

Trends

Lease Rates	Q1 09	Q1 10
Office	↓	↓
Residential	↓	↓
Sale Prices	Q1 09	Q1 10
Office	N/A	N/A
Residential	↓	↓

Hot Topics

- A draft Companies Law has been completed and is now awaiting approval. Full foreign ownership is unlikely, however the law will offer more relaxed regulations to accommodate key sectors and industries.
- The 5% rent cap remains applicable, while restrictions on evicting tenants remain unchanged.
- Law Number 4 aims to protect tenants from volatile rents with landlords required to register rental contracts.

OVERVIEW

The first three months of 2010 has provided some positive signs for the year ahead. The tourism sector has thus far proved to be in upbeat mood, with success and high attendance at a number of events and exhibitions held in the capital. The aggressive expansion of the MICE sector continues, alongside development of infrastructure and support facilities that Abu Dhabi hopes will make it top choice for exhibitions in the region.

The quarter was also characterized by significant legislative announcements, largely geared towards improved transparency and towards reaching maturity in the market. A draft Companies Law has also been completed, with anticipated approval later in the year. Relaxation of foreign ownership rules will be highlighted, including specific regulations for different sectors dependant on overall contribution to the economy. However, full foreign ownership remains unlikely.

During Q1 2010, the Government announced that the 5% rental cap will remain in place, despite some amendments made to Law No. 20 of 2006. The law maintains strong protection for tenants with restrictions on eviction remaining unchanged. Another striking event during the quarter was the approval of Law Number 4 which protects tenants from volatile rental rates and unscrupulous landlords.

Under this law, landlords will be required to register rental contracts, defining rental levels agreed with the tenant. With this system, landlords not complying with the 5% rent cap, can easily be traced.

The recent legislative enhancements are viewed with a great deal of positivity, and are seen as an important step towards elevating the overall desirability of Abu Dhabi real estate. However, the real test of their success will come from the actual implementation and future regulation and enforcement of the laws. Until this becomes apparent, their positive impact will remain somewhat unclear.

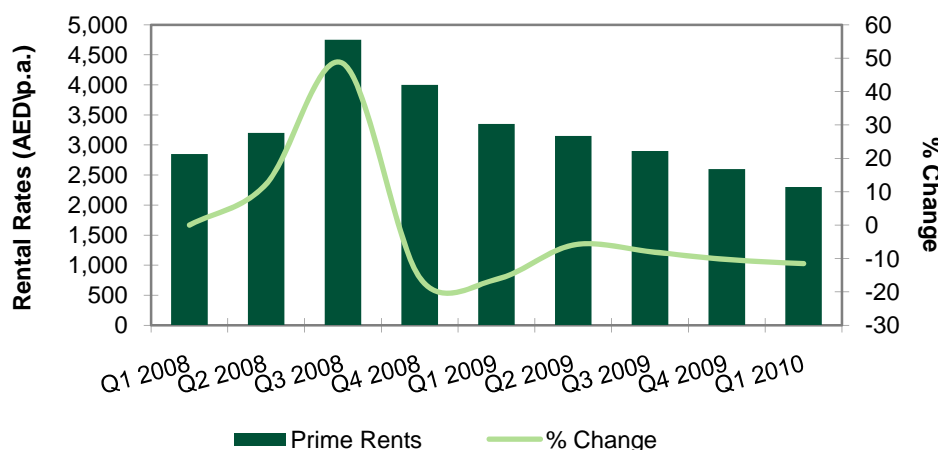
OFFICE SECTOR

Low demand levels, coupled with increased availability of office space from newly completed developments has resulted in a sixth straight quarter of rental decline after office rents peaked in Q3 2008.

During the first three months of the year, average prime rents were around AED2,300/m²/pa, a reduction of 12% over the previous quarter. Landlords of high quality space remained bullish, typically asking significantly higher rental rates of between AED2,700/m²/pa and AED3,200/m²/pa.

Vacancy rates increased by around 2% from the historical levels of less than 1% in recent years.

Abu Dhabi Office Rental Rates , Q1, 2008 – Q1 2010



Rental rates for newly completed office space in Khalidiya and Corniche ranged between AED1,900/m²/pa – AED2,700/m²/pa, whilst lease rates for Al Wahda Office Towers started from AED2,700/m²/pa for offices on lower floors, and AED3,000/m²/pa for offices on upper floors. Comparatively high asking rates were observed for office space in the Al Khazna Towers in Baladiya at AED2,700/m²/pa – AED3,200/m²/pa. The Prestige Tower, situated off-island Abu Dhabi and part of the 9712 BMC development, offered shell & core space at AED1,700/m²/pa. Significant variations are to be observed for asking rates across the Emirate. Potential occupiers are now able to exercise increased levels of choice, across multiple decision making factors, from location to facilities and services and value for money.

