CUSHMAN & WAKEFIELD | CORE

ABU DHABI MARKET UPDATE

2019/2020

ABU DHABI
MARKET REPORT 2019/2020

Abu Dhabi saw sales and rental prices soften for the fourth consecutive year, however, the pace slowed down in 2019. Whilst a recovery is yet to be seen, we are reaching a pricing floor where developers and landlords, particularly those who are leveraged may not have room to drop prices any further - albeit translating into a bottoming out of the market. With limited future supply volume, downward pressure on existing inventory is easing. Flight to quality continues to be seen across asset classes and the market is more elastic with a wider product range catering to varied preferences and entry points – making Abu Dhabi increasingly attractive for end-users.

Following the Ghadhan 21 initiative in 2018, positive government impetus continued through 2019. The freehold law was launched in Q2 2019, allowing foreigners to own land and property within Abu Dhabi's investment areas on a freehold basis for the first time. This law is anticipated to stimulate investor demand and provide buyers with more security.

Latest GDP at current price estimates from Statistics Centre Abu Dhabi (SCAD) recorded 3.3% YoY growth and the oil GDP grew by 11.6% YoY contributing to 39.8% of Abu Dhabi's overall GDP. The capital has also witnessed a 47% YoY growth in the number of economic licenses issued. With a stabilised job market and the recent discovery of new hydrocarbon reserves estimated at 7 billion barrels of crude oil and 58 trillion standard cubic feet of conventional gas, a positive trickle down effect on the overall economy is expected over the near to mid term. Furthermore, an active tourism and culture calendar is having a far-reaching positive impact on the hospitality sector and the way Abu Dhabi is perceived globally.

This publication

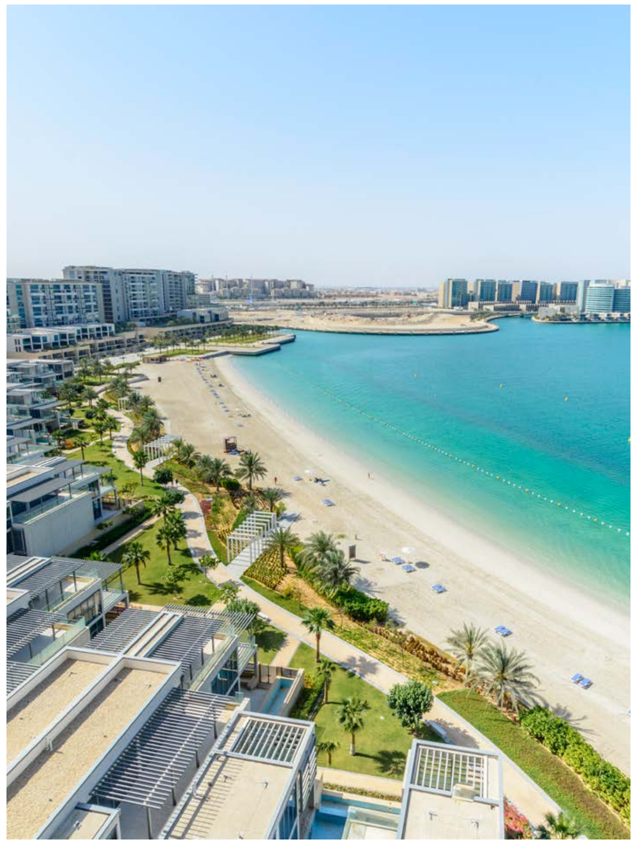
This document was published in November 2019. The data used in the charts and tables is the latest available at the time of going to press. Sources are included for all the charts. We have used a standard set of notes and abbreviations throughout the document.

Residential Market

Supply

Prominent completions over 2019 include Parkside Residence in Reem Island, Park View, Al Noon Saadiyat and Soho Square in Saadiyat Island and part of West Yas Villas bringing nearly 3,000 units to market. Currently the total Abu Dhabi residential stock is at 264,000 units. An additional 1,000 units are scheduled to be handed over by the end of 2019, however, some of these deliveries may be pushed to early next year.

