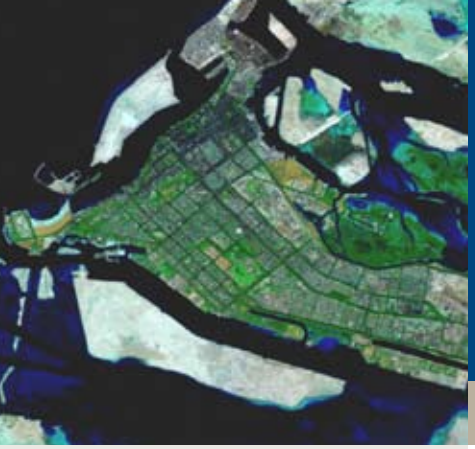
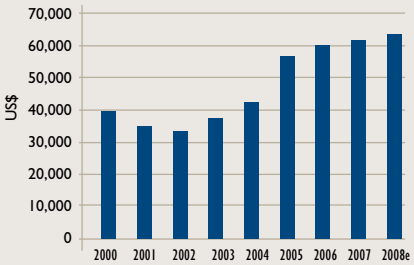


Abu Dhabi Real Estate Overview

RESEARCH | SECOND QUARTER | 2008

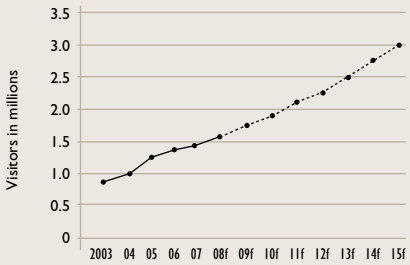
Rapid growth of real estate and construction sector over the past three years driven by benign economic conditions and regulatory reform governing property ownership

ABU DHABI GDP PER CAPITA



The Abu Dhabi Tourism Authority (ADTA) overseeing strategic plan to increase leisure tourism market share to 40%, up from current share of 25%

ADTA TOURISM GROWTH TARGETS



Investment activity dominated by UAE nationals last year, secondary market in infancy

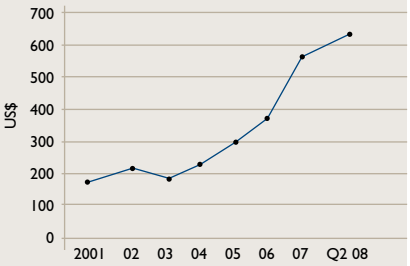
Abu Dhabi 2030 Plan and 5% rent cap has tempered extent of market speculation, reducing risk of 'bandwagon investment' and potential overbuild

ECONOMIC HIGHLIGHTS

- GDP in 2007 registered at US$ 98.3bn, representing over 60% of UAE's total GDP
- Abu Dhabi GDP growth driven primarily by hydrocarbon sector revenues, non-oil GDP growth of 7% due to strong YOY gains in industrial, tourism and real estate sectors
- More measured economic growth strategy, imperative of attracting foreign investment and 'white collar' workers less pressing
- YOY population growth of 6.8%, with current population estimates at 1.6 million inhabitants in the Emirate of Abu Dhabi, 900,000 of whom live in the capital city
- The Urban Planning Council (UPC) projects 1.3 million inhabitants in the city of Abu Dhabi by 2013
- Average UAE spending power of US$ 14,400 per household per annum
- Average spending power per annum of US$ 23,000 for 'Emirati' households, US$ 19,500 for 'Western' households, US$ 13,500 for 'Other Arab' households and US$ 10,000 for 'Asian' households
- Emirati nationals constitute 25% of the Abu Dhabi population, and enjoy 50% of total disposable income
- Existing National-Expatriate split expected to remain stable over next two years. Proportion of expatriate population in Dubai, by contrast, is expected to increase to 87% by 2010
- Construction sector worth US$ 6.5bn in 2007
- Land value increase from average of US$ 540 per m^2 in 2005 to US$ 1,100 per m^2 in 2007
- International investor confidence growing: Abu Dhabi share of UAE mortgage market forecast to increase from 5% in 2007 to 22% this year

Continued rental increases driven by market undersupply coupled with mounting unsatisfied demand

