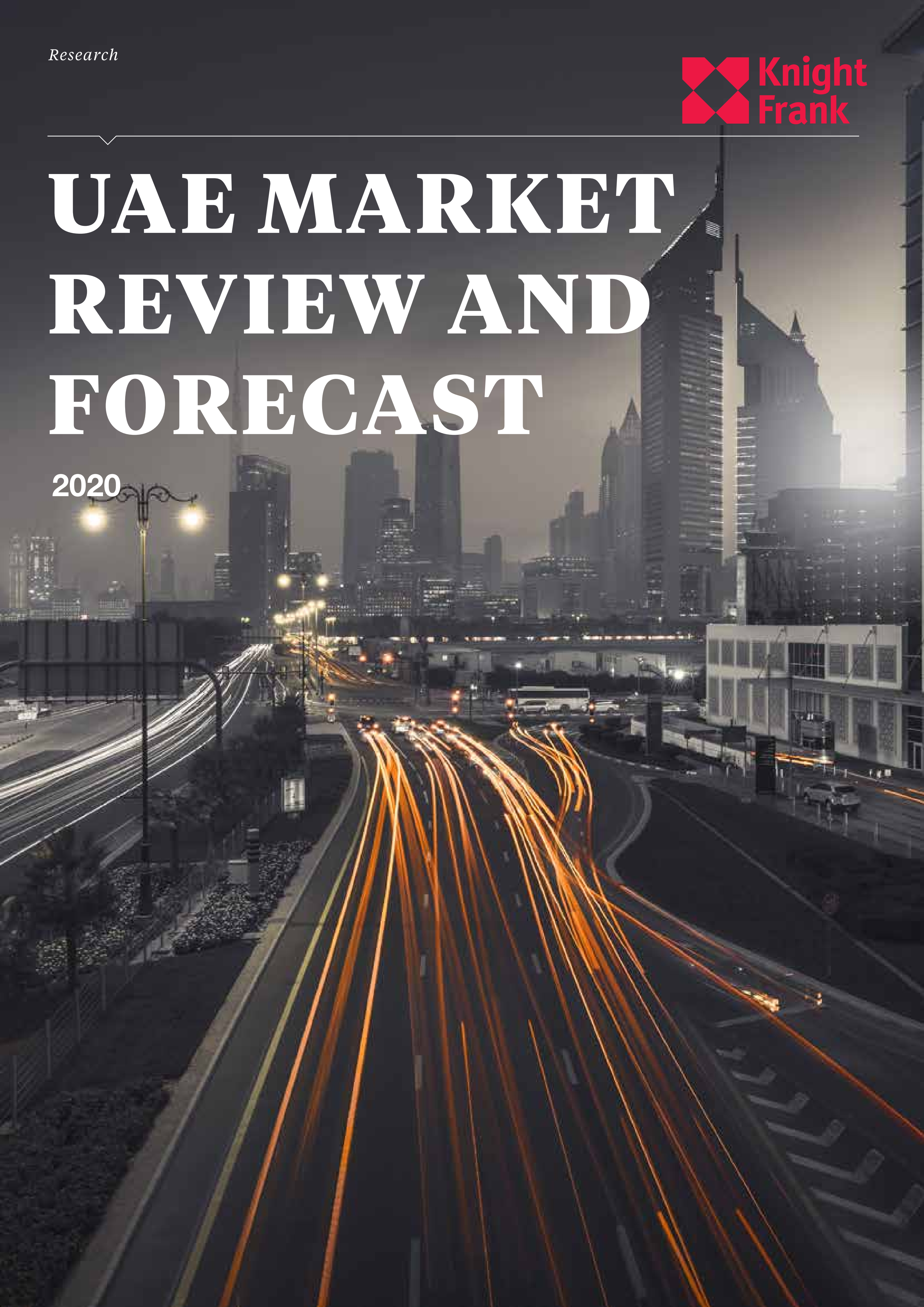
Research

UAE MARKET REVIEW AND FORECAST

2020



UAE MARKET REVIEW AND FORECAST

2020

TAIMUR KHAN
Associate Partner

"Looking ahead, the UAE's GDP is expected to pick up momentum and record a growth rate of 2.2% in 2020, before tapering slightly to 2.1% in 2021. Expo 2020, existing stimulus packages and expansionary budgets are set to underpin these stronger rates of growth".

Macroeconomic overview

Initial estimates from the UAE Central Bank show that the UAE's GDP increased by 2.3% in 2019, up from the 1.7% growth recorded in 2018. This stronger rate of GDP growth has been primarily driven by the hydrocarbon sector, which is expected to record growth of 4.9% in 2019, up from 2.8% in 2018. The non-oil sector has seen relatively muted growth in comparison with growth in 2019 expected to register at 1.4%, up marginally from 1.3% in 2018.