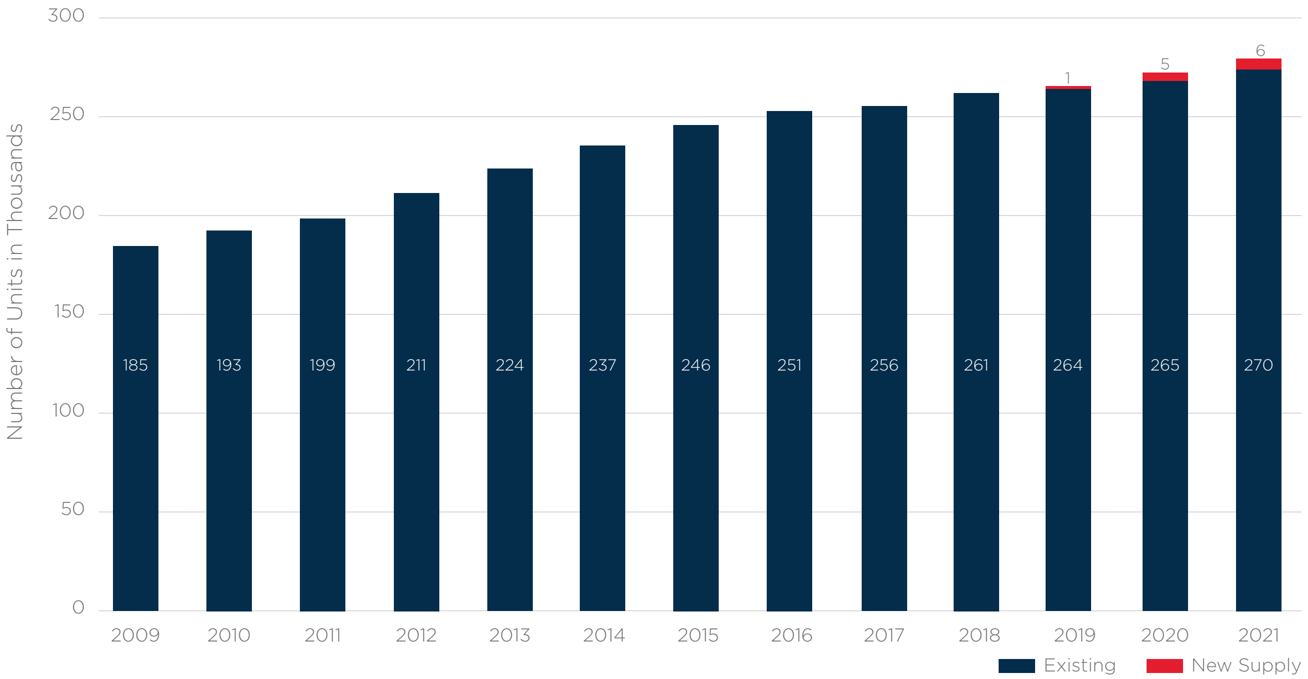
Looking ahead at 2020, we expect over 5,000 units to be delivered. Major deliveries include the Bridges by Aldar, Fairmont Marina Resort and Residences in The Marina and the Marina Rise Tower in Reem Island.



Demand

Off-plan activity in The Bridges and Park View apartments along with West Yas villas have been strong. The market is moving towards compact and well-planned units that utilise space better and priced at lower entry points. Aldar has been successful in its previous plot sale launches and the latest offering Saadiyat Reserve is also receiving steady traction. Most sales activity is concentrated in Al Reem Island and Saadiyat Island, as most new launches and deliveries are focused in these areas.

Abu Dhabi Residential Supply



Source: Cushman & Wakefield Core Research

Sales Market

Sales prices continued to weaken across most apartment and villa communities, 8% on average across the city over the past 12 months. Most sales transactions are happening in the off-plan segment where attractive payment plans and newer products are to be found. Prices in various communities such as Al Raha Beach, Yas and Saadiyat Island appear to have displayed relative resilience with a lower level of drops, showing a preference for newer and quality build products. New product launches in these locations are witnessing steady absorption levels. We continue to see a flight to quality and affordability from both end-users and investors.

Softening market conditions have resulted in both homebuyers and tenants having more bargaining power when negotiating sales terms.

