UAE MARKET REVIEW AND FORECAST
2021
Macroeconomic overview

The adage of “there are decades where nothing happens; and there are weeks where decades happen” certainly applies to the weeks of March 2020. As the COVID-19 pandemic raged, we saw social mobility norms curtailed in a manner never experienced before. Almost uniformly, the world came to a standstill, with flights grounded, businesses shuttered and curfews enacted in large swathes across the world. Such a seismic shock would also go on to have large swathes across the world.

Looking ahead, the UAE’s GDP is forecast to expand by 1.1% in 2021 and by 4.0% in 2022, according to data from Oxford Economics. During this period, GDP growth rates between Abu Dhabi and Dubai are initially expected to fragment, where Abu Dhabi and Dubai are expected to record growth rates of 1.6% and 5.4% in 2021, before converging to 5.3% and 5.0% in 2022 respectively.

Dubai residential market review

Residential sales prices in Abu Dhabi fell on average by 2.0% in 2020, down from 7.5% a year earlier. Whilst over this period we have seen average apartment prices fall by 3.0%, average prices for villas have increased by 2.0%, the first annual increase in prices since 2014. Residential rents in Abu Dhabi continued to soften in 2020, with average rents decreasing by 4.5%. Over this period, average apartment and villa rents fell by 4.6% and 2.6% respectively.

As at December 2020, gross yields in Abu Dhabi’s mainstream market registered on average at 6.5%, down from 6.7% a year earlier. A total of 2,815 units were delivered in Abu Dhabi in 2020, an estimated materialisation rate of 33.0%, which sits below historic averages. This in part has underpinned moderation in sales price and rental rate declines and even in some cases increases.

Dubai residential market review

Despite Dubai seeing some of the most stringent lockdown measures in the UAE throughout the early stages of the pandemic, residential demand was relatively resilient in 2020. Initial data shows that almost 35,000 residential units transacted in 2020, down 16.4% compared to 2019. This softer level of demand was largely underpinned by a significant drop-off in off-plan sales, which fell by 32.1% in 2020. Secondary market sales on the other hand increased by 7.2% over the same period and for the first time in five years accounted for the largest share of activity in the market.

Average mainstream prices in Dubai fell by 7.1% in the 12 months to December 2020. Price falls were largely concentrated in the apartments segment of the market, where prices fell by 8.0%, whereas villa prices were relatively stable. Average prices for new-build apartments fell on average by 4.0% in the year to December 2020, with softer demand for off-plan properties putting further pressure on prices. Whilst Dubai’s prime residential market saw prices decrease by 4.2% in the year to December 2020, we are beginning to see signs of a recovery in price performance in some prime sub-markets. For example in the six months to December 2020, apartment and villa prices on the Palm Jumeirah increased by 3.1% and 4.4% respectively. Over the same period, villa prices in District One have increased by 3.8%. Other prime markets such as Downtown Dubai and Emirates Hills are also showing similar signs of improvement in market performance. More so, in contrast to the mainstream market, prime transaction volumes increased by 7.9% in 2020 compared to 2019.
Due to the continuing influx of supply – where in 2020, 35,808 units were delivered – and existing vacancy in the market, average rents in Dubai have fallen by 12.2% in 2020, up from the 8.1% decline registered a year earlier. As is the case in the sales market, market performance is fragmented, where in the year to December 2020, apartment rents fell by 13.3% whereas villa rents softened by 4.4%.

**UAE residential market outlook**

Whilst there are a broad range of measures in place designed to entice demand for residential property, aimed at both residents and property, aimed at both residents and place designed to entice demand for residential, the number of residential launches is expected to increase over the coming year and the relatively restrained levels of completions over recent years, we expect this not to have a drastic impact on the market. In Dubai, the vast majority of residential launches are expected to remain materially below the average seen over recent years.

Assuming these trends remain constant, mortgage rates remain at or around historic lows and loan-to-value ratios are kept at current rates, this, landlords, in an attempt to retain tenants, are offering competitive rent-free periods. More often than not, many occupiers are exercising such options, particularly as many are reluctant to undertake capital-intensive office moves at this time and such contributions from landlords are still only reserved for larger space requirements.

As at Q4 2020, average Prime rents in Dubai registered at AED 209 (sq ft. / p.a.) down 3.0% compared to the same period a year earlier. Grade A office rental rates have seen rates of declines moderate on average in the 12-months to Q4 2020, where rents fell by 4.0%, registering at an average rate of AED 129 (sq ft. / p.a.). Citywide rents declined by 6.9% over the same period to an average of AED 939 (sq m / p.a.).

