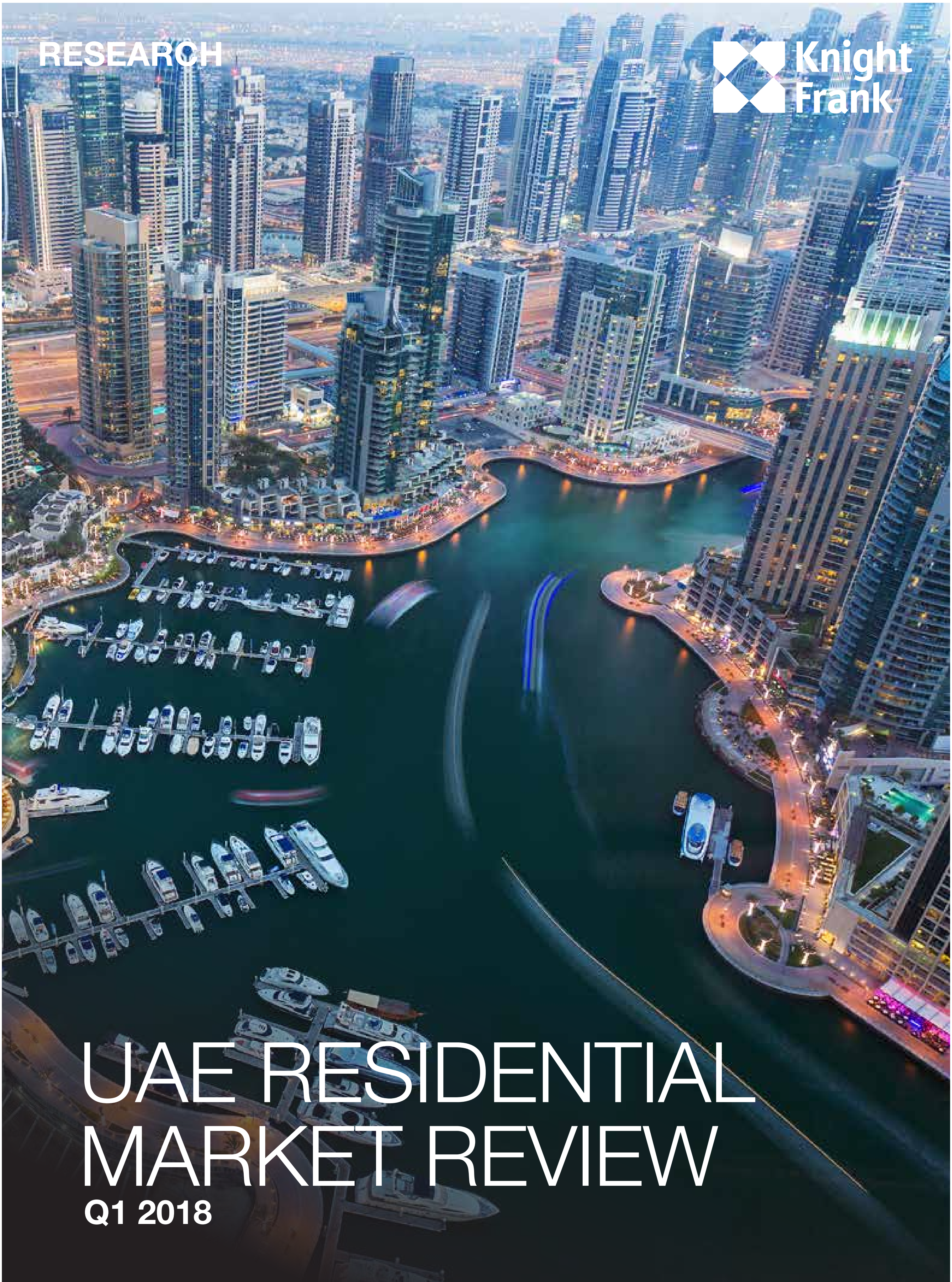


RESEARCH

UAE RESIDENTIAL MARKET REVIEW

Q1 2018

PRICES CONTINUE TO SOFTEN IN ABU DHABI'S AND DUBAI'S RESIDENTIAL MARKETS

RESIDENTIAL RESEARCH

UAE RESIDENTIAL MARKET REVIEW Q1 2018

Key findings

Mainstream residential prices in Dubai fell 4.8% over the year to Q1 2018.