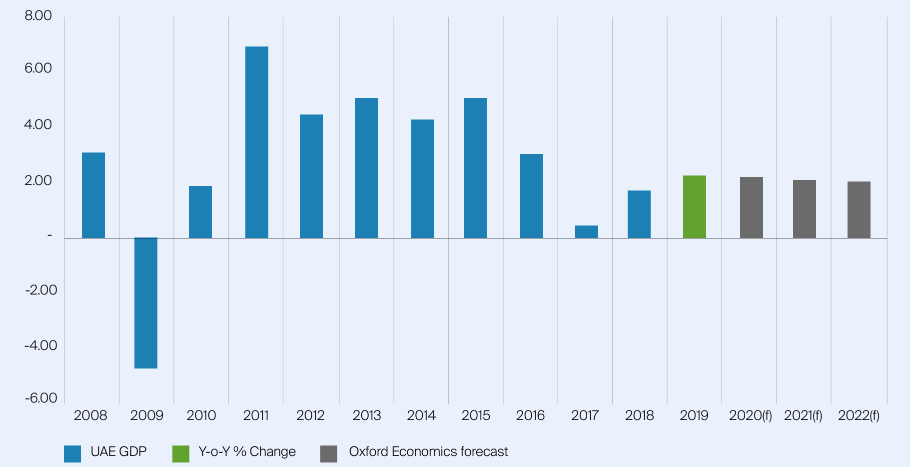
Over the course of 2019, the UAE's oil and non-oil forecast GDP growth rate has been revised down on the back of regional geopolitical tensions, OPEC led production cuts and escalations in global trade wars.

The UAE's Purchasing Managers' Index (PMI), which tracks the country's private non-oil economy, has recorded its lowest reading since 2009. As at January 2020, activity in the UAE's private sector shrank as the index fell to 49.3, down from 50.2 in December 2019. This latest reading is markedly below its three-year average of 55.1.

In Dubai, business sentiment also remains subdued. The Emirates NBD Dubai Economy Tracker Index (DET) eased from 53.5 in November 2019 to 52.3 in December 2019, the lowest reading since August 2019. Overall, the Dubai PMI indicates a strong slowdown in demand over the course of the second half of 2019. As a result, Dubai's economic growth rate is expected to slow from 1.9% in 2018 to 1.5% in 2019 before strengthening to 2.1% in 2020. Over the same period Abu Dhabi GDP is forecast to grow by 3.3% and 3.2% respectively.

Looking ahead, the UAE's GDP is expected to pick up momentum and record a growth rate of 2.2% in 2020, before tapering slightly to 2.1% in 2021 according to data from Oxford Economics. Expo 2020, existing stimulus packages and expansionary budgets are set to underpin these stronger rates of growth.

UAE GDP, y-o-y % change



Source: Knight Frank Research, Macrobond and the Central Bank of the UAE

Abu Dhabi residential market review

Residential sales prices in Abu Dhabi fell on average by 7.5% in 2019. Over this period, average prices for apartments in the capital fell by 7.6% and average villa prices by 7.4%.

Residential rental rates softened in 2019 on average by 6.2%; this rate of decline has moderated from 9.6% a year earlier. In the year to December 2019, average apartment rents softened by 6.5% and average villa rents by 5.3%.

Whilst performance in Abu Dhabi's residential market remains subdued as a result of an increase in launches and deliveries – where new supply in 2019 was estimated at 6,586 units – and a weaker economic backdrop, we are witnessing a moderation in price and rental rate declines.

The softening of prices has improved affordability in Abu Dhabi's residential market, which combined with the introduction of freehold ownership has resulted in growing demand from owner-occupiers.

As at December 2019, gross yields in Abu Dhabi's mainstream market registered on average at 6.7%, up from 6.6% a year earlier.

Dubai residential market review

Dubai's residential market is showing very early signs of recovery as we begin to see a sustained increase in transaction volumes. Initial data releases show that residential transaction volumes in 2019 have increased by 26% compared to 2018.

This increase in demand is despite average prices still softening, with mainstream prices falling by 6.0% in the year to December 2019, down from the 8.6% decline witnessed in the year to December 2018. In 2019, apartment prices fell by 8.2% and villa prices by 7.3%.

Prices remain under pressure primarily as a result of the level of supply which has been delivered in 2019, where total new supply was estimated at 35,171 units.

Dubai's prime residential market has outperformed the mainstream market in relative terms over the same period with prices softening by 0.7% in the year to Q4 2019. Prime transaction volumes increased in the key prime areas of Palm Jumeirah, Emirates Hills and Downtown Dubai by 61% in 2019.

Given the influx of supply in the mainstream market, rents have fallen by 8.1% in 2019. As the vast majority of new supply has been in the mainstream segment of the market and not the prime segment, prime rents fell at a slower pace of 2.1% over the same period.

As at December 2019, gross yields in the mainstream market registered on average at 6.6% and 5.8% in the prime market.

