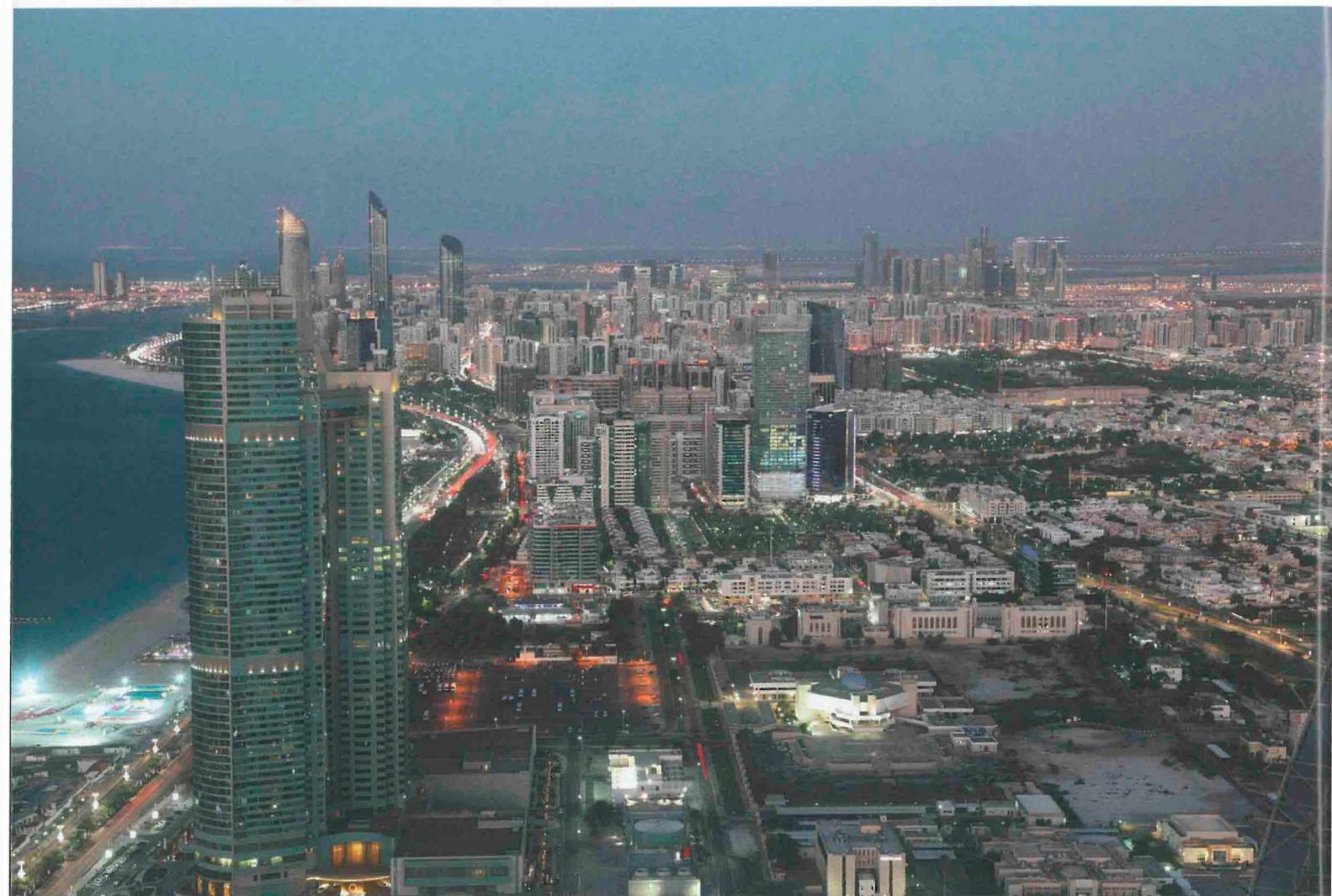


Stable growth in Abu Dhabi real estate market



JLL's overview of Abu Dhabi's real estate sector in the fourth quarter of 2014 shows mixed performance across markets, though prices of prime residences remained flat, marking a return of stability – at least in the short term – to a two-tiered market that has seen 25% growth over the past two years

Our report highlights a short-term softening of the residential market. Following two years of 25% annual growth, average prime residential prices remained flat for the first time since Q1 2013 – principally due to the recent decline in oil prices, equities markets and investor sentiment. The residential rental market has also

softened. While average prime residential rents increased 4% during the last quarter of 2014, annual rental growth is expected to reduce from double-digits to single-digits this year, due to the impact of an expected slowdown in government spending,” says David Dudley, regional director and head of Abu Dhabi Office at JLL MENA.

