Research

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 major impacts on global economic activity, where it is estimated that global GDP decreased by 3.5% in 2020. In the UAE, initial estimates show that GDP is expected to contract by 7.7% in 2020; a trend underpinned by the fact its core economic sectors, the hydrocarbon, tourism and retail sectors, are arguably amongst the most affected by the pandemic. However, despite this shock, the UAE's commendable handling of the pandemic and fiscal and monetary stimulus plans have seen recovery ensue in these and other sectors.

The UAE's Purchasing Managers' Index (PMI), which tracks the country's private non-oil economy, shows that business activity has stabilised in Q3 and Q4 2020, where the index registered average readings of 50.4 and 50.1 respectively. However, the PMI's employment index fell for the 12th month in a row, where in 2020 employment in the UAE is expected to decrease by 8.5%. Job cuts are expected to be largely focused in the transport, industry and consumer services sectors, whereas the financial and business services sector is expected to see a relatively immaterial rate of decline.

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.

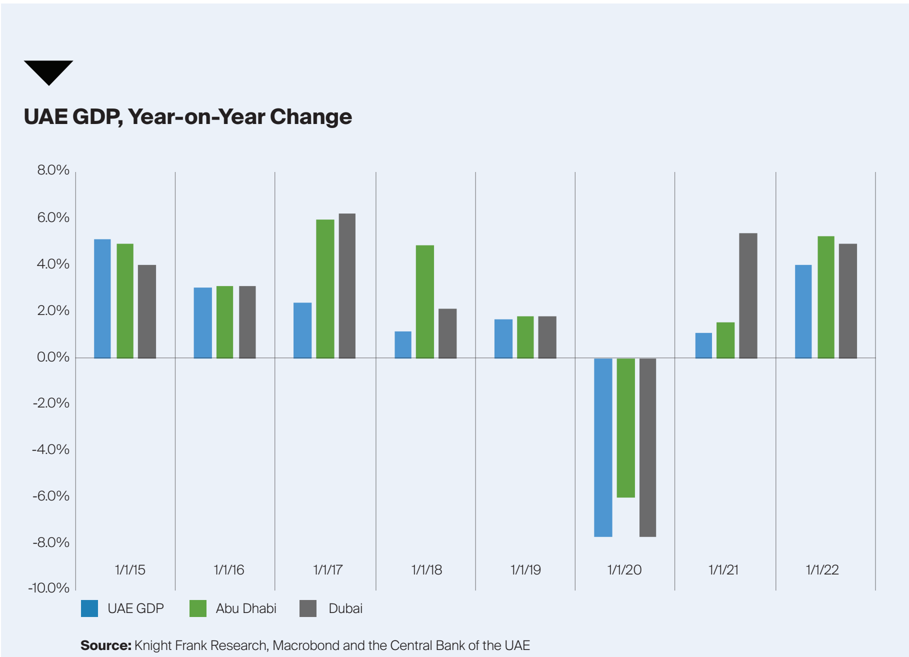
Abu Dhabi residential market review

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 4.3%. 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.



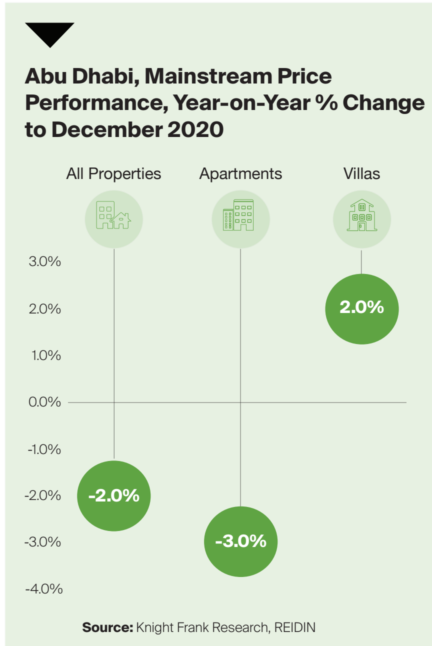
Please refer to the important notice at the end of this report.