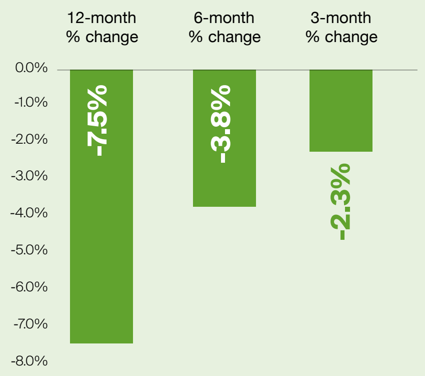
UAE residential market outlook

The delivery of upcoming supply in Abu Dhabi and much more so in Dubai is the most significant headwind facing the UAE's residential market over the coming year. In 2020 over 8,500 units are expected to be delivered in Abu Dhabi, the most since 2013. In Dubai, almost 62,500 units are due for completion in 2020. Whilst we are unlikely to see this entire pipeline come to fruition, the quantum of stock set to be delivered is likely to be the highest since 2008.

Whilst in the short to medium term this influx of supply will continue to put pressure on prices and rents, there are a range of measures which have been implemented and will contribute to the strong fundamental offering of the UAE's property market.

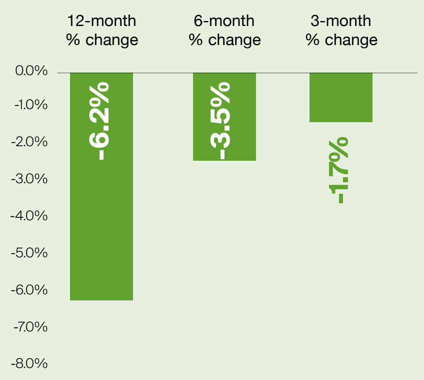
First and importantly for Dubai, there have been a range of measures announced by the government to help balance supply and demand in Dubai. His Highness Sheikh Mohammed bin Rashid Al Maktoum, the Vice President and Prime Minister of the UAE and Ruler of Dubai, has instructed for the creation of a higher committee to undertake the development of a comprehensive and strategic plan for all of Dubai's upcoming real estate projects. To help in executing this, we have seen regulatory changes to Dubai's Real Estate Regulatory Agency (RERA). As one of RERA's objectives is now to contribute to the development

Abu Dhabi, Residential mainstream price performance



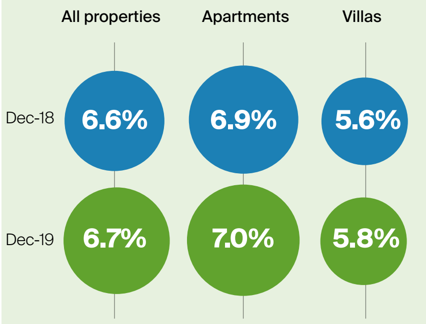
Source: Knight Frank Research, REIDIN

Abu Dhabi, Residential mainstream rental performance



Source: Knight Frank Research, REIDIN

Abu Dhabi, Residential mainstream gross yields



Source: Knight Frank Research, REIDIN of the real estate sector and enhance its contribution to the wider economy, coupled with the creation of a higher committee, this latest development is likely to help contribute to and enforce more thought-out developments and communities. This in turn will enhance long-term confidence from developers and investors.

More so, in 2019 a range of regulatory changes came into play, including the announcement of 100% on-shore business ownership, easing of visa regulations, the introduction of the golden card residency scheme and Abu Dhabi's freehold ownership law. These measures are likely to drive additional demand to the UAE's property market, particularly given that many of the changes in visa regulations are linked to property ownership.

Finally, interest rate cuts by the UAE Central Bank have also led to a fall in the cost of borrowing, where the six-month EIBOR rate has fallen from highs of 3.14% to 2.01% in 2019. This alongside reforms in banking regulations relating to real estate lending may provide greater access to cheaper financing options, thereby encouraging activity in the UAE's residential sector.

Abu Dhabi office market review

Activity in Abu Dhabi's occupier market remains subdued with the vast majority of activity originating from government related entities and small and medium enterprises, the latter have a limited requirement for space.

Whilst demand in the wider market remains weak, we continue to witness sustained demand from occupiers for space in Abu Dhabi Global Market on Al Maryah Island, particularly from government and semi-government related entities.

In the year to Q4 2019, citywide rents in Abu Dhabi fell by 13.5% to an average of AED 988 (sqm/p.a.). Prime rents fell by 7.0% over the same period and now register on average at AED 1,569 (sqm/p.a.).

As at Q4 2019 average Grade A rents in Abu Dhabi registered at AED 1,371 (sqm/p.a.), down 2.3% from the same period a year earlier. This relative outperformance in the Grade A market is underpinned by the lack of Grade A stock in Abu Dhabi.

Dubai office market review

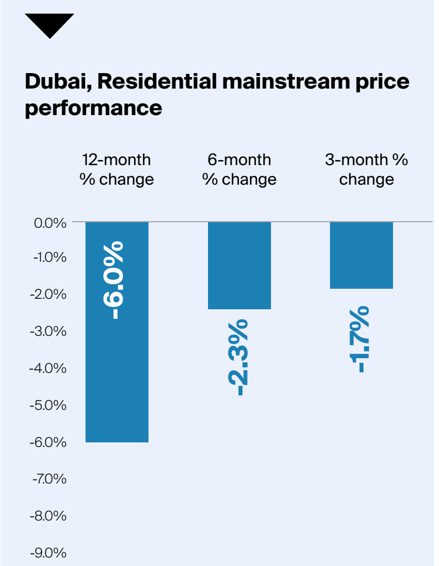
Despite a sustained increase in licence issuances, net cumulative total, commercial and professional business licence issuance increased in the year to Q3 2019 by 12.4%, 4.1% and 39.4% respectively compared to the same period a year earlier, we have seen limited activity from new market entrants in Dubai's corporate occupier market.

