RESIDENTIAL RESEARCH

# UAE MARKET REVIEW AND FORECAST 2018

## Headlines

The UAE's GDP growth is expected to slow to 1.7% in 2017 and gain momentum 2018 to 3.3%

Residential price performance will continue to diverge in 2018 across Dubai, with neighbourhoods where significant delivery of new supply is expected likely to continue to see prices soften

Commercial market activity is expected to pick up in 2018

Dubai's prime office rents will continue to rise, albeit moderately

The short to medium term outlook for Abu Dhabi's office market remains negative

Given market performance to date, in 2017 we are likely to see another year of softening KPIs within the UAE's hospitality sector


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**Senior Analyst**


"Despite strong forecasts for economic growth within the UAE in 2018, we remain cautious on the outlook for the real estate sector however we do anticipate pockets of outperformance."

Please refer to the important notice at the end of this report.

## DISJOINTED PERFORMANCE EXPECTED IN THE UAE'S REAL ESTATE MARKETS IN 2018

The UAE's GDP increased by 3.0% in 2016, down from 3.8% in 2015. Lower oil prices, higher interest rates and a strong dollar have underpinned the slowdown in GDP growth.

Abu Dhabi's GDP decreased by 6.4% in 2016, up from -8.9% in 2015 (on current price levels), with the crude oil and natural gas sectors' slowdown impacting headline economic growth.

Dubai's GDP increased by 2.5% in 2016, down from 3.4% in 2015. Global economic uncertainty deriving from political uncertainty due to events such the UK's EU Referendum and the global wave of populism combined a strong US Dollar have supported the slowdown in GDP growth.

### Outlook

**UAE:** Given a partial recovery in oil prices and diversification of the economy (to cut its resilience on crude oil revenues), GDP growth is expected to slow to 1.7% in 2017 and gain momentum 2018 to 3.3%.

**Abu Dhabi:** Forecasts show that GDP growth is expected to pick-up in 2017 to 3.9% and 4.7% in 2018 – outpacing the overall UAE's GDP growth rates over the same period respectively.

**Dubai:** As the economy diversifies in line with Dubai Plan 2021, GDP growth is expected to grow 3.2% in 2017 and begin to strengthen in 2018 to 3.5%.

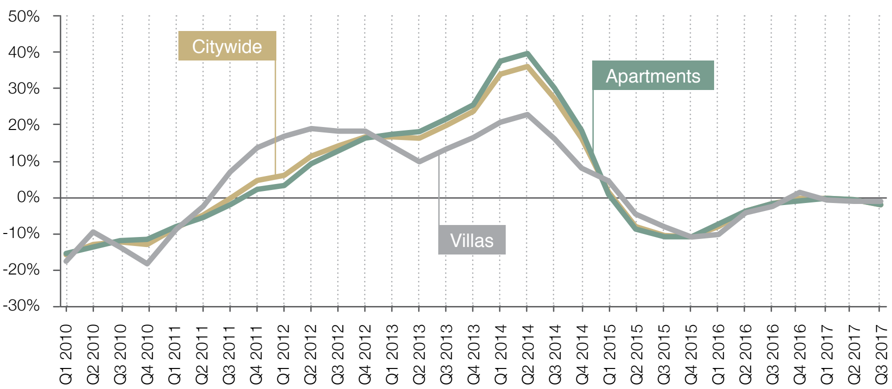
## Residential

### DUBAI

Dubai's residential market in 2017 has been a story of stabilisation after a period of weak market performance which started in early 2015. Mainstream sales prices fell by 2% in the year to Q3 2017 according to data from REIDIN.

