Research

Knight Frank

UAE RESIDENTIAL MARKET REVIEW

Q2 2020

UAE MACROECONOMIC OVERVIEW

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Whilst the UAE government only enacted various containment measures in the latter stages of the first quarter of the year, initial estimates show that the containment measures have already begun to weigh on GDP levels. In the year to Q1 2020, the UAE's GDP is estimated to have contracted by 1.0% according to the UAE Central Bank.

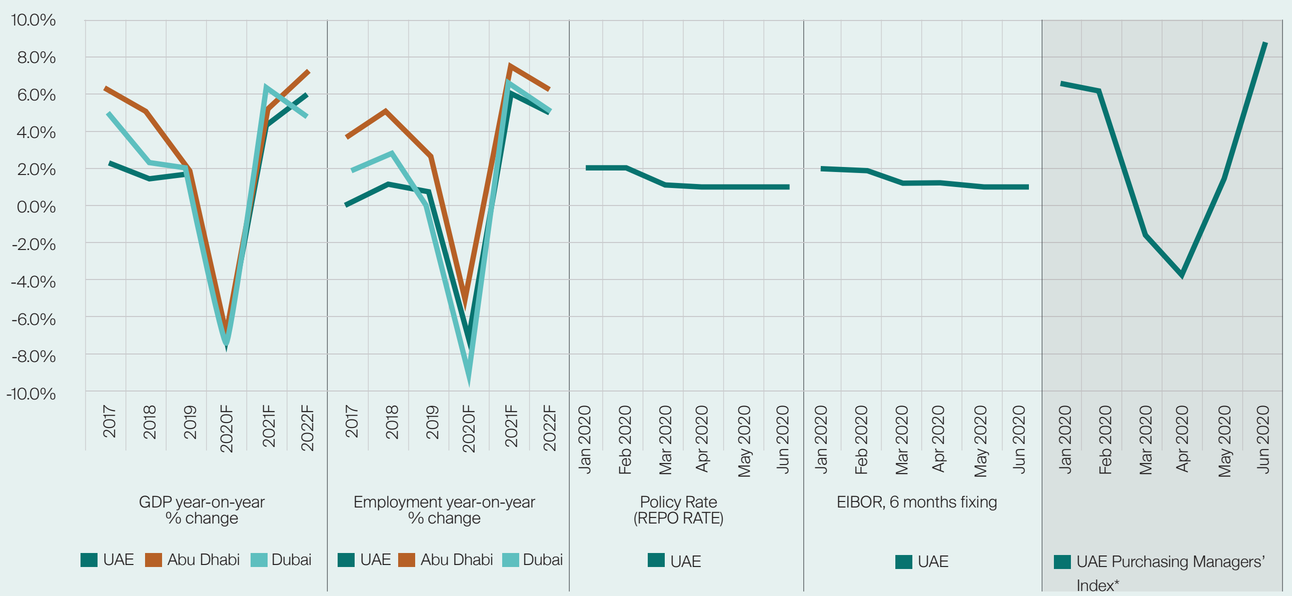
The UAE's Purchasing Managers' Index (PMI), which tracks the country's private non-oil economy and is a timelier economic indicator, has shown that GDP growth is likely to contract further in Q2 2020. The index, where a reading below 50 indicates a contraction in economic activity, fell to a historic low of 44.1 in April 2020 before increasing to 50.4 in June 2020, as lockdown measures were eased. Whilst for the first time in 2020 the latest reading shows growth in the UAE's non-oil private sector, the employment sub-index fell to 46.4 in June, down from 48.7 in May.

The UAE's GDP and employment levels are expected to contract by 7.8% and 7.3% respectively in 2020.

Looking ahead, forecasts from Oxford Economics show that the UAE's GDP is expected to contract by 7.8% in 2020. Over this period, as economic activity contracts, employment in the UAE is expected to contract by 7.3%. In Abu Dhabi and Dubai, GDP and employment are expected to contract by 7.2% and 5.4% and 7.4% and 9.1% respectively.

In 2021, the UAE's GDP and employment are expected to record growth rates of 4.5% and 6.0% respectively. The depth of the contraction and rate of recovery will be very much dependent on the rate at which the global economy and global mobility returns to some form of normality. These factors will underpin demand and activity in the hydrocarbon, travel and tourism and wholesale and retail trade sectors, all of which form significant parts of the UAE's economy.

Economic Indicators



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

Note: Purchasing Managers' Index: A reading of 50 equates to no change, above or below this figure represents growth or decline in activity respectively.