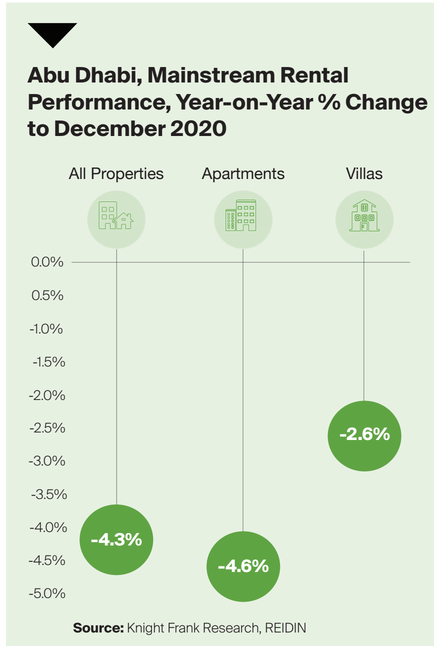
Dubai residential market review

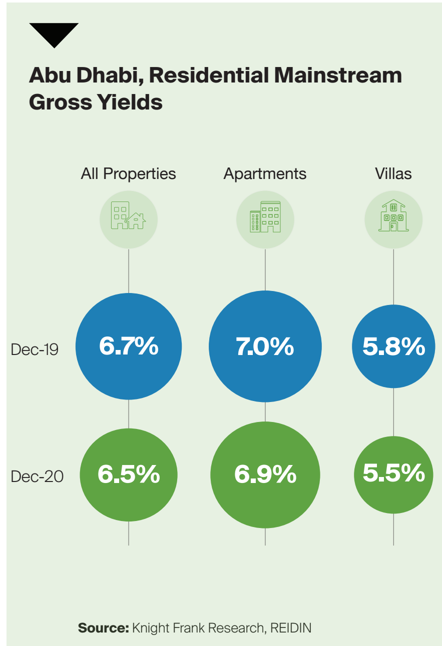
Despite Dubai seeing some of the most stringent lockdown measures in the UAE throughout the early stages of the pandemic, residential demand was relatively resilient in 2020. Initial data shows that almost 33,000 residential units transacted in 2020, down 16.4% compared to 2019. This softer level of 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.

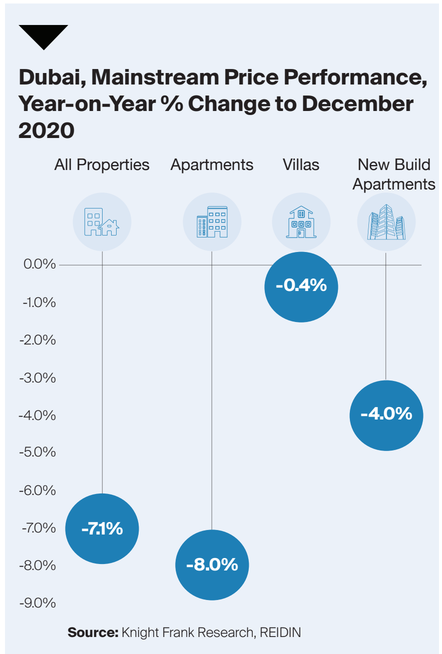
Average mainstream prices in Dubai fell by 7.1% in the 12 months to December 2020. Price falls were largely concentrated in the apartments segment of the market, where prices fell by 8.0%, whereas villa prices were relatively stable. Average prices for new-build apartments fell on average by 4.0% in the year to December 2020, with softer demand for off-plan properties putting further pressure on prices.

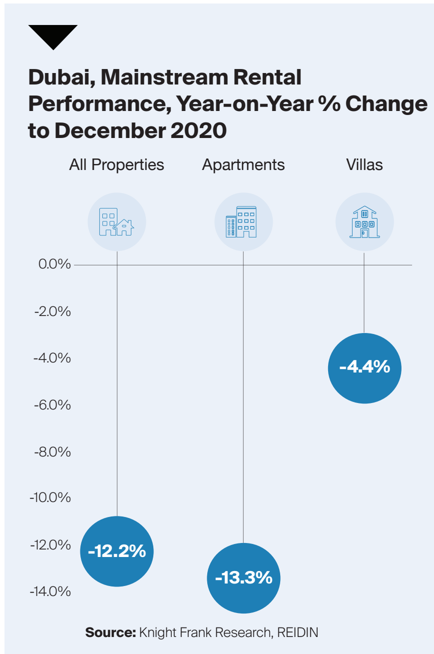
Whilst Dubai's prime residential market saw prices decrease by 4.2% in the year to December 2020, we are beginning to see signs of a recovery in price performance in some prime sub-markets. For example in the six months to December 2020, apartment and villa prices on the Palm Jumeirah increased by 5.1% and 9.4% respectively. Over the same period, villa prices in District One have increased by 3.5%. 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.