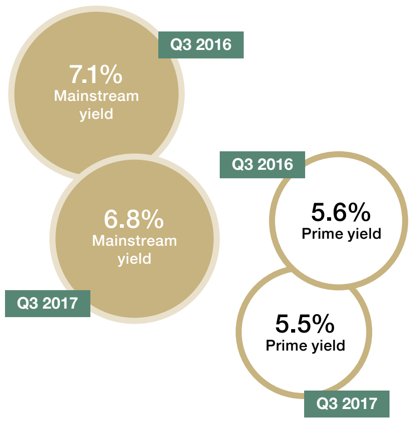
Comparing average price change in the first nine months of the year: in 2016 the figure registered at -5.6%, over the same time period in 2017 price falls have slowed to -0.6%. Prime residential prices over the year to September 2017 have fallen by 3.8%.

FIGURE 1
**Dubai mainstream residential,** year-on-year % change




**Source:** Knight Frank Research / REIDIN

FIGURE 2
Dubai's yield potential




**Source:** Knight Frank Research

However, we may be seeing this segment of the market beginning to reach its trough with monthly price growth from August 2017 to September 2017 registering positive growth. More so in the prime market, sub-market performance has begun to diverge. In prime markets, where new supply has been limited such as Palm Jumeirah and Emirates Living we have seen price growth return over the short term, whereas areas such as Downtown where new supply is evident prices have continued to fall.

Mainstream transaction volumes in the first nine months of 2017 have risen by 10% compared to the same period a year earlier. The total value of transactions over this period registered at AED36.86 billion (US$10.04 billion) up 12% compared to a year earlier.

In the nine months to September 2017 prime transaction volumes have increased by 6% and the total value of prime transactions registered at AED2.27 billion (US$ 619 million), up 9% from the same period a year earlier.

## Outlook

On balance, the outlook for Dubai's economy and real estate market remains positive despite some key risks which must be monitored and managed.

Additionally we also note that price performance will continue to diverge in 2018 across Dubai, with neighbourhoods where a significant delivery of new supply is expected likely to continue to see prices soften.

As regional economies adapt to the new norm in oil prices and Dubai diversifies in line with its economic diversification strategy, Vision 2021, and government infrastructure spending continues ahead of Expo 2020, we anticipate GDP growth will accelerate in 2018 providing support for the residential market.

In the first nine months of the year we have seen the effective exchange rate of the Dirham drop circa 5% against its weighted basket of currencies. This has provided support for the residential market given the material presence of international investors in Dubai. Looking forward a key risk to market performance would be any significant appreciations of the Dollar (to which the Dirham is pegged) due to rake hikes by the Federal Reserve. Additionally ongoing geo-political uncertainties may also impact demand.

Overall the risks may be outweighed by the expectations of stronger global economic and trade growth in 2018 than previously forecast, which Dubai would certainly benefit from given its standing as a regional trading hub and safe haven.

## ABU DHABI

Average sales prices across Abu Dhabi fell by 9.3% in the year to Q3 2017, with average sales prices for apartments falling by 9.5% and villas by 8.6% respectively over the same time period. Quarterly data from REIDIN suggests that performance in the mainstream market is beginning to moderate, with quarter-on-quarter rate of price falls beginning to bottom out.

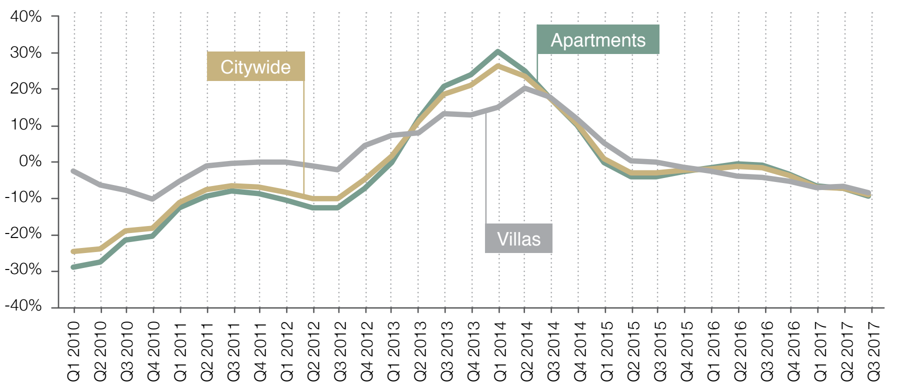
Average sales prices across Abu Dhabi fell by 9.3% in the year to Q3 2017, with average sales prices for apartments falling by 9.5% and villas by 8.6% respectively over the same time period. Quarterly data from REIDIN suggests that performance in the mainstream market is beginning to moderate, with quarter-on-quarter rate of price falls beginning to bottom out.