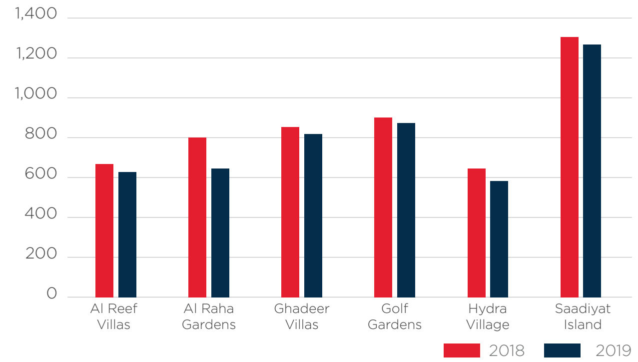
We predict new releases to continue witnessing steady uptake on the back of attractive entry points and payment terms, while secondary market stock is expected to remain challenged by newly delivered and off-plan stock - albeit keeping sales prices under pressure.

Rental Market

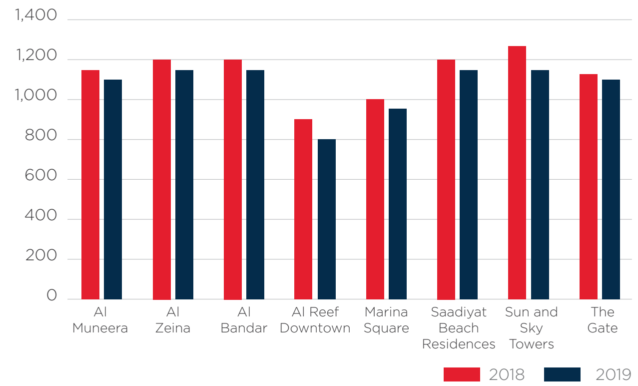
Most downsizing activity across the private and public sectors has sustained over the last year. The resulting stability in housing allowances is helping the pace of rental drops to slow down.

Villa districts displayed resilience compared to the last few years performance while apartments have witnessed the same level of drops as that of 2018. Within the same communities, smaller units (studios and 1 beds) have typically outperformed when compared to larger units which have witnessed sharper falls.

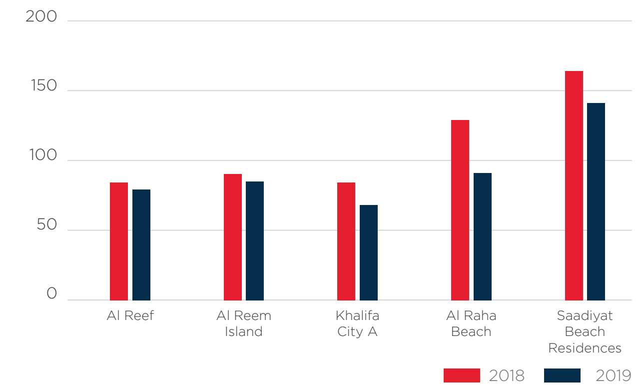
Average Villa Sale Prices 2018 vs. 2019



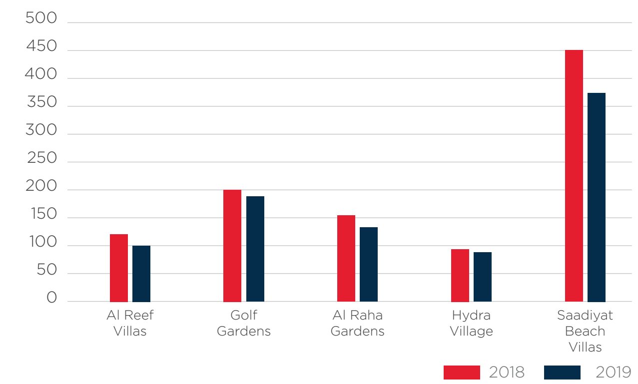
Average Apartment Sale Prices 2018 vs. 2019



