

Market Pulse Survey Results

*Responses and Strategies for
the COVID-19 Crisis*

Residential/Mixed Use Developers
Office Landlords
Office Tenants
Retail Landlords & Operators

Market Pulse Survey

Responses and outlook for the COVID-19 crisis.

- Knight Frank is committed to delivering substantive guidance and solutions to the challenges faced by our clients as a result of the COVID-19 pandemic.
- We continue to aggregate industry-specific data in order to assess the evolution of real estate markets in response to this health and economic crisis.
- We would like to thank our clients who participated in these surveys and are pleased to share the following survey results.

Survey conducted 04/19/2020 – 05/04/2020
Percentages may not sum to 100% due to rounding
Source: Knight Frank Research



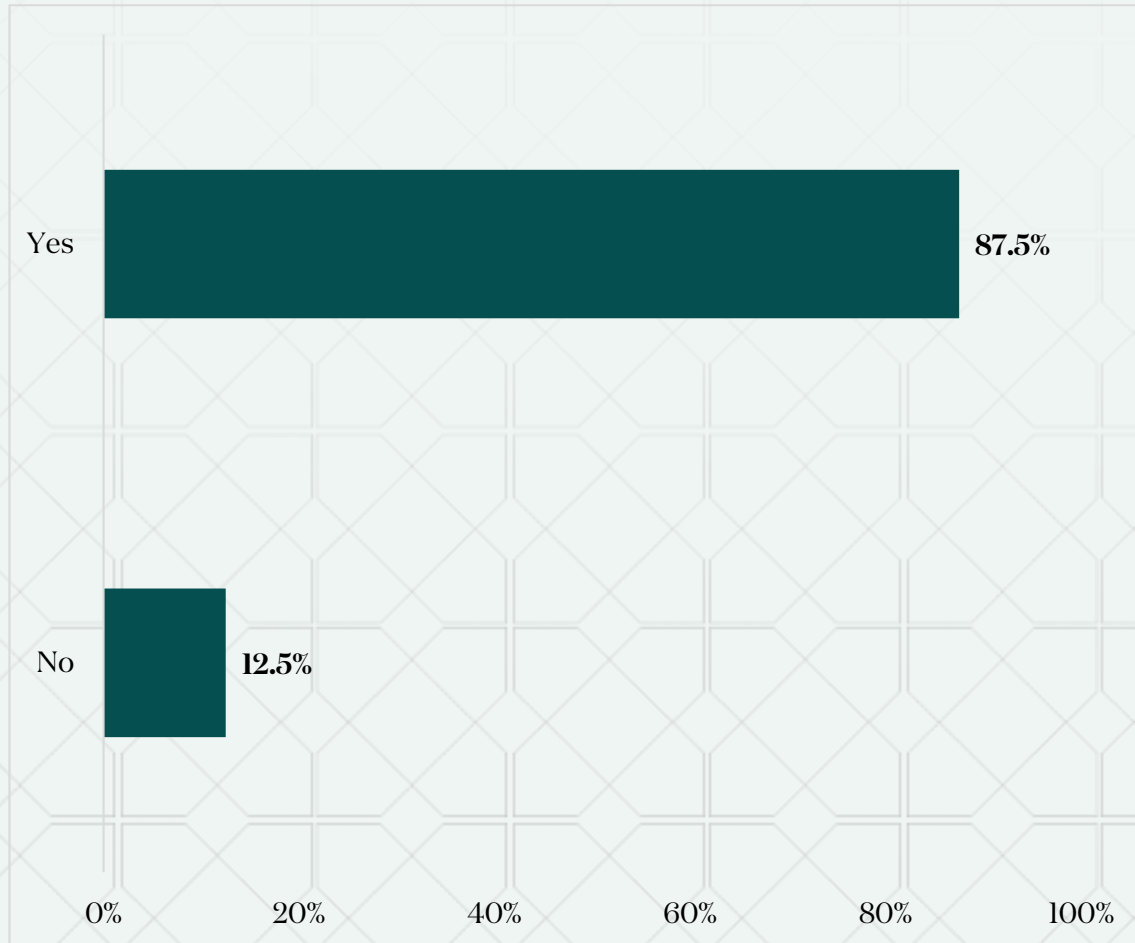
Survey Results

Residential/ Mixed-Use Developers

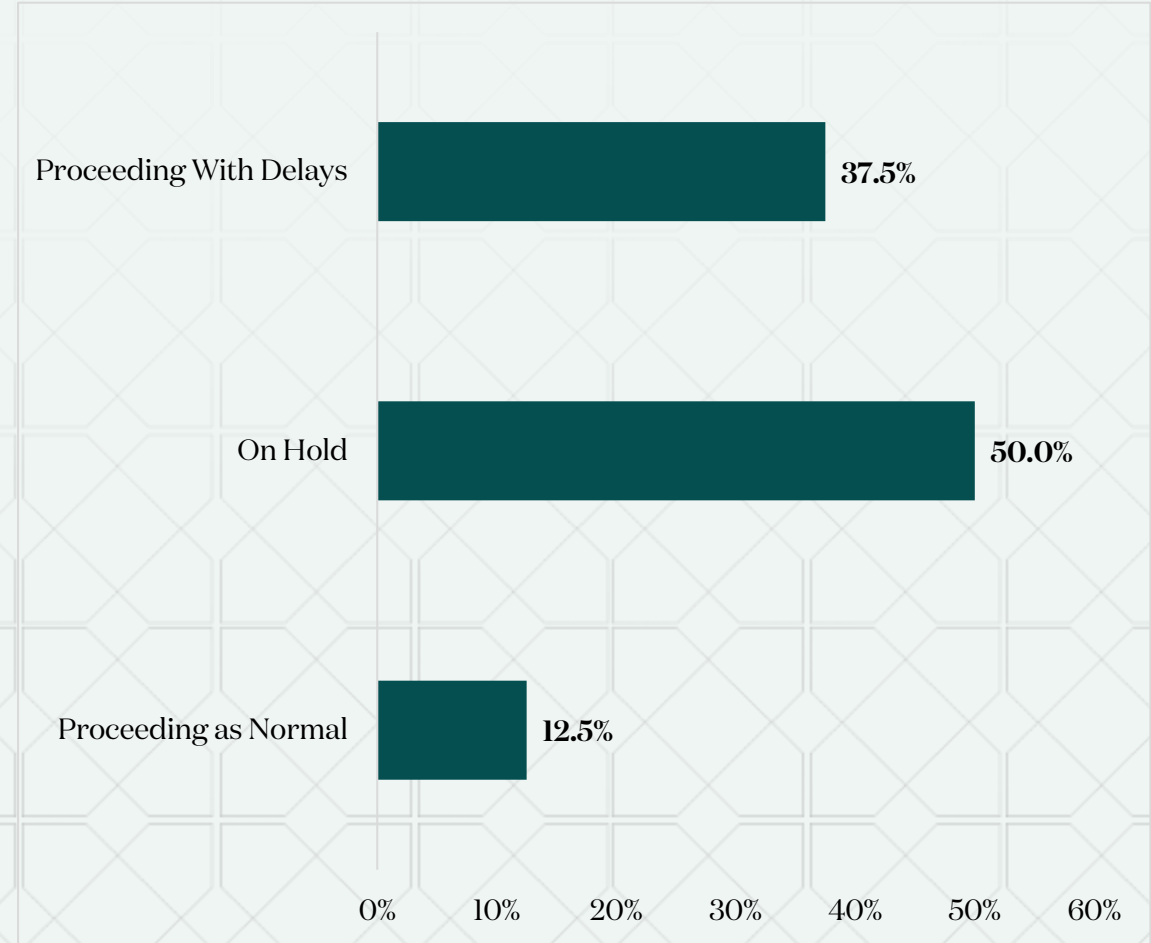
Survey Results

Residential/Mixed-Use Developers.