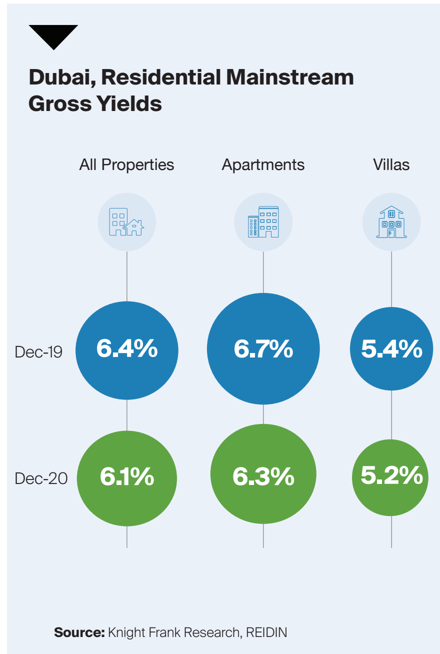












Due to the continuing influx of supply – where in 2020, 35,808 units were delivered – and existing vacancy in the market, average rents in Dubai have fallen by 12.2% in 2020, up from the 8.1% decline registered a year earlier. As is the case in the sales market, market performance is fragmented, where 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 international investors, the UAE's residential market continues to face a range of challenges going forward. These challenges stem from both excess levels of supply and now weaker demand levels.

In 2021, both Abu Dhabi and Dubai's residential market are expected to record historic levels of new supply of circa 14,000 and 83,000 units respectively. Even, as expected, this scheduled supply only materialises to historic precedents, we are likely to see sales prices continue to decrease at a similar rate to 2020. In Dubai, we expect market performance to fragment across prime and non-prime neighbourhoods, whereby the former segment is expected to show relative outperformance to the latter.

In rental markets, even with employment levels expected to pick up in 2021, we expect that rental rates will continue to decline at material rates. In Dubai, due to influx of supply and existing vacancy, which has increased by 1.8 percentage points over the course of 2020 to 18.3%, the rate of decline is only expected to moderate marginally. In Abu Dhabi, challenging economic conditions are likely to keep the current rate of decline persistent throughout 2021.

Taking a longer-term view on the market, we expect new supply levels to begin to ease from 2022 in Abu Dhabi and from late 2023 in Dubai. In Abu Dhabi and Dubai, new launches in 2020 were at the lowest levels since 2004 and 2012 respectively. In Abu Dhabi, the number of residential launches are expected to increase over the coming year and given the relatively restrained levels of completions over recent years, we expect this not to have a drastic impact on the market. In Dubai, the number 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 levels, we are likely to see prices begin to bottom out during 2022. In prime markets with limited levels of new supply, we are likely to see prices being to recover six-months prior to this.

Abu Dhabi office market review

In Abu Dhabi's occupier market, we continue to see occupiers take flight to quality, as they look to take advantage of softer market conditions, although in the Prime market, landlords are resolute on rental rates.

Demand remains relatively subdued and geared towards the 100 square metres segment, with fitted out space requirements being favoured. Large shell and core requirements remain relatively rare, particularly those originating from the private sector. As a result, the market remains tenant-favoured.