The vast majority of activity in the corporate occupier sector stems from relocation activity. However, this activity is underpinned by changes in regulations rather than purely by economic pressures to consolidate operations. As a result of these regulatory changes we continue to witness greater levels of demand for space in Free Zones which are offering dual licencing.

Prime rents on average registered at AED 222 (sq. ft/p.a.) as at Q4 2019, down 9.6% compared to the same period a year earlier. Prime office vacancy remains relatively low compared to the wider market, which currently stands at an estimated 19%.

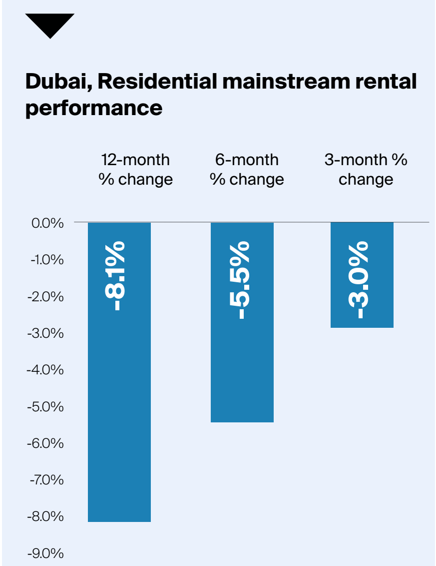
The decline in Grade A rental rates continues to accelerate, with Grade A rents falling by 9.7% in 2019 compared to 3.0% a year earlier. As at Q4 2019, Grade A rents registered at AED 136 (sq. ft/p.a.) on average. Citywide office rents declined by 8.2% in 2019 to an average of AED 108 (sq. ft/p.a.).

These softer market conditions are another factor which is underpinning relocation activity in the city, with occupiers using this as an opportunity to upgrade their office space. More so, landlords are now more accepting of softer market conditions, however in return are looking to secure longer-term income. As a result, we are witnessing average lease lengths increase.



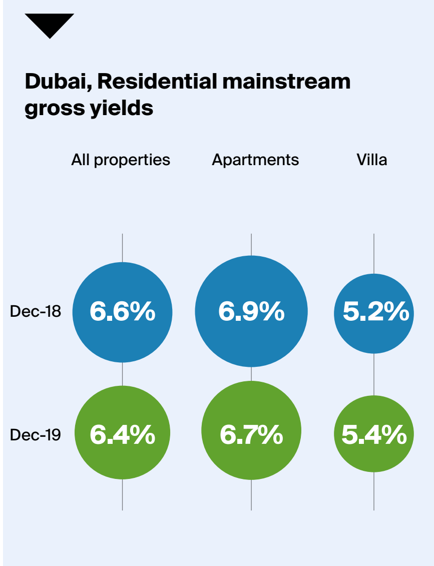
Dubai, Residential mainstream price performance

Source: Knight Frank Research, REIDIN



Dubai, Residential mainstream rental performance

Source: Knight Frank Research, REIDIN



Dubai, Residential mainstream gross yields

Source: Knight Frank Research, REIDIN

UAE MARKET REVIEW AND FORECAST 2020

UAE office market outlook

Over the course of 2020, the trend of consolidation and a flight to quality is likely to continue across the UAE, driven by softer market conditions and regulatory changes, such as the 100% foreign ownership law and dual licencing.

In Abu Dhabi we expect rental rate declines to moderate, however the market is likely to remain favoured towards occupiers. As this trend comes to fruition we expect to see longer term commitments from corporate occupiers, with average lease lengths likely to shift towards the five-year mark.

Over the next three years, we expect over 392,000 square metres of supply to be delivered in Abu Dhabi, a 10.6% increase compared to current total stock. However, as the majority of this stock is in non-core locations or is built-to-suit for owner occupation, we do not anticipate that this additional supply will have a material impact on market performance.

The short to medium term outlook for Dubai's commercial market remains negative with rents expected to continue to decline across all segments. However, we are likely to see the office market begin to fragment - by area and even within asset grades; best in class stock is likely to see moderation in the rate of rental declines, this outlook is expected to be driven by regulatory changes and the delivery of new supply.

As at 2019, Dubai's total GLA totalled 10.05 million square metres by 2025. We estimate that this will total 11.3 million square metres, an increase of 12.5%.

In 2020, Knight Frank estimates delivery of over 280,000 square metres of commercial space in Dubai. The take up of such space is likely to be driven by relocations rather than new market entrants, which is expected to put further pressure on rental rates within locations where this additional supply is being delivered.