Average Two Bed Apartment Rents 2018 vs. 2019



Average Three Bedroom Villa Rents 2018 vs. 2019



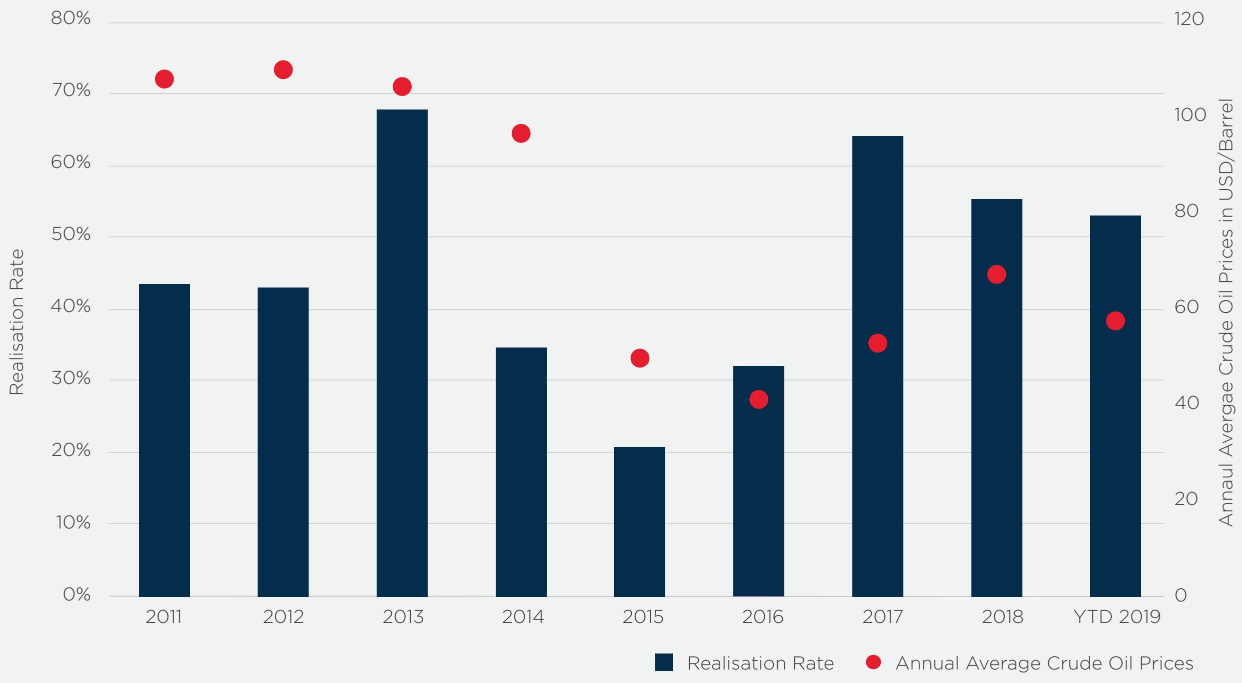
Source: Cushman & Wakefield Core Research
Note: Annual Rents (in thousands AED)

IMPACT OF OIL PRICES ON ABU DHABI'S SUPPLY REALISATION RATE

Although the Emirate is successfully diversifying its economy away from hydrocarbons, the realisation rate (projected vs. delivered stock) of Abu Dhabi's residential stock has historically had a strong correlation with crude oil prices. The trend of rising oil prices witnessed over 2010 - 2012 translated to a steady realisation rate of nearly 45%, peaking at an optimistic 68% in 2013. Similarly, realisation rates fell to as low as 21%, mirroring the fall in oil prices witnessed between 2014 and 2016 due to cautious behaviour displayed by developers. However, in 2017, as many developers could not hold their stock any longer due to cashflow strains, realisation rate surged to over 64%, despite oil prices only showing a marginal recovery. In other words, the supply anomaly witnessed in 2017 was more a consequence of a bottleneck building up over the previous two years rather than a conscious attempt to add significant new stock to the contracting market.

Over 2018 and 2019, the market gradually responded to relatively stable oil prices as developers aligned with market demand and managed supply inventories accordingly, keeping realisation rates at around 50%. We expect this trend to continue over the near-term.

