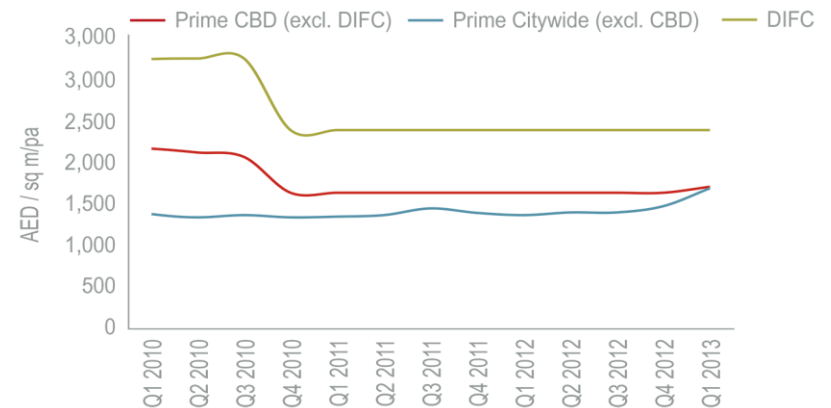
- Increased leasing activity is now being reflected in the growth of rental levels within the Dubai office market. The rise in asking prices, noticeable during the last six months, has now been translated into an increase in the dealing rents. Average headline dealing rents in quality office buildings in selected areas have seen a rise of 10% Q-o-Q.
- The top open-market rent in the CBD (prime rent*) remained unchanged at AED 2,370 per sq m in the DIFC but improved by 4% Q-o-Q to AED 1,690 per sq m elsewhere in the CBD.
- Prime locations such as TECOM A&B, SZR and Burj Downtown have all seen increase in their rental values. Business Bay has also witnessed an increase in popularity recently as more of the area's infrastructure has been completed.
- Landlords have become firmer on rents in the most prime locations but remain flexible elsewhere, offering rent-free periods to attract tenants to fill unoccupied buildings.
- As the "flight to quality" continues, older areas continue to suffer from lower occupancy rates while the newer buildings are filling up.
- Vacancy rates within the CBD remained flat at 31% in Q1 but are expected to decline in the coming quarters driven by stronger demand.
- While the office market appears on a recovery path, it is important to note that growth remains concentrated within prime buildings and is not being experienced in secondary and lower quality office space.

Index of Average Office Rents



Note: The average office rents are based on a basket of quality office buildings across Dubai




Dubai Prime Office Rents (Q1 2012 – Q1 2013)






Source: Jones Lang LaSalle, Q1 2013

* See Definition & Methodology for definition of Prime rents.



Office market summary

Indicator	Level	Comment / Outlook	
Current Office Stock	7.0 million sq m	Includes all grades. Limited supply (less than 1 million sq m) of single ownership space in the CBD.	
Future Supply (2013 – 2015)	1.5 million sq m	Assuming that all pipeline supply tracked by Jones Lang LaSalle will complete.	
CBD Single Ownership Vacancy	31%		CBD vacancy levels remained flat at 31%. Some areas outside the CBD continue to experience much higher vacancies.
Prime CBD Rental (excl. DIFC)	AED 1,690 / sq m		Prime rents started to pick up in Q1 2013 as confidence and optimism are returning to the market. Demand remains driven by consolidation and upgrades rather than new entrants.
Prime City-wide Rental (excl. CBD)	AED 1,670 / sq m		
Prime Capital Value	AED 15,500 / sq m		Prime Capital Value refers to the market price for the best office space (excluding DIFC). Prime Capital Values increased in Q1 2013, reflecting the increase in prime rents.



Abu Dhabi Office Market Summary

Indicator	Level	Comment / Outlook
Current Office Stock	2.87 million sq m	Approximately 16% is Grade A, 41% Grade B, 38% Grades C & D and 4% other.
Future Supply (by end 2014)	838,000 sq m	The proportion of Grade A office space will increase significantly as new stock is delivered to the market.
Current Vacancy Rate	37%	 Vacancy rate to rise as new supply is expected to exceed demand, notwithstanding more price driven absorption.
Average Grade A Rent	AED 1,540 per sq m per annum	 Grade A rents have not changed from last quarter and are expected to stabilise as tenants move to better quality office space.
Average Grade B Rent	AED 1,300 per sq m per annum	 Grade B rents remain the same as Q3 but are expected to decrease over 2013.



