CUSHMAN & WAKEFIELD | CORE

ABU DHABI MARKET UPDATE

2020/2021

ABU DHABI
MARKET SNAPSHOT
2020/2021

As with the wider UAE market, Abu Dhabi's economy and real estate market saw the lingering impact of COVID-19 and contractions in household income weighing down upon sales and rental demand. However, Abu Dhabi's economy has been relatively resilient during 2020 due to previous optimisation measures taken over the last few years, particularly in the hydrocarbon and banking sectors.

Interestingly, in 2020 residential prices and rents displayed stability, particularly for superior built residential stock as prices were already at cyclical lows with little room for further contraction. In fact, a few established residential districts saw green shoots of recovery over Q4 2020. Whether this interim uptick will be sustained over 2021 will inherently depend upon the overall buoyancy of the economy.

On the other hand, the Abu Dhabi office market continues to face consolidation and flight to quality as rents and occupancy levels come under further downward pressure, particularly in the Grade B and C market. Occupiers are increasingly taking the view of mitigating risks and encouraging staff to return to the workplace in a safer built environment without necessarily incurring an increase in rental outflow. This occupier preference has focused most transaction activity in superior managed Grade A and single owned assets, therefore the limited Grade A market continues to show resilience.

While brick & mortar retail and hospitality sectors continue to face headwinds in the wake of COVID-19, we have seen other asset classes such as retail logistics and warehousing perform surprisingly well as occupier behaviour adjusted to the new normal of increased online retail.

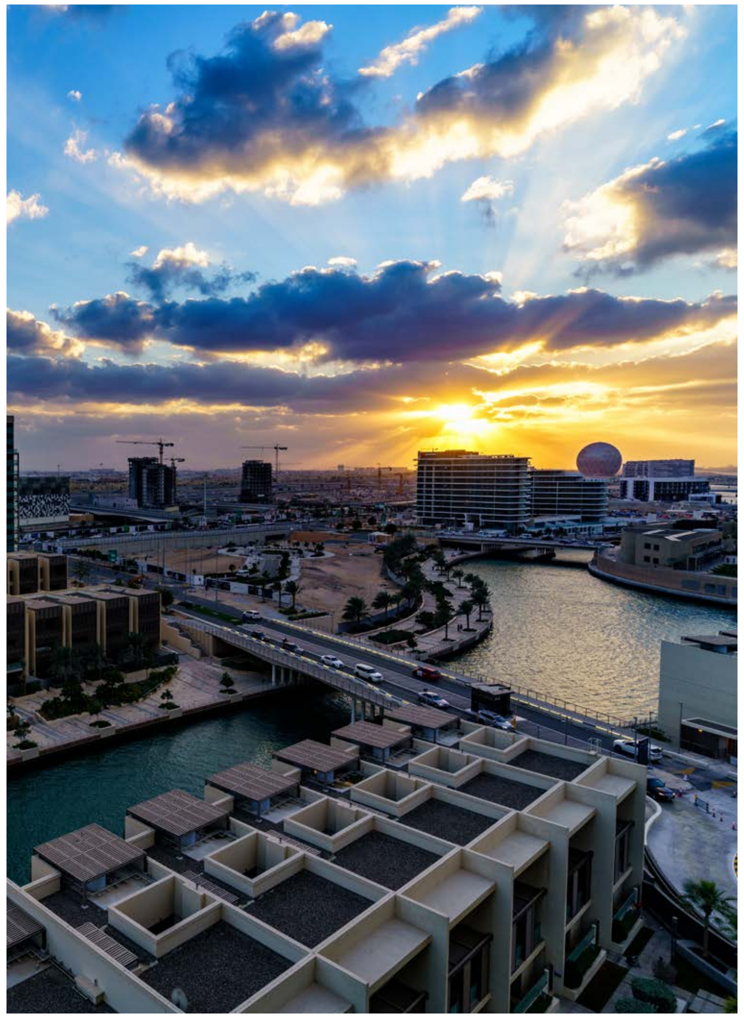
That said, Ghadan 21 - Abu Dhabi's AED 50 billion accelerator program offered stimulus packages, rebates and waivers on various government fees in 2020 including no real estate registration fees and a 20% rent rebate for F&B, tourism and entertainment facilities, thus supporting businesses. Furthermore, with the recently announced 100% ownership of businesses by foreign nationals coupled with a range of other government-led demand drivers, there appears to be a broad consensus that the emirate is expected to see a potential uptick in market sentiment in 2021.