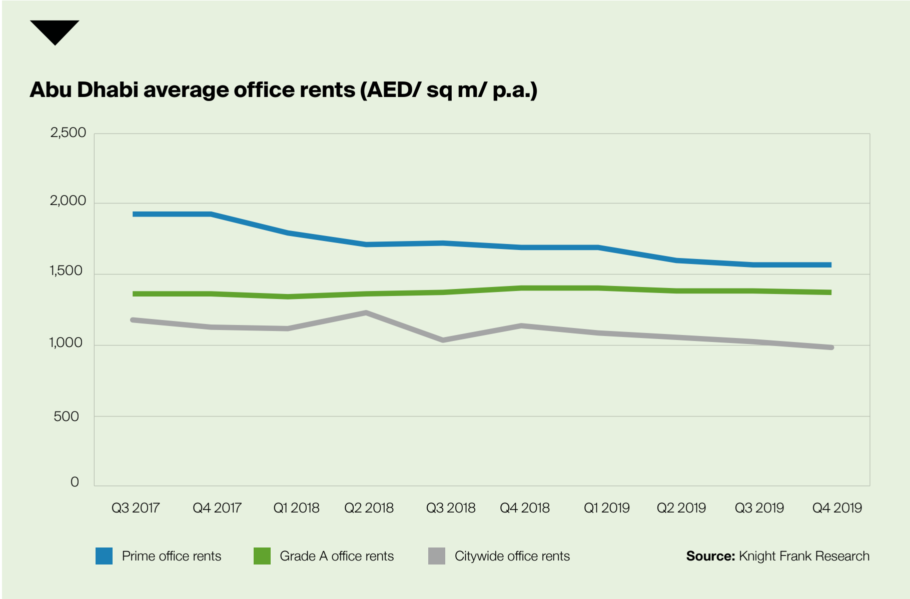
MATTHEW DADD
Partner,
Occupier Services & Commercial Agency

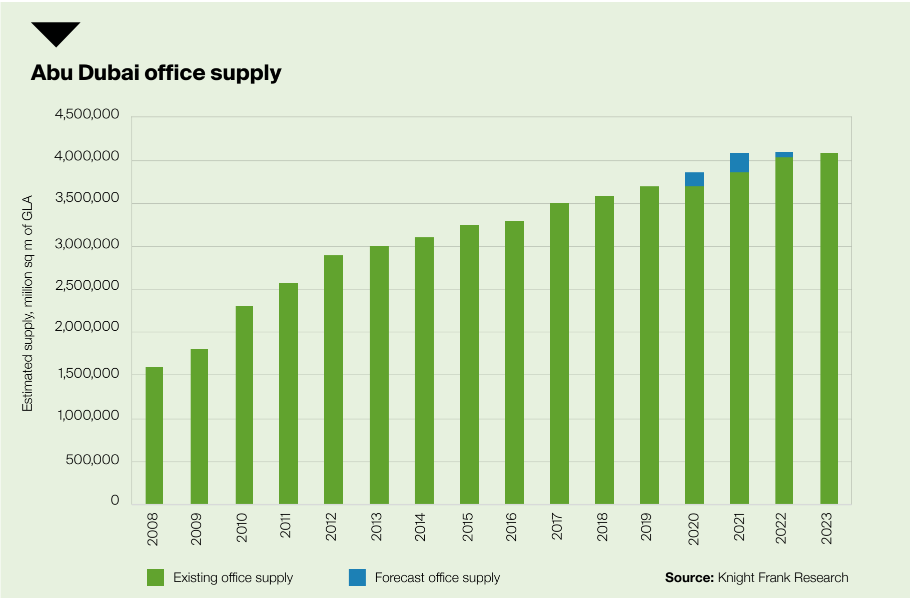
"Given a weak market backdrop, Abu Dubai's office market is balanced in the favour of occupiers. As a result, landlords are willing to remain flexible in order to retain occupiers, alongside other incentives in the case of attracting new occupiers."