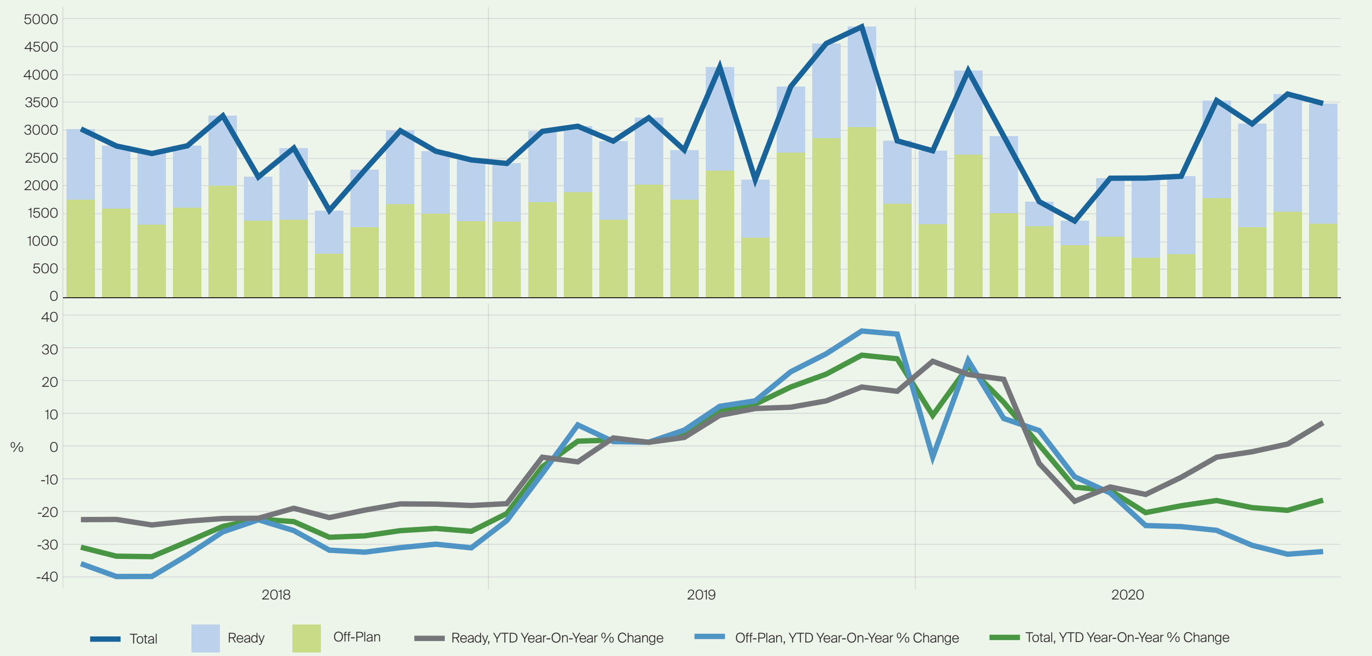
In the year to Q4 2020, Prime rents in Abu Dhabi have increased by 2.3% to an average of AED 1,660 (sqm/p.a.). Over the same period, Grade A rents fell by 3.8% to AED 1,203 (sqm/p.a.). and Citywide rents by 3.0% to AED 939,(sqm/p.a.).

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.

Dubai office market review

Given current economic conditions and market uncertainty, unsurprisingly, we have seen limited levels of activity from new market entrants in Dubai's corporate occupier market. Where we are seeing new market entrants or 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 fit-outs at this time and such contributions from landlords are still only reserved for larger space requirements.

Dubai, Residential Transaction



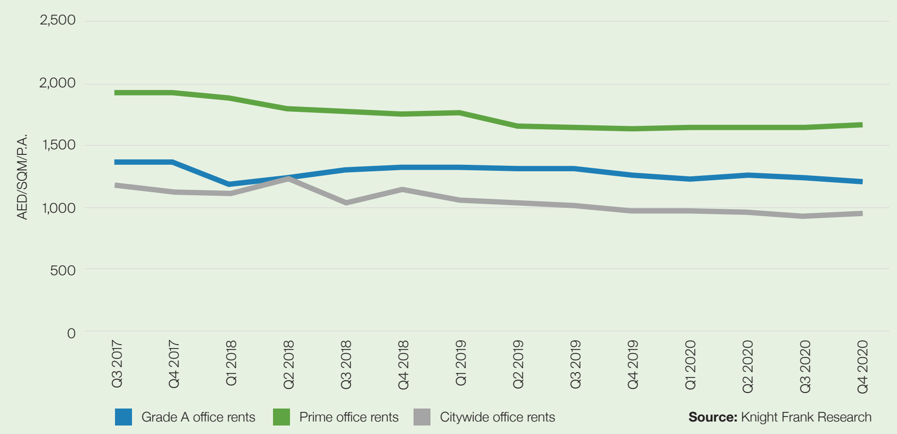
Source: Knight Frank Research

UAE MARKET REVIEW AND FORECAST 2021

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 99 (sq.ft./p.a.).