With Aldar expanding its portfolio with the development and asset management of projects for the Abu Dhabi government and the steady rise in its stock value, it is now the UAE's largest developer - further boosting the overall market sentiment of Abu Dhabi.

With the residential market showing initial signs of stabilisation and the performance of the real estate sector broadly tied to the wider economy, which is being boosted by effective stimulus measures, changes in citizenship laws and record high vaccination rates, we foresee Abu Dhabi's real estate sector to be relatively resilient over 2021.

This publication

This document was published in February 2021. 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

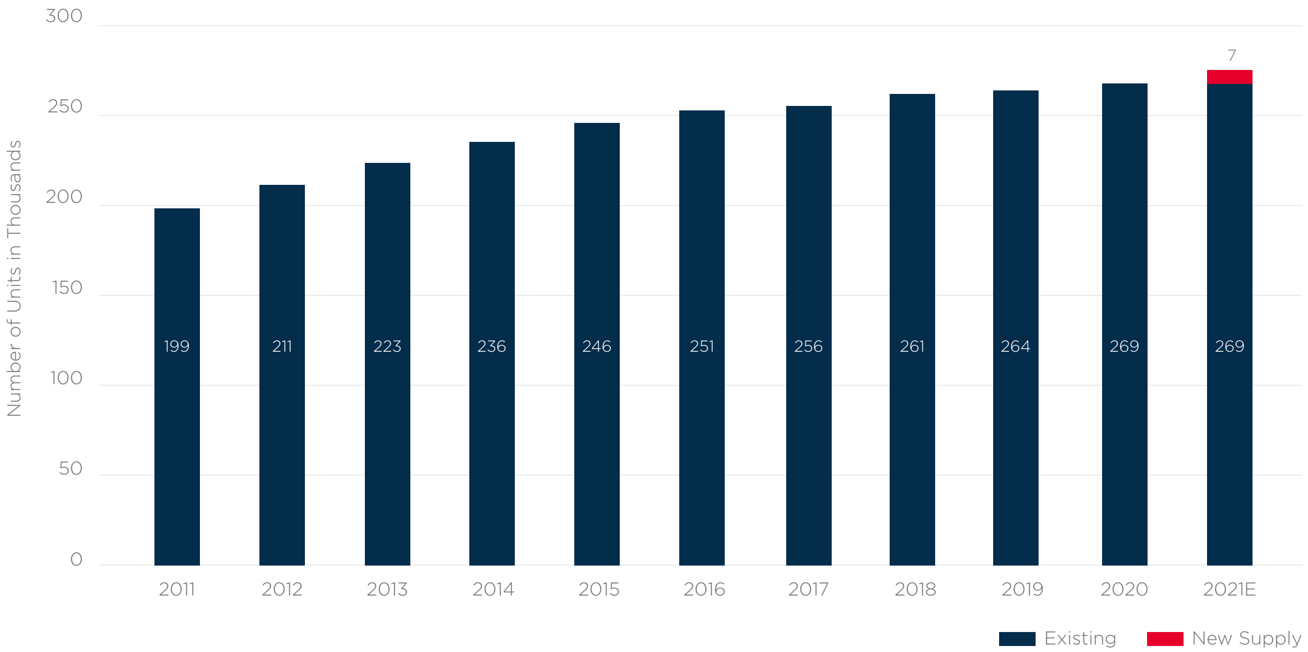
Supply

There were over 4,500 units delivered in Abu Dhabi over 2020 with most handovers located in Al Raha Beach, Al Reem Island and Yas Island. The most prominent deliveries were apartments in The Bridges by Aldar and villas in Yas Acres Phase 1.