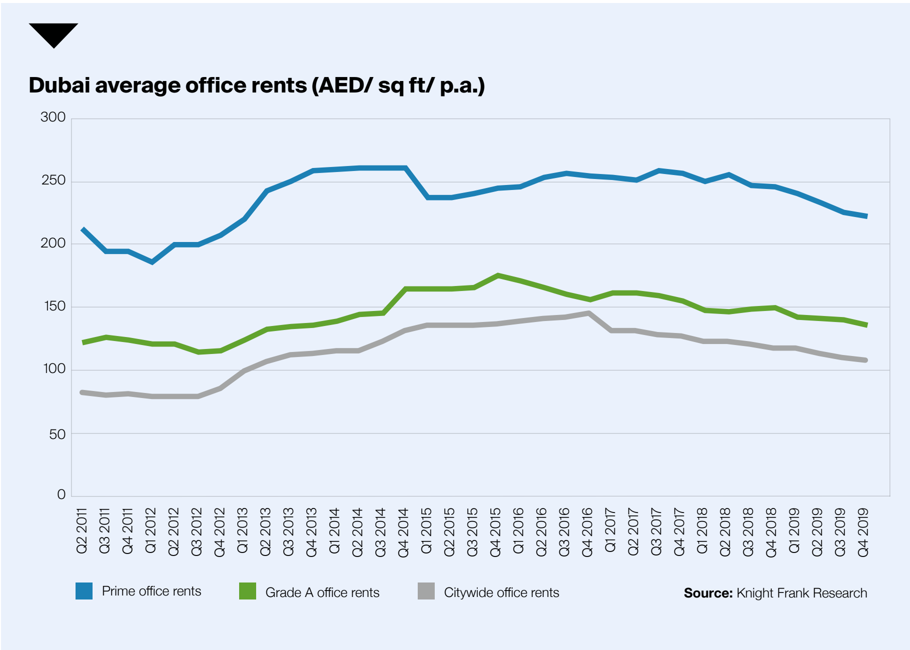
GCC office market outlook

Source: Knight Frank Research

“Weaker levels of consumer confidence, an ever-maturing e-commerce market alongside a material increase in supply across the UAE has meant the retail sector continues to witness considerable headwind”







UAE MARKET REVIEW AND FORECAST 2020

UAE retail market review

Weaker levels of consumer confidence, an ever-maturing e-commerce market alongside a material increase in supply across the UAE has meant the retail sector continues to witness considerable headwinds.

More so, the US Dollar, to which the Dirham is pegged, registered strong growth from May 2014 to December 2016; this has proved to be a strong headwind for the UAE's economy and its retail sector, particularly for tourism spending. From January 2018 to December 2019 we have seen the Dirham strengthen again by 5.8%. This is another key factor, which is exerting pressure on retail assets in the UAE.

These trends have meant that on average rental rates across the UAE's retail market have softened considerably. Non-prime assets in secondary locations have seen significant double-digit declines. Prime assets in prime locations, which have significant demand drivers, have seen low single digit to low double-digit declines in rental rates over the course of 2019.

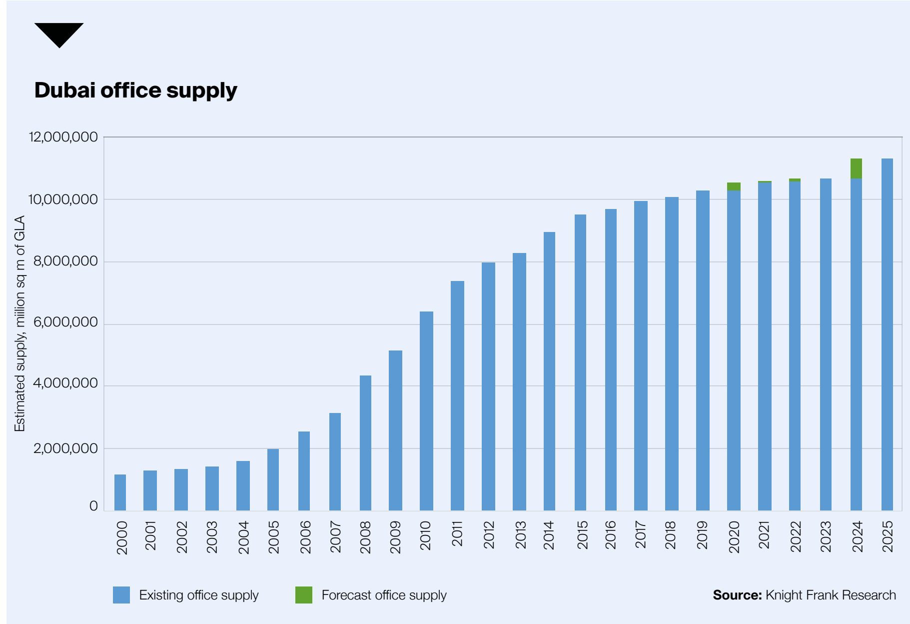
UAE retail market outlook

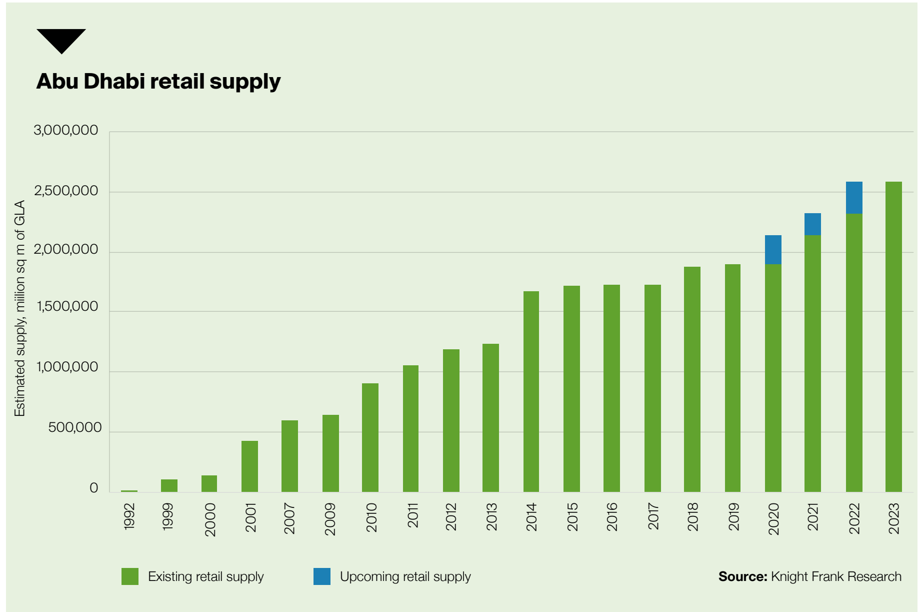
Whilst there will be an impact on retailers margins as we see greater levels of penetration from e-commerce and as of more recently e-retailers, physical retail space in the UAE, particularly that which is focused around destination and entertainment focused developments will attract both retailers and consumer demand.