## Outlook

Given the extent to which Abu Dhabi's economy is involved in the hydrocarbons sector, the fall in oil prices impacted UAE's largest oil producer particularly adversely in comparison to other Emirates. However the immediate scale of consolidations and restructuring seen over the recent years as a result of the downturn, has meant Abu Dhabi has begun to successfully reposition its economy. The results of this change are filtering through with some analysts anticipating Abu Dhabi to record a fiscal surplus in 2017, a sharp contrast to the situation witnessed at the start of the downturn.

Additionally with non-oil growth GDP expected to pick up and outpace oil GDP growth in 2018, on the back of stronger global trade, we anticipate headline GDP growth will continue to strengthen. These factors will in turn support the recovery in the residential sales market, however we only expect price performance to begin to improve in late 2018 at the earliest.

FIGURE 3
Abu Dhabi mainstream residential, year-on-year % change




**Source:** Knight Frank Research / REIDIN

# Commercial

## DUBAI

Market activity has remained relatively subdued, across the overall market, in the nine months of the year. On average, office rents across Dubai fell 3% in the year to Q3 2017, with the performance of prime and secondary markets continuing to diverge over the same period.

Prime rental performance remained relatively stable with average rents shifting 1.5% higher in the year to Q3 2017. Demand in these core locations remains high due to limited new supply, Free Zone status, international regulatory standards and the quality of local infrastructure.

### Outlook

Commercial market activity is expected to pick up in 2018, despite this, rental trends are likely to continue at their current trajectory given the embedded supply dynamics in place. High occupancy in prime offices (256 AED/sq ft /p.a.) will continue to support rents, which supports our view that prime rents will continue to rise, albeit moderately.

The delivery of additional Grade A stock will off-set any potential upside in rental values. In the citywide sector we expect pockets of outperformance to be sustained due to limited availability of good quality stock in preferred locations, however, on average, rental values are expected to continue to fall marginally.

## ABU DHABI

On the back of continued sluggish economic performance, Abu Dhabi's occupier rental rates continued to trend down across all segments of the market. With weaker demand from the public sector and oil sector firms being the most significant factor underpinning the trend. Activity in the market continues regardless of these major cutbacks, however the vast majority of space requirements are in the 100 sqm to 500 sqm range with general trading and professional trading firms making up the majority of demand.

In the year to Q3 2017, average grade A rents across the city have fallen by 11.5%.

Prime market rents in Q3 2017 on average stood at AED 1,774 (sq m/p.a.), Grade A at AED 1,150 (sq m/p.a.) and Citywide rents at AED 1,167 (sq m/p.a.).

Vacancy as at Q3 2017 remains relatively stable at 23%, given that supply is forecast to increase by up to an additional 80,000 square metres in 2018, in comparison to 2017, we expect the overall vacancy rate to increase slightly.

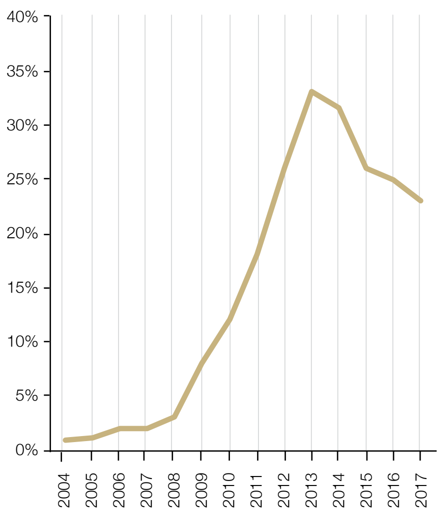
### Outlook

The short to medium term outlook for Abu Dhabi's office market remains negative, however we expect that not all of the forecast supply (figure 4) will come to fruition. According to data from MEED Projects, the value of projects awarded in the office sector in 2017 has significantly decreased in comparison to projects awarded in 2016 (Figure 6). More so the majority of planned projects are likely to be owner occupied, therefore new leasable supply to the market will be less than the number quoted in Figure 4.