Realisation Rate vs. Average Crude Oil Prices



Source: Cushman & Wakefield Core Research

Office Market

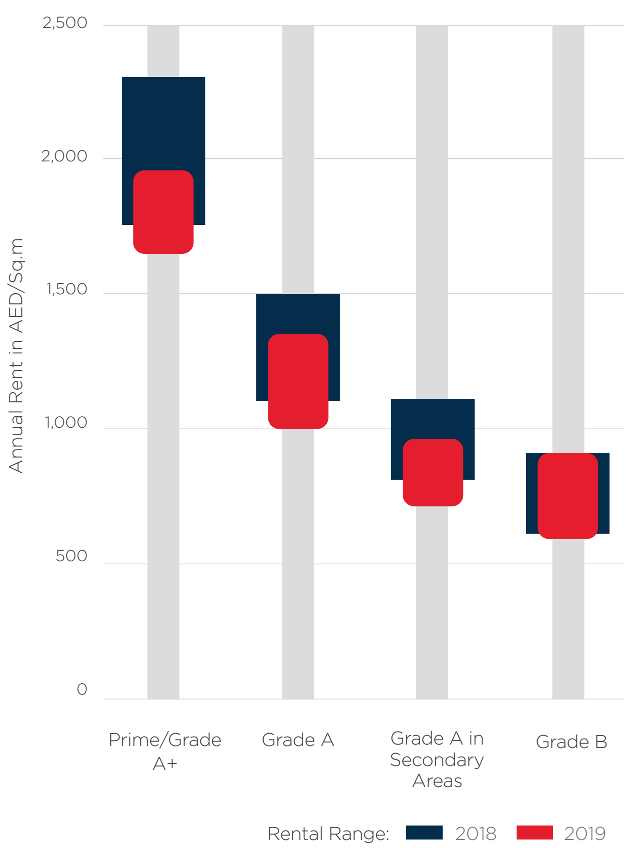
The Abu Dhabi office market has adjusted to office consolidations and redundancies that were seen over the last few years. This transition has led to the upper rental range across office grades witnessing contractions while the lower headline rental range holding relatively steady. With landlords pushed to offer better terms in what is now a predominantly tenant friendly market, rent free periods, multiple check payments and contribution to fitouts are becoming increasingly common. Occupancy levels have remained relatively stable, particularly in Grade A stock while new stock has also been limited.

Most of the office spatial requirements are for smaller plug and play options as major demand continues to stem from downsizing activity. The oil and gas sector continues to account for the most number of enquiries. The stimulus packages and activations in this sector over the last few quarters are starting to translate into spatial requirements as firms try to optimise resources while taking on new orders. This rise in interest has also been mirrored by a higher number of participants and exhibitors in the recently concluded Abu Dhabi Petroleum Exhibition and Conference.

Al Maryah Island is outperforming the rest of the office market with AGDM witnessing steady demand from government and private entities.

The positive impact of easing of regulations and government incentives is trickling down through the economy, therefore we expect the sentiment to improve further. Abu Dhabi's GDP growth rate over the course of 2019 and 2020 is expected to strengthen with GDP forecast to grow by 3.9% and 4.9% respectively. However, new spatial demand in the wake of this effect, is predicted to be very gradual as occupiers optimise existing office space and remain cautious towards expansions.

Abu Dhabi Office Rental Range 2018 vs 2019



Source: Cushman & Wakefield Core Research

Industrial Market

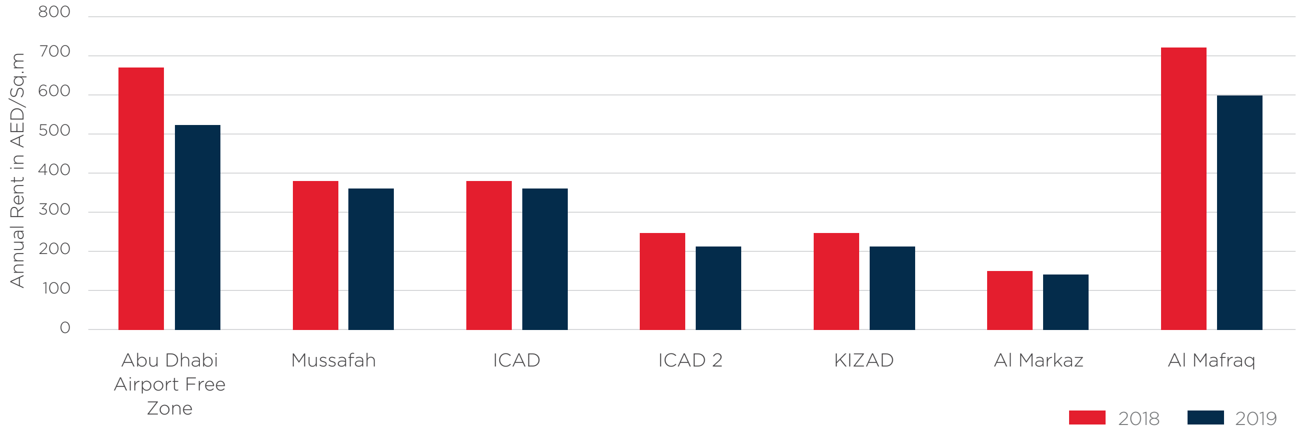
Market Performance

Abu Dhabi's industrial sector continues to see softening in rents, averaging over 8% drop year on year. Although there have been a number of activation and project kick-offs in the oil and gas sector, they are yet to translate into an uptick in warehousing demand. With the closing of MENA port, we have seen occupiers migrating to Mussafa, ICAD and KIZAD, creating an increase in industrial takeup in these districts.