“As for other sectors, Abu Dhabi's office market continues to recover, although at a modest pace, with the medium-term outlook remaining positive, driven primarily by government-backed economic development and infrastructure projects. Prime office rents had stabilised from mid-2012 to mid-2014, so rents witnessed

5% quarterly growth for the second successive quarter as demand remains steady, annual supply completions reduce and vacancy rates reduce. The hospitality and retail markets are also relatively stable. Hotel occupancy rates improved, though ADRs remain under pressure. The retail market saw the opening of Abu

Dhabi's largest mall (Yas Mall) in the past quarter but no other significant completions are forecast for 2015-16, although there are a number of new super-regional malls scheduled to open in 2017-18," he adds.

Residential market

Supply and demand: Abu Dhabi's residential sales market is strongly linked to economic growth and investor sentiment. Consequently, it is sensitive to the recent decline in oil prices and equities markets. The prime residential sales market had experienced high growth rates, averaging 25% annually, in 2013 and 2014. Following quarter-on-quarter growth since Q1 2013, average sales prices remained stable during Q4 2014 and are expected to remain stable during 2015.

While demand has softened, annual supply has also reduced significantly so availability remains low across all price points, particularly within quality schemes. The reduced future supply levels point to a need for more housing.

Around 1,600 units were added to the residential stock during the quarter, with the delivery of the Burj Mohammed Bin Rashid within the World Trade Centre (WTC), various mixed-use schemes within Khalifa City A, and Capital House in Capital Centre. These deliveries bring the stock to around 243,000 units at end-2014.

Sale prices of apartments and villas remained stable at around \$404.76 per sqft. "The stabilisation of sales prices suggests that some of the excessive heat has now been removed from the



Abu Dhabi *Prime* Rental Clock



Abu Dhabi *Residential* Market Overview



market. However, we do not anticipate any significant decline in prices arising out of the shortage of availability of quality products," says Dudley.

Rental performance: Average rents for prime residential units in Abu Dhabi increased 17% during 2013 and 11% during 2014, with 4% growth recorded during Q4 2014, the rent for a prime, two-bedroom apartment reaching \$42,463.9 per annum. This rental growth was driven by demand growth, with the government's infrastructure and economic development projects stimulating job creation and government policies reducing the level of household sharing and commuting from Dubai. With new supply being limited, vacancy rates are minimal in high quality schemes.

