

# UAE RESIDENTIAL MARKET REVIEW

Q3 2020



## UAE MACROECONOMIC OVERVIEW

*We are beginning to see the extent of the impact the pandemic has had on the UAE's economy, with headline GDP contracting by 5.2% in the year to Q2 2020.*

Recent data released by the Central Bank of the UAE is beginning to show the extent of the impact the pandemic has had on the UAE's economy, with headline GDP contracting by 5.2% in the year to Q2 2020. Over the same period, non-oil GDP decreased by 4.5%. With containment and lockdown measures being largely lifted after this period, the outlook for Q3 2020 GDP is much more positive.

The UAE's Purchasing Managers' Index (PMI), which tracks the country's private non-oil economy and is a timelier economic indicator, has shown the economy has begun to see increased levels of activity. The index, where a reading below 50 indicates a contraction in economic activity, averaged a reading of 50.4 in Q3 2020, up from the average reading of 47.1 in Q2 2020. The latest monthly reading in September 2020 of 51.0, the highest in 11 months, also indicates that economic activity is starting its gradual return to pre-pandemic levels.

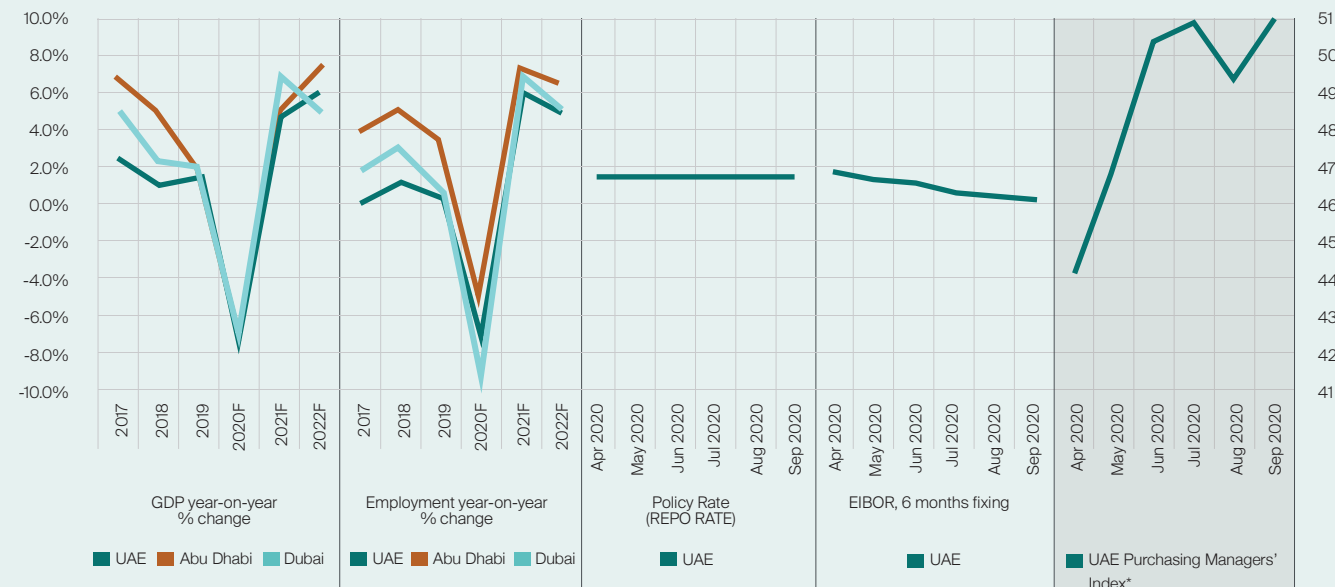
**The UAE's GDP and employment levels are expected to contract by 7.8% and 7.3% respectively in 2020.**

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.

The UAE's transportation, storage, IT and communications sector is expected to see the most significant decline in employment levels, where employment is expected to contract by 13.3% in 2020. Over the same period, the consumer services and industry sectors will also see significant contractions in employment of 10.2% and 8.6% respectively. Employment in the financial and business services sector is expected to decline marginally by 2.2% in 2020.

In 2021, the UAE's GDP and employment are expected to record growth rates of 4.5% and 6.0% respectively.