1 Are you continuing with development projects that are under construction?



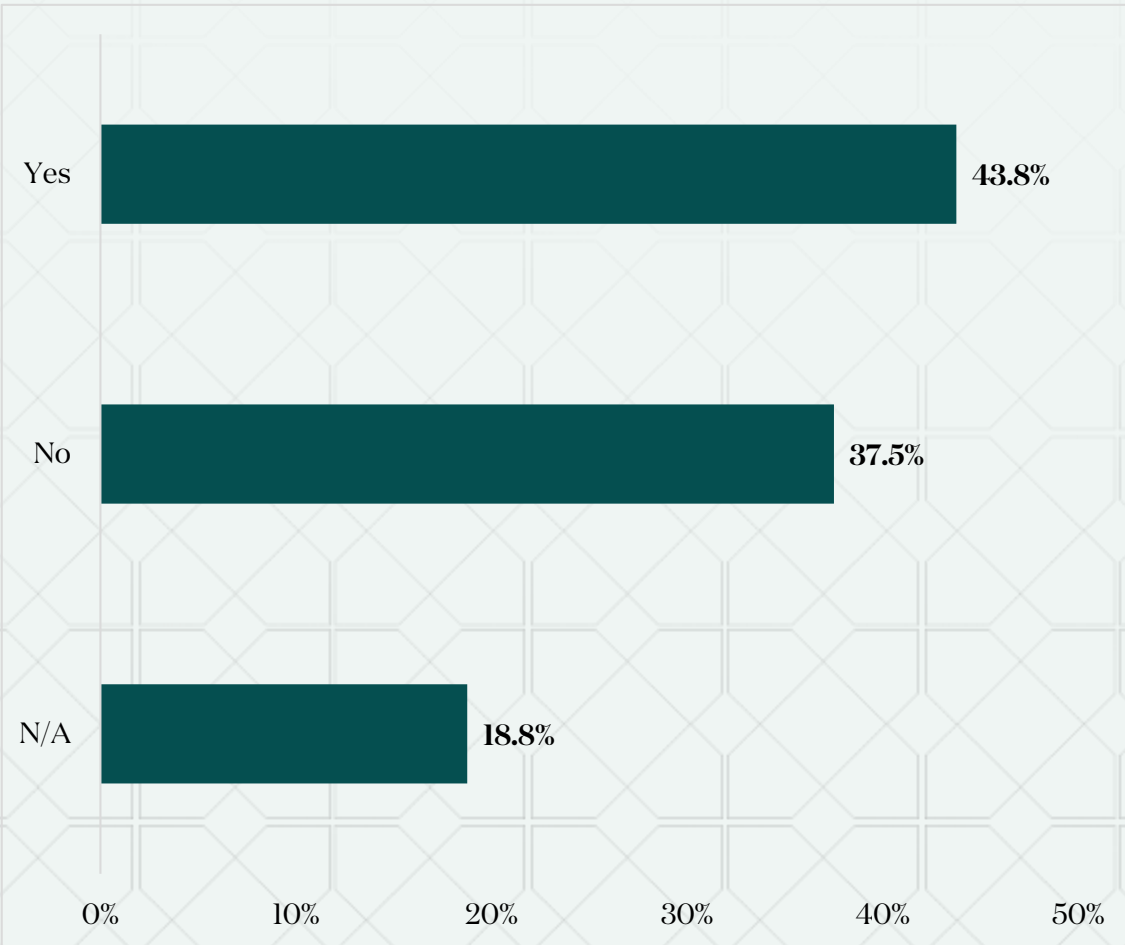
2 For the development projects that were under planning, are they...



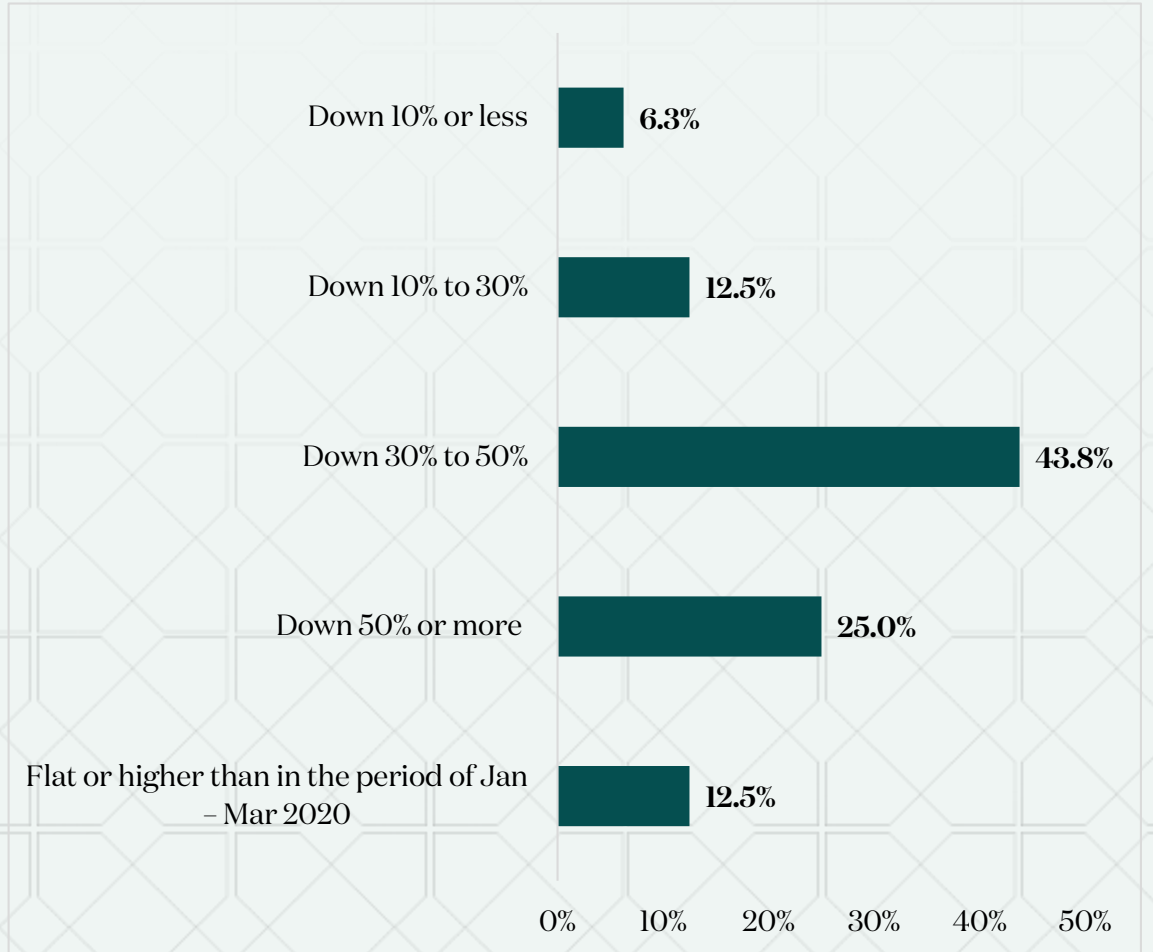
Survey Results

Residential/Mixed-Use Developers.

3 Do you expect to, or have you already shifted your debt strategy to longer term holds?



4 In the past 3 weeks, have you seen a drop in residential transactions in terms of off plan sales?

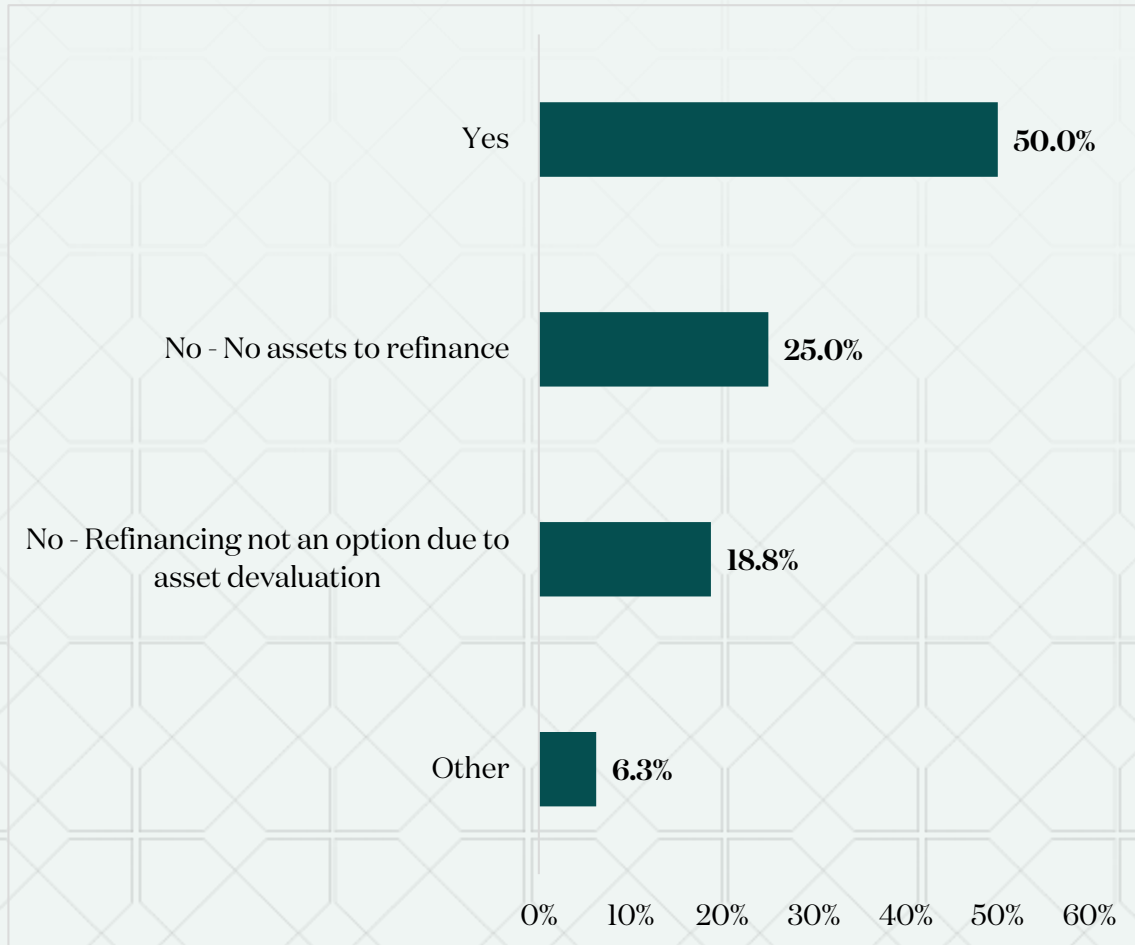


Survey Results

Residential/Mixed-Use Developers.