**Dubai office market review**

Given current economic conditions and market uncertainty, unsurprisingly, we have seen limited levels of activity from new market entrants and existing occupiers seeking additional office space, it is largely driven by project led demand. The vast majority of demand in the market continues to stem from existing market participants looking to consolidate operations or improve the quality of their space. In response to this, landlords, in an attempt to retain tenants, are offering competitive rent-free periods. More often than not, many occupiers are exercising such options, particularly as many are reluctant to undertake capital-intensive office moves at this time and such contributions from landlords are still only reserved for larger space requirements.

As at Q4 2020, average Prime rents in Abu Dhabi have increased by 2.3% to an average of AED 1,660 (sq m / p.a.). Over the same period, Grade A rents fell by 3.8% to AED 1,203 (sq m / p.a.) and Citywide rents by 3.0% to AED 939 (sq m / p.a.). The average vacancy rate in Abu Dhabi as at Q4 2020, registered at 21.9%. Vacancy rates in Prime and Grade A stock have decreased and remained stable respectively, whereas Citywide stock has seen vacancy rates increase by 3.7 percentage points.

Given current economic conditions and market performance to fragment across prime and non-prime neighbourhoods, whereas the former segment is expected to show relative

**UAE office market outlook**

There has been many discussions about the future of office spaces and their requirements going forward. There is no doubt that the pandemic will change working patterns and as a result, the form and function of office space will also need to change, however, we believe the office will remain central to our working lives. Going forward, the office will be more than just a work setting but rather a place for socialisation, for collaboration, for innovation and, increasingly, for education. This topic is discussed in [Knight Frank’s 12 dynamics of the post-Covid workplace report](https://www.knightfrank.com/research/12-dynamics-of-the-post-covid-workplace), which outlines the 12-dynamics of the post COVID-19 workplace on a corporate, market and building level. More so, we note that in most cases, the pandemic has fast-tracked changes in working patterns and office space requirements that we were currently seeing. Therefore, the pandemic is not the root cause of the change but an accelerator of it.

For market occupiers in the UAE, some of the trends highlighted in the aforementioned report will be particularly relevant and are already being played out. First, as with many markets around the world, the UAE has a great quantity of low quality space. We believe this is the first segment of space that will be shed, as occupiers take advantage of softer market conditions and take flight to quality.

More so, going forward we will see demand for both conventional office space but also for space as a service, where occupiers can have the option to take additional space, likely provided by an operator which specialises in such services. Not only will this be required due to economic uncertainties which will persist over the coming years, but also due to the nature of remote/ or new ways of work in the region. This demand for quality conventional and serviced office space going forward, will be particularly relevant and are already being played out. First, as with many markets around the world, the UAE has a great quantity of low quality space. We believe this is the first segment of space that will be shed, as occupiers take advantage of softer market conditions and take flight to quality.

From a supply perspective during 2020, in Abu Dhabi, an estimated 9,000 square metres of office space is set was delivered. Over the next two years we expect a further 256,000 square metres of space to be added, bringing the total GLA to 4.52 million square meters by 2023. As a large portion of these additions continue to be in non-core locations or are for owner-occupation, we expect that they will not have a material impact on market performance going forward.

In Dubai, as at 2020, an estimated 241,000 square metres of GLA was delivered, bringing the total GLA to 10.2 million square metres. The vast majority of this new supply is classified as Grade A and as a result, we are likely to see further pressure be exerted on rents in this segment of the market. This trend is likely to be further exacerbated in 2021 where all of the circa 70,000 square metres of space is classified as Grade A space.
**UAE retail market review**

Prior to the onset of the pandemic, the UAE’s retail sector was already under considerable pressure. This slowdown in demand was underpinned by sluggish economic growth, a substantial increase in supply of regional and neighbourhood retail and a growing and price competitive e-commerce sector.

Therefore, the onset of the pandemic, which prohibited non-essential stores from operating without restrictions for months, has pushed many retailers to the brink and beyond. As at 2020, in the UAE, annual resident based retail spending is forecast to have declined by AED8.2 billion. Around 47% of this decline is expected to be attributable to Dubai, where resident based retail spending is expected to decrease by 4.7%.

In Abu Dhabi, resident based retail spend is expected to decline by AED3.5 billion, equating to a decline of around 4.0%.

However, whilst resident based spending is important to the market, for certain markets, particularly Dubai, tourism spending accounts for a significant portion of total demand. As a result, it is not surprising that we continue to see footfall levels sit considerably below pre-pandemic baselines. Data from Google’s Mobility Index shows that, post lockdown to the end of 2020, the total visitor numbers to Abu Dhabi and Dubai’s retail and recreational establishments on average sat at 31.0% and 36.2% below their pre-pandemic baselines.