### Economic Indicators



Source: Knight Frank Research/ Macrobond/ Oxford Economics

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.

## ABU DHABI RESIDENTIAL MARKET REVIEW

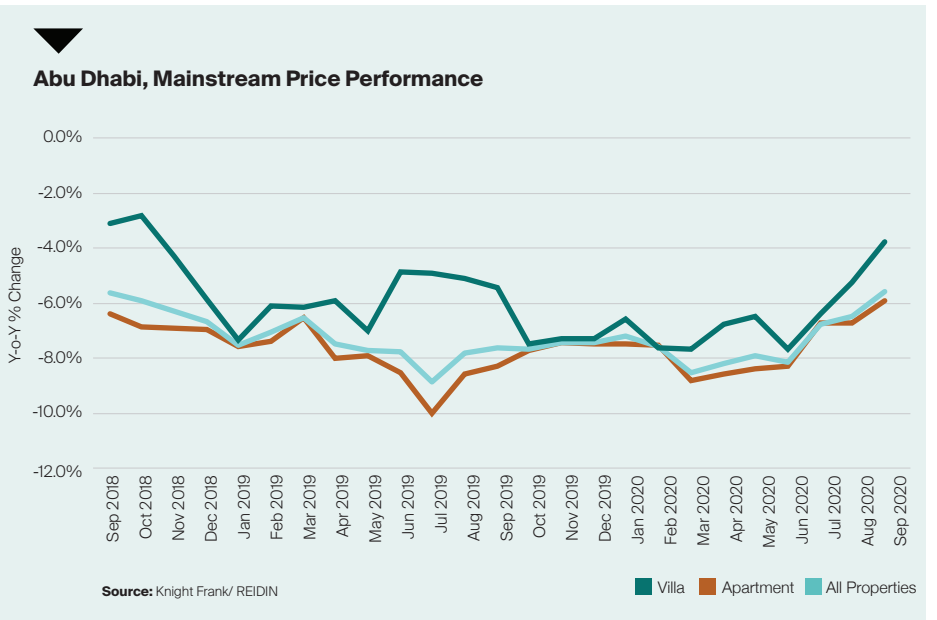
Residential sales prices in Abu Dhabi fell on average by 5.6% in the year to Q3 2020. Over this period, average prices for apartments in the capital fell by 6.0% and average villa prices fell by 3.8%. Both apartments and villas recorded quarter-on-quarter price increases of 0.8% and 3.4% in the quarter to Q3 2020, a trend not seen since early 2014. As at September 2020, the average price per square metre in Abu Dhabi for apartments and villas stood at AED 10,595 and AED 8,439 respectively.

In Abu Dhabi's residential rental market, rents softened by 4.1% in the 12-months to September 2020. Over this period, rents for apartments fell by 4.9% whereas the decline in rents for villas was relatively muted at 1.3%. Whilst the rate of declines have 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.

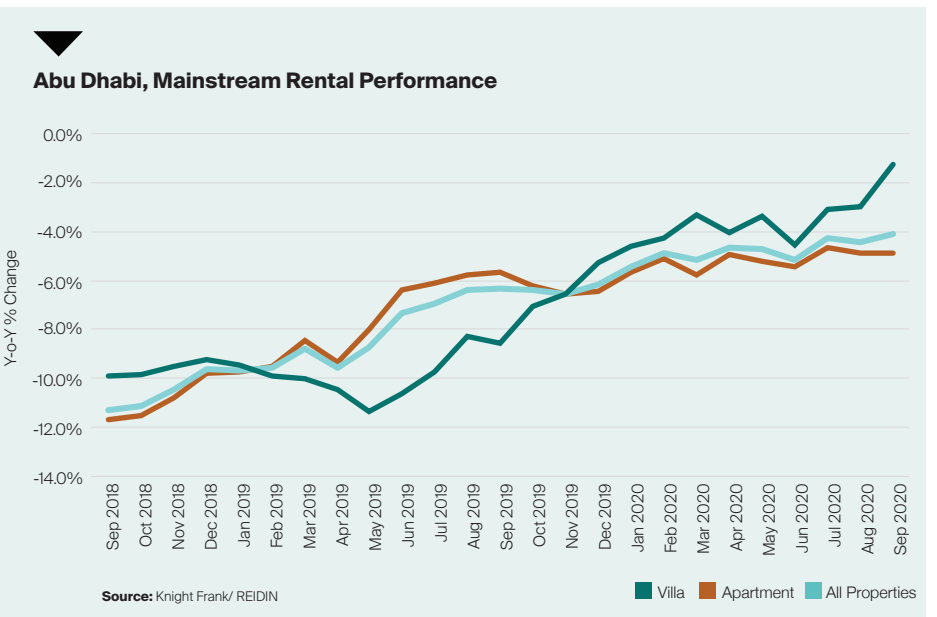
As at September 2020, gross yields in Abu Dhabi's mainstream market registered on average at 6.8%, up from 6.6% a year earlier.