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

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ABU DHABI RESIDENTIAL MARKET REVIEW

Residential sales prices in Abu Dhabi fell on average by 8.0% in the year to May 2020. Over this period, average prices for apartments in the capital fell by 8.5% and average villa prices fell by 6.5%. As at May 2020, the average price per square metre in Abu Dhabi for apartments and villas stood at AED 10,660 and AED 8,241 respectively.

In Abu Dhabi's residential rental market, rates softened by 4.7% in the 12-months to May 2020. This rate of decline has moderated from 8.8% a year earlier. Whilst the rate of decline has moderated since the start of the year, we are likely to see this trend reverse over the course of 2020 as employment contracts in the capital and demand begins to weaken.

Whilst supply in Abu Dhabi is set to expand significantly compared to historic annual additions, with over 8,600 units scheduled to be delivered in 2020, market sentiment is likely to be driven by demand more so than supply. However, with employment expected to return and surpass 2019 levels by 2021 and the deployment of the Gahdan 21 stimulus package set to continue, the dip in demand is not likely to be long lasting.

As at May 2020, gross yields in Abu Dhabi's mainstream market registered on average at 6.8%, up from 6.6% a year earlier.

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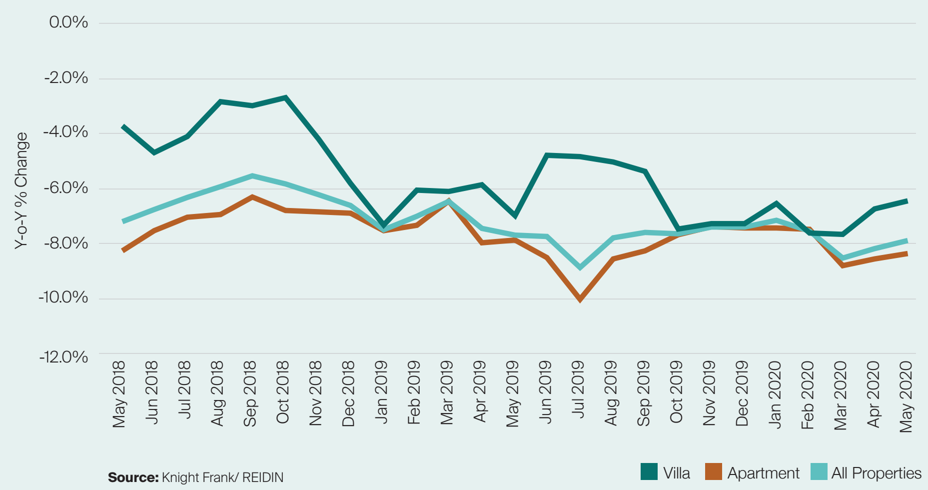
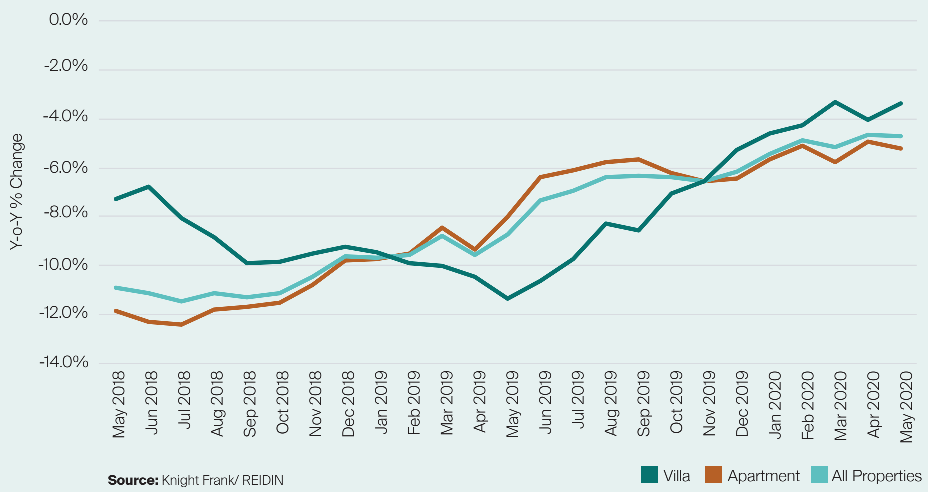
Abu Dhabi, Mainstream Price Performance