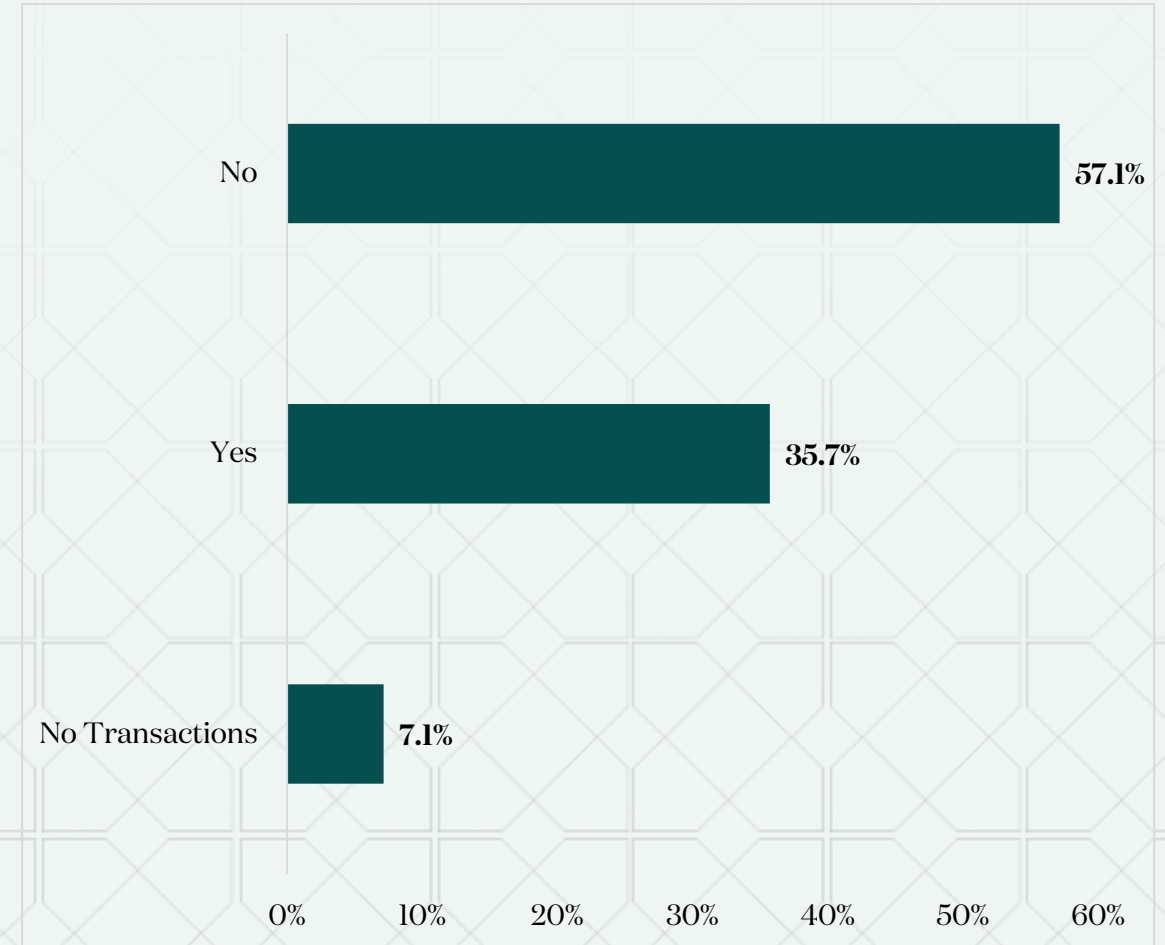
5

Are you looking to refinance existing debts?



6

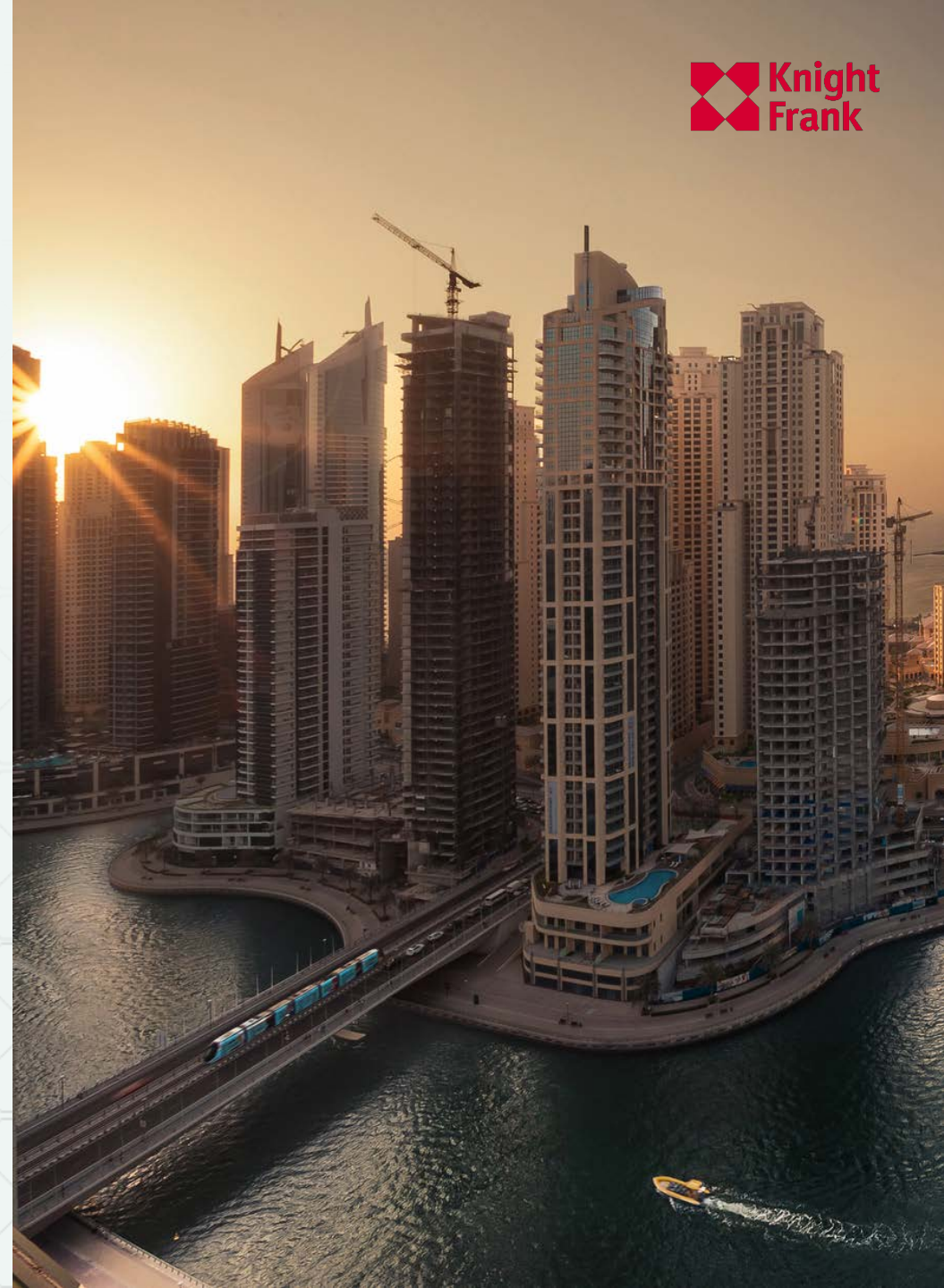
In the past 3 weeks, have you had any residential transactions that were confirmed buys drop out?



Implications for our Clients

Residential/Mixed-Use Developers.

- A significant majority - close to **90%** - of projects that were under construction are still proceeding. This could be due to government mandated escrows that were put in place following the earlier recession to ensure developers had sufficient capital to complete projects.
- However, construction contracts may see delays in completion due to developer induced postponements or interruptions in logistics of both labour as well as material.
- Developers are largely taking a wait and watch approach when it comes to projects that were under planning with an overwhelming majority of projects being either put on hold (**50%**) or proceeding with delays (**37.5%**). The main question that needs to be answered to move forward is whether the market will retain its fundamentals when it emerges from the effects of the pandemic. Also, developers are cautious about expending additional CAPEX in a cash flow restricted operating environment.
- The residential market had just started to show tentative signs of entering into a growth phase prior to the lockdown. At least some of the developers are showing weakened confidence in the market reverting to the growth phase in the short term as evidenced by the shift in their debt strategy to longer term holds.
- From a buyer perspective, the market has seen a drop in off-plan sales with at least a quarter of the respondents seeing a drop of over 50% in transaction volumes as compared to the first few months of the year. This could be the result of potential buyers deferring their purchase decision till after any fall out in the sector is ascertained and understanding if the market post the pandemic will shift even more towards a buyer's market.