The slowdown in new supply could provide a floor to rental values across the capital in the long run. This is particularly the case in the Prime and Grade A segment, where supply is already somewhat limited. These segments of the market begin to bottom out at a faster rate compared to the mainstream market.

FIGURE 6

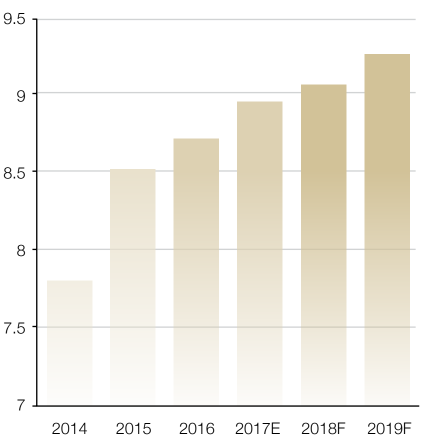
**Abu Dhabi vacancy rate**




**Source:** Knight Frank Research

FIGURE 4

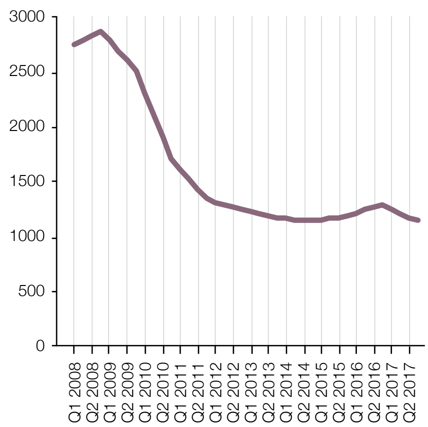
**Dubai office stock,** in square metres (millions)




**Source:** Knight Frank Research

FIGURE 5

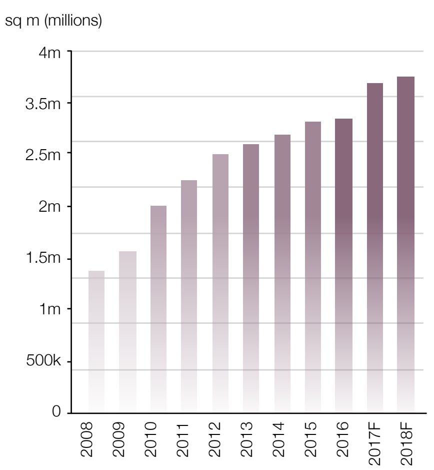
**Rental rates for Grade A shell & core office space in Abu Dhabi** (AED/sq m/p.a.)




**Source:** Knight Frank Research

FIGURE 7

**Abu Dhabi, current stock and future supply forecast** (sq m, millions)




**Source:** Knight Frank Research

# Retail

## DUBAI

The weaker macroeconomic conditions and the growth of e-commerce in the UAE in the form of Amazon (Souq.com) and Noon, have proved to be a strong headwind for the retail sector in the UAE. However through a range of 'Super Sale' promotions, a weaker US dollar and continued growth in levels of tourism from more diverse range of source markets means the sector has battled back somewhat.

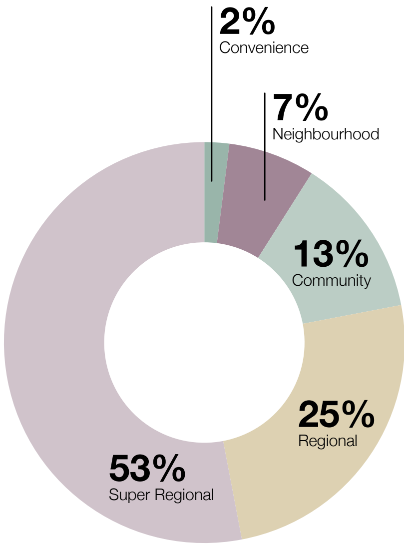
More so, demand from international brands to open outlets in the UAE remains strong with the UAE ranking as the 7th most popular destination of choice for expansion amongst international retailers, with many preferring Dubai as an entry point into the region.