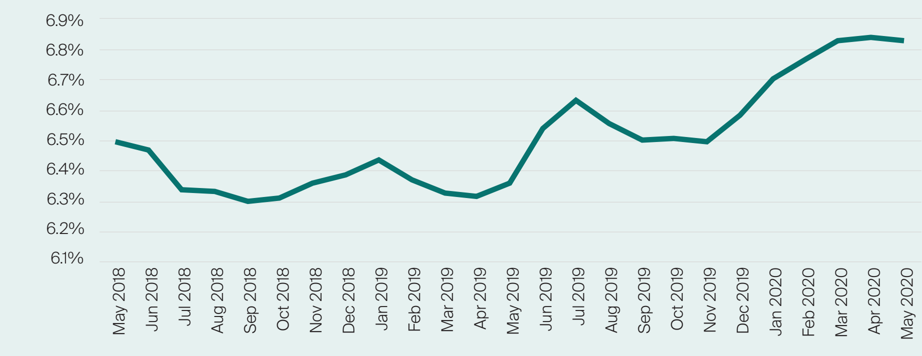
Source: Knight Frank/ REIDIN

Abu Dhabi, Mainstream Rental Performance



Source: Knight Frank/ REIDIN

Abu Dhabi, Yield



Source: Knight Frank/ REIDIN

UAE RESIDENTIAL MARKET REVIEW Q2 2020

DUBAI RESIDENTIAL MARKET REVIEW

Prior to the onset of the COVID-19 pandemic, Dubai's property market had started to show early signs of a sustained recovery in demand. Transaction volumes began registering significant annual growth rates since June 2019 and this strong momentum continued into the start of the new decade. In the year to February 2020, transaction volumes increased by 24% compared to the same period a year earlier, making it the strongest start to the year the market had witnessed since 2017.

However, since then, activity has slowed considerably as Dubai, and indeed the wider UAE, enacted a range of measures to control the spread of the pandemic. Within the UAE, Dubai had enacted some of the strictest containment measures including 24-hour lockdowns for the majority of April. Considering the severity of these measures, activity in Dubai's residential market had not come to a complete halt. Whilst transaction activity has certainly slowed, the depth of the contraction has been relatively limited. In the year to June 2020, transaction volumes have decreased by 14.4% compared to the same period a year earlier. Over this period, off-plan and ready transaction volumes fell by 14.0% and 14.9% respectively.

During the lockdown period, off-plan transaction volumes had been supported by the relative ease of transacting off-plan property and as a result of many developers reacting remarkably quick in introducing virtual client viewings. The process of buying a ready residential unit is more complex from both a documentation perspective and a buyer's preference to physically view the property, something that had not been possible during the lockdown.

Looking ahead, given the economic impact that COVID-19 has had and will continue to have over the course of the year, we can expect that demand will taper down from the levels witnessed in 2019.

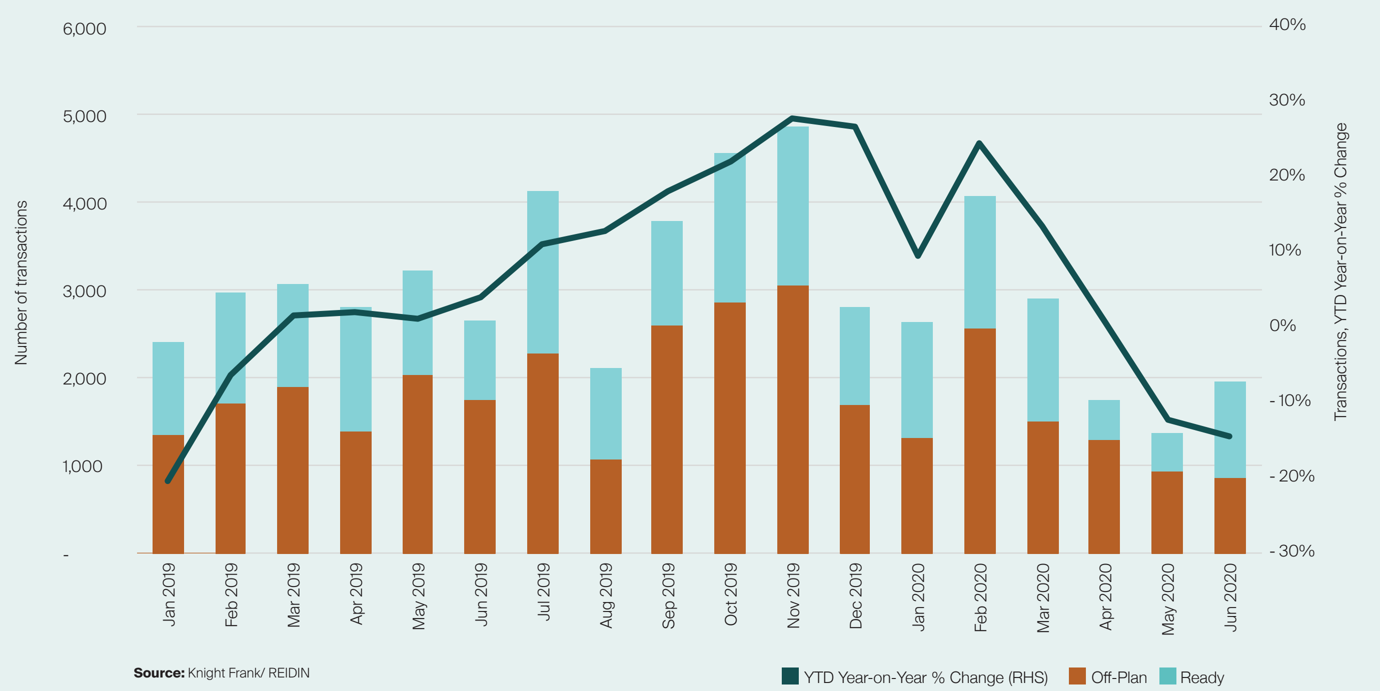
Landlords will likely become more flexible in relation to payment terms and incentives such as rent-free periods and deposit requirements to secure and retain tenants.