Materialisation of supply in Abu Dhabi has been relatively low in 2020, with an estimated 2,022 units being delivered to date, less than a quarter of the initial scheduled supply estimate tabled at the start of the year. In the last quarter of 2020, circa 3,300 units are scheduled to be delivered. However, given the weak materialisation rate in 2020, we expect this figure to be significantly lower, as handovers get pushed out into 2021.

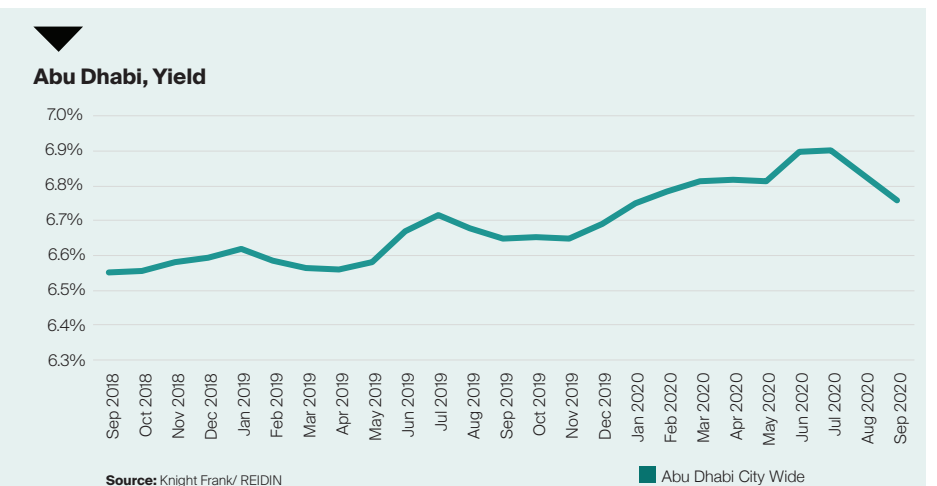
**Materialisation of supply in Abu Dhabi has been relatively low in 2020, with an estimated 2,022 units being delivered to date, less than a quarter of the initial scheduled supply estimate tabled at the start of the year.**



Source: Knight Frank/ REIDIN



Source: Knight Frank/ REIDIN



Source: Knight Frank/ REIDIN



## DUBAI RESIDENTIAL MARKET REVIEW

Activity levels continue to increase in Dubai's residential market, where in the quarter to Q3 2020, transactions volumes increased by 50%. Despite this strong rebound in activity after a period which saw the introduction of strict containment and lockdown measures, transactions in the year to September 2020, compared to the same period a year earlier are down 16.5%. Over this period, off-plan transactions volumes have fallen by 25.6%, whereas secondary market transactions volumes have fared better with a marginal decline of 3.3%. Whilst transactions volumes in September 2020 were above the average monthly transactions volume recorded in 2019, it is too early to tell if activity will return to historic norms in the remaining months of 2020.