The Abu Dhabi market historically has had relatively lower levels of supply handovers each year, however, 2021 is expected to witness a spike with over 7,000 units slated to be handed over. A significant portion of the new supply projected for 2021 is expected in Al Reem Island and Al Raha Beach which are witnessing substantial development activity followed by Yas Island.

While the number of actual handovers may be slightly lower, we expect existing and future inventory to face further absorption challenges given the current economic climate of subdued demand.

Abu Dhabi Residential Supply



Source: Cushman & Wakefield Core Research

Sales Market

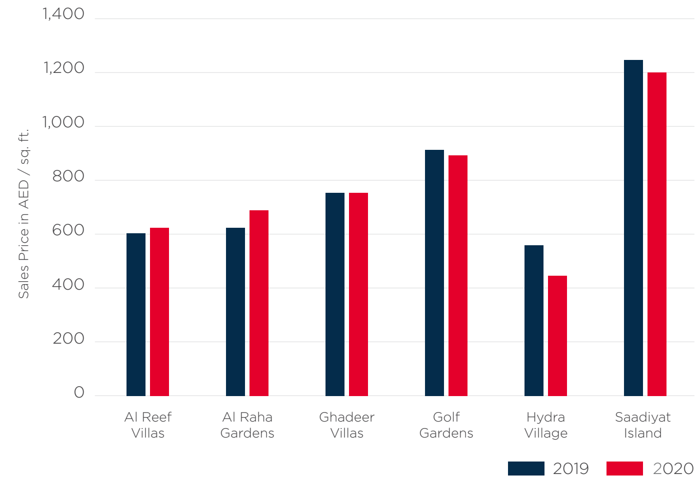
For the first time in five years, average villa sales prices witnessed a 2% year on year increase, however, apartment prices saw a nominal -4% drop, albeit because of limited transaction activity as buyers took a wait and see approach, making prices appear to be relatively stable. Abu Dhabi also saw the common theme that is being reflected in most markets post the pandemic, with larger units and villas witnessing higher demand as occupiers adjust to lifestyle requirements. This has translated into a rise of 3.5% quarter-on-quarter in average villa asking prices over Q4 2020.

Prices in various communities such as Al Raha Beach, Yas Island and Saadiyat Island appear to be buoyant, indicating a preference for newer and quality build products. While the market remains price sensitive, 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.

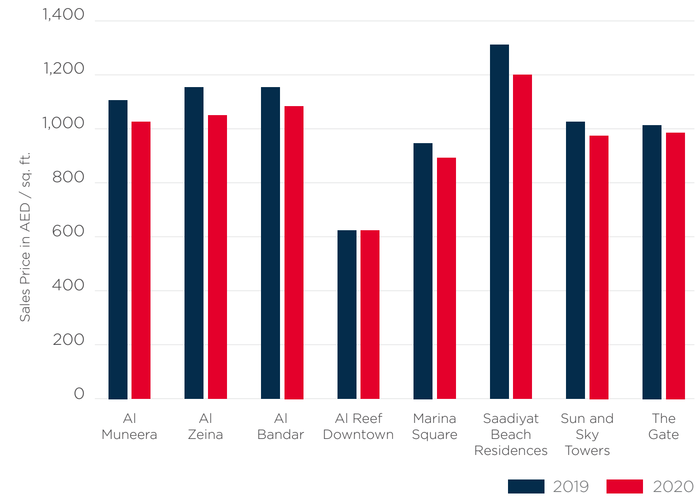
Developers continued to spur sales through various incentives and offers, including attractive post-handover payment plans and fee waivers while also partnering with banks to provide buyers access to preferential mortgage rates.

While Covid-19's impact will continue to affect demand, we expect the market to show early signs of recovery in 2021 with the pace of price reductions stabilising provided the broader economy recovers.