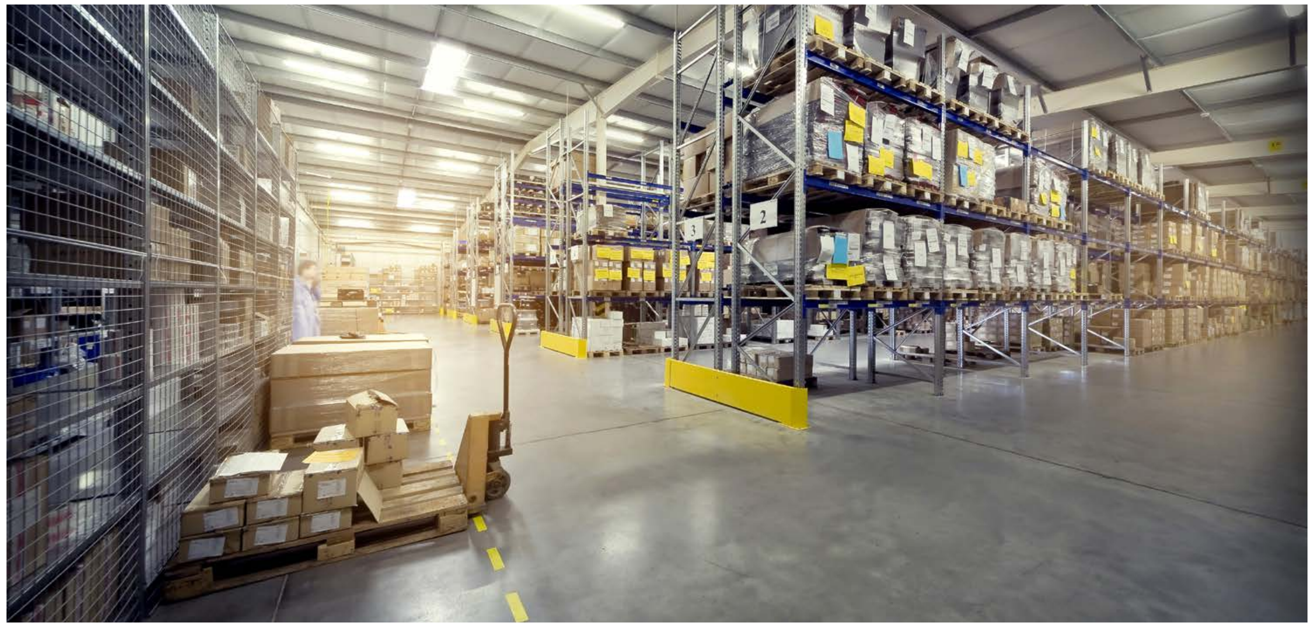
We are witnessing ICAD to be more supportive to both existing and incumbent industrial occupiers through ease in licensing systems while KIZAD is also taking a more active role managing leasing and maintaining occupancies. Interestingly KIZAD has maintained rental rates on the back of stable demand.

Occupier sweet spot continues to be for properties that offer flexible space, preferably warehouses with an option to have serviced offices (15-25 Sqm), enabling occupiers to test the market conditions and expand as they scale up in operations.

Abu Dhabi Warehousing Lease Rates 2018 vs. 2019



Source: Cushman & Wakefield Core Research



Retail Market

Retail Supply

The Galleria, Al Maryah Island was launched in Q3 2019 and is witnessing robust footfalls, resulting in additional demand from existing as well as new retailers – with expected upward pressure on occupancy. The overall layout, consumer engagement, tenant mix and F&B offerings in the Galleria are buoying its performance in the backdrop of a weakening retail sector.

In future supply, Paragon Bay is expected to be handed over in 2020 while Reem Mall is pushed to 2021, adding over 2.9 million sq.ft of retail GLA.

