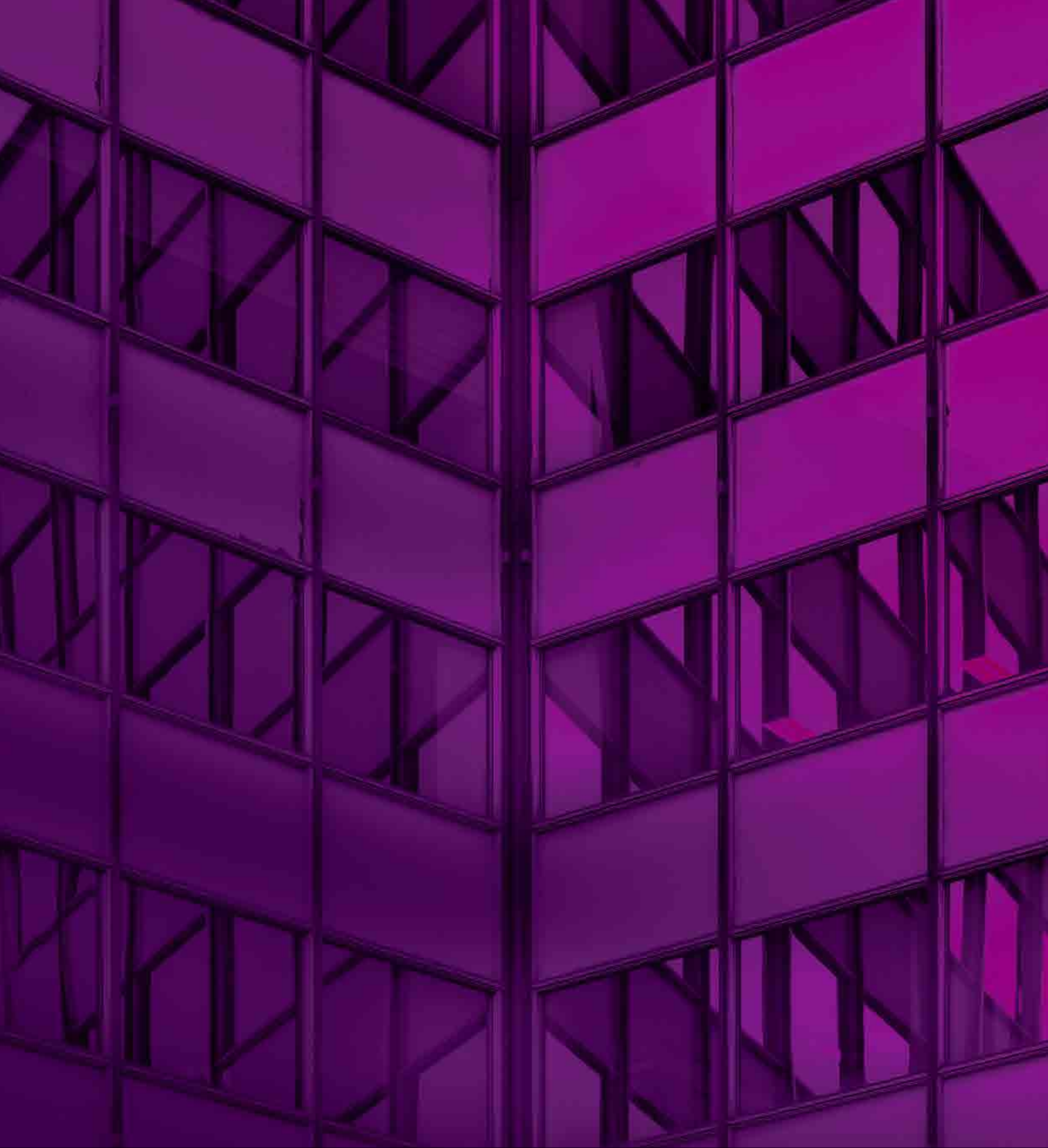

OBSERVER
Abu Dhabi Market Report
Q3 / 2019

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Report Highlights

Economic snapshot

Standard & Poor, the global ratings agency, estimated Abu Dhabi's economic growth to average 2.5% in the four years leading up to 2022 as it benefits from higher oil production and prices. Abu Dhabi's economy still depends heavily on oil, deriving 50% of its real Gross Domestic Product (GDP) and more than 90% of central government revenue from the hydrocarbon sector. Oil will continue to dominate the economy, despite diversification efforts. Real Estate activities contributed 4.2% to the Capital's real GDP in 2018.