Average Villa Sale Prices 2019 vs. 2020

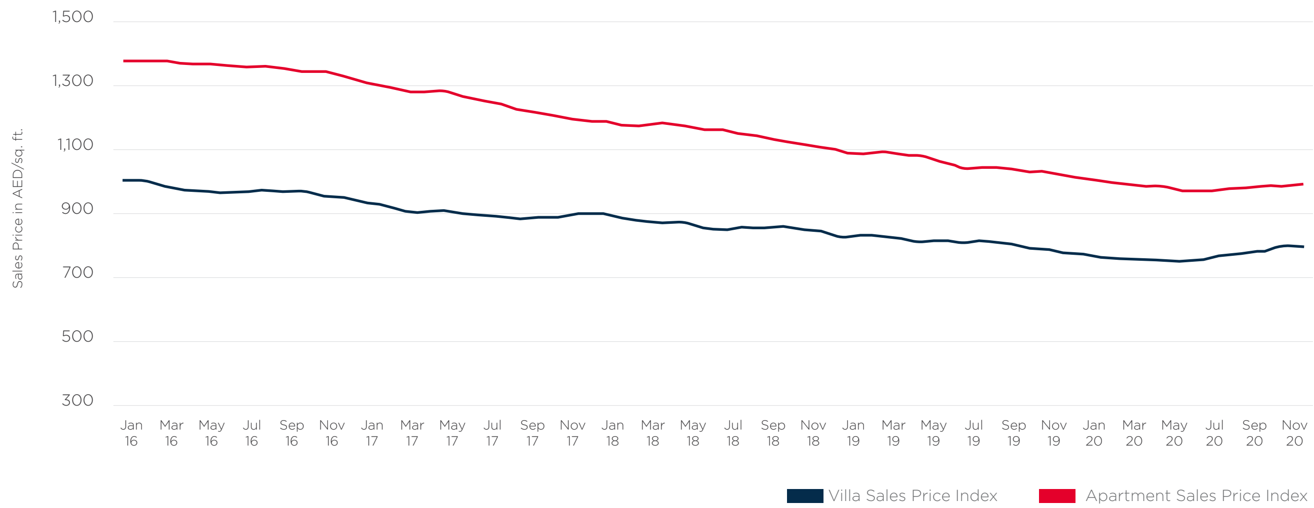


Average Apartment Sale Prices 2019 vs. 2020



Source: Cushman & Wakefield Core Research

Abu Dhabi Sales Price Index



Source: REIDIN, Cushman & Wakefield Core Research

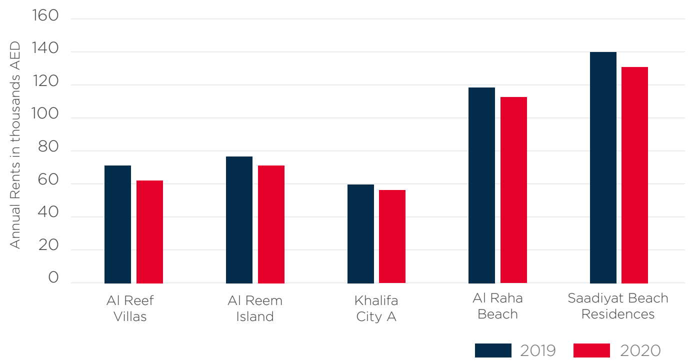
Rental Market

As a result of job losses, salary cuts and household income contraction, many tenants relocated or repatriated, thus putting continued downward pressure on the rental market.