Mainstream residential prices in Dubai fell by 8.1% in the last 12 months to September 2020, according to data from REIDIN. Over this period, apartment and villa prices fell by 8.4% and 6.4% respectively. Whilst demand has returned, primarily to established communities, the continuing influx of

supply will mean that average prices are expected to remain under pressure in the short to medium term. In the year to date to September 2020, an estimated 23,707 units have been delivered with an additional 26,170 scheduled for delivery in 2020. Given current materialisation rates, we expect some handover to be pushed into next year

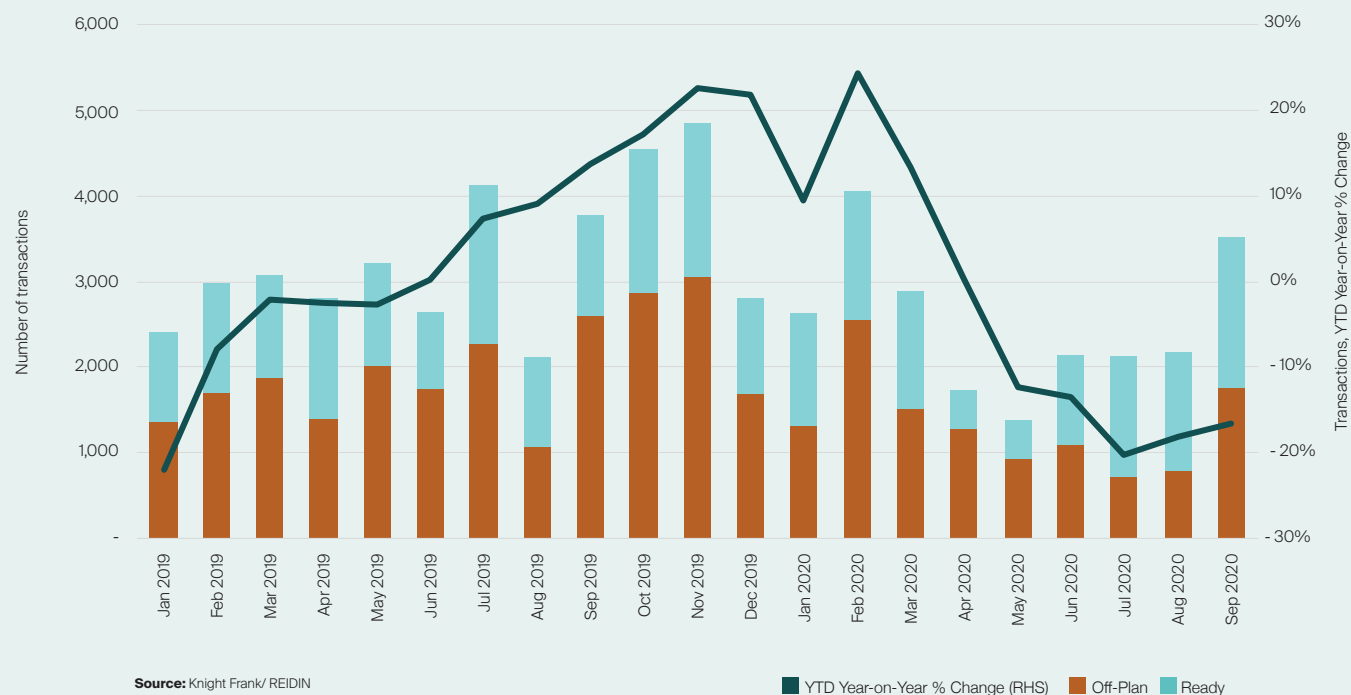
where scheduled supply stands at an historically unprecedented number.

Given the weaker economic backdrop and increased supply levels, average rents, which fell 12.7% in the year to Q3 2020, are likely to continue softening throughout 2020 and well into 2021. We may see the rate of decline moderate slightly as economic activity gradually recovers over the course of the coming year. This trend is already in its nascent stages where circa 37% of major rental areas tracked by REIDIN have seen a moderation in year-on-year declines in Q3 2020 compared to Q1 2020 declines. However, to date, this moderation has been relatively immaterial. For landlords looking to maintain headline rents, flexibility will be key in relation to payment terms and incentive periods such as rent free periods and deposit requirements.