PRIMARY GRADE NET RENTAL GROWTH



Concentration of office space in high-density north of Island

Marginal Primary Grade office supply owner-occupied by government/semi government organisations primarily

Total office supply: 1.4 million m² Net Leasable Area (NLA)

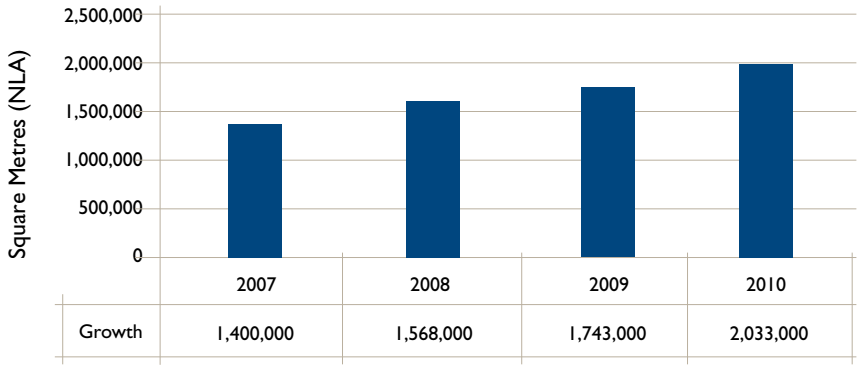
Leasable, Primary Grade supply: 460,000m² NLA

DEVELOPMENT SNAPSHOT*

PROJECT	YEAR	GLA (m²)
CAPITAL PLAZA	2008	25,000
BANIYAS TOWERS	2008	59,000
MAMOURA B	2009	23,000
ETIHAD TOWERS	2010	65,000
TDIC BTB	2010	37,000
CAPITAL CENTRE	2011	170,000
CENTRAL MARKET	2011	72,000

* This table does not constitute an exhaustive list of forthcoming supply

CUMULATIVE OFFICE SUPPLY SUMMARY



OFFICE MARKET PERFORMANCE

- Total office supply: 1.4 million m² (NLA)
- Leasable, Primary Grade supply: 460,000m² (NLA)
- Demand stimulated by multinationals establishing subsidiaries in Abu Dhabi, expansion of existing organisations in context of benign economic conditions, economic diversification and growth of services, financial and industrial sectors
- Occupancy: 99%
- Average Class A Asking Rent: US$ 630 per m² p/a (Net)
- Average Class B Asking Rent: US$ 340 per m² p/a (Net)
- Premium Class A Asking Rent: US$ 720 per m² p/a (Net)
- Asking Rents average 25-30% higher than incumbent neighbours paying passing rents
- Passing rent value growth depressed due to imposition of 7% rent cap in 2007 (subsequently revised to 5% at beginning of this year)
- Class A Sales Price Average: US$ 7,450 per m² p/a
- Initial Yields: 8-9%
- Sales transactions volume low as investors hold on assets
- Forthcoming office supply over the next three years will be concentrated within the existing city
- Office supply beyond 2010 will fragment further with the completion of office developments in Al Raha Beach, Al Reem Island, Between The Bridges and ADNEC Capital Centre
- The UPC's Abu Dhabi 2030 Plan envisages a long term consolidation of office space into two new CBDs – the Al Suwa Island financial centre and Capital District, located at opposite ends of the expanded city
- Rents anticipated to rise as excess demand is absorbed over next two years
- Risk of oversupply offset by likely development delays, continued economic growth and prospects of further regulatory reform
- Role of UPC in controlling distribution and growth of office space to meet demand will be crucial

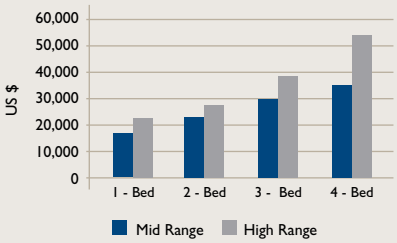
Class A (Primary): Strong location, purpose-built, high quality finishing, central provision of Information and Communications Technology (ICT), Air-conditioning (A/C) and central heating (C/H), good state of repair, available parking facilities.