Given this continued lack of footfall, many landlords have transitioned, at least for the short run, to turnover rent models. Large landlords have also enacted varied rent relief policies. Listed retail landlords provide the clearest picture of the scale of the challenge faced by the sector. Emaar Malls has seen its base rent revenues decrease by 60% y-o-y in the year-to-date to September 2020, whilst its turnover rent revenues have increased by 43% over the same period. Laudably, occupancy for Emaar Malls over this period fell by only one percentage point.

**UAE retail market outlook**

Looking ahead, reduced footfall levels and the fast-tracked adoption of e-commerce over the last year will continue to provide considerable headwinds to the UAE’s retail sector. However, this is not to say that the sector is to be written off. Physical retail destinations, particularly those supported by demand drivers, will continue to attract both retailers and footfall. The pandemic may in fact accelerate the pace of development of multi-channel operators in the UAE, which will in turn boast physical retail. Pure-play online retailers and multi-channel retailers will not wholly displace physical retail. Instead, at maturity where physical retailers take advantage of the technologies on offer, the lines that differentiate the two are likely to converge. More so, if turnover rents become the norm, from a landlord perspective this may provide access to additional revenue lines which may help bolster returns.

That being said, with margins shrinking and competition increasing we are likely to see further pressure exerted on rents. Additional competition in the market is not only stemming from e-commerce but also from additional physical retail. In 2020, Abu Dhabi has seen 67,000 square metres of GLA being added, taking the total GLA to 1.99m square metres. By 2024, we expect this to increase to 2.70m square metres of GLA.

During 2020, Dubai has seen 202,000 square metres of GLA added, bringing its total GLA to 3.86m square metres. By 2024, Knight Frank expects Dubai’s total GLA to increase to 4.77m square metres.

This additional supply is likely to continue localising demand at the expense of non-prime assets that have a limited number of demand drivers. Whilst historically these secondary assets have been able to somewhat protect income by undertaking relatively low cost repurposing projects, such as utilising vacant units as offices and co-working hubs, the surge in prime assets offering such services may crowd these secondary assets out of the market.
The COVID-19 pandemic has presented the global hospitality market with an unprecedented set of challenges. The sector was not only the first to be affected but to date has undoubtedly been the hardest hit. In addition to this, it is also most likely to see long-lasting changes which have been bought about purely by the pandemic.

First, we have seen activity in the global travel market decline dramatically. In 2020, the total number of flights globally fell from its 2019 average of almost 115,000 per day to lows of around 28,000 in the early stages of the pandemic. As lockdown restrictions around the world eased and traveler confidence returned, activity has partially recovered to an average of almost 70,000 flights per day in 2020, representing a decline of 39.1% from a year earlier.

In turn, total international tourism arrivals have also decreased, with the World Tourism Organization estimating that in 2020, international tourist arrivals were 74% lower than in 2019, with some 1.07 billion fewer tourists travelling in 2020. The UAE has seen similar trends unfold, where it all but grounded flights in March 2020 with activity resuming, in parts, in early July 2020. As a result, passenger traffic volumes at Dubai International Airport, fell to 17 million in 2020, down from 86.4 million in the year before.

Despite efforts to reopen, visitation remains materially below pre-pandemic norms. Using Dubai as a proxy for demand shows that, visitation in the year-to-date to November 2020 is estimated to total around 5.57m, down 64.2% year-on-year. Therefore, it is unsurprising that we have seen performance decline across almost every Key Performance Indicator. Year-on-Year in the year to date December 2020, citywide RevPARs in the UAE have fallen between 8.5% and 44.6%. There have been markets which have recorded relative outperformance, with demand to these markets largely stemming from diverted demand from UAE residents, who are either travelling in 2020.

Looking ahead, despite the drive to inoculate the global population we are still not expecting tourism being able to return in a meaningful manner until the latter part of 2022. This is despite the UAE’s commendable handling of the pandemic; establishment of air-bridges and its relatively agreeable weather for most parts of the year. The rescheduled Expo 2020 will help bolster demand, although visitation is unlikely to match the pre-pandemic expectations of 25 million visitors. Despite challenging market conditions, asset owners understand that this is a short term shock, rather a long term structural change to the market. As a result, given the sector’s favourable long-term outlook and investors’ extended investment horizons, where investment decisions are more closely correlated with the longer term outlook, investment in the sector will remain steadfast.

The UAE’s industrial market can largely be singled out as one of the few sectors to benefit from the pandemic.

Demand has remained strong in both Free Zone and non-Free Zone locations throughout 2020. For the former, many firms operating primarily as exporters have seen strong growth in their businesses, largely due to supply bottlenecks in international supply chains and as a result are looking to increase the quantum of space occupied. For the latter, demand has largely stemmed from the requirement of last mile fulfilment centres, a trend underpinned by the increased utilisation of e-commerce platforms, a significant by-product of the pandemic.