On a community basis, data as at March 2018 shows that out of the 54 communities tracked by Property Monitor, 46 (87%) have registered annual price falls, a year earlier all communities across Dubai were witnessing prices softening.

Prime residential prices in the year to March 2018 fell on average by 2.6%, up from the 5.5% decline witnessed a year earlier.

In the year to Q1 2018 average sales prices in Abu Dhabi fell by 7.2%, an increase from the 6.8% decline a year earlier, prices falls have moderated in each of the last three quarters.

TAIMUR KHAN
Senior Analyst

"There is a considerable amount of supply scheduled to enter the market this year, if this supply is delivered on schedule we are likely to see prices continue to soften."

The fragmented market performance across Dubai's residential sector is continuing, as a growing number of sub-markets begin to record either stable or improving prices. Abu Dhabi's market is starting to see price falls moderate, however the market faces strong demand and supply headwinds.

Dubai

Dubai's residential property market started 2018 on a weak footing as demand slowed in certain segments of the market due to a more fragile economic backdrop with GDP growth slowing from 3.1% in 2016 to 2.8% in 2017. Despite the slowdown, business confidence has remained relatively upbeat at the start of the year, however consumer confidence has been weak, impacting overall demand.

Proposed developments in Dubai's Mortgage Law may help provide some support for the sector. Whilst the details of the new law are still to be finalised, the objectives set out by Dubai Land Department indicate that it is likely to have a positive impact for both domestic and foreign demand by encouraging access to alternative financing methods, from an investor, owner-occupier and institutional standpoint.

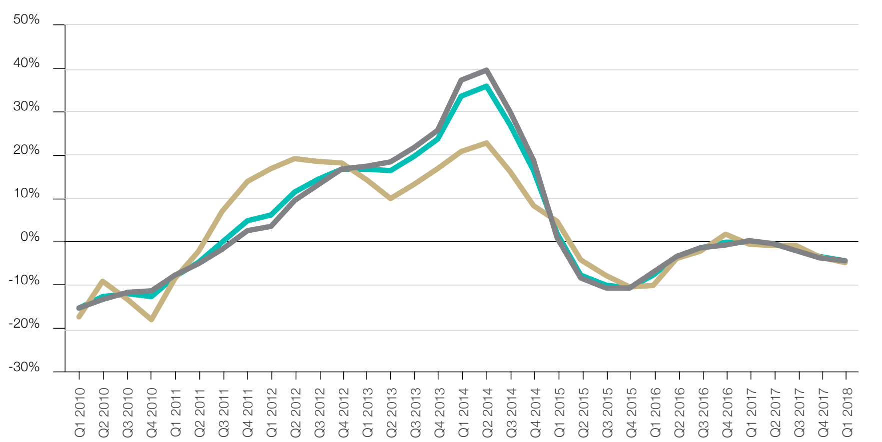
Mainstream market

Mainstream residential prices in Dubai fell 4.8% over the year to Q1 2018 according to data from REIDIN. Prices across the city fell relatively evenly for both villas (5.0%) and for apartments (4.7%).

On a community basis, data as at March 2018 shows that out of the 54 communities tracked by Property Monitor, 46 (87%) have registered annual price falls. A year earlier all communities across Dubai were witnessing prices softening. More so, seven of these areas have registered price growth over the year to Q1 2018. The current gap between the top and bottom ranking communities, in terms of annual price performance, currently stands at 7.6%. These price movements show that we are continuing to see a fragmented market emerge.

Rental rates across Dubai fell on average by 7.7% in the year to Q1 2018, with apartment rents falling by 7.3% and Villa rents by 10.1% over the same time period. Unlike the sales market where we are beginning to see certain

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



Source: Knight Frank Research

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areas outperform the market, in the rental market all communities registered declining annual rental rates.