Riyadh Office Market Summary

Indicator	Level	Comment / Outlook
Current Office Stock	1.9 million sq m	Includes Grade A, B & C space within major precincts (see definitions for further details). Total city-wide stock is estimated to be above 3 million sq m GLA.
Future Supply (2012 – 2015)	1.44 million sq m	The Riyadh market will face a major supply shock over the next two years with the release of space in projects such as ITCC, KAFD and Olaya Towers.
City-wide Vacancy CBD Vacancy	16% 18%	
Average Grade A Rental	SAR 1,305 per sq m p.a.	
Average – Grade B Rental	SAR 883 per sq m p.a.	

Jeddah Office Market Summary

Indicator	Level	Comment / Outlook
Current Office Stock (CBD)	623,000 sq m	Includes Grade A & B buildings within the CBD. Increase in stock in Q4 2012 is due to the completion of Kilani and Al Homaidi Towers. Total city-wide stock is estimated to be around 1.8 million sq m GLA.
Future Supply (2013-2015)	258,000 sq m	Major future supply will be available on major roads such as Madinah and Prince Sultan.
CBD Vacancy	12%	The vacancy rate has decreased, due to continued strong demand. 
Average CBD Rental	SAR 890 per sq m p.a.	
Average – Grade A Rental	SAR 1,092 per sq m p.a.	Marginal increases in Q4 2012 with prospects for stable rental levels in 2013. 
Average – Grade B Rental	SAR 690 per sq m p.a.	

Cairo Office Market Summary

Indicator	Level	Comment / Outlook
Current Grade A Office Stock	784,000 sq m	Most Grade A supply outside of Central Cairo with Grade A supply in CBD limited to one building – Nile City Tower.
Future Grade A Supply (2013)	156,000 sq m	Further construction delays and cancellations could reduce this supply pipeline.
Greater Cairo Grade A Vacancy	29%	 Declined over Q4 but likely to increase again during the next 12 months.
Grade A rents in		
Central Cairo	USD 40 / sq m / month	 Rents are expected to decline over 2013
New Cairo, Sector 1	USD 25 / sq m / month	
New Cairo, Sector 2	USD 18 / sq m / month	
West Cairo	USD 18 / sq m / month	



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Operating Costs and Service Charges in the UAE Office Market



Key Findings

- **Occupiers** are paying increased attention to service charges as they seek to achieve savings on their total occupancy costs.
- **Owners** are paying increased attention to operating costs as they seek to maximise returns from their assets.
- Service charges are driven more by market forces than true operating costs in the UAE.
- Service charges typically below actual operating costs, leaving owners facing a an operational deficit.
- The average service charge within Grade A office buildings in **Dubai** is around AED 33 per sq ft per annum.
- Average service charges are marginally lower in **Abu Dhabi** at around AED 29 per sq ft per annum.
- Cost effective management and transparent service charge arrangements are a win : win situation
 - Allow tenants to make more informed decisions.
 - Provide landlords with opportunity to differentiate their building over others.

Why Service Charges Matter to Occupiers

- Focus on reducing total occupancy costs.
- Increased choice allows tenants to demand better 'value for money'.
- Quality of the working environment is directly dependant on the quality of property management services.
- Recognition of mismatch between level of service charges and quality of management.