Vacancy in Dubai's office market is estimated to have increased by 5.5 percentage points in 2020 to 24.3%. Whilst Prime and Grade A vacancy rates have edged higher over the last year, Citywide stock has seen the most significant increase in vacancy rates.

Abu Dhabi Average Office Rents (AED/ sq m/ p.a.)



Source: Knight Frank Research

Abu Dubai Office Supply

Source: Knight Frank Research

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-Covid19- workplace report, 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 if project driven work in the region. This demand for quality conventional and serviced office space going forward, with access to a range of amenities and service, is expected to create new benchmarks, both in terms of office product and pricing.

From a supply perspective during 2020, in Abu Dhabi, an estimated 59,000 square metres of office space is set was delivered. Over the next two years we expect a further 356,000 square metres of space to be added, bringing the total GLA to 4.10 million square metres 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 classed 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 75,000 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 a 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 AED2.3 billion, equating to a decline of around 4.0%.

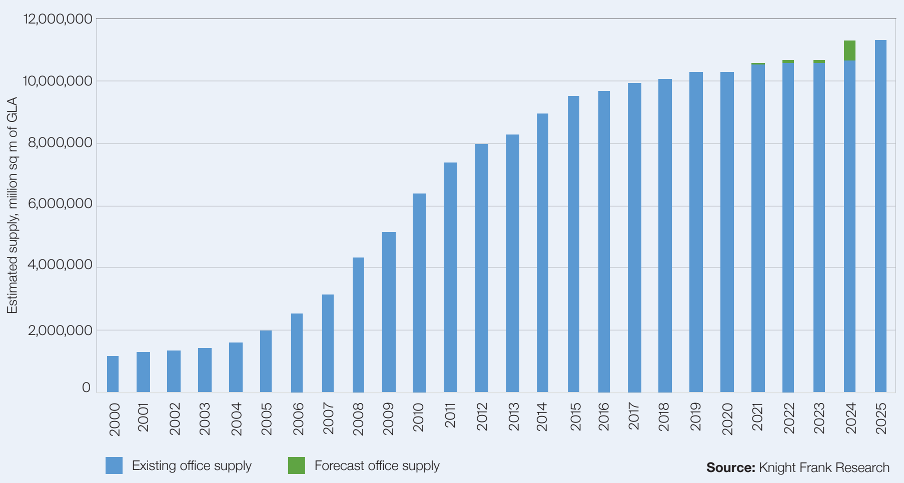
However, whilst resident based spending is important to the market, for certain markets, particularly Dubai, tourism spending accounts for a significant portion of total demand. As a result, it is not surprising that we continue to see footfall levels sit considerably below pre-pandemic baselines. Data 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 tiered 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 437% over the same period. Laudably, occupancy for Emaar Malls over this period fell by only one percentage point.