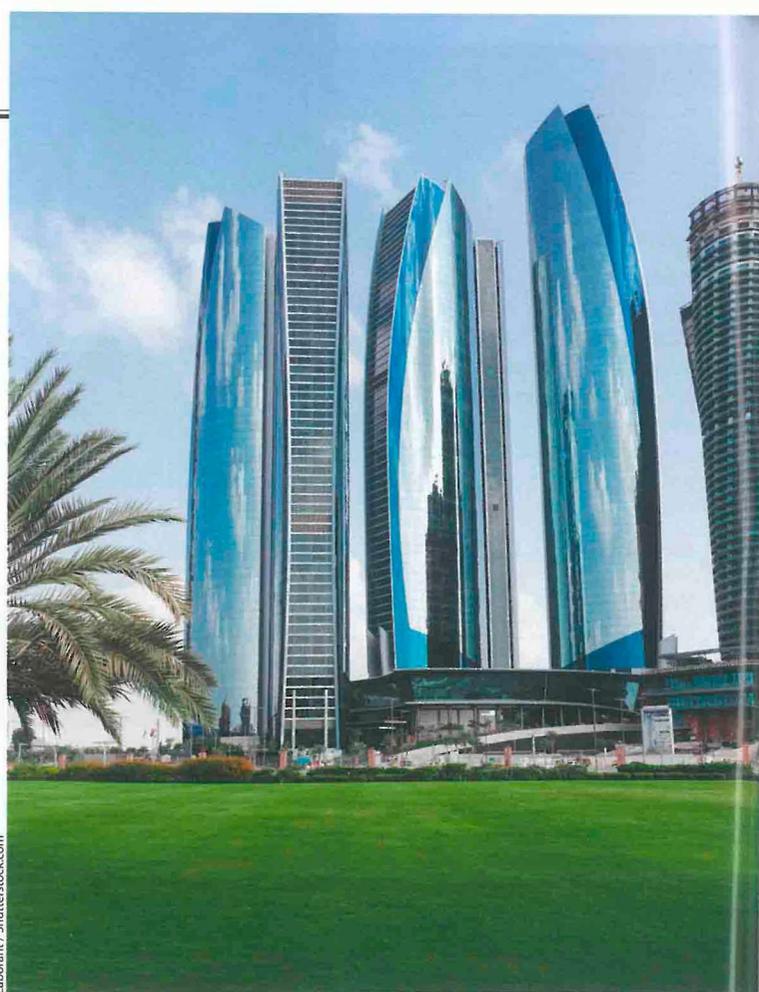
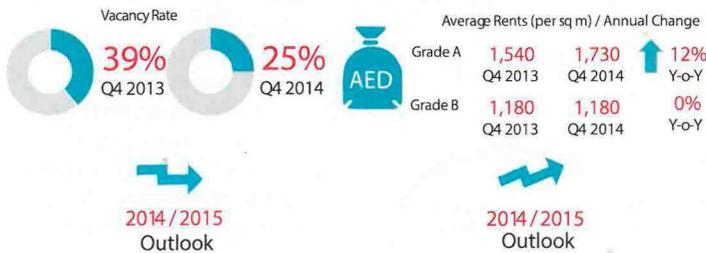
"We expect a reduction in government spending this year due to the decline in oil prices. But we expect employment creation and residential demand growth to be sustained by projects taken up when oil prices were high. Given a continual shortage of high quality housing, we expect rental growth to continue, but at single-digit rates rather than the double-digit rates we saw in 2013 and

Abu Dhabi Office Market Overview

Office Supply



Office Performance



2014,” says Dudley.

Office market

Supply and demand: There were limited new completions of office space during Q4 2014 with the office vacancy rate remaining stable at 25%. Following the market correction, prime office rents had remained stable from Q2 2012 to Q2 2014. We have since seen 5% quarterly growth over the past two quarters (Q3 and Q4 2014), signifying recovery of the office sector. As demand steadily improves and annual completions reduce, the market-wide vacancy is now getting absorbed.

Total office stock reached 33.4 million sqft GLA at end-2014, the only delivery being Arjaan Rotana Capital Centre, which added 118,360 sqft during the quarter.

Rental performance: Average Grade A office rents increased

5% for the second successive quarter in Q4 2014, reaching \$43.55 per sqft, whereas average Grade B office rents remained stable over the last five quarters at \$29.94 per sqft.

With limited completions during the quarter, the vacancy rate remained stable at 25% and is expected to remain at this level over the next 12 months, given a general slowdown in supply and the significant proportion of near-term owner-occupied or pre-committed completions.

“Future annual completions remain significantly lower than previous levels and with a high proportion of near-term supply being owner-occupied or pre-committed, and demand remaining steady, we expect modest rental growth to continue,” says Dudley.

Abu Dhabi Global Market (ADGM): The capital’s new financial free zone has issued consultation documents on

laws and regulations that will apply to businesses operating within its precincts. The regulations propose the zone be governed by English law and contain new provisions for regulating companies, licensing their activities, insolvency, employment and property. They also include provisions for mortgages, strata title and escrow accounts pending the implementation of Abu Dhabi’s proposed new real estate laws.

Retail market

There currently remains a limited supply of high-quality malls relative to the spending power of the population. So the opening of Yas Mall during Q4 2014 was a welcome addition for residents and tourists. Average retail rents and vacancy rates remained stable during the quarter.

Around 3.5 million sqft of retail space entered the market in Q4 2014 with the delivery of Abu Dhabi’s largest mall – Yas Mall (2.5 million sqft), together with Capital Mall (MBZ) and Al Reef retail. These completions bring the retail stock to 26.9 million sqft GLA. No major deliveries are expected in 2015 or 2016, though a number of super-regional malls are currently scheduled to enter the market from 2017-18, including Sowwah Central, Saadiyat District, Reem Mall, Marina Mall extension and others, which will substantially increase the capital’s retail supply.