Prime Market

Contrary to the broader trends witnessed in the mainstream market, prime markets in Dubai are seeing somewhat of a stabilisation in price performance. Prime residential prices in the year to March 2018 fell on average by 2.6%, up from the 5.5% decline witnessed a year earlier.

As noted in Knight Frank's last UAE residential market review, prime sub-market performance is diverging. The Lakes and Palm Jumeirah recorded price growth of 2.6% and 1.2% in the 12 months to March 2018 respectively. Prices in Downtown continue to edge lower however the rate of price falls is moderating with the latest year-on-year rate falling to 5.2%, down from the 9.8% decline recorded in 2017. In Emirates Hills prices have fallen by 12.2% in the year to Q1 2018, lower levels of demand and more realistic vendor expectations have driven prices lower.

Yields

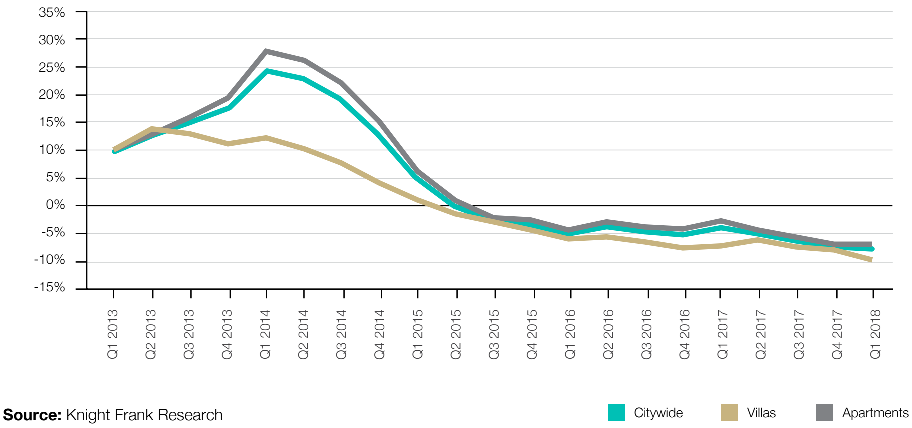
Mainstream yields in Dubai stood at 6.75% and prime yields at 5.48%. Whilst mainstream yields are up from the previous quarter they remain below their level of 6.95% a year earlier. Prime yields have fallen for five consecutive months and are likely to continue to decrease as prime rents remain under pressure across the city.

Transactions

Mainstream transaction volumes in the 12 months to Q1 2018 increased by 10.6% when compared to the same period in 2017. Over the same time period, secondary market transactions fell marginally by 1.3% however despite the slow first quarter, off-plan transactions increased by 18.4% on an annual basis, compared to the same annual period a year earlier.

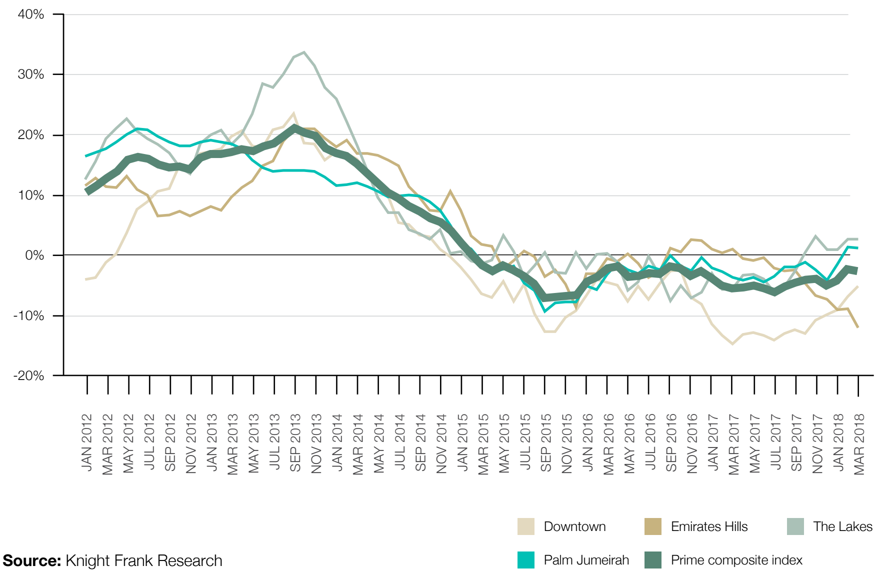
Prime transaction volumes have fallen 16% in the year to Q1 2018. Downtown Dubai was the only prime area where transaction volumes increased within the prime segment of the market. Emirates Living and Palm Jumeirah both witnessed lower transaction levels in the same 12 month period. Overall, we remain optimistic as to the performance of the prime market relative to the mainstream market over the course of 2018. Aside from Downtown, the level of supply due to be delivered in prime communities remains manageable, this combined with more realistic vendor pricing and the high quality product offering will continue to drive demand in the prime market.