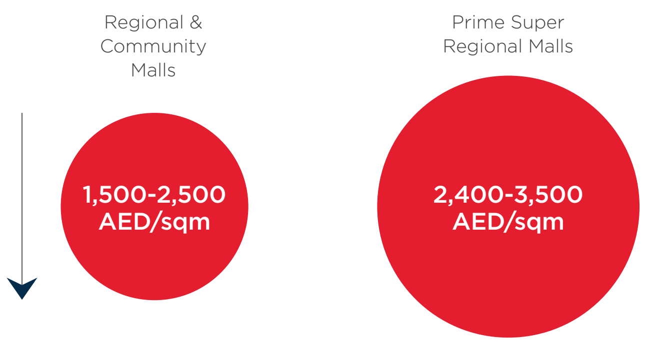
Retail Market Performance

Abu Dhabi's retail market continues to be the most challenging asset class. While prime and super-regional malls are displaying relative resilience, older stock remains under pressure to keep up with footfalls, consumer engagement and in turn occupancies.

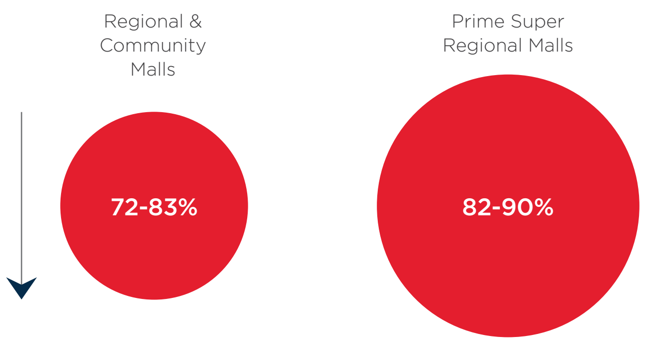
Although tourism and retail sectors are being actively integrated by ongoing government initiatives, underperforming malls and retail centers need further thrust to enhance performance. Flight to quality has led many retailers to focus effort and optimise footprint in top performing malls. Retailers in this softened market are carrying a higher risk in the wake of shrinking profit margins. We are increasingly seeing developers coming forward with flexible lease terms, revenue share models and fit-out contributions to enhance product mix and maintain occupancy – notably a common practice in most western retail markets.

To sustain the current retail market, mall operators/ asset managers of these older, weaker performing malls need to deploy proactive marketing strategies, digital and social media engagements and take a hard look at optimising tenant mix while serving their catchment area better, both in terms of demographics and affordability.

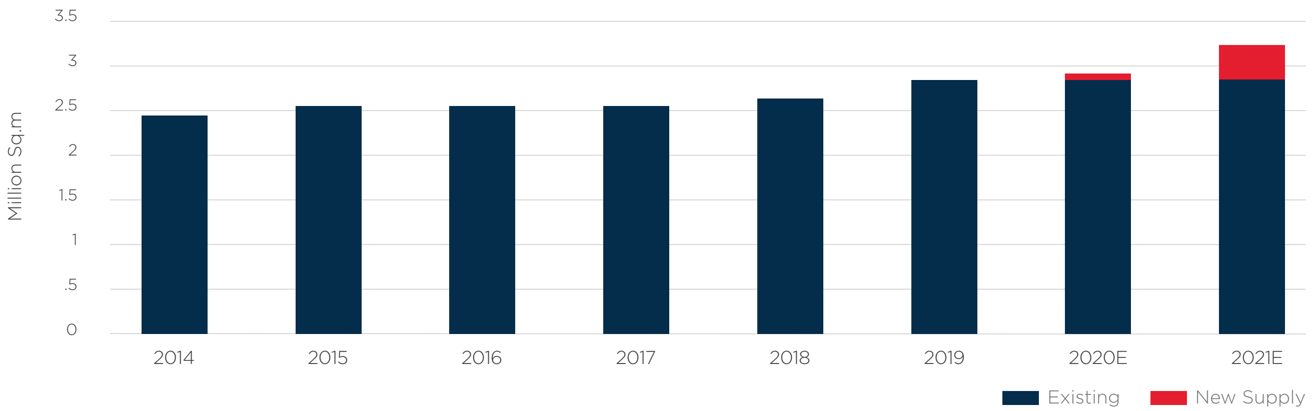
Average Rent



Average Occupancy



Total Gross Leasable Area



Source: Cushman & Wakefield Core Research

IMPACT OF F1 ON ABU DHABI REAL ESTATE

F1 has been the most prominent social and sporting event in Abu Dhabi and it continues to hold that position till date, even with a more evolved and vibrant year round cultural and tourism calendar. Being the final race of the F1 season and a twilight one at that, it has a heightened effect, pushing ardent F1 followers to visit Abu Dhabi and a much larger global audience to see Abu Dhabi in its full glory during the race broadcast. In addition to attracting loyal F1 fans, the surrounding cultural and entertainment destinations incentivise visitors to consider bringing their families along with them, and make the visit a sporting and leisure getaway for the period just before, during and after the F1 event.