Sales Prices

The downward price corrections witnessed in Q2 2019, appear have to slowed in Q3, with average sales prices for apartments down 1% from the previous quarter with sales prices for villas showing no movement from Q2. This suggests that the market could be close to bottoming out, however, this will depend on the amount of supply coming onto the market in 2020.

Rental Rates

Rental rates only declined a marginal amount in Q3. Average rental rates were down 1% for apartments and there was no average rate movement for villas from the previous quarter.

Market Outlook

The Abu Dhabi real estate sector is showing signs of positive sentiment with a marked slowdown in price and rental rate reductions. This is a likely result of reforms to real estate legislation and the economic stimulus package, coupled with a pipeline of limited supply and a shift towards more affordable housing. The recently announced freehold law is expected to generate interest from local, regional and global investors whilst other proactive moves by the Government, to include a reduction in the work permit fees of between 50 per cent and 94 per cent and the 10-year residency visa, should enable people to put down roots in the country and encourage them to invest in property for the long term. Such initiatives will provide a solid and sustainable growth platform for the Capital.

Residential Market Q3 2019 Snapshot

Price Movements QoQ

Apartments **-1%**

Villas **0%**

Rental Movements QoQ

Apartments **-1%**

Villas **0%**

Slowing price corrections suggest the market could be close to bottoming out

The downward price corrections witnessed in Q2 2019 appear have to slowed in Q3, with average sales prices for apartments down 1% from the previous quarter and sales prices for villas showing no movement from Q2. This suggests the market could be close to bottoming out, however, this will depend on the amount of supply coming onto the market in 2020.

One of the biggest challenges that has faced the Capital's residential sales market is oversupply. With over 11,000 units expected to be delivered by the end of 2019, the market is likely to continue to remain soft for the rest of the year. However, there is not a significant amount of new supply expected to be delivered next year which means there could be a better balance between supply and demand which will ultimately lead to a more stable market in the future.

The Government is supporting investment into the Capital's real estate sector by way of the recently announced law, which will allow foreign nationals to own freehold property in designated investment zones; a privilege previously enjoyed only by UAE and Gulf Cooperation Council (GCC) nationals.

As has been the case in Dubai, Abu Dhabi developers understand they need to be more creative to attract buyers in the current competitive climate. This has manifested itself in the form of flexible payment plans. Aldar Properties recently launched attractive post-handover payment plans for six of its developments across Abu Dhabi, including Mamsha, Jawaher, Yas Acres, Mayan, Alghadeer, and Reflection. Under the terms of each plan, investors will be able to buy villas, townhouses and apartments with no registration fees and payments spread over four to five years after handover, for up to 60 per cent of the development value.

Apartments: Quarter-on-Quarter Movement: (–1%)

Average apartment prices remained resilient in the Capital with a 1% decline from Q2 2019.

In contrast to the previous quarter, Saadiyat Island witnessed no price adjustment in Q3. Average apartment prices remained at AED 1,400 per sqft.

Al Reem Island and Al Ghadeer both witnessed modest price declines in Q3 with a 1% decrease from Q2 2019. Prices in Al Reem Island dropped from AED 975 per sqft in Q2 to AED 965 per sqft in Q3 and average apartment prices in Al Ghadeer dropped from AED 750 per sqft in Q2 to AED 740 per sqft in Q3.

Al Raha Beach and Al Reef apartments saw the second highest price adjustments, both decreasing by 2% over the previous quarter with prices declining from AED 1,300 per sqft to AED 1,280 per sqft and AED 814 per sqft to AED 797 per sqft respectively.

Villas: Quarter-on-Quarter Movement: (0%)

Villa sales prices remained resilient with no price movements from Q2 2019. The only price adjustments were witnessed at Al Reef and Al Ghadeer, which only dropped 1% from the previous quarter from AED 628 per sqft to AED 620 per sqft and AED 700 per sqft to AED 695 per sqft respectively.

Prices within the established communities of Al Raha Beach Area, Khalifa City and Al Raha Gardens remained stable at AED 1,160 per sqft, AED 872 per sqft and AED 700 per sqft respectively.