Survey Results

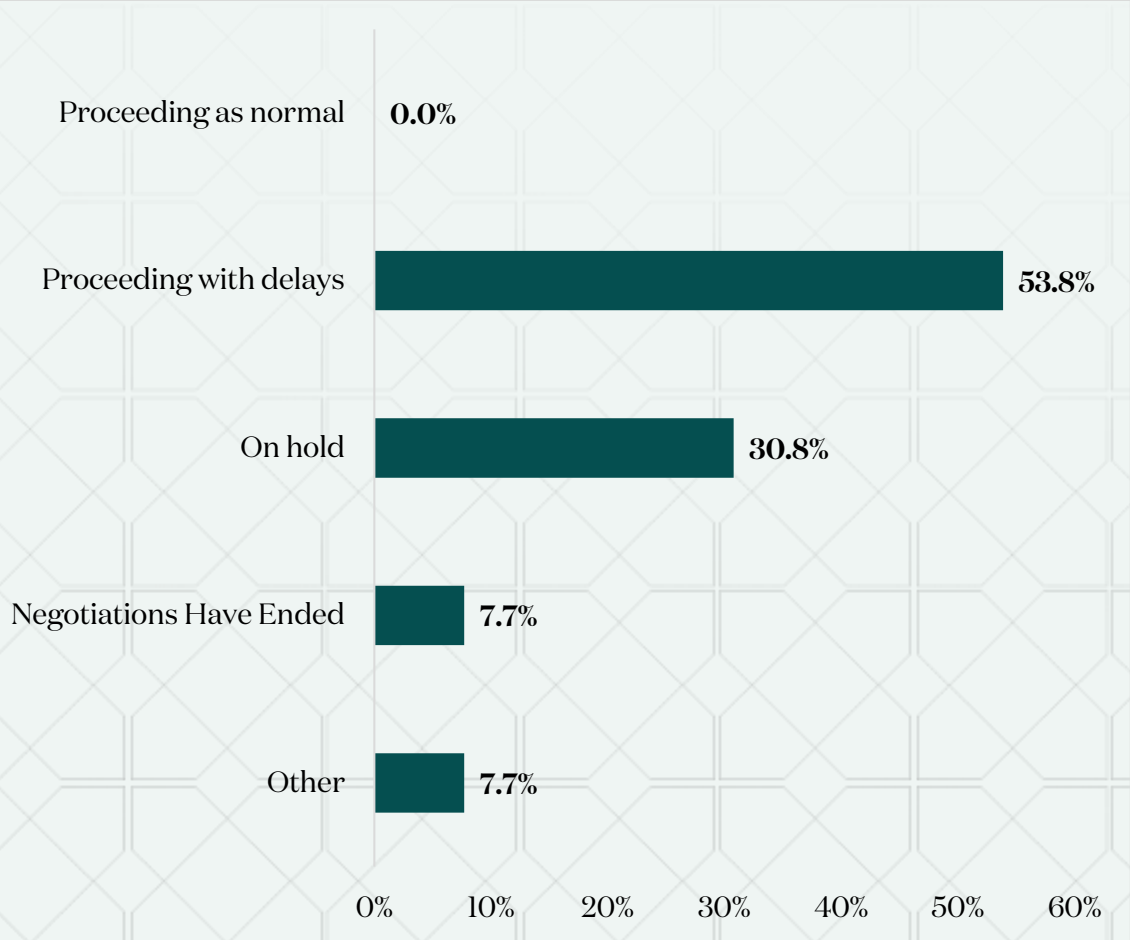
Office Landlords

Survey Results

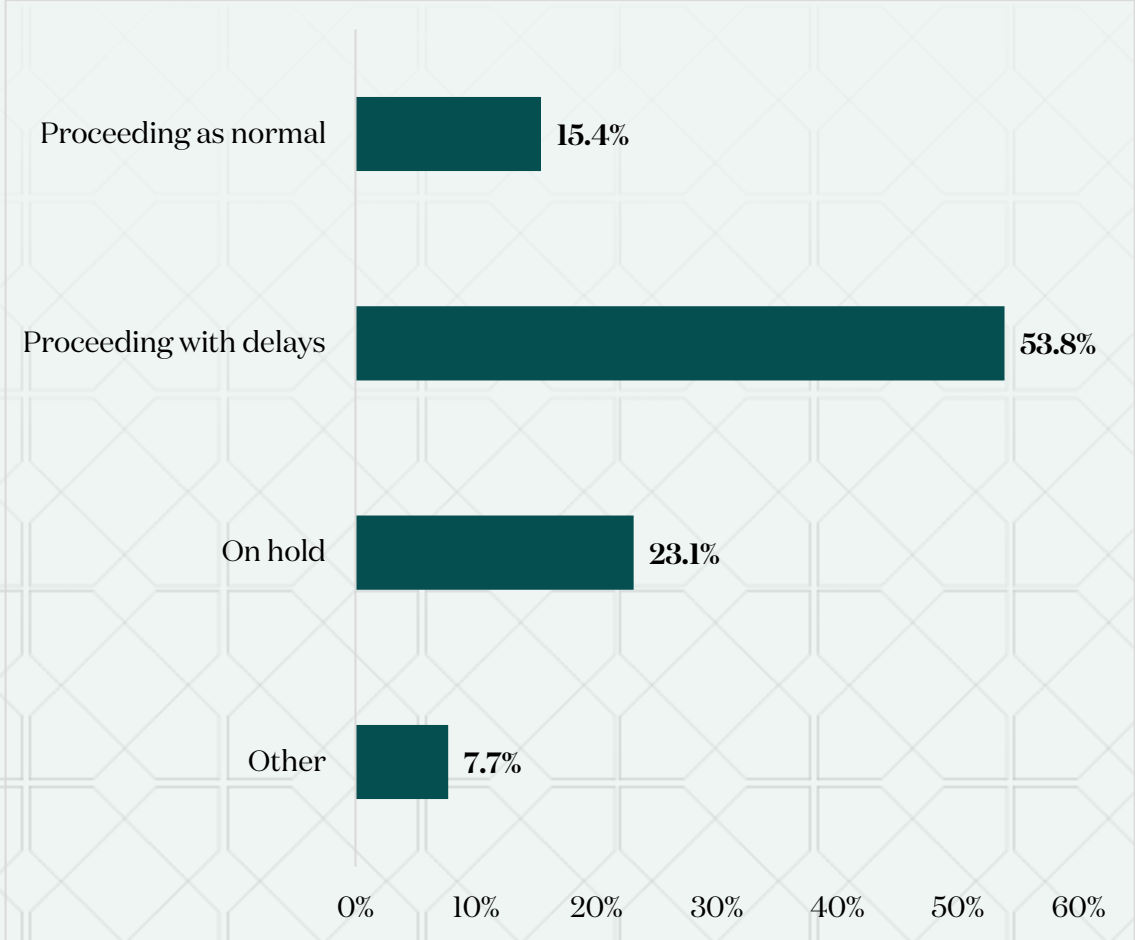
Office Landlords.