Class B (Secondary): Strong location, converted use, moderate quality finishing, provision of ICT, A/C and C/H, limited parking facilities

Class C (Tertiary): Poor location, congestion and parking constraints, limited or no ICT, A/C and C/H, adequate state of repair, moderate quality finishing

Market characterised by absorption of excess demand

AGGREGATED APARTMENT RENTS



Highest demand for one and two-bedroom apartments

Current total supply of 180,000 units in city of Abu Dhabi

Supply shortfall most acute in middle-income segment

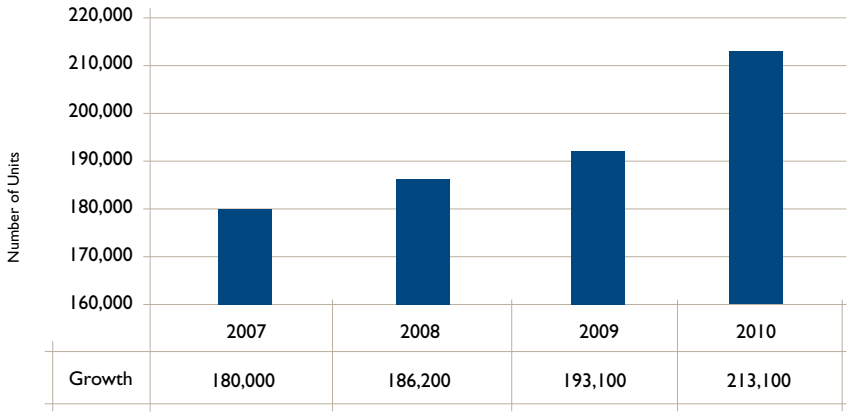
DEVELOPMENT SNAPSHOT*

PROJECT	YEAR	GLA m²
GOLF GARDENS	2008	400
KHALIDIYAH VILLAGE	2008	150
RAHA BEACH (PHASE I)	2009	790
SKY TOWER	2009	600
HYDRA VILLAGE	2010	2,500
THE QUAY	2010	400
CENTRAL MARKET	2011	490

* This table does not constitute an exhaustive list of forthcoming supply

Concentration on high-end developments, despite opportunities to meet middle-income segment demand