HOT TOPIC

With regards to emerging trends in Abu Dhabi's residential market, developers have been looking to sell land plots as a way to boost revenues. Aldar Properties offered plots for sale at its Alreeman development in late January with villa plots priced at AED 690,000. Another Abu Dhabi developer, Imkan, is offering a mix of both plots and its own villas at "Aljurf", an upscale seaside community in the Ghantoot area. The plots alone start from AED 1.5 million. This type of purchase is expected to attract interest from Emiratis but there are other nationalities who may be interested if the offer is positioned correctly. This approach has been adopted successfully in Dubai with Meraas offering plot sales in Jebel Ali.

Apartments and Villas – Residential Sales Prices and Quarterly Change

Figures in AED/Sq Ft
Source: REIDIN & Chestertons

Villa Sales Q2 2019 | Villa Sales Q3 2019 | Apartment Sales Q2 2019 | Apartment Sales Q3 2019 | QoQ Movement

Q3 witnessed a marked slowdown in rent decreases with some areas seeing a small increase in rental rates

Rental rates declined a marginal amount in Q3. Average rental rates were down 1% for apartments and there was no rate movement for villas from the previous quarter.

Over previous quarters we have seen consistent demand for affordable rental opportunities across various locations as renters have become more price-conscious and this has continued in Q3.

The Abu Dhabi Department of Transport recently announced that from October 15, motorists will be subject to Salik-style charges on the first four toll gates in the Capital in Al Maqta, Mussaffah, Sheikh Zayed and Sheikh Khalifa bridges. It will be interesting to see if this will impact people's decision on where to live and if they choose locations with routes that avoid these areas.

Apartments: Quarter-on-Quarter Movement: (-1%)

The highest average rental declines for apartments were seen along the Corniche Road and Saadiyat Island, with rents decreasing 4% and 3% respectively from the previous quarter. A typical two bedroom apartment on the Corniche Road rented for AED 122,000 per annum in Q2 2019, decreasing to AED 115,000 per annum in Q3 2019, reflecting a 6% decline. In Saadiyat Island it was the smaller format one bedroom and studio apartments which saw the biggest rental movements. A one bedroom apartment rented for AED 100,000 per annum in Q2 2019, decreasing to AED 90,000 per annum in Q3 2019, representing a 10% decline.

Apartment locations which witnessed no rental adjustments in Q3 were Muroor, Al Khalidiya, Khalifa City and Al Ghadeer. Rates for a typical three bedroom apartment remained at AED 76,000 per annum, AED 110,000 per annum and AED 80,000 per annum respectively. Al Ghadeer does not offer a three bedroom format.

There were two locations which witnessed a slight increase in average apartment rents, namely Mohammed Bin Zayed City and the Al Raha Beach area with an average 1% increase. In Q2, a typical two bedroom apartment rented for AED 120,000 per annum, increasing to AED 125,000 per annum in Q3 in the Al Raha Beach area representing a 4% increase. In Mohammed Bin Zayed City, a typical one bedroom apartment rented for AED 38,000 per annum in Q2, increasing to AED 40,000 per annum in Q3, representing a 5% increase.

Villas: Quarter-on-Quarter movement: (0%)

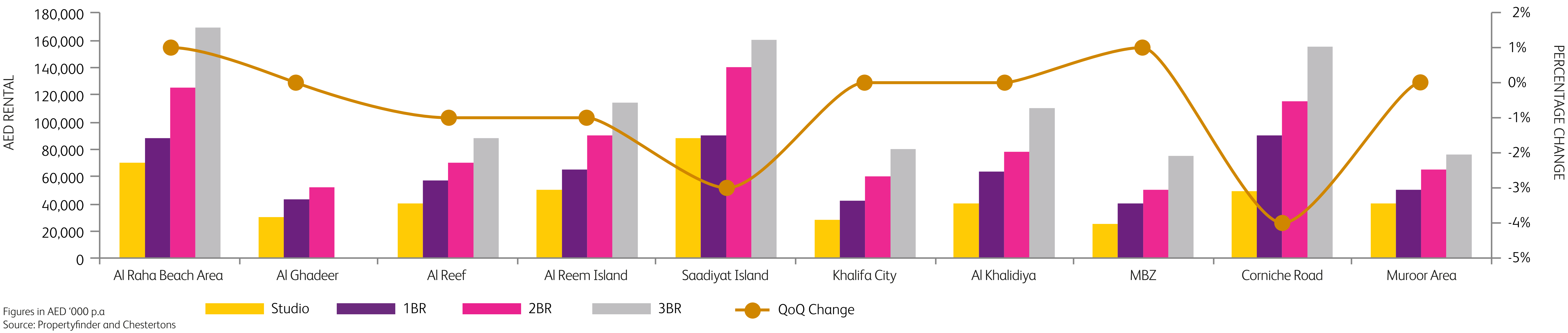
The Capital's villa rental market appeared to fare better than the apartment sector in Q3 with no obvious movement in rates.