Average prices, which fell on average by 5.6% in the year to May 2020, are likely to remain under considerable pressure, as a result of demand softening and the influx of supply expected in 2020. In the year to June 2020, almost 8,500 units have been delivered and over 43,000 units are scheduled for delivery over the remainder of the year. Whilst the vast majority of supply additions will be apartments, the supply of villa properties is expected to increase by almost 28,000 by 2022, a substantial increase on current stock levels. As a result, average villa prices, which fell by 9.2% in the 12 months to May 2020, are expected to remain under considerable pressure going forward.

As supply increases and demand wanes as a result of the weaker economic backdrop, rental rates, which fell by 9.8% in the year to May 2020, are likely to continue to soften significantly throughout 2020. More so, landlords will likely become more flexible in relation to payment terms and incentives such as rent-free periods and deposit requirements to secure and retain tenants.

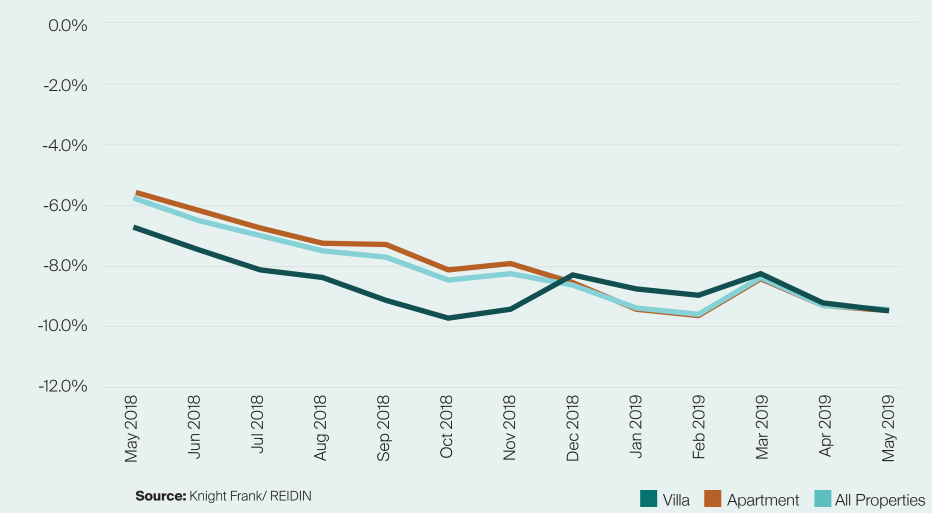
As at May 2020, average gross yields in Dubai's mainstream market registered on average at 6.4%, down from 6.7% a year earlier.