1 What is the status of office leasing deals that are/were in negotiations as the Covid-19 was breaking in the UAE?



2 For leases that were signed, what is the current status of tenant move in status?

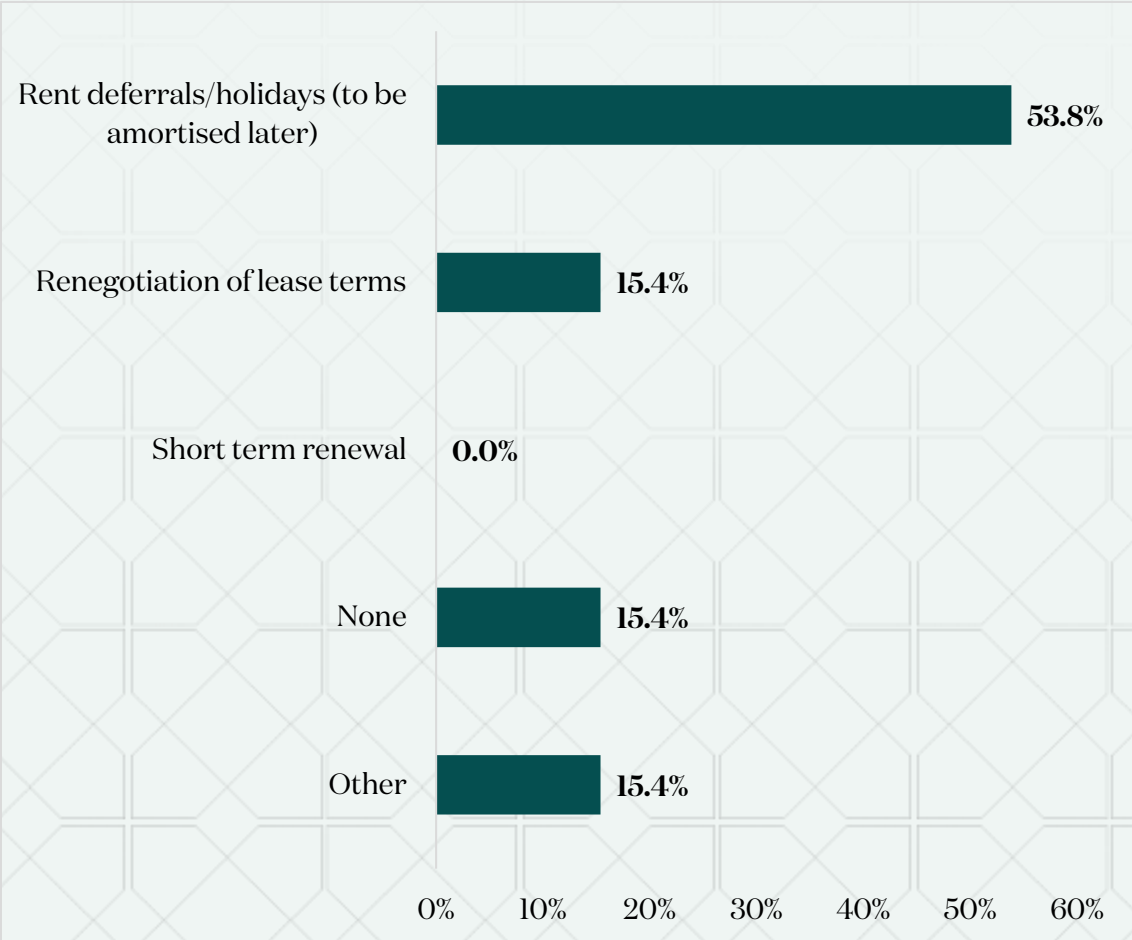


Survey Results

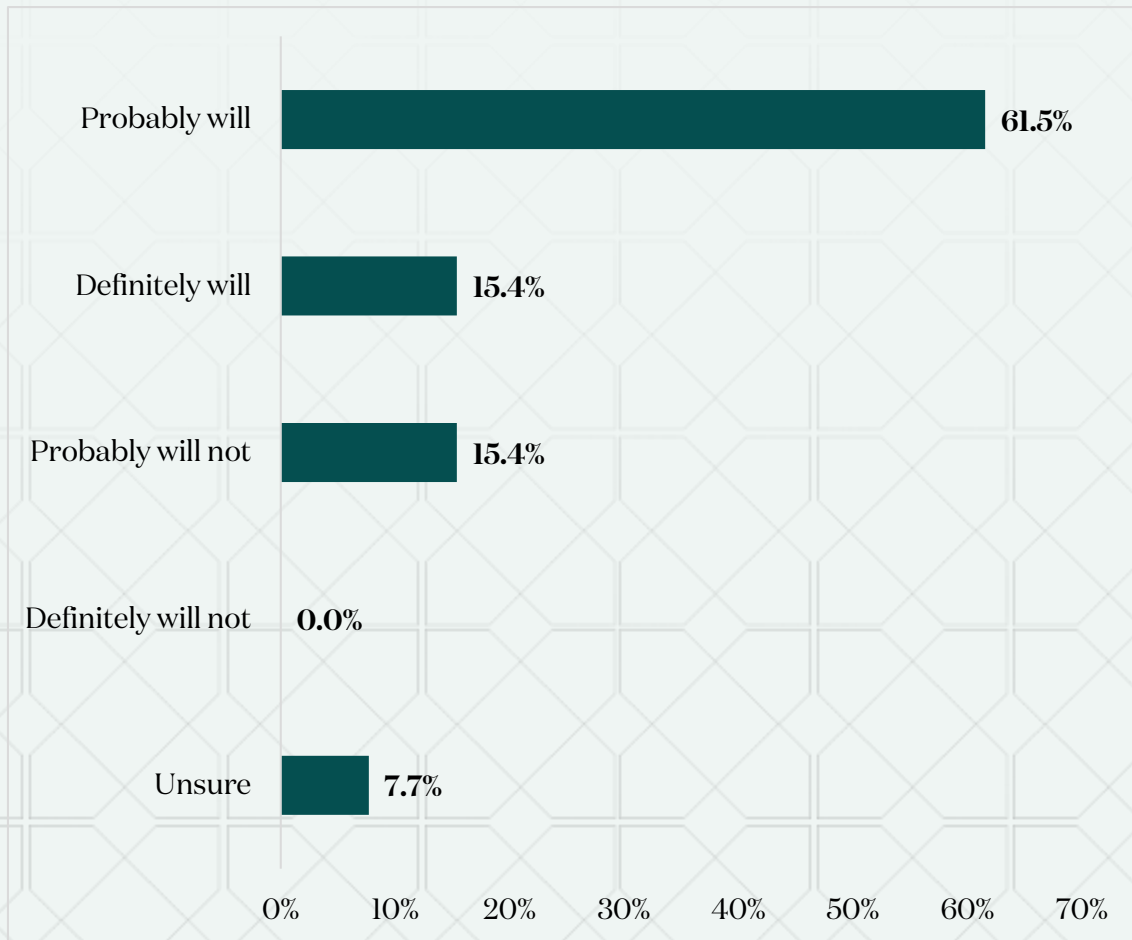
Office Landlords.



3 What accommodations have been requested by tenants and granted on existing lease obligations?



4 Are you considering increasing the amount of concessions offered to keep existing tenants or attract new ones?

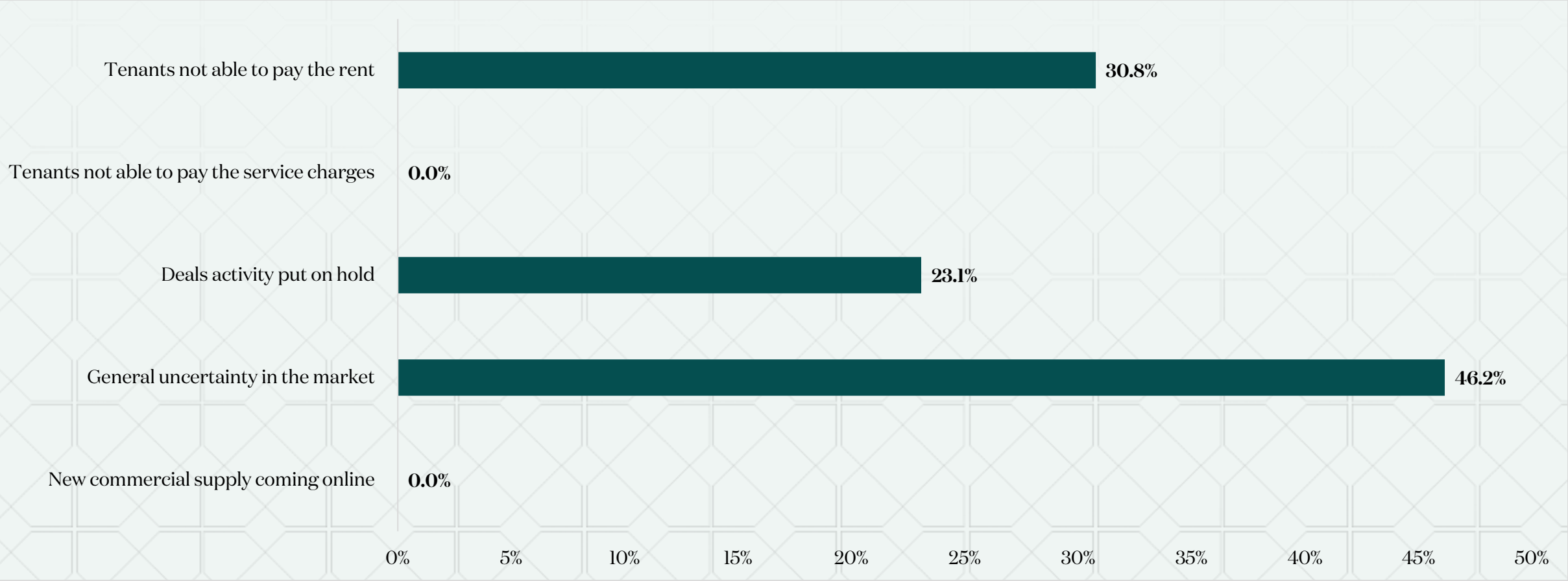


Survey Results

Office Landlords.



5 What is the greatest challenge to your RE portfolio at this time?



Implications for our Clients

Office Landlords.

- **53.5%** of office leasing deals in the UAE under negotiation at the start of the crisis face delays and **30.8%** are on hold, signalling the fluid demands of businesses as they try to adapt to market conditions.
- This immediate stress in the office market is further accentuated by the fact that only **15.4%** of signed leases are proceeding as planned.
- **69.2%** of respondents indicated that tenants had successfully requested rent deferrals and renegotiations of lease terms on existing leases underscoring the current pressure businesses face to stay afloat.
- In response to these weaknesses seen in office leasing, **61.5%** of landlords state they are likely to offer further concessions to maintain existing tenants and attract new ones. **15.4%** of respondents have confirmed that they will definitely offer an increase in concessions.
- Respondents are wary of the general uncertainty in the market (**46.2%**), citing it as the greatest challenge to their real estate portfolios followed by an apprehension that tenants may not be able to pay their rent (**30.8%**).
- In face of the fragility witnessed in the office market, it is worth noting that flexibility and collaboration from the landlord is crucial for the future of the market.