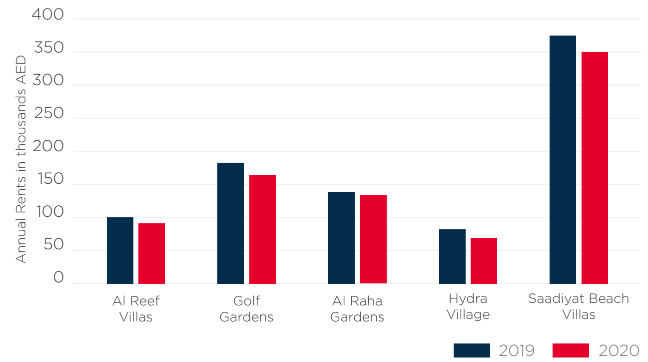
That said, we witnessed a relative level of stability in average rents in the villa market with only a 3% year-on-year drop as rents started to stabilise over H2 2020, particularly for well-developed villa communities in Yas Island, Al Raha Gardens and Saadiyat Island. This resilience stems from the rising demand for properties with more open space, gardens and swimming pools due to work from home demands. Furthermore, many tenants are looking to move away from apartment living as they are hesitant to share common areas with other residents. With many occupiers continuing with hybrid workplace strategies, requirements for larger, more open residential space may continue over H1 2021.

While average apartment rentals displayed a 5% year-on-year drop, the older stock has witnessed further reductions as tenants relocated to superior buildings at similar or lower rentals. Furthermore, many of the better build and newer apartment complexes have seen continued softening over the last few years and now have limited room for further reductions. Therefore, it is important to note that while rental reductions may show lower year-on-year changes, various landlord incentives such as rent-free periods, a higher number of cheques and other forms of flexibility are supporting headline rentals.

Average Two Bed Apartment Rentals 2019 vs. 2020



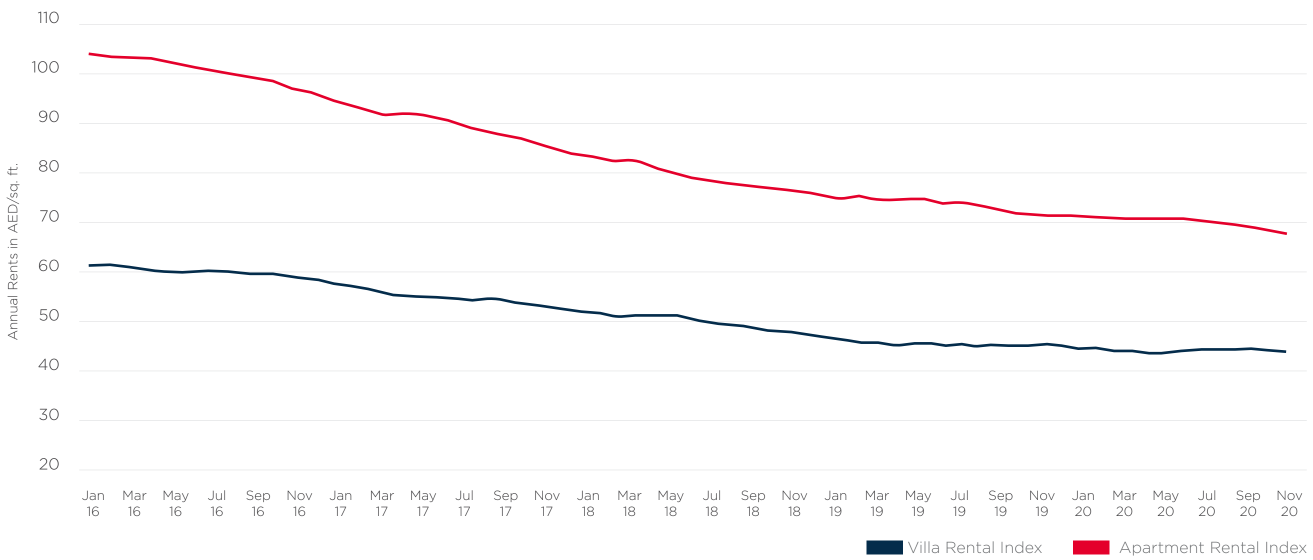
Average Three Bedroom Villa Rentals 2019 vs. 2020