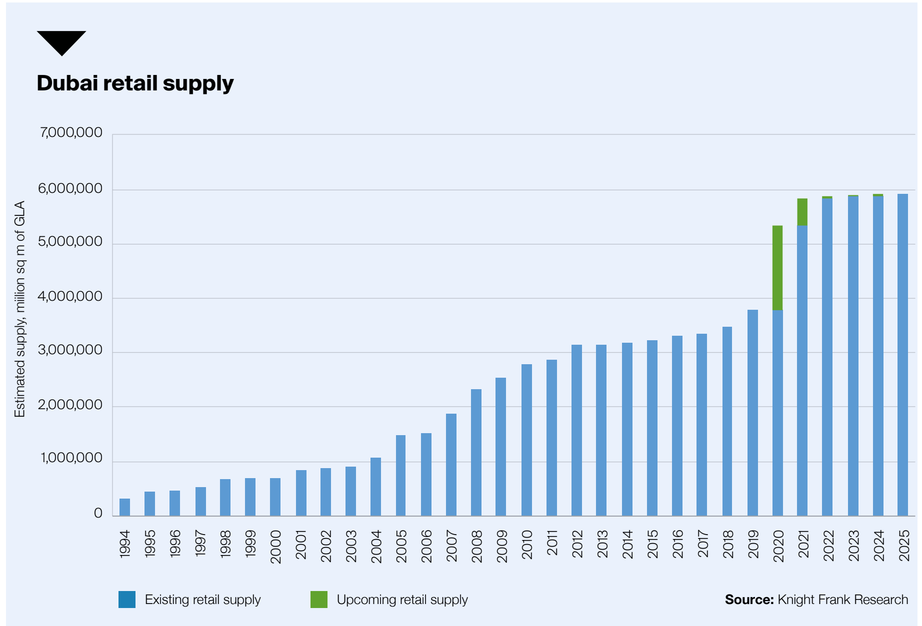
However, looking at the pipeline of upcoming developments in Abu Dhabi and more so in Dubai, we expect further pressure to be exerted on retail assets of all grades across the UAE.

In Dubai, over the five years to 2025 retail stock is expected to increase by 56% to 5.91 million square metres, from 3.46 million square metres as at Q4 2019. Over 90% of Dubai's retail offering is classed as regional or super-regional stock; almost 83% of the upcoming stock by total area is also classed as regional or super-regional stock.

In Abu Dhabi, Knight Frank estimates that by 2023 we are likely to see the delivery of over 680,000 square metres of retail space, a 36% increase from the current level of total stock. Almost 85% of total upcoming stock by total area is classed as regional or super-regional stock. These regional or super-regional centres are in the main destination and entertainment focused offerings and therefore are likely to attract demand, at the expense of older malls which do not reposition their offering.



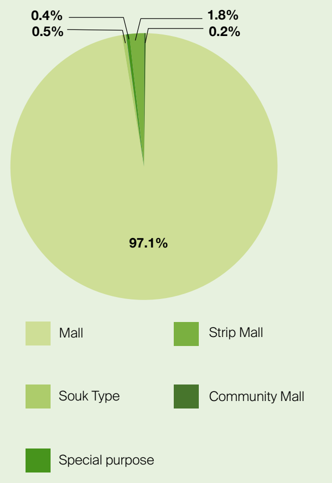




Overall, given the influx of supply due to enter the UAE retail market, particularly in the regional and super regional segment of the market, near established and up and coming residential communities we expect that demand is likely to become a lot more localised. Only assets with significant demand drivers will attract visitors from broader catchment areas. Furthermore, non-prime assets in secondary locations are likely to undergo repurposing as a result of the delivery of new stock. This is a trend we are already witnessing with such stock now being utilised as offices or as co-working spaces.