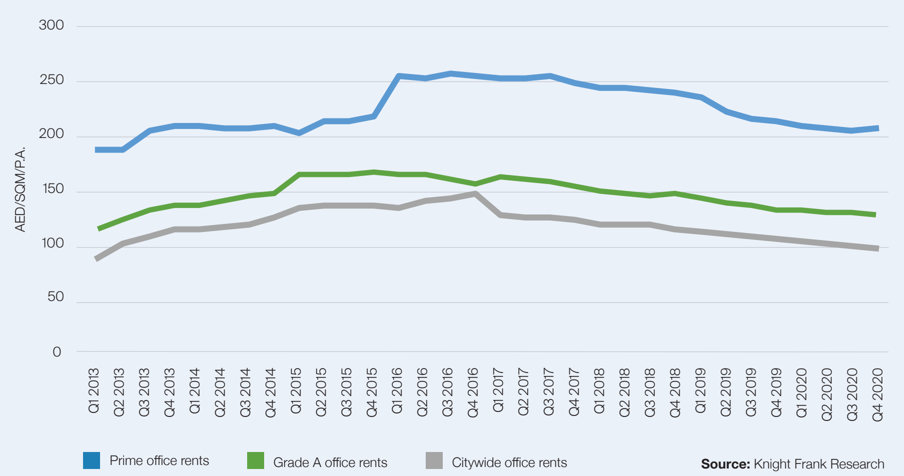
UAE retail market outlook

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

Dubai Office Supply



Dubai Average Office Rents (AED/ sq ft/ p.a.)



Definitions *(With guidance from the Best Practice Standards for Office Developments (2015 V2.0) by the Middle East Council for Offices (MECO)*:

Prime: The Prime segment represents the average rent of the top 5% of all lettings in the market

Grade A: This segment of the market represents offices which are adjacent to the city centre, with rents on average higher than those in the citywide market

Citywide: This segment represents the broader city offices market, outside the 'core city', where usually a significant of office buildings are grouped

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

of development of multi-channel operators in the UAE, which will in turn boost 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 landlords perspective this may provide access to additional revenue lines which may help bolster returns.

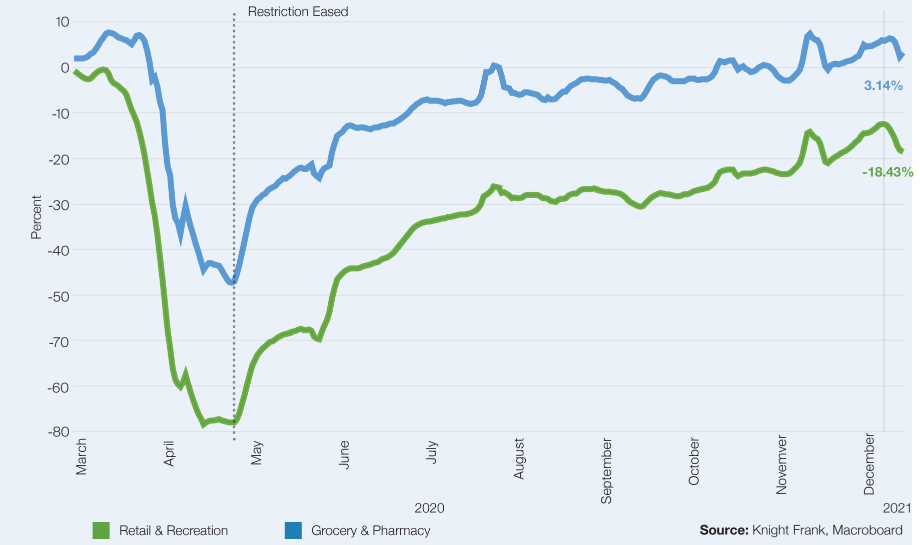
That being said, with margins shrinking and competition increasing we are likely to see further pressure exerted on rents. Additional competition in the market is not only stemming from e-commerce but also from additional physical retail. In 2020, Abu Dhabi has seen 87,000 square metres of GLA being 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.

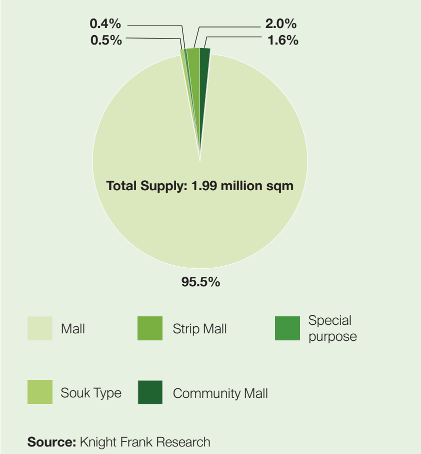
This additional supply is likely to continue localising demand at the expense of non-prime assets that have a limited number of demand drivers. Whilst historically these secondary assets have been able to somewhat protect income by undertaking relatively low cost repurposing projects, such as utilising 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.