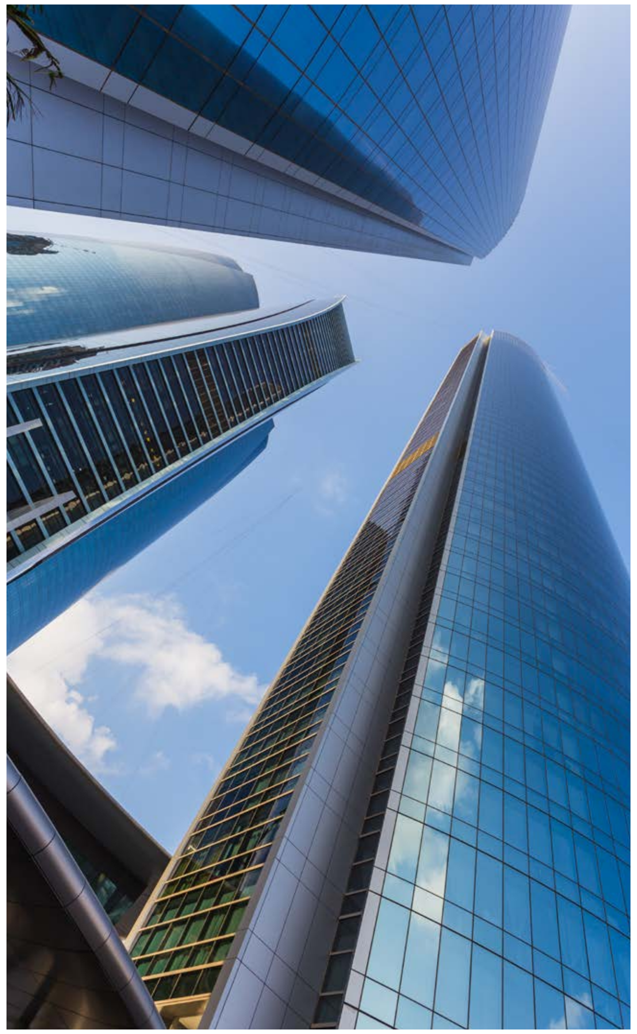
Villas 5.5% | Gross Yield | Apartments 6.9%

Source: Cushman & Wakefield Core Research

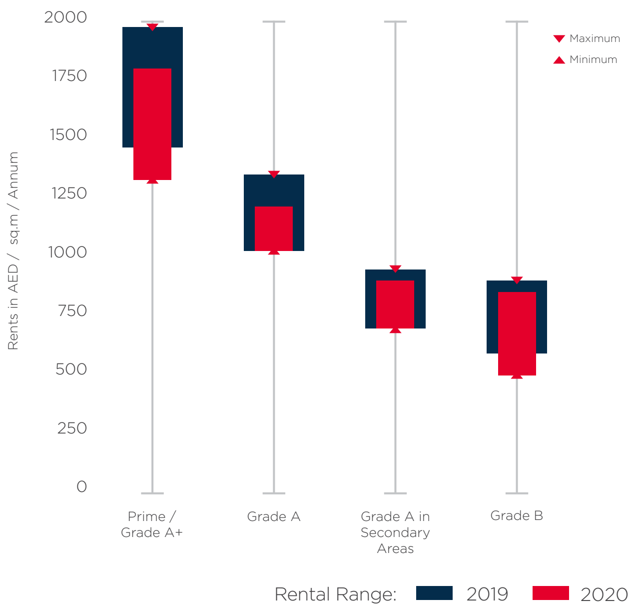
Abu Dhabi Rental Price Index



Source: REIDIN, Cushman & Wakefield Core Research



Abu Dhabi Office Rental Range 2019 vs 2020



Source: Cushman & Wakefield Core Research

OFFICE MARKET

Most of the office demand in Abu Dhabi came from relocations where occupiers moved to similar-sized offices largely to upgrade to superior grade buildings at similar or lower rental outflows as they took advantage of softened rentals. Many tenants also consolidated offices spread across multiple locations or floors within the same building to a single level office. Most office movement stemmed from large occupiers in the oil & gas sectors, government and semi-government entities and ranged between 500 to 2,000 Sq.m.

Although the office market in the capital continues to face challenges, we have seen the impact of COVID-19 further heighten the trend of flight to quality with tenants looking to move to superior managed and built properties to bolster employee confidence and safety while not significantly altering cash outflows.