Service Charges for Grade A Office Buildings in Dubai

Property	Location	Prime Office Rent AED sq ft / pa Q4 2012	Service Charge AED sq ft / pa Q4 2012	Service Charge to Rent Ratio	Net Rent + Service Charge
Building 1	DIFC	220	60	27%	✓
Building 2	DIFC	220	60	27%	✓
Building 3	Sheikh Zayed Road	150	50	33%	✓
Building 4	Downtown	160	38	24%	✓
Building 5	Jebel Ali	150	25	17%	✓
Building 6	TECOM	130	Inclusive	N/A	Gross
Building 7	Marina	130	30	23%	✓
Building 8	Silicon Oasis	120	35	29%	✓
Building 9	Downtown	125	27	22%	✓
Building 10	TECOM	120	25	21%	✓
Building 11	Sheikh Zayed Road	115	25	22%	✓
Building 12	Jumeirah Lake Towers	100	25	25%	✓
Building 13	Jebel Ali	80	25	31%	✓
Building 14	Business Bay	80	20	25%	✓
Building 15	Jumeirah Lake Towers	50	12	24%	✓
Average		130	33	25%	

Service Charges for Grade A Office Buildings in Abu Dhabi

Property	Location	Prime Office Rent AED sq ft / pa Q4 2012	Service Charge AED sq ft / pa Q4 2012	Service Charge to Rent Ratio	Net Rent + Service Charge
Building 1	Al Nahyan	204	28	14%	✓
Building 2	Khalidiya	195	28	14%	✓
Building 3	Capital Gate District	185	33	18%	✓
Building 4	Tourist Club Area	185	28	15%	✓
Building 5	Al Maryah Island	180	42	23%	✓
Building 6	Al Raha Beach	180	39	22%	✓
Building 7	Capital Gate District	170	28	16%	✓
Building 8	Khalidiya	140	28	20%	✓
Average		178	29	18%	

Global Trends Impacting CRE Teams

5 Universal pressures on Occupiers

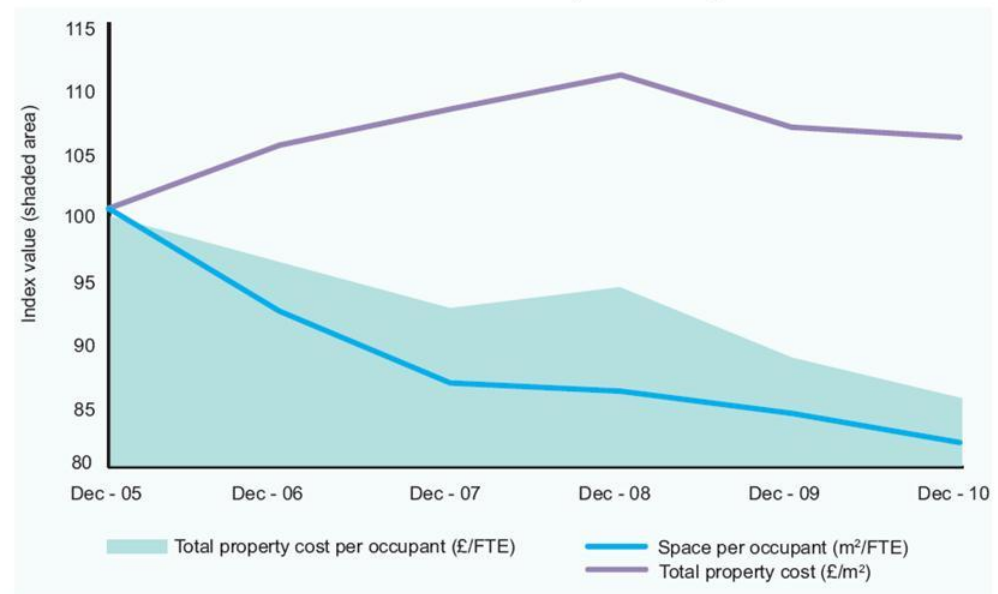


1. Raising the **productivity** of people and places as well as managing cost
2. Leveraging **technology** and analytics to enhance decision making / strategy
3. Securing **scarce investment capital** from within the business
4. Attracting and retaining **talent**
5. Managing **mobility** – functional and worker mobility

Space efficiency intensifies...

- Average space per FTE has fallen on average by 4% p.a
- Flexible work options will reduce demand further
- In the US space per worker fell from 22.5sqm in 2010 to 17.6 sq m in 2012 (-22%)

UK Office Costs vs. Space Usage



Source: IPD Occupiers Blue Chip Office Index, Corenet

Office investors need to offer efficient space with lower running costs

A glowing green globe with a map of the world, set against a background of lush green grass. The globe is semi-transparent and emits a bright green light, with the continents of North and South America clearly visible. The grass in the background is dense and vibrant green, creating a natural and sustainable atmosphere.