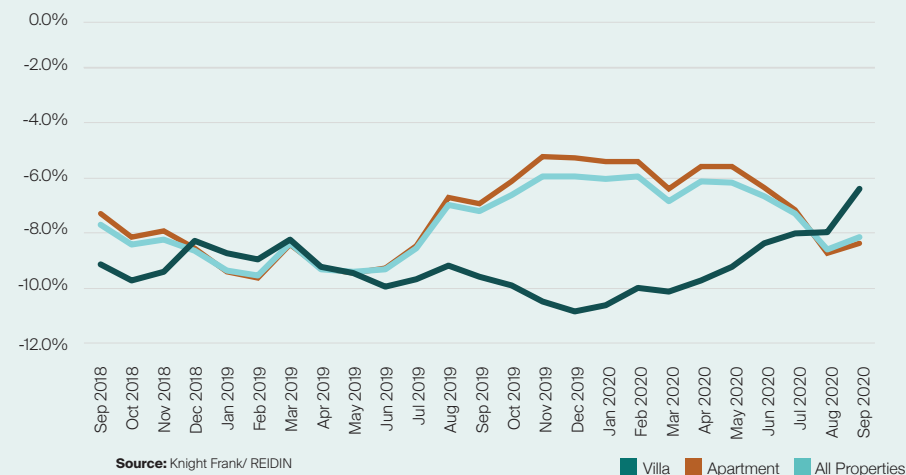
As at September 2020, average gross yields in Dubai's mainstream market registered on average at 6.2%, down from 6.5% a year earlier.

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### Dubai, Residential Transactions

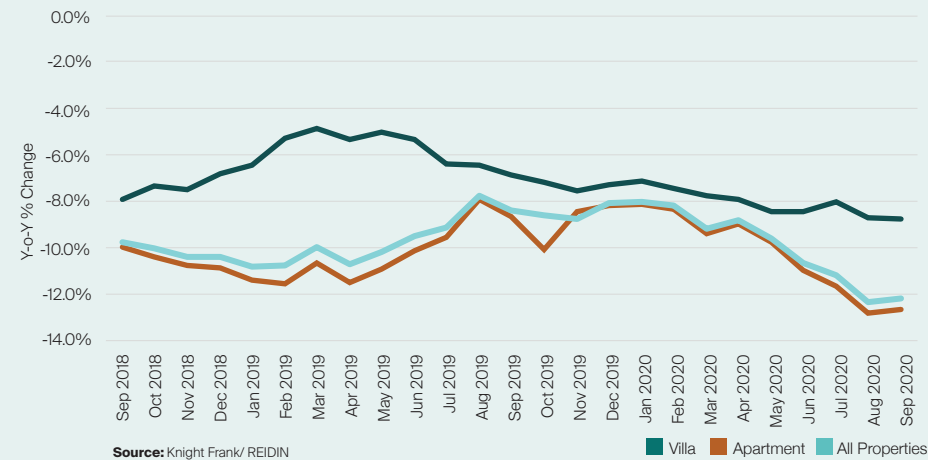


### Dubai, Mainstream Price Performance



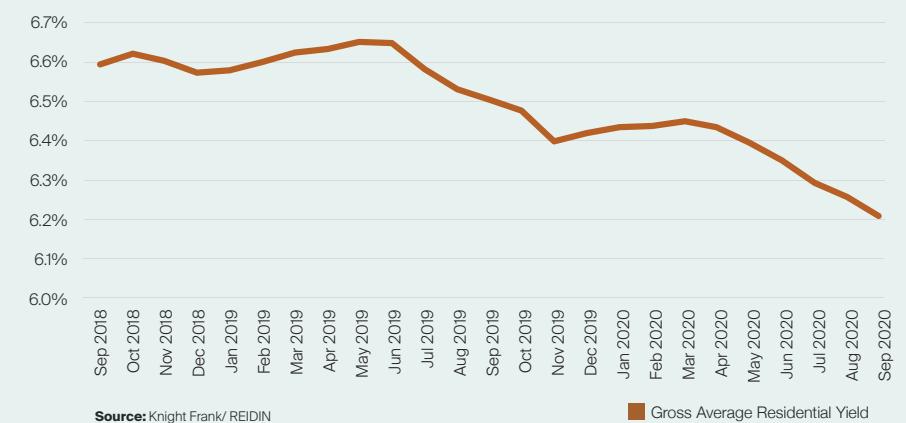
Transaction volumes fell Y-o-Y by **16.5%** in the YTD Sept 2020

### Dubai, Mainstream Rental Performance



Villa price fell by **6.4%**

### Dubai, Yield



**6.2%** Average gross yield



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