Office tenants are becoming increasingly aware of the importance of building maintenance and facilities management. Most Grade A buildings which are largely single owned have been proactive with increased COVID-19 risk mitigation protocols including visitor security, thermal screening, frequent cleaning and disinfecting measures and building management protocols for COVID-19 positive cases, etc. Such stringent measures are generally missing in Grade B and Grade C buildings. As rents have softened across grades, the advantage of moving into a Grade A building is multi-fold - from a financial as well as user experience and safety perspective.

This pivot from occupiers towards Grade A space has led the limited Grade A stock in Abu Dhabi to display relative resilience in occupancy and rents. With most of the office stock in Abu Dhabi being Grade B and C, we are witnessing a significant drop in rents and occupancy levels in this segment as most tenants look to relocate. With landlords being pushed further to offer better terms in the aftermath of COVID-19 making the market notably tenant-friendly, rent-free periods, rental deferrals, multiple check payments and contribution to fit-outs are becoming increasingly common. Established tenants with strong cashflow are looking to lock-in longer lease terms to take advantage of the commercial terms being offered in the current market. We expect these trends to continue over to H1 2021 as the market continues to adjust to ongoing economic conditions.

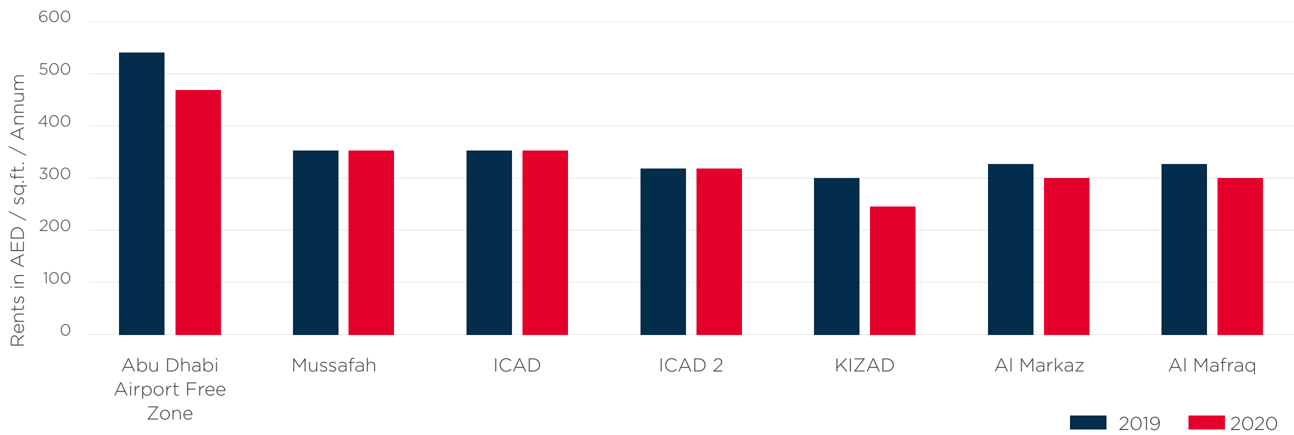
INDUSTRIAL AND WAREHOUSING

Abu Dhabi's industrial and warehousing sector defied market conditions with both enquiry and transaction levels seeing an increase in 2020. The negative impact of COVID-19 that was felt in other sectors with a slowdown in demand was reversed in the case of the warehousing sector. With online retail gaining significant market share over the last few months, we have seen rising demand for warehousing space from both online and brick and mortar retailers as they expand their offerings to cater to increasing online demand.

In other industrial sectors, apprehension of further supply chain disruptions are also fuelling occupiers to store stock, thus requiring more space, particularly for essential and non-perishable goods.

We have seen ICAD and Mussafah rentals hold steady year-on-year due to limited availability of stock while KIZAD is also taking a more active role in managing leasing and maintaining occupancies. Notably, Mussafah is witnessing a steady demand for warehouses with tenants also requesting the option of office space within the same facility, thereby enabling occupiers to consolidate operations and warehousing requirements into a single premises and for smaller enterprises to test market conditions and expand as they scale up operations.