Retail demand in Dubai remains strong with many of the prime units with the major retail centres operating at or very close to 100% occupancy.

### Outlook

Despite the challenges of a weaker economic backdrop, the retail sector appears to be cautiously optimistic. The integration of demand drivers (within retail areas) such as Ski Dubai (Mall of the Emirates), Dubai Aquarium & Underwater Zoo (Dubai Mall) or more lifestyle orientated schemes such as The Beach at JBR or Box Park has meant that the retail sector has remained relatively resilient. It is important to note that in the region, given the extreme weather conditions in the summer and the wide range of family entertainment on offer, bricks and mortar retail will continue to have a strong presence in Dubai.

FIGURE 8
Dubai retail breakdown by type




**Source:** Knight Frank Research

The major concern for operators is oversupply, however for retailers this may provide some relief on compressing profit margins, through downward pressure on rents in the short to medium term. Retail destinations within developed residential communities and good transport links are least likely to be impacted by this potential development.

# Hospitality

Given market performance to date, in 2017 we are likely to see another year of softening KPIs within the UAE's hospitality sector. While average occupancy levels have remained constant or even increased in the majority of emirates, these have been offset by downward trending average rates, resulting RevPAR declines across the board. Visitation to the UAE has continued to increase, but in light of a more cash-constrained guest profile, hotels have had to price more competitively in order to maintain market share.

Looking at demand, India and China remain major growth markets in 2017, and the expectation is that this will continue throughout 2018. Given the growing middle class, increasing flight connectivity, and physical proximity to both markets, it is likely that we will see the development of quality internationally branded midscale hotels that cater to this segment.

From an operational perspective, in a market of softening performance, we are seeing an increasing number of hotel owners scrutinise operators in a way that was previously uncommon. This has most often come in the form of operational reviews, enforced headcount reduction, or even a change in operator as developers try to maintain yields on their assets.

### Outlook

The continued strengthening of the dollar and the introduction of VAT will certainly limit the potential to drive attainable rates in the short term, this trend is further exacerbated by the aforementioned developing demand profiles.

FIGURE 9
UAE hospitality key indicators

| | Percent change from September 2016 | | | | | |
|---|---|---|---|---|---|---|
| | Occ | ADR | RevPAR | Room revenue | Room availability | Room sold |
| United Arab Emirates | -0.9% | -12.1% | -12.9% | -8.7% | 4.8% | 3.8% |
| Abu Dhabi | 6.6% | -13.4% | -7.7% | -5.8% | 2.1% | 8.8% |
| Dubai | -2.3% | -11.2% | -13.2% | -8.1% | 5.9% | 3.4% |
| Ras Al Khaimah | 7.1% | -13.7% | -7.6% | -8.4% | -0.9% | 6.1% |
| Sharjah | -8.3% | -9.0% | -16.6% | -19.8% | -3.9% | -11.9% |
| Fujairah | -1.8% | -25.4% | -26.7% | -33.4% | -9.1% | -10.7% |

**Source:** STR Global

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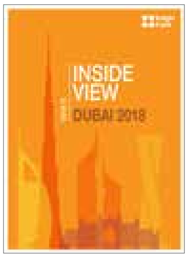

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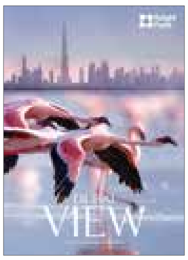

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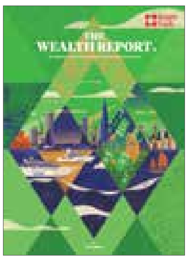

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