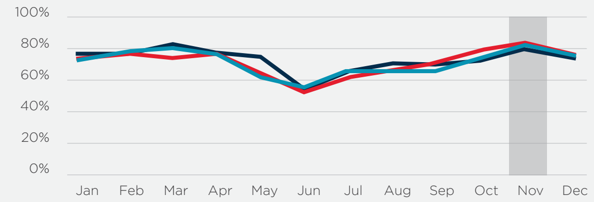
With respect to the impact F1 has on Abu Dhabi, many factors have changed over the last few years. As a focal point of international attention each year during the four-day event, Abu Dhabi has seen growing exposure to its ever-widening base of events and cultural attractions that are contributing to its tourism longevity throughout the year. The Department of Culture and Tourism's increased thrust is resulting in a diverse year-round calendar and these events are now actively integrated with retail and hospitality sectors with many activations resulting in a superior tourism experience for visitors. With the opening of Louvre, Warner Brothers Theme Park and many more attractions planned in Yas Island and wider mainland, Abu Dhabi is capitalising on its F1 traction.

F1 kick starts the winter season followed by National Day holidays, Christmas and New Year. Over the last few years, we have seen a consistent spike in tourism metrics in the month of November. Overall in 2019, the number of hotel guests, occupancy, revenues and the average length of stays have also seen a year on year rise in Abu Dhabi due to a stronger year-round calendar.

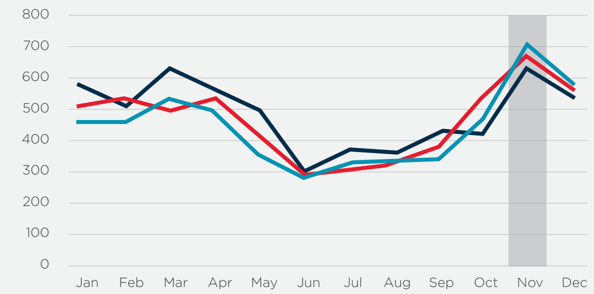
Undoubtedly, F1 is an annual mega international event, broadcasting and showcasing Abu Dhabi to a global audience and is much more than a marketing tool. Abu Dhabi has smartly built on this success by developing a destination that is an adventure seekers paradise. No other F1 track around the world is in such close proximity to other large entertainment venues such as Warners Brothers Theme Park, Yas Waterworld, Ferrari World, and the upcoming world's widest flight chamber and tallest indoor climbing wall and Sea World park.

While the scale of the F1 event continues to expand, the dependency on F1 as a focal event to feed the wider Abu Dhabi tourism ecosystem is expected to recede in the long term as other adjoining destinations and year-round tourism calendar strengthen Abu Dhabi's global appeal to tourists.

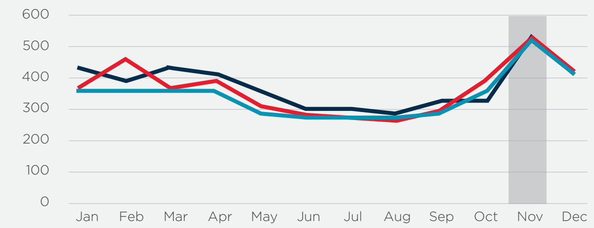
Abu Dhabi Hotel Occupancy



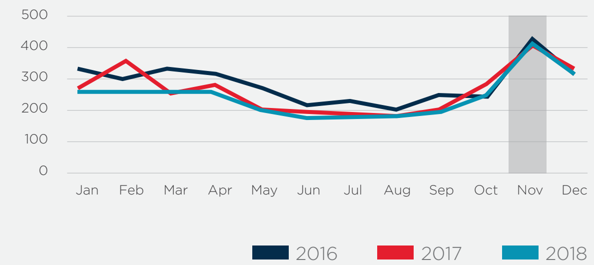
Abu Dhabi Hotel Revenue (In Million AED)



Abu Dhabi Hotel Average Room Rate (AED)



Abu Dhabi Hotel RevPar (AED)



Source: Department of Culture and Tourism Abu Dhabi

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