Survey Results

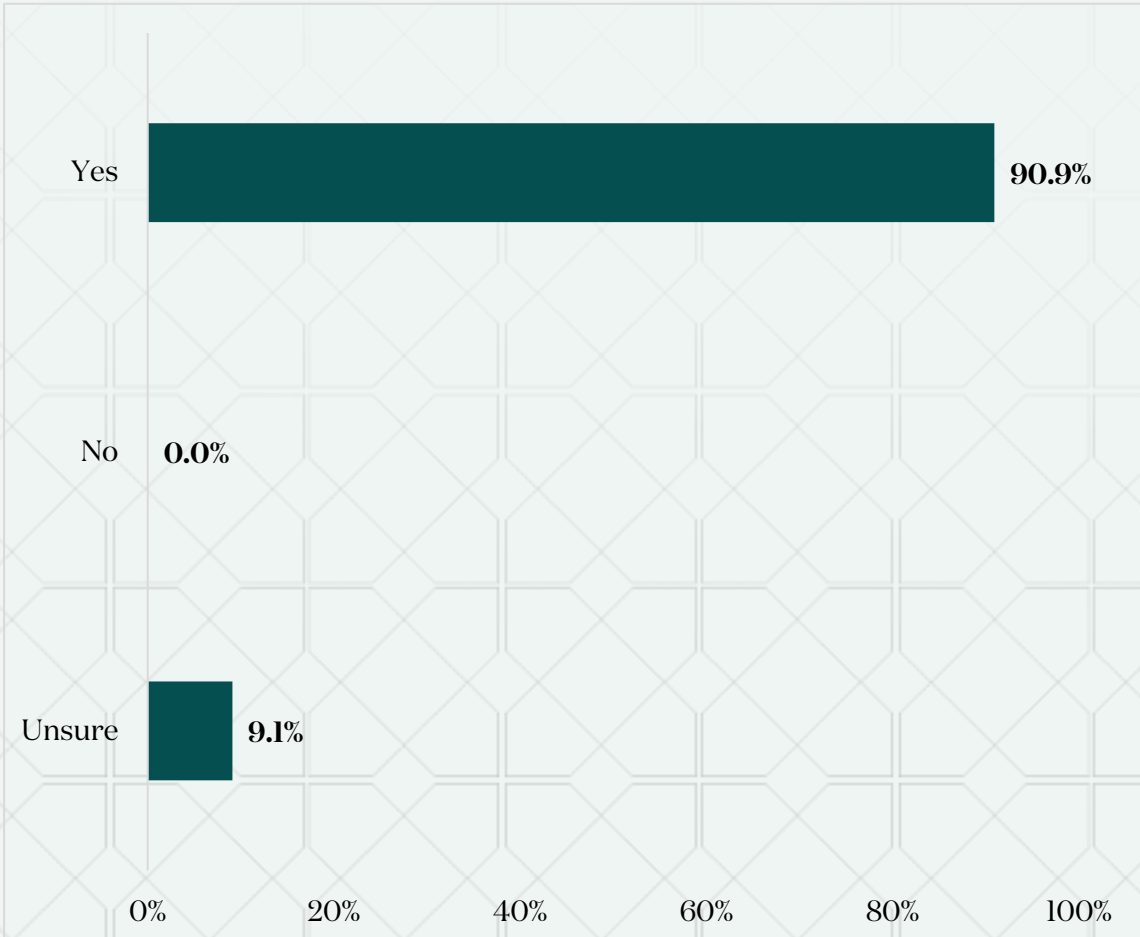
Office Tenants

Survey Results

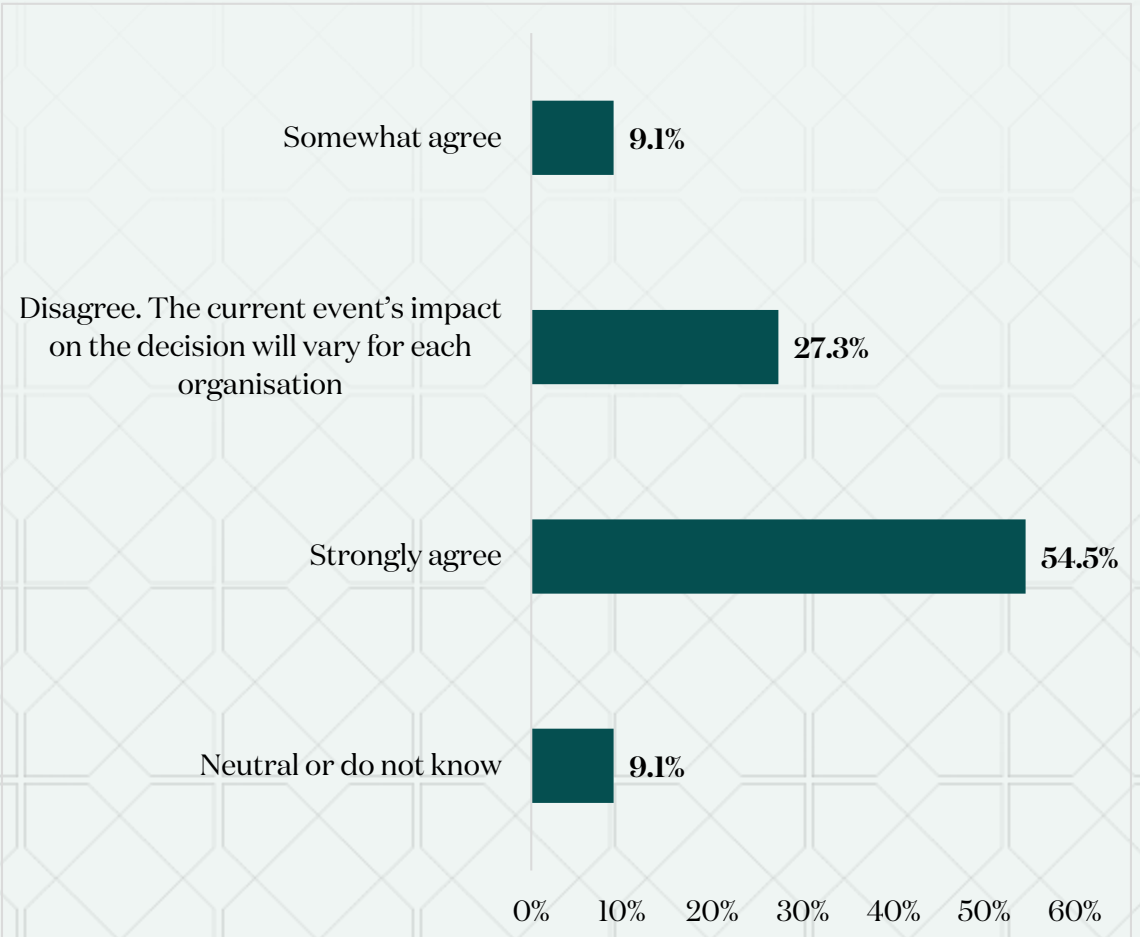
Office Tenants.



1 As part of the new normal, it is anticipated that social distancing will become a part of our daily lives, reducing density in our social and professional spaces. Is your organisation planning to reduce density as you transition back to the new normal?



2 In light of the current events, organisations will more aggressively consider a flexible work space arrangement and move away from the traditional real estate model for workspaces. To what extent do you agree with the above statement.



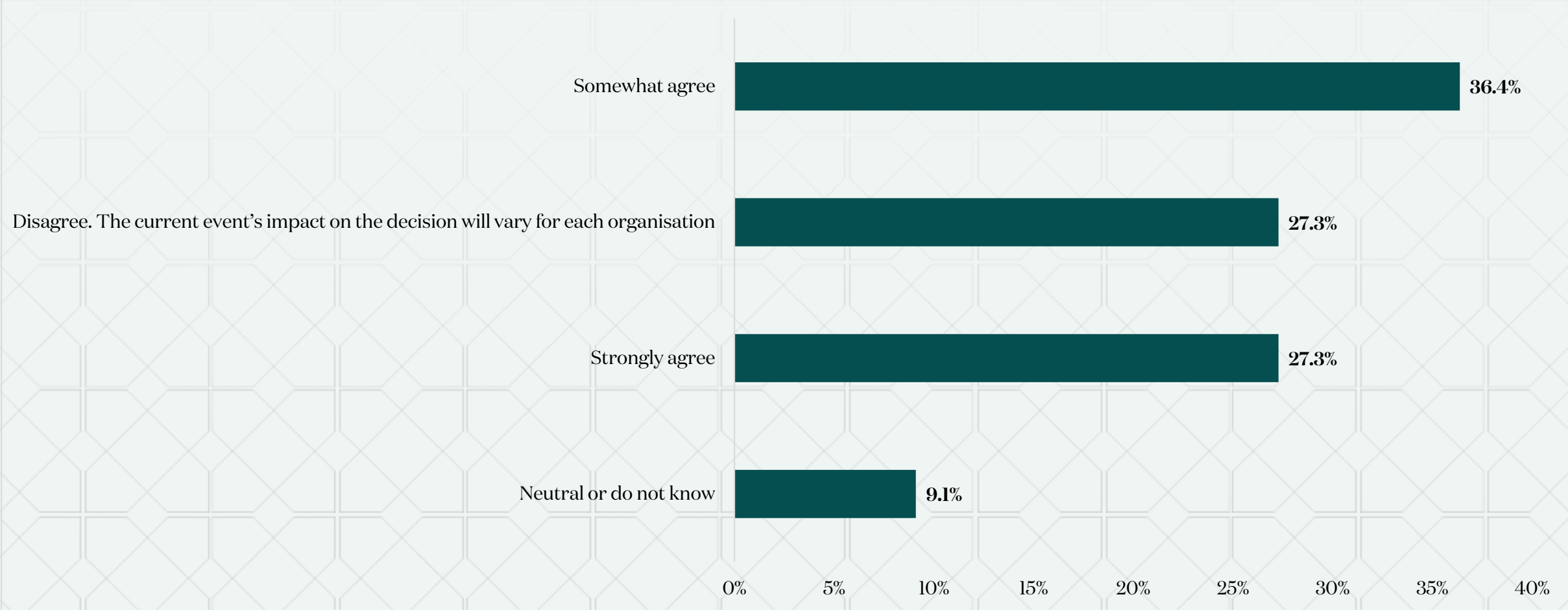
Survey Results

Office Tenants.



3

In light of current events, is this the time to fundamentally redesign the office workplace from a real estate model to a cloud cloud-based operating model? While investments will be required to improve existing technology and management processes, locational issues such as economic incentives, cost of real estate, and the location and cost of labour evaporate. Organizations can assemble the ideal team regardless of their physical location. To what extent do you agree with the above statement.