The sustained
impact of *sustainability*

Changing corporate requirements

- **All** of the FTSE 100 report publicly on sustainability, and will have to report on carbon on a mandatory basis from 2013
- **88%** of CRE executives review green building certifications when administering their portfolio
- **Increasing commitment** to tough sustainability goals for supply chain and building occupation

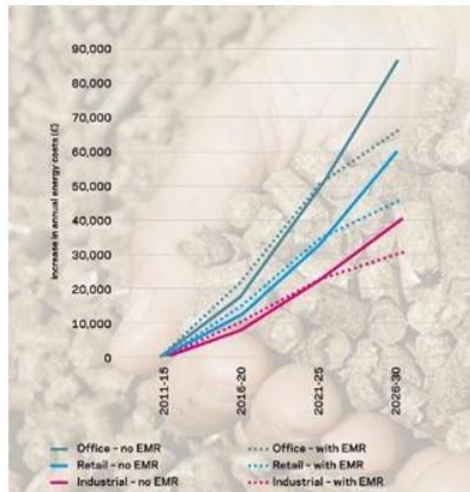


Source: CoreNet / JLL Sustainability Survey 2010 – Key Findings

Changing corporate requirements

Impact of rising costs

“Energy costs are outstripping any other cost within building management” Jones Lang LaSalle



“By 2030, energy costs in a typical office could be up to 8% of total occupancy costs and for many the costs could be 10% or more.”

Source: Sweett Group. June 2012

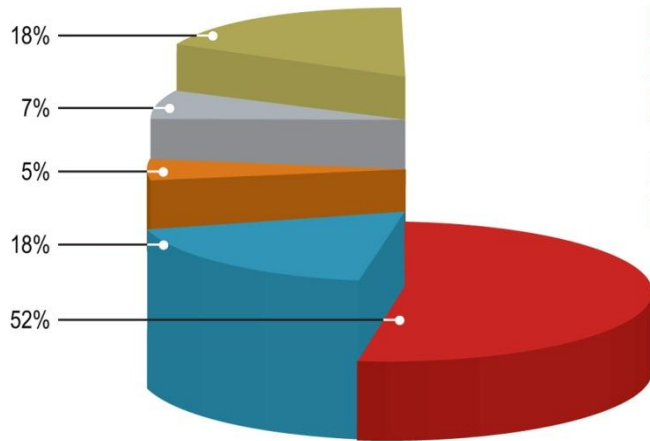
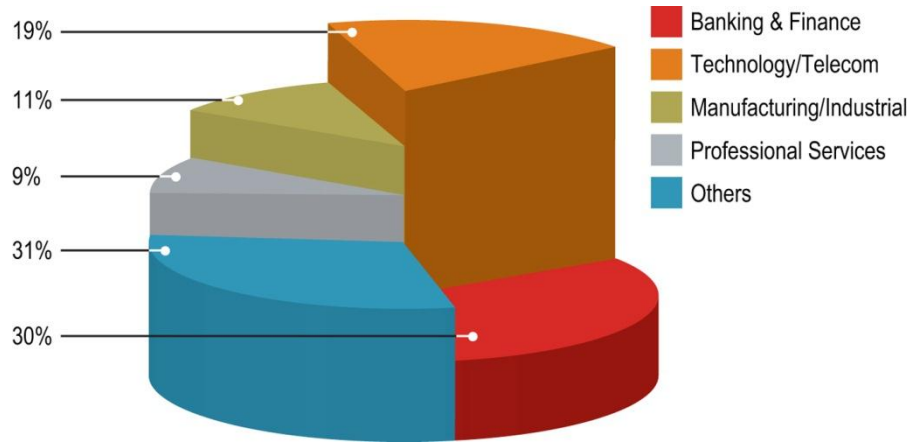
“Occupiers will become more powerful - more strategic, better informed, driven by cost and controlling more of the pipeline”