Dubai, Residential Transactions



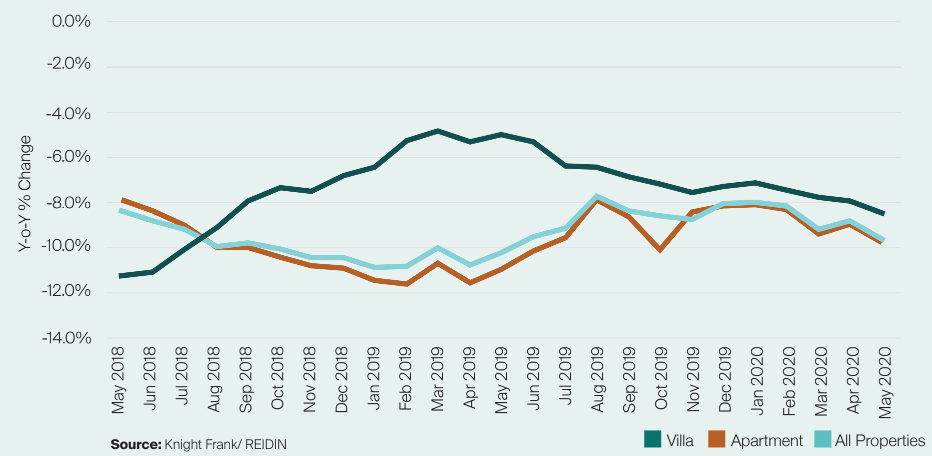
Source: Knight Frank/ REIDIN

Dubai, Mainstream Price Performance



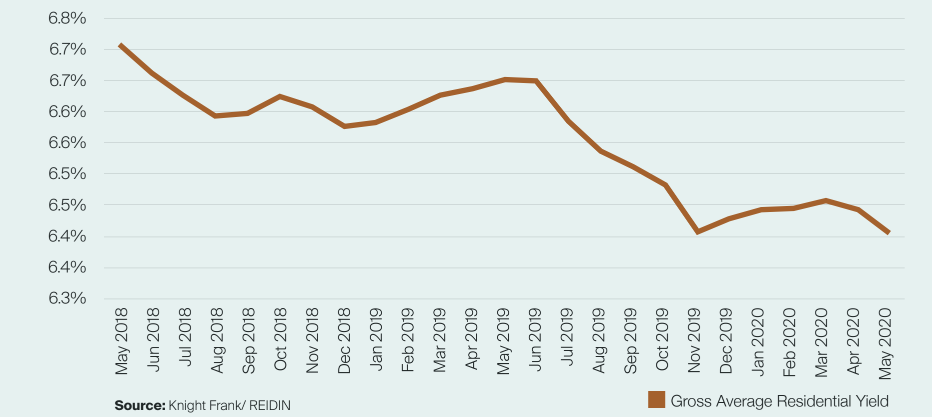
Source: Knight Frank/ REIDIN

Dubai, Mainstream Rental Performance



Source: Knight Frank/ REIDIN

Dubai, Yield



Source: Knight Frank/ REIDIN

Transaction volumes fell Y-o-Y by **14.4%** in the YTD June 2020

Villa price fell by **9.2%**

6.4% Average gross yield

UAE RESIDENTIAL MARKET OUTLOOK

Whilst there are clear challenges facing the residential market in the UAE, historically from a supply perspective and now more so from a demand perspective, authorities and developers have enacted a range of legislations and favourable payment options respectively to support demand.

As part of the UAE Central Bank's economic stimulus package, loan-to-value ratios have been increased for first time buyers by five percent for all property purchases, including off-plan property mortgages. This change was in addition to a range of regulatory changes announced in 2019, which included the announcement of 100% on-shore business ownership, easing of visa regulations, the introduction of the golden visa residency scheme and Abu Dhabi's freehold ownership law. As many of these regulatory changes, such as the changes in visa regulations, are linked directly to property ownership, the long-term fundamentals underpinning demand for UAE real estate remains steadfast.

Payment plans: 28% of the total payment is structured to be paid post-handover, up from 5% in 2016

More so, given current market conditions, developers have begun to offer evermore favourable payment plans to entice demand. As at 2020, in Dubai, on average where payment plans are offered, 28% of the total payment is structured to be paid post-handover, up from 5% in 2016. Developers are now also demanding lower levels of payments during construction and on completion. Where in 2016, 45% and 40% of the total payment was required on completion and during construction, in 2020, payments required during these periods have decreased to 35% and 28% respectively. Alongside this, larger developers are also offering service charge exemptions and transaction fee waivers amongst other offers.

Finally, interest rate cuts by the UAE Central Bank have also led to a fall in the cost of borrowing. The UAE's six-month EIBOR rate has fallen from highs of 3.14% in early 2020, to lows of 0.68% in late June 2020. This, alongside reforms in banking regulations, both those as part of the TESS stimulus package and those made in 2019 relating to real estate lending may provide greater access to cheaper financing options, thereby encouraging activity in the UAE's residential sector. However, from an international buyer's perspective the strong US dollar, to which the UAE Dirham is pegged, will mean that non-dollar denominated buyers face paying a slight premium when buying residential property in the UAE. Although this premium has decreased substantially as global economic activity has begun to normalise and demand for a safe haven currency such as the US dollar dissipates.

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