FIGURE 2
Dubai rents, year-on-year % change



Source: Knight Frank Research

FIGURE 3
Prime market performance, year-on-year % change



Source: Knight Frank Research

FIGURE 4
Dubai yields, Q1 2018

		DIRECTION*
Mainstream yield	6.74%	▲
Prime yield	5.48%	▼

**Note: Direction compared to last quarter*

Source: Knight Frank Research

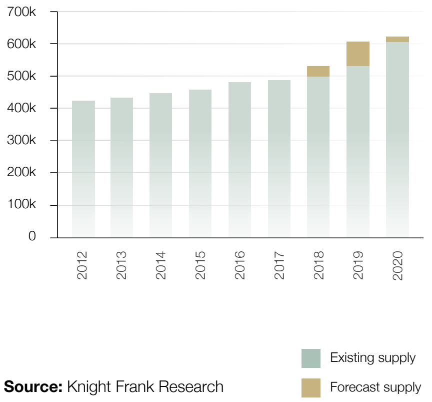
FIGURE 5

Dubai, transactions

Source: Knight Frank Research

FIGURE 6

Dubai residential supply, number of units



Source: Knight Frank Research

Demand

Dubai Land Department reported that in Q1 2018 UAE nationals remained the largest buyer group in Dubai with AED 4bn in transactions. Indian investors continued to rank as the largest foreign nationality to invest in Dubai with AED 3bn in property purchases in Q1 2018. Saudi Arabian investors ranked third with total investments amounting to nearly AED 1.3bn. Pakistani investors ranked fourth overall and investors from the UK fifth, a reverse in positions from the rankings in 2017. Chinese, Egyptian, Russian, Jordanian and Canadian nationals occupied the rankings from sixth to tenth respectively.

Outlook

The outlook and sentiment for Dubai's GDP in 2018 remains positive on the back of stronger global growth forecasts by the IMF, up 0.2% to 3.9% for both 2018 and 2019. Furthermore, whilst Dubai's GDP is not as sensitive to a slowdown in the hydrocarbon sector compared to its regional peers, due to its diversified economic structure, the slowdown has impacted ancillary businesses which service this sector from Dubai given its regional hub and leading financial centre status. Therefore, the increase in oil prices to US$69.6 as at March 2018, up from US$53.7 a year earlier will help underpin economic growth this year. In May 2018 the oil price per barrel reached up to US$80, the highest level since November 2014.

There are three main factors which could prove to be strong headwinds for the residential market and its future performance.

The reliance on stable and relatively high oil prices for regional GDP growth remains as the single largest economic risk for the region, albeit a continually abating one due to various economic diversification strategies. Any sudden supply side shocks which adversely impact oil prices could lead to a slowdown in the economy and lower consumer confidence which in turn would impact the residential market.

Secondly, there is a considerable level of supply due to be delivered to the market this year in Dubai. Knight Frank expect in 2018, 32,727 units are scheduled to be delivered. If this level of supply comes to fruition it may drive prices lower and could impact confidence - at least in the short run. However, the severity of this will very much vary community by community and we anticipate that pricing in mature communities which are rich in amenities and offer good connectivity, is likely to be impacted the least as a result of this. More so, as developers more actively phase in supply this may ease pressure on prices.