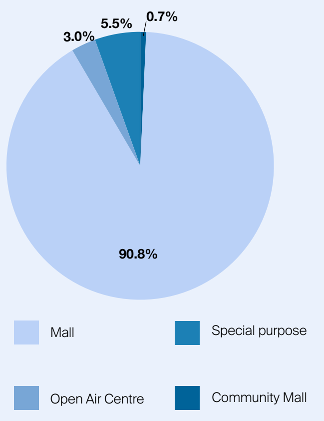
Finally, with the emergence of destination and entertainment led retail developments emerging in Abu Dhabi, this may also reduce demand for retail in Dubai from Abu Dhabi residents.

Abu Dhabi existing retail supply, By type



Source: Knight Frank Research

Dubai existing retail supply, By type



Source: Knight Frank Research

UAE hospitality market review

Much like 2018, 2019 was characterised by softening performance across the UAE's hospitality sector. On an aggregate basis, this was largely driven by a fall in average daily rate (ADR), which, despite a marginal uptick in occupancy caused revenue per available room (RevPAR) to fall by 9.7%.

The cause has not been visitation, which has been on the rise with Dubai attracting 16.73 million and Abu Dhabi city reaching almost 4.5 million visitors in 2019, up 5.1% and almost 1.0% respectively from the previous year. Despite this positive momentum, performance almost universally declined, with citywide RevPARs falling between 6.5% and 14.8%, with Abu Dhabi being the sole exception where RevPAR increased by 7.2%.

In Abu Dhabi, a series of high profile corporate and leisure events alongside the opening of demand generators such as Qasr Al Watan have strengthened the market. In general, in the UAE we are witnessing an increasing proportion of price sensitive visitors, which, alongside an influx of supply, is forcing hotels to compete heavily on price in order to maintain market share.

UAE hospitality key performance indicators, 2019 vs 2018

	OCC	ADR	RevPAR	Room Rev	Room Avail	Room Sold
United Arab Emirates	0.3%	-9.4%	-9.7%	-3.5%	6.8%	6.5%
Abu Dhabi	2.3%	4.8%	7.2%	11.8%	4.3%	6.7%
Dubai	-0.9%	-12.2%	-13.0%	-5.5%	8.6%	7.6%
Ras Al Khaimah	2.4%	-14.8%	-12.8%	-12.5%	0.4%	2.8%
Sharjah	-4.5%	-10.0%	-14.1%	-13.5%	0.7%	-3.9%
Fujairah	-7.8%	-10.9%	-17.8%	-9.3%	10.4%	1.8%
Ajman	0.6%	-6.5%	-5.9%	-3.5%	2.6%	3.2%

Source: STR Global

UAE hospitality market outlook

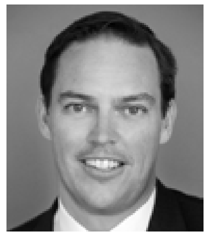
Looking ahead, whilst Expo 2020 will certainly help bolster the market, in the medium to long term both developers and operators are concerned about certain micro markets that not only have become extremely competitive in their own right, but also have a sizeable pipeline. That said, recent government initiatives such as the easing of visa regulations and five year multi-use tourist visas alongside a growing number of varied leisure and cultural demand drivers will help ease this pressure.

Finally, as new and more diverse demand drivers come to fruition, development opportunities remain in certain sub-markets, but can only be fully exploited with a very well differentiated value proposition, and cash optimisation driving the build phase.

"Despite a positive momentum in visitation numbers, performance almost universally declined in the UAE's hospitality sector, with citywide RevPARs falling between 6.5% and 14.8%, with Abu Dhabi being the sole exception where RevPAR increased by 7.2%. "

UAE MARKET REVIEW AND FORECAST 2020

KEY CONTACTS



HEAD OF MIDDLE EAST & AFRICA

James Lewis, MRICS
Managing Director
+971 50 2265 368
james.lewis@knightfrank.com

VALUATION & ADVISORY SERVICES

Stephen Flanagan, MRICS
Partner
+971 50 8133 402
stephen.flanagan@me.knightfrank.com

RESEARCH

Taimur Khan
Associate Partner
+971 56 4202 312
taimur.khan@me.knightfrank.com

OCCUPIER SERVICES & COMMERCIAL AGENCY

Matthew Dadd, MRICS
Partner
+971 56 6146 087
matthew.dadd@me.knightfrank.com

MENA RESIDENTIAL

Maria Morris
Partner
+971 56 4542 983
maria.morris@me.knightfrank.com

MEDIA & MARKETING

Thomas Farmer
Associate Partner
+971 56 6116 368
thomas.farmer@me.knightfrank.com

REAL ESTATE STRATEGY & CONSULTING

P.P. Varghese
Partner
+971 56 1766 588
pp.varghese@me.knightfrank.com

HOSPITALITY & LEISURE

Ali Manzoor
Partner
+971 56 4202 314
ali.manzoor@me.knightfrank.com

MEDIA & MARKETING

Noor Chehayber
PR Coordinator
+971 54 4488 536
noor.chehayber@me.knightfrank.com

Knight Frank Research Reports are available at
KnightFrank.ae/Research

@KnightFrankME
@KnightFrankMiddleEast
@KnightFrankMiddleEast
@KnightFrankME
@KnightFrankMiddleEast