Average line store rents within well-located malls remained stable at \$75.67 per sqft pa (Abu Dhabi Island) and \$46.81 per sqft pa (off Island). Vacancies remain minimal within established regional and super-regional malls.

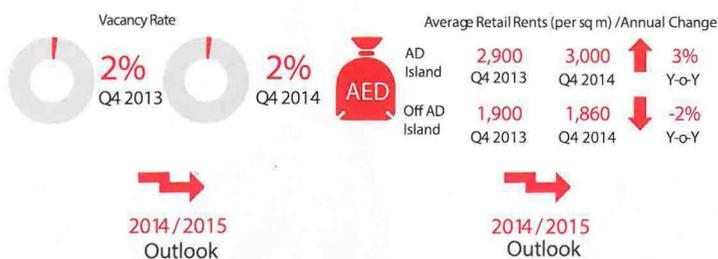
The mall scenario: Yas Mall opened its doors to the public

Abu Dhabi *Retail* Market Overview

Retail Supply

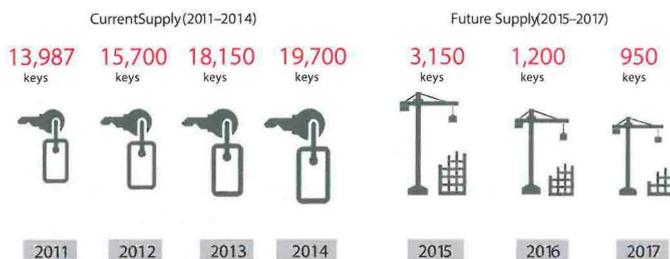


Retail Performance



Abu Dhabi *Hotel* Market Overview

Hotel Supply



Hotel Performance



in November 2014 and was well received by both residents and visitors. A high proportion of its shops have opened, with others scheduled to open over the next 12 months. The delivery of Yas Mall is expected to enhance the quality of retail space in Abu Dhabi.

National Real Estate Company from Kuwait is developing Reem Mall within the Najmat area of Reem Island, with construction planned to commence in 2015 and the mall expected to open in 2018. Al Tayer Group will open the first Macy's department store outside of the US at Sowwah Central in 2018 along with the second Bloomingdales store in the UAE.

"The future outlook for retail is positive as consumer demand continues to grow with population, employment and tourism. However, there is substantial supply in the

pipeline including several super-regional malls which will see the market becoming highly competitive from 2017 onwards. But there remains a major shortage of neighbourhood and convenience retail," says Dudley.

Hotel market

According to ADTCA, around 2.8 million guests visited Abu Dhabi between January and October 2014, an increase of 20% over the same period in 2013. The positive impact of this demand growth was partially offset by additions to supply.

"While occupancy levels increased 6% (YT November compared to the same period in 2013), ADRs remained under pressure, declining 4.7%. With an additional 3,150 rooms due for completion in 2015, ADR and occupancy rates

“We expect a reduction in government spending this year due to the decline in oil prices. But we expect employment creation and residential demand growth to be sustained by projects taken up when oil prices were high.”

DAVID DUDLEY
Regional director and head of Abu Dhabi Office at JLL MENA

are expected to remain stable or marginally decline," says Dudley.

The last quarter saw the opening of the luxury Zaya Nurai Island resort with its 55 rooms and the Courtyard by Marriott in World Trade Centre comprising 195 rooms. Additionally, the Danat hotel on the Corniche area was rebranded as a Holiday Inn with 257 rooms.

Around 1,550 rooms were added to the Abu Dhabi

hospitality market in 2014, representing an 8% increase in hotel supply, with some projects being delayed to 2015. Additional hotels expected to open in 2015 include the Millennium Bab Al Qasr and the 430-room Grand Hyatt

"The medium-term market outlook remains positive, driven primarily by major government-backed economic development and infrastructure projects. Following the decline in oil prices, we expect some projects may be phased outwards. However, the government remains committed to the 2030 Vision of establishing a world-class city and diversified economy. Development opportunities remain in selective sectors and sub-sectors and market performance will remain two-tiered, with significant divergence between high and low quality products," concludes Dudley. ■