Finally, after a period of almost of a year of devaluation, the Emirati Dirham has begun to strengthen. If this trend continues it may impact foreign demand for property as investing in Dubai's market becomes more expensive for foreign currency holders.

Overall there is cautious optimism for Dubai's economy with GDP growth forecast at 3.5% and employment growth forecast to increase to 1.6% in 2018, up from 0.7% in 2017. This combined with a recent fiscal stimulus by the Dubai Government as well as the new Mortgage Law may provide further support for the residential market.

MARIA MORRIS

Partner, Head of MENA Residential

"Aside from Downtown, the level of supply due to be delivered in prime communities remains manageable, this combined with more realistic vendor pricing and the high quality product offering will continue to drive demand in the prime market."

Abu Dhabi

Abu Dhabi's GDP decreased by 1.0% in 2017, with the crude and natural gas sector's slowdown of 5.2% continuing to be a drag on the overall growth rate. Despite the weaker performance in the oil sector, the non-oil sector has remained resilient with 3% growth recorded in 2017. Therefore whilst Abu Dhabi's economic backdrop remains challenged, we are beginning to see some resilience return to the market.

Market Performance

In the year to Q1 2018 average sales prices in the capital fell by 7.2%, an increase from the 6.8% decline a year earlier, however prices falls have moderated in each of the last three quarters. Villa prices have fallen by 3.0% and apartment prices by 8.6% over the same time period.

Looking at key sub-markets we have seen price falls in all Abu Dhabi's key markets and property types although the range varies *(Figure 9)*. Villas on Saadiyat Island saw prices falls moderating to 4.4% in the year to Q1 2018 from the 8.9% decline seen in the same time period a year earlier. Al Raha Beach villas saw the largest shift down in prices. In the year to Q1 2017 annual price growth registered at 10.0%, over the same time period in 2018 prices have fallen by 7.5%. Finally, apartments on Reem Island saw the largest annual price falls recorded across these sub-markets at 9.0%.

Rental rates across Abu Dhabi fell on average by 10.3% in the year to Q1 2018, with apartment rents falling by 10.8% and Villa rents by 9.3% over the same time period. Rents have fallen consecutively for 24 months in Abu Dhabi.

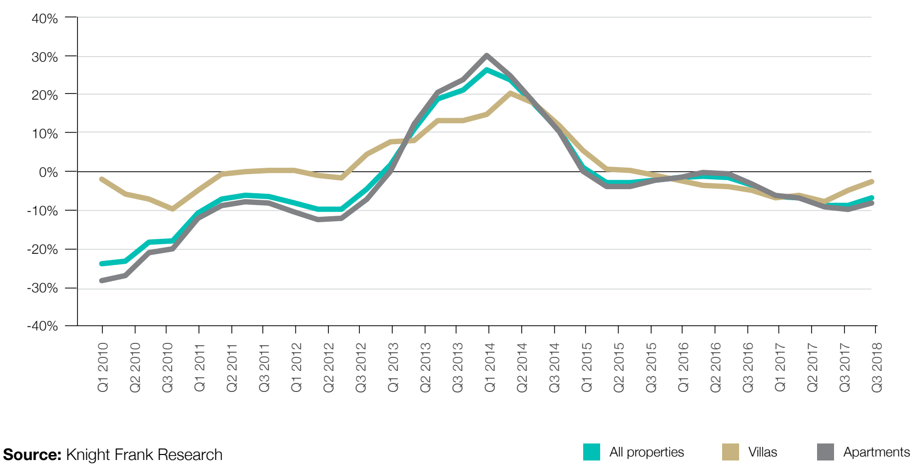
Yields in Abu Dhabi fell to 6.72% as at Q1 2018, down from 6.9% a year earlier.