Jones Lang LaSalle: Offices 2020

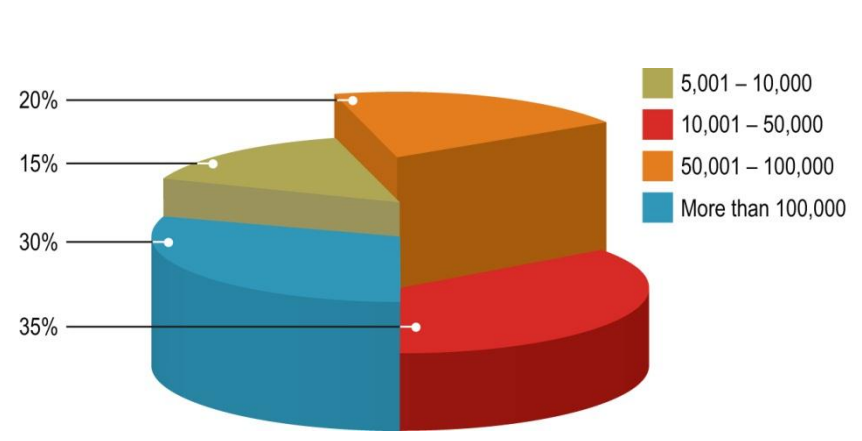
Global Corporate Real Estate Survey 2011: Overview of Findings