Abu Dhabi Warehousing Lease Rates 2019 vs. 2020



Source: Cushman & Wakefield Core Research

RETAIL MARKET

Abu Dhabi's retail market has been the most challenging asset class even before the onset of the COVID-19 led market slowdown. The contraction in household income and relative hesitation to shop in physical stores continues to negatively impact the retail sector. That said, over the last few months we have seen an uptick in footfalls with a particularly active winter season. Also, a few luxury retailers have seen steady demand as many HNI consumers shopped locally as travel restrictions inhibited them from visiting other international cities. While the push towards online retail has been gradual over the last few years, the pandemic has accelerated the acceptance of this format amongst buyers. We have seen many retailers significantly increase their online presence and scale-up back-end operations and logistics to accommodate this shift.

We have also witnessed community retail and smaller ground-floor retail outlets perform relatively well as they largely cater to essential retail. While there are many government and landlord led incentives, mall retail continues to face challenges as retailers look to optimise footprint and reduce costs across the retail group/portfolio. For retailers, rents form only a portion of the cost with staff and merchandise accounting for larger costs, pushing brands to further strategize locations to maximise exposure and sales.

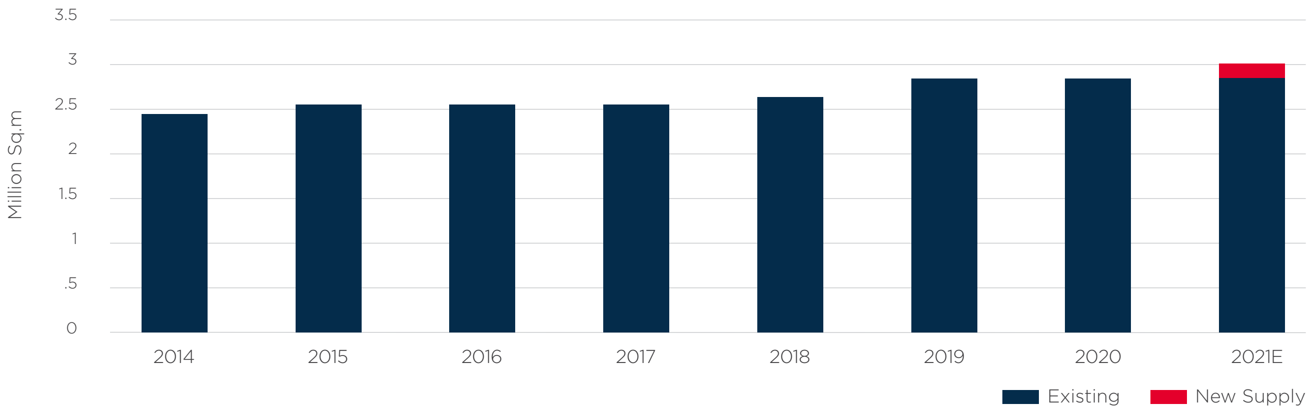
With retailers facing lower footfalls, most are turning to revenue share models to withstand market conditions. Landlords are also being perceptive to these conditions and realising that rent deferrals may not be a viable solution and are open to revenue share models to maintain occupancy and a good retail tenant mix.

The future of malls will highly depend upon responsive mall owners providing retailers rental incentives to last these tough market conditions while also creating innovative customer engagement initiatives to retain shopper interest. We forecast the super-regional malls to fare better in this regard while older and smaller malls face increasing challenges and more store closures.

Retailers will need to have greater synergy between their brick and mortar and online offerings to stay relevant to changing and increasingly demanding shopping behaviour.

In terms of retail supply, there were no major retail handovers in 2020 with Reem Mall expected to be handed over by the end of 2021, adding over 270,000 Sq.m. of retail GLA.

Total Gross Leasable Area



Source: Cushman & Wakefield Core Research

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