The most resilient villa locations in Q3 were Mohammed Bin Zayed City, Al Khalidya, Al Reem Island, Al Reef and Al Ghadeer, all of which witnessed no rental declines from Q2 2019. Perhaps most notably, Khalifa City saw a 1% increase from the previous quarter.

The biggest villa rental decline in Q2 was in Al Raha Gardens with a 2% average drop from the previous quarter. It was Al Raha Garden's four and five bedroom villas which experienced the largest declines at 3% and 2% respectively. This suggests people could be downsizing in this location to save costs. A typical five bedroom villa rented for AED 225,000 per annum in Q2, dropping to AED 220,000 in Q3.

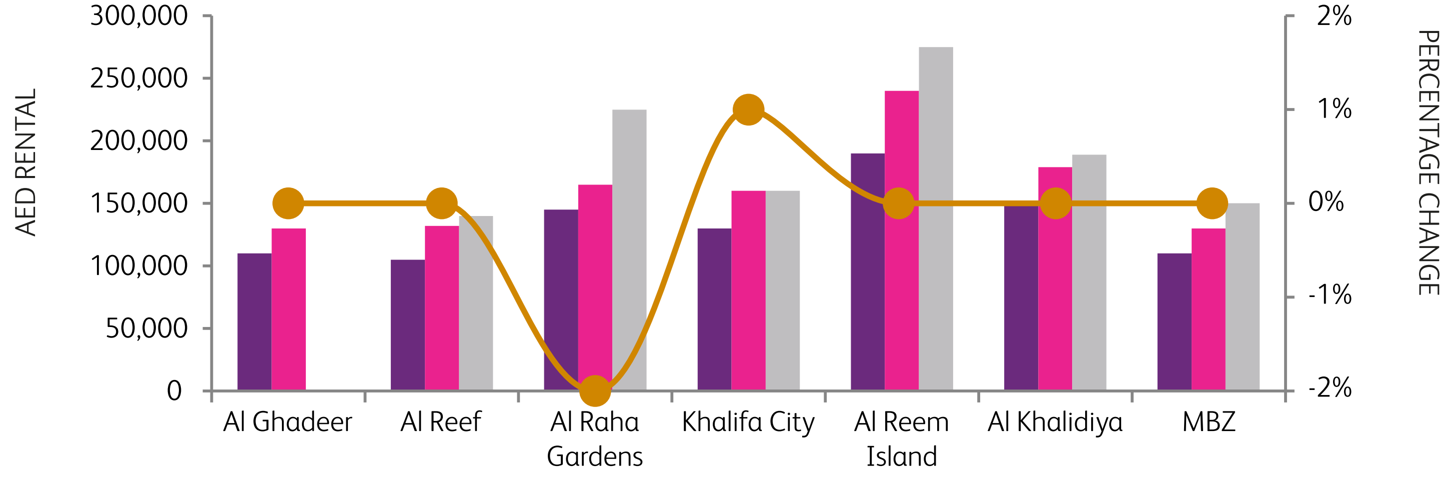
Across the board, the market for four bedroom villas saw the largest average rental declines dropping 1% from the previous quarter.

Apartments – Residential Market Rent and Quarterly Change



Figures in AED '000 p.a
Source: Propertyfinder and Chestertons

Villas – Residential Market Rent and Quarterly Change



Figures in AED '000 p.a
Source: Propertyfinder and Chestertons

HOT TOPIC

Rent-to-own (RTO) schemes seem to be making a comeback in the Capital. Aldar Properties is offering RTO deals for select homes in its West Yas residential community on Yas Island. The scheme will allow customers to build up equity over five years while paying AED 220,000 in annual rent. Rent payments will then be converted into equity at the end of the five year period. These schemes will likely boost investor interest and stimulate absorption rates as developers can tap into a new buyer segment, turning those who would have previously rented into buyers. The most notable benefit being that purchasers of these schemes would not require the cash reserves for the 25% down payment, plus associated fees.

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