A diverse respondent pool – 504 responses from 34 countries

Sector



Geography

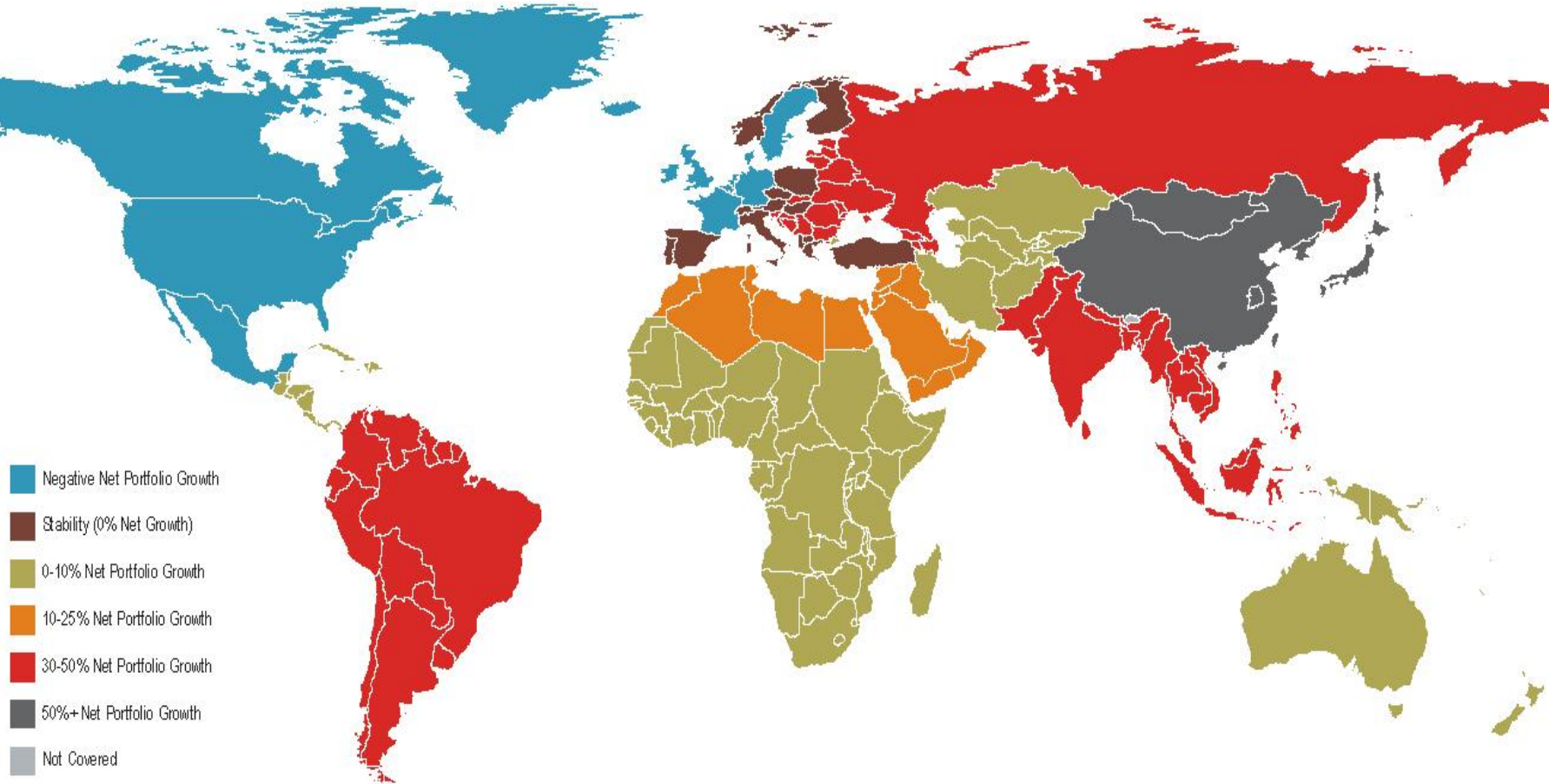


Size by # of Employees

Global Trend #1 **Balancing the dual forces of growth and right-sizing**



Net Portfolio Growth over next 3 years



Global Trend #2 **Higher demands on productivity**

85% believe CRE has greater visibility and engagement with senior leaders

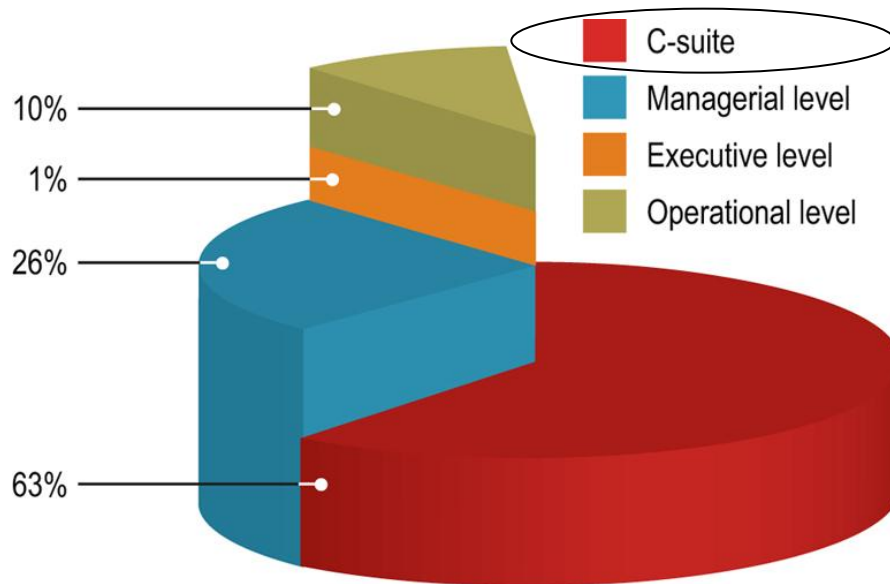
63% of respondents have a direct reporting line into the C-suite