Abu Dhabi Retail Activity

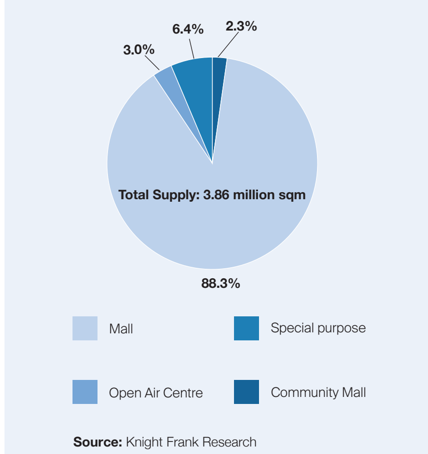
Dubai Retail Activity



Abu Dhabi Existing Retail Supply, By Type



Dubai Existing Retail Supply, By Type



UAE hospitality market review

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 Organisation 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 5.37m, 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 unwilling or unable to holiday in their preferred destinations and instead are choosing to holiday within the UAE. Such markets of note are Abu Dhabi, Ras Al-Khaimah, Fujairah and the beach property market segment in Dubai.

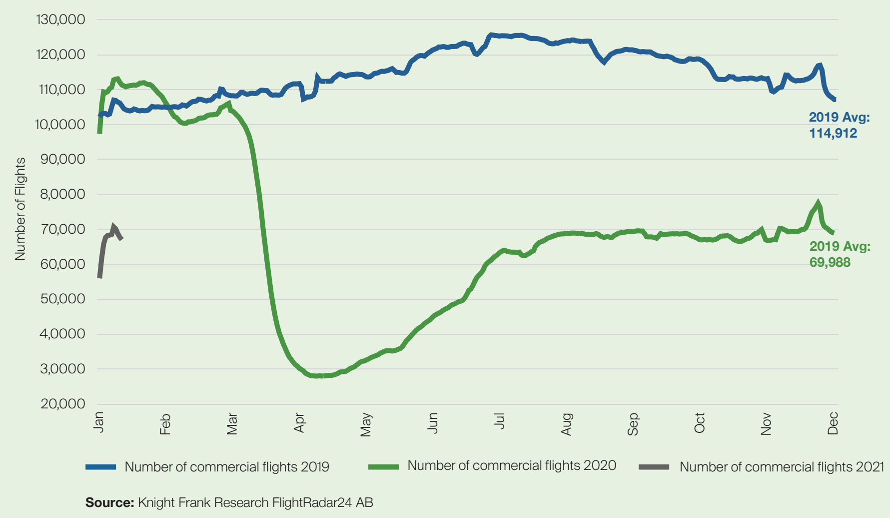
On a broader UAE level, performance data since the reopening of borders in July to December 2020, paints a significantly better picture. Over this period, we have seen the UAE's Average Daily Rate (ADR) increase by 68.4% and occupancy rates increase by 29.7 percentage points, resulting in Revenue per Available Room (RevPAR) increasing by 201%.

UAE Key Performance Indicators, 2020 vs 2019

	OCC	ADR	RevPAR	Room Rev	Room Avail	Room Sold
United Arab Emirates	-29.3%	-16.5%	-41.0%	-43.1%	-3.6%	-31.8%
Abu Dhabi	-16.8%	-24.2%	-37.0%	-37.3%	-0.5%	-17.2%
Dubai	-34.5%	-15.4%	-44.6%	-46.7%	-3.8%	-37.0%
Ras Al Khaimah	-29.1%	13.2%	-19.7%	-27.1%	-9.1%	-35.6%
Sharjah	-30.2%	-11.9%	-38.6%	-42.0%	-5.6%	-34.2%
Fujairah	-16.9%	10.1%	-8.5%	-14.1%	-6.1%	-22.0%
Ajman	-27.9%	-0.9%	-28.5%	-30.8%	-3.2%	-30.2%

Source: STR Global

Global, Total Tracked Commercial Flights



Source: Knight Frank Research FlightRadar24 AB

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.