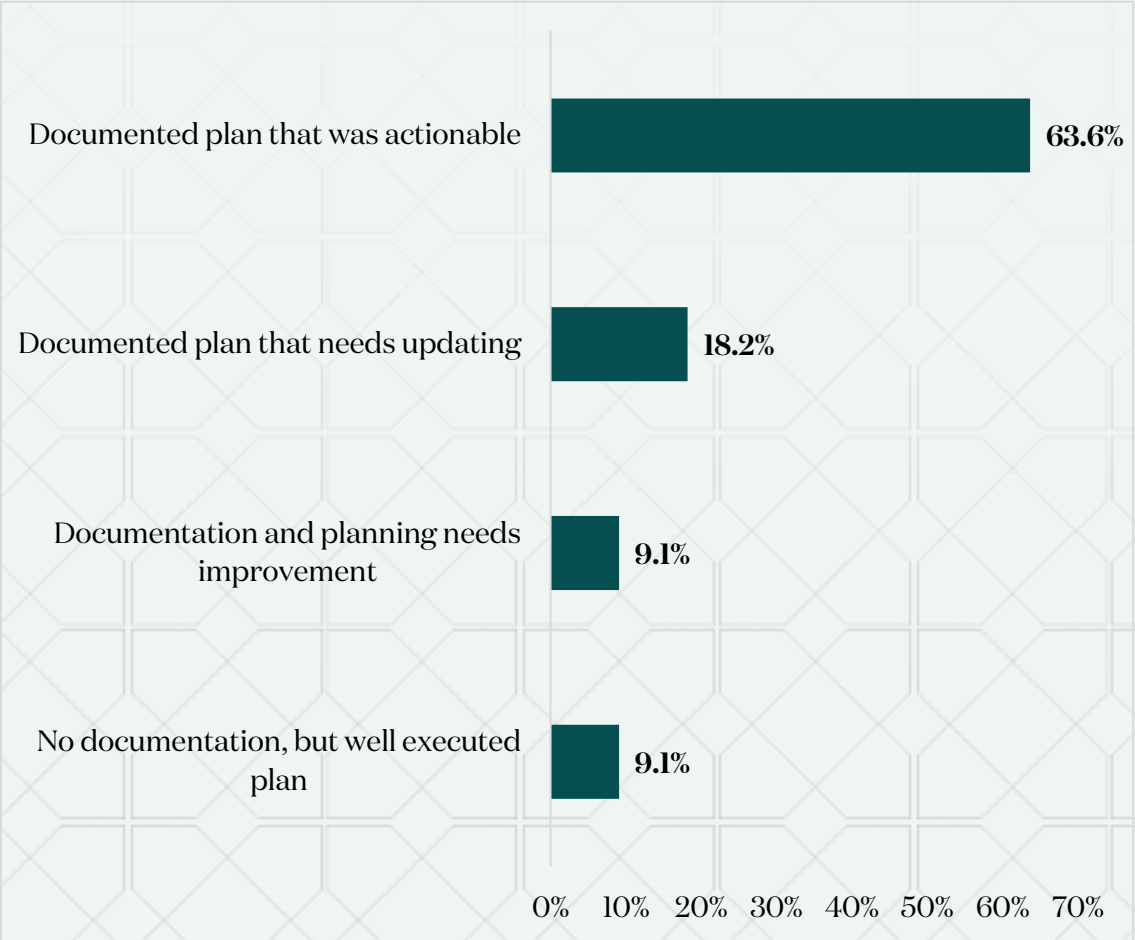


Survey Results

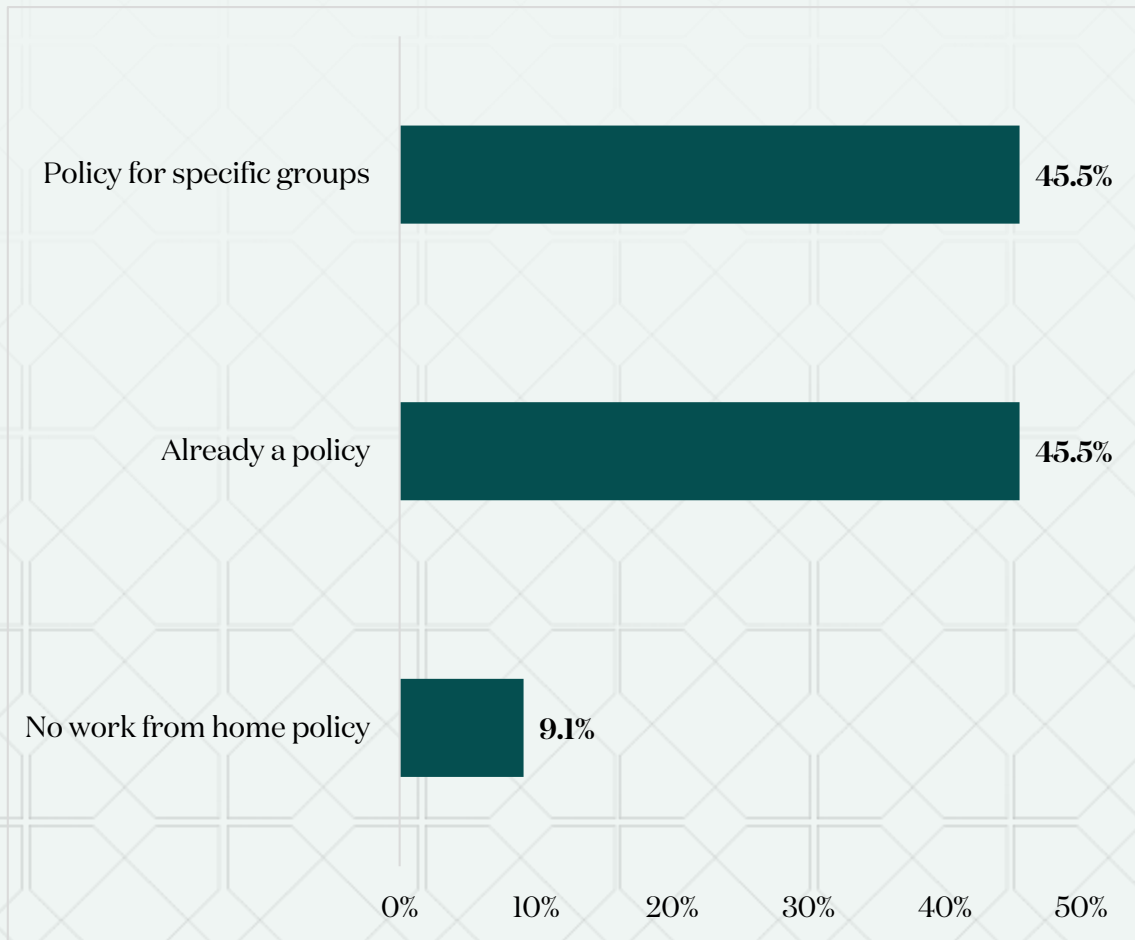
Office Tenants.



4 How would you rate your preparedness for deployment of work from home strategies in response to COVID-19?



5 As a result of COVID-19, where do you see work from home strategically?



Implications for our Clients

Office Tenants.

- **90.9%** of respondents have indicated that their organizations intend to implement social distancing policies upon resumption of business leading to reduced density in their offices.
- While this means that tenants would require more space per person potentially increasing their footprints, **54.5%** of respondents strongly believe that organizations will consider moving away from the traditional real estate workspace model and implement flexible workspace policies more aggressively.
- Given that a large share of the increased costs - mainly related to adopting the necessary technology - to enable a work from home environment - has already been expended by the majority of employers, the accelerated adoption of remote working during the pandemic is expected to filter into normal work life after resumption of business as usual. It is worth noting that in order to properly get a return on these technology investments, firms would require to lower the fixed costs associated with physical office spaces while concurrently continuing the flexible work strategy.
- Going forward, the pandemic is expected to lead to a significant change in homeworking and office space demand. The focus of the workplace is expected to be much more around collaboration, with firms for which working together is an unavoidable necessity (advertising, design, etc.) choosing to retain physical offices more than others.