91% believe they have greater influence on decisions and strategies

75% are now required to report to senior leadership on portfolio and costs

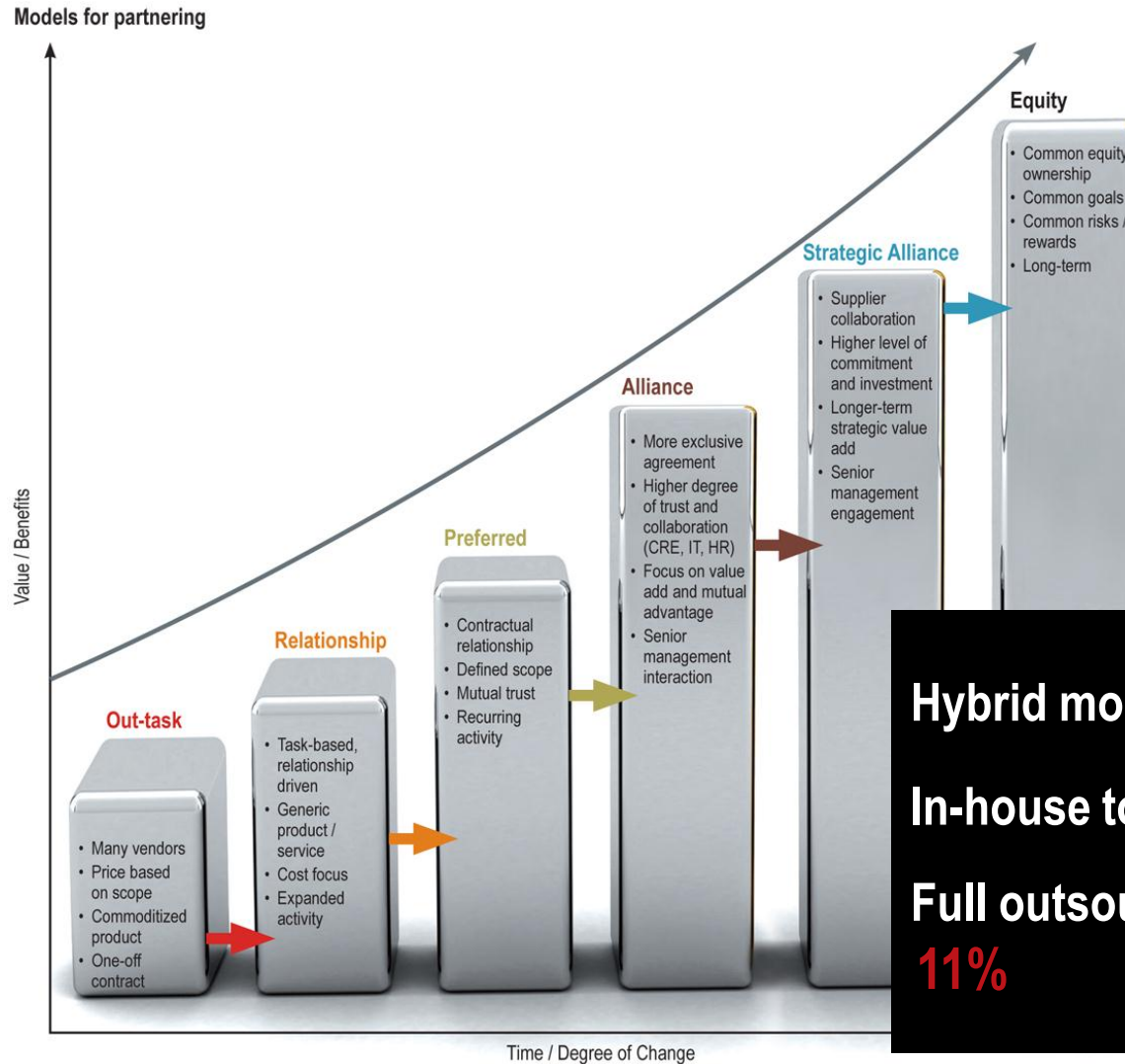


More engagement with senior leadership means...