Passenger traffic volumes at Dubai International Airport, fell to 17 million in 2020, down from 86.4 million in the year before

UAE industrial market review

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 routes begins 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. More so, 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 security, 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.

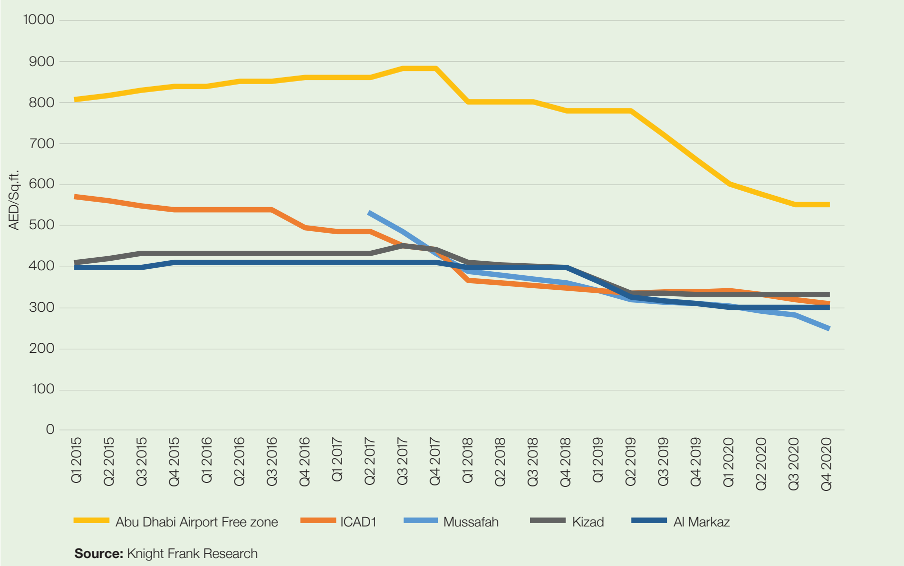
With the market seeing high levels of non-institutional grade stock and institutional grade market remaining tenant favourable, average headline rents in Abu Dhabi and Dubai fell by 9.4% and 17.6% in the year to Q4 2020.

UAE industrial market outlook

Looking ahead, we expect that average rents are likely to soften further over the coming six months before we see a floor in rental rates.

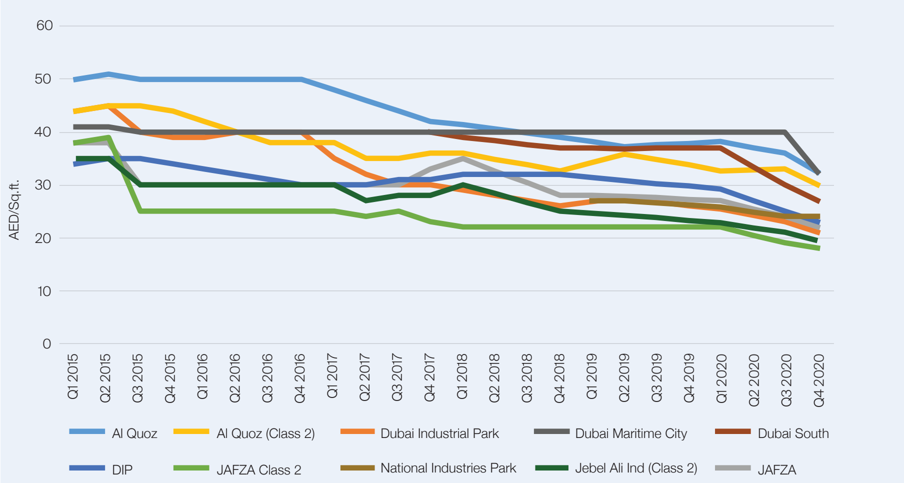
With the 100% foreign ownership legislation now in effect, consolidation of space is likely to continue. This will not only drive demand for larger sites, but is likely to contribute to rents softening. However, as discussed, the lack of institutional grade stock is likely to limit the true extent of this demand coming to fruition.

Abu Dubai Average Industrial Rents, AED per sq.m. per annum



Source: Knight Frank Research

Dubai, Average Industrial Rents, AED per sq.ft. per annum



Source: Knight Frank Research

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