Outlook

The outlook for Abu Dhabi's economy is positive, however we remain cautious regarding the fragility of the recovery. The recovery in oil prices to highs not seen since November 2014 and spending on economic diversification plans, particularly those related to the travel and tourism market are likely to help underpin growth. GDP growth in Abu Dhabi is forecast to reach 5.8% in 2018 and also in 2019.

However despite reasons for positivity, we remain cautious on the outlook of the market due to the level of supply set to be delivered in 2018. Knight Frank estimate that 8,121 residential units will be delivered. With investors and owner-occupiers choosing to adopt a 'wait and see approach' leading to a lack of demand we are unlikely to see the current residential market situation begin to improve in 2018.

FIGURE 7
Abu Dhabi mainstream residential, year-on-year % change



Source: Knight Frank Research

FIGURE 8
Abu Dhabi yield, Q1 2018

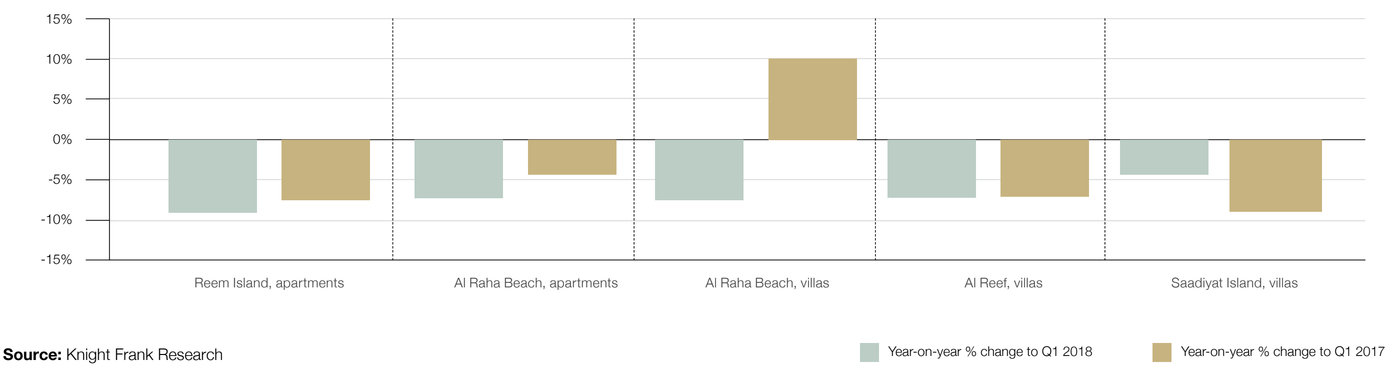
DIRECTION*

Mainstream yield	**6.7%**	▼

Note: Direction compared to last quarter

Source: Knight Frank Research

FIGURE 9
Abu Dhabi, sub markets price performance



Source: Knight Frank Research

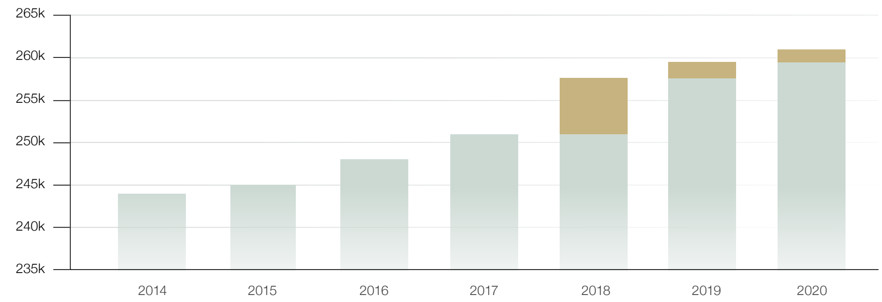
FIGURE 10

Abu Dhabi rents, year-on-year % change

Source: Knight Frank Research

FIGURE 11

Abu Dhabi residential supply, number of units



Source: Knight Frank Research

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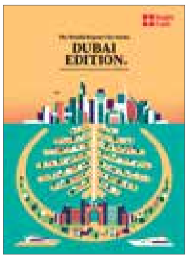

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