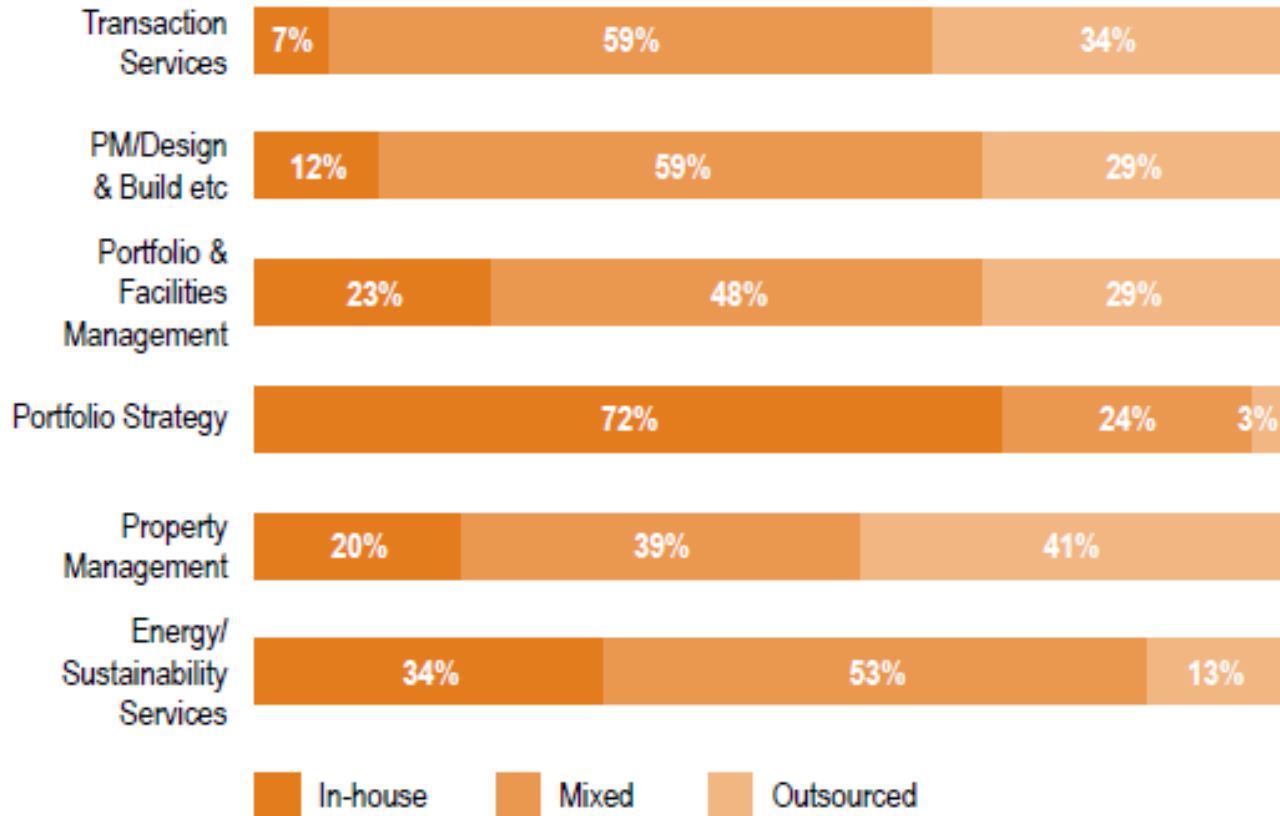
- Need for comprehensive, accurate and **faster reporting** on the true cost of real estate
- **Harder targets** – CRE transparency
- **Increased productivity** through focus on strategic initiatives such as Workplace strategies, sustainability
- Need for better, **longer-term CRE strategy** that adapts to new demands

Global Trend #3 **Progressing Towards Partnerships**



Hybrid model to rise to **70%**
In-house to shrink to less than **20%**
Full outsourcing model to rise to **11%**

Real Estate Delivery Model



Global Trend #4 **Reshaping CRE Structures and Skills**



CRE changing, requiring new skills

- **73%** anticipate the CRE function to become more centralised (core regional or global teams)
- **24%** anticipate their teams will undergo talent upgrades within the next three years
- **74%** have turned to service providers to bring innovative solutions
- A further **15%** expecting to do so within the next three years



In Summary: Key Messages



- **Higher demands on productivity**

- CRE is now exposed to senior leadership and needs to perform to the new expectations post GFC



- **Balancing dual forces of growth and right-sizing**

- Portfolio growth will be happening in very different gears depending on what market you are looking at, putting varying demands on CRE teams



- **Progressing towards partnerships**

- As growth returns, accessing external resources (service providers) will be accelerated



- **Reshaping CRE structures and skills**

- Increasing demands from 'c-suite' require more strategic and less tactical real estate skills



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