International demand has been less forthcoming over the course of the year. However, as travel restrictions begin to reopen we are seeing early signs of growth from this segment of the market. Enquiries to date have mostly originated from firms looking to near-shore operations in global hubs, such as in Abu Dhabi we have seen a strong surge in enquiries from firms looking to set-up vertical farming operations, on the back of government led initiatives. As a result of the pandemic, food security has been a key area where the government is looking increasingly to achieve self-sufficiency. In the short-run, to achieve supply, demand from government related entities for industrial units suitable for foodstuffs storage has also seen a marked increase.

Availability of institutional quality assets is still limited in the UAE which poses a significant challenge to the development of the market. This is the case in Free Zone and non-Free Zone locations alike, where many occupiers are looking to consolidate operations and increase the quality of space they occupy. In non-Free Zone locations this trend is particularly acute in the standalone warehouse segment of the market where vacancy rates now stand below 5%. More so, in these on-shore locations, this demand largely stems from changing consumption patterns where there are now a growing number of requirements from multi-channel retailers looking to improve their last mile delivery networks.

With the market seeing high levels of non-institutional grade stock and institutional grade market remaining tenant favourable, average headline rents in Abu Dhabi and Dubai fell by 9.4% and 17.6% in the year to Q4 2020.

 UAE hospitality market review

The UAE hospitality market outlook

Looking ahead, despite the drive to inoculate the global population we are still not expecting tourism being able to return in a meaningful manner until the latter part of 2022. This is despite the UAE’s commendable handling of the pandemic; establishment of air-bridges and its relatively agreeable weather for most parts of the year. The rescheduled Expo 2020 will help bolster demand, although visitation is unlikely to match the pre-pandemic expectations of 25 million visitors. Despite challenging market conditions, asset owners understand that this is a short term shock, rather a long term structural change to the market. As a result, given the sector’s favourable long-term outlook and investors’ extended investment horizons, where investment decisions are more closely correlated with the longer term outlook, investment in the sector will remain steadfast.

The UAE’s industrial market can largely be singled out as one of the few sectors to benefit from the pandemic.

Demand has remained strong in both Free Zone and non-Free Zone locations throughout 2020. For the former, many firms operating primarily as exporters have seen strong growth in their businesses, largely due to supply bottlenecks in international supply chains and as a result are looking to increase the quantum of space occupied. For the latter, demand has largely stemmed from the requirement of last mile fulfilment centres, a trend underpinned by the increased utilisation of e-commerce platforms, a significant by-product of the pandemic.

International demand has been less forthcoming over the course of the year. However, as travel restrictions begin to reopen we are seeing early signs of growth from this segment of the market. Enquiries to date have mostly originated from firms looking to near-shore operations in global hubs, such as in Abu Dhabi we have seen a strong surge in enquiries from firms looking to set-up vertical farming operations, on the back of government led initiatives. As a result of the pandemic, food security has been a key area where the government is looking increasingly to achieve self-sufficiency. In the short-run, to achieve supply, demand from government related entities for industrial units suitable for foodstuffs storage has also seen a marked increase.

Availability of institutional quality assets is still limited in the UAE which poses a significant challenge to the development of the market. This is the case in Free Zone and non-Free Zone locations alike, where many occupiers are looking to consolidate operations and increase the quality of space they occupy. In non-Free Zone locations this trend is particularly acute in the standalone warehouse segment of the market where vacancy rates now stand below 5%. More so, in these on-shore locations, this demand largely stems from changing consumption patterns where there are now a growing number of requirements from multi-channel retailers looking to improve their last mile delivery networks.

With the market seeing high levels of non-institutional grade stock and institutional grade market remaining tenant favourable, average headline rents in Abu Dhabi and Dubai fell by 9.4% and 17.6% in the year to Q4 2020.
Important Notice

© Knight Frank 2021 - This report is published for general information only and not to be relied upon in any way. Although high standards have been used in the preparation of the information, analysis, views and projections presented in this report, no responsibility or liability whatsoever can be accepted by Knight Frank for any loss or damage resultant from any use of, reliance on or reference to the contents of this document. As a general report, this material does not necessarily represent the view of Knight Frank in relation to particular properties or projects. Reproduction of this report in whole or in part is not allowed without prior written approval of Knight Frank to the form and content within which it appears.

Knight Frank UAE Limited (Dubai Branch) Prime Star International Real Estate Brokers (PSIREB RERA ORN: 11964 trading as Knight Frank with registration number 653414. Our registered office is: 5th Floor, Building 2, Emaar Business Park, PO Box 487207, Dubai, UAE.

@KnightFrankME  @KnightFrankMiddleEast  @KnightFrankMiddleEast