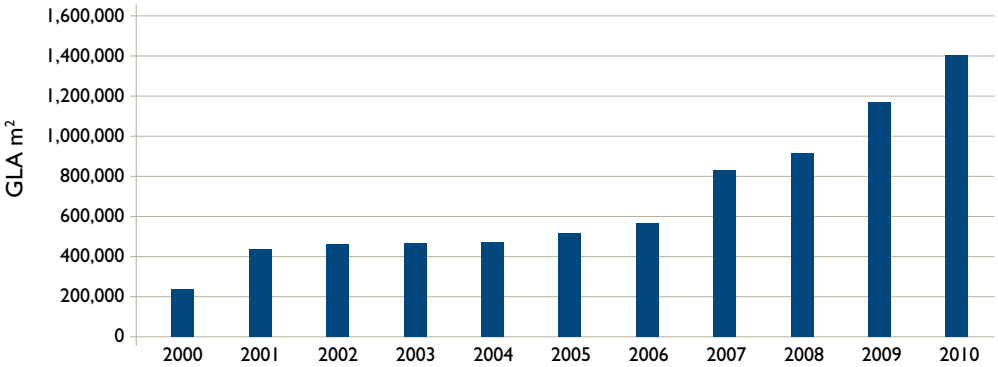
CUMULATIVE RESIDENTIAL SUPPLY SUMMARY



RESIDENTIAL MARKET PERFORMANCE

- Occupancy: 98%
- High-Income Asking Rent: US$ 490 per m² p/a
- Mid-Income Asking Rent: US$ 370 per m² p/a
- Rental YOY growth average of 22% in 2007-08, expected to slow with imposition of rent cap
- Asking rents for new leases expected to continue rising, as market remains undersupplied
- High-Income Asking Price: US$ 5,800 per m²
- Sales price growth of 53% over 2007-08 period, compared to 18% between 2006 and 2007
- Initial Yields: 8%
- Forthcoming supply estimates do not take into account projects in Al Raha Beach, Al Reem Island and Saadiyat Island scheduled for completion beyond 2010
- An additional 100,000 units required by 2010 to absorb excess demand, meaning market undersupply expected to continue for next three years
- As many as 140,000 additional units are expected between 2011 and 2013, assuming developments are completed to schedule
- Concern over heavy weighting towards high-end developments moving forward, uncertainty over role of newly created Abu Dhabi Commercial Properties' plans to introduce additional supply
- Risk of oversupply offset by likely development delays, opportunity to widen scope of foreign ownership framework
- Likelihood that residential components within master-planned developments will be scaled back to comply with Plan Abu Dhabi 2030

ABU DHABI SHOPPING CENTRE TOTAL SUPPLY



RETAIL MARKET PERFORMANCE

- Average occupancy rates of 90% across market, full occupancy in new generation malls incorporating leisure amenities
- Pre-let market less bullish than Dubai, with momentum gathering within one year of completion
- Shopping mall rents average US$ 950 per m² p/a, increasing to an average of US$ 1,500 in premium retail destinations such as Marina Mall, Abu Dhabi Mall and Al Wahda Mall
- Anchor tenant rents average US$ 150 per m² p/a, based on 15-year lease terms with 3-year rent reviews
- Estimated footfalls driven primarily by shopping mall tenant prestige – Abu Dhabi Mall currently achieves the highest footfall at just over 1.2 million visitors per month, whereas Marina Mall monthly footfall averages 900,000
- Total spending in Abu Dhabi's retail sector is expected to reach US$ 2bn by the end of next year
- GLA Per Capita set to increase by 53% to 0.87 m² in 2010, requiring retail sales to grow at a steady YOY growth rate of 19% to sustain current performance trends
- Approximate annual retail spend of US$ 4,900 per capita required to support growth
- UPC Plan Abu Dhabi 2030 envisages a measured distribution of retail space across the enlarged city of Abu Dhabi, with the existing downtown, Al Reem Island, Capital District, Sadaiyat Island and Al Yas Island representing the key retail 'hot spots' over the longer term
- Role of UPC in overseeing retail provision and integration of forthcoming retail amenities into master-planned developments reduces risk of market oversupply
- Greater flexibility to increase or scale back supply in line with tourism sector performance and organic demand growth
- Brand diversification and integration of leisure amenities will become increasingly crucial as more supply enters the market, given UAE national-driven spending power
- Opportunity for older, smaller shopping malls to reposition themselves towards middle-income segment
- Future retail performance supported by strategic plan to develop leisure tourism market in Abu Dhabi, providing scope for niche retail outlets focusing on cultural and sports tourism segments

Distribution of forthcoming retail amenities overseen by UPC, which emphasises the integration of retail amenities into master-planned communities

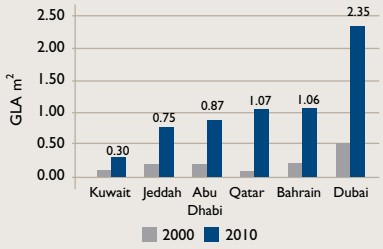
Future shopping mall landscape expected to play more supportive role, rather than 'standalone' shopping malls acting as tourism destination drivers in themselves

Shopping mall Gross Leasable Area (GLA) in Abu Dhabi set to increase from 810,000m² at present to 1.4 million m² by 2010

DEVELOPMENT SNAPSHOT*

PROJECT	YEAR	GLA m²
MARINA MALL (PH III)	2008	39,000
CENTRAL MARKET	2008	60,000
AL JABER MALL	2008	20,000
MBZ CITY MALL	2009	23,200
ROTANA KHALIFA PARK	2009	11,000
DARWISH ISLAND CITY	2010	70,000
AL REEM MALL	2010	130,000

* This table does not constitute an exhaustive list of forthcoming supply

Shopping mall supply accounts for almost 60% of total retail GLA, with non-mall GLA representing less than 300,000 m² in total

GCC RETAIL MALL GLA PER CAPITA