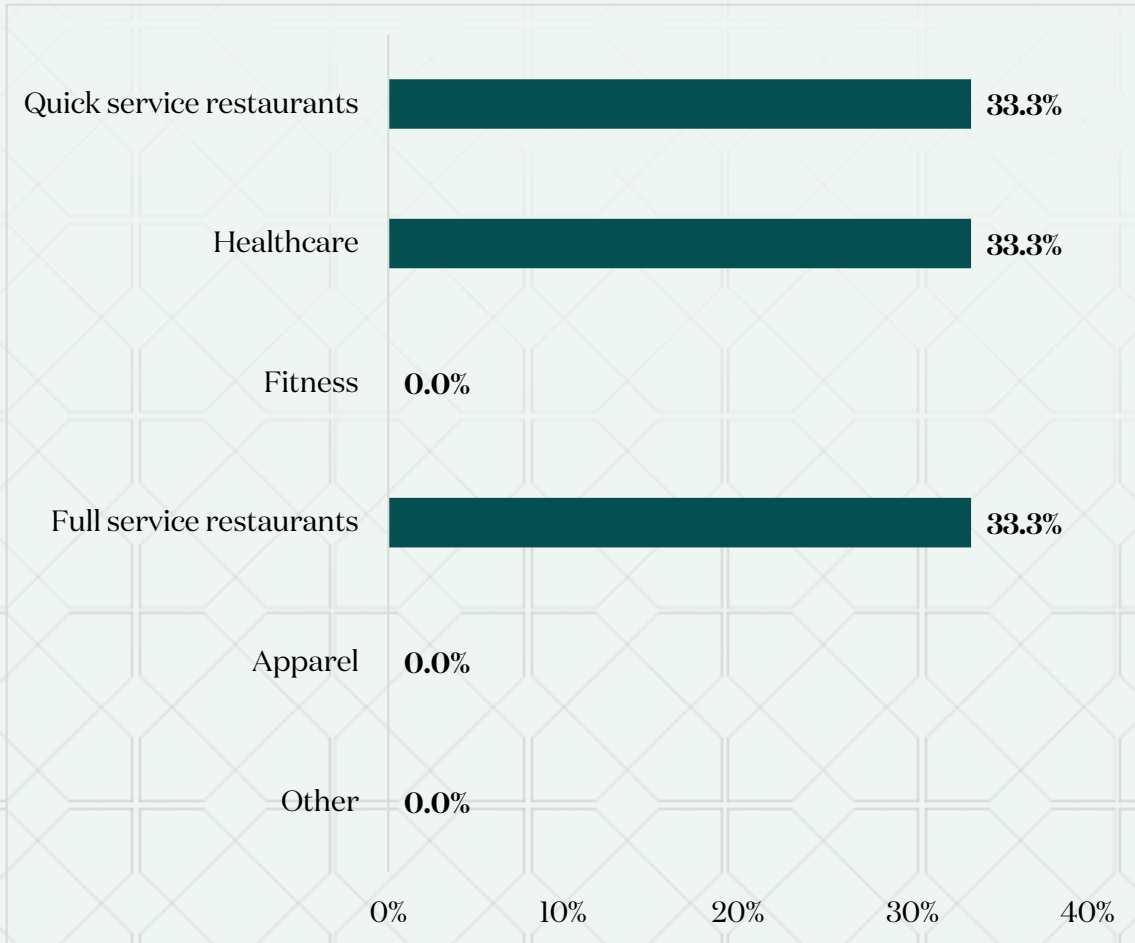
Survey Results

Retail Landlords & Operators

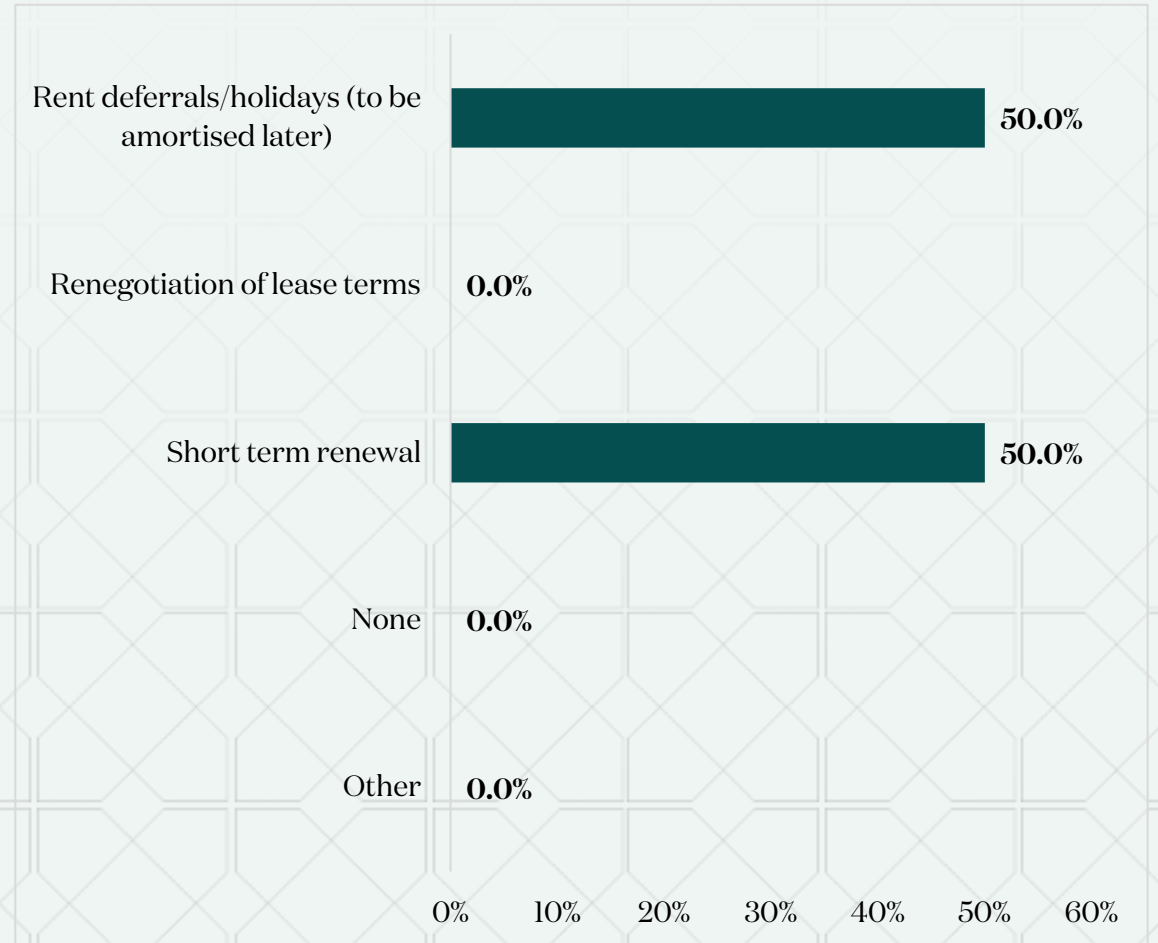
Survey Results

Retail Landlords & Operators.

1 Excluding essential goods and services (grocery stores, pharmacies, etc.) which sectors of retail do you expect to bounce back soonest?



2 What accommodations have been requested by tenants and granted on existing lease obligations?

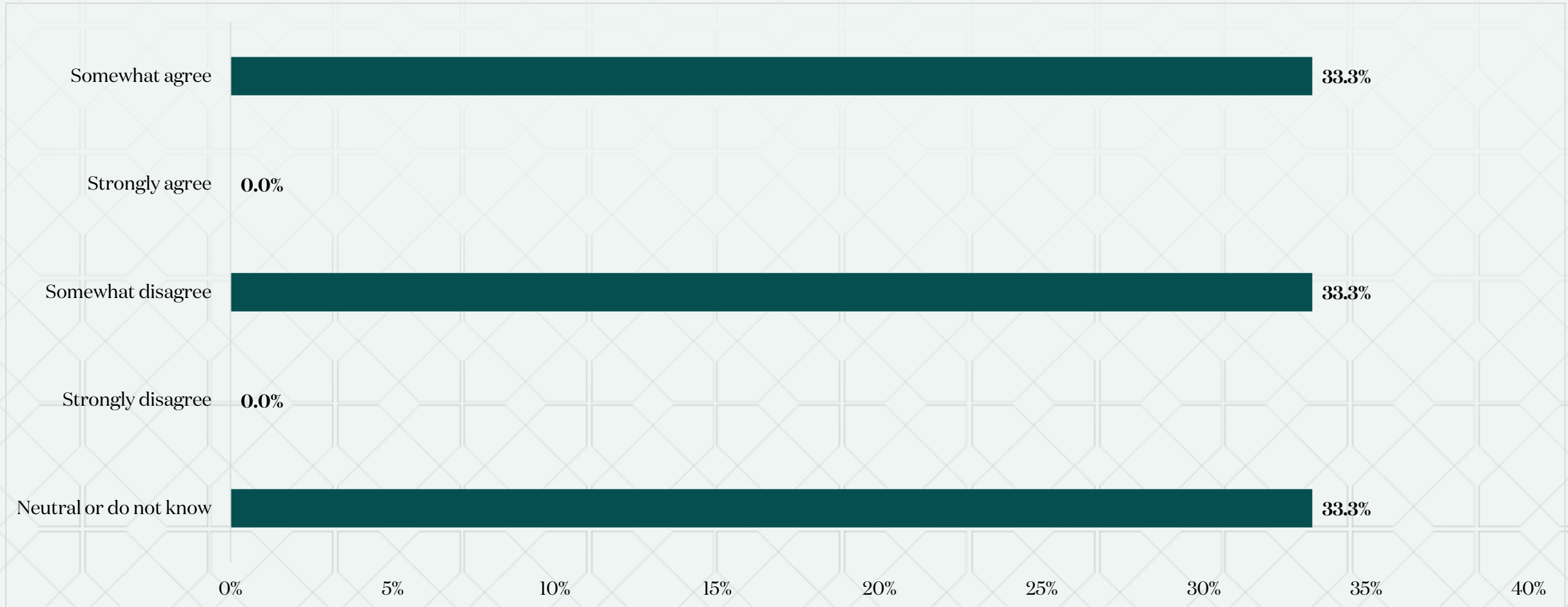


Survey Results

Retail Landlords & Operators.

3

In light of the current events, retail tenants are anticipated to ask for and be more successful in negotiating a rental model weighted more heavily towards a revenue sharing arrangement. To what extent do you agree with the above statement?



Implications for our Clients

Retail Landlords & Operators.

- Fast food restaurants, full service restaurants and healthcare related retail tenants are anticipated to be the quickest to recover from this crisis.
- Two accommodations were typically sought by retail tenants with **50%** of respondents reporting that rent holidays were requested and the other **50%** stated that short term renewals were sought. This points, not only to the financial stress the retail sector is under, but also the increasing flexibility in lease terms required by retail tenants in times of uncertainty.
- On the issue of potential retail leasing structures incorporating revenue sharing/percentage rent models, respondent opinion was split. A third agreed that this model would become more commonplace, while an equal number of respondents disagreed with this assessment.
- With the retail sector expected to be under pressure for the short to medium term, it is expected that more flexible lease terms and potential revenue sharing arrangements may be requested by retail tenants in the future as they seek to hedge themselves in the event of similar crises.
- While larger retail centres that depend on tourism visitation are expected to feel the brunt of the crises more severely than neighbourhood retail centres, given that a large number of brands are controlled by a few number of players, renegotiated terms for one format is expected filter down to the other to some extent.



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