With vacancy rates slowly rising, landlords are becoming more and more anxious to fill their developments and to avoid long void periods. The shift in market dynamics is now resulting in increased tenant incentives, and more generous leasing terms for occupiers.

The Abu Dhabi office market experienced increased activity during the quarter, with the strongest demand being for smaller unit types. A small number of firms continue to seek larger spaces of up to 4,000m², although typically these requirements have originated from foreign-based institutions, and professional and consultancy firms. Overall, the change in the economic climate continues to benefit tenants, with developers pressured to deliver better specification products at lower rates.

RESIDENTIAL SECTOR

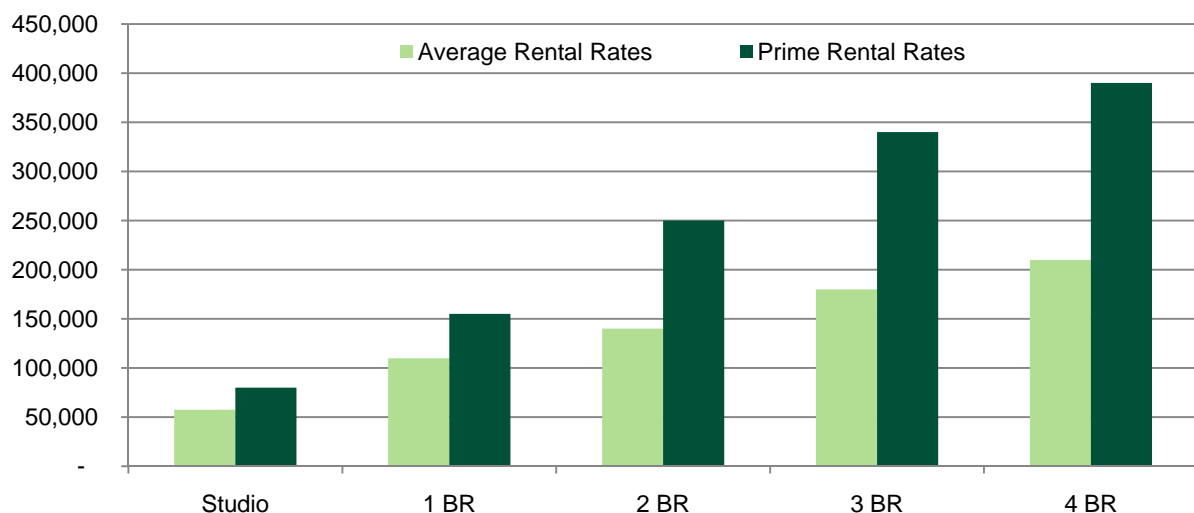
Slight reductions were observed in average lease rates for both apartments and villas at 5% to 10% and 8% to 15% respectively, despite some resurgence in activity levels noted during the quarter. Average rental rates for 2 and 3 bedroom apartment units were observed between AED110,000/pa – AED170,000/pa and AED150,000 – AED210,000/pa respectively. However, there remain a number of prime residential buildings commanding substantially higher rental rates of 40% – 90% above average rates. This trend has become more apparent for newly completed developments, against lesser quality existing units situated in the Corniche and Bateen areas. Prime locations, coupled with provision of facilities, design and aesthetic, views and surrounding environments, were amongst the key determining factors for differentiation between high-end residences and wider available supply.

The residential market in Abu Dhabi remains constrained for quality units, particularly those situated within the city centre and its peripheral areas. Apartment tenants are considered more prone to internal migration, shifting from ageing stock to newly completed accommodation locally. In general, the transient nature of residents (particularly for single occupants or families with smaller household size), coupled with the availability of better quality residences and wider range of facilities elsewhere in the Emirate has led to a reduction in tenant loyalty with tenants relocating more frequently as a result. In contrast, the villa market, primarily occupied by families, experiences lower levels of mobility. Poor property management, lack of facilities (e.g. parking spaces) and an increasing choice of units at similar rates in better specified buildings are amongst the key factors observed for tenant migration.

In the sales market, investment appetite remains low, despite some movement from financial institutions to ease up interest rates. Standard Chartered Bank have cut mortgage interest rates to 6.5%, whilst HSBC reduced theirs to 6.75% from 8.5%. However, banks largely remain risk averse, with stringent loan requirements still in place.

On average residential apartments on Reem Island and Al Raha Beach now range between AED1,050/ft² to AED1,400/ft², although sales volumes remain very low. Sorouh, together with its partners, Aseel and Abu Dhabi Finance, are offering an attractive 4.99% interest rate for investors of Sun and Sky Towers, although it is understood this rate is subject to probable change in the future.

Abu Dhabi Residential Rental Rates – Prime vs. Average Rates, Q1 2010



OUTLOOK

The Abu Dhabi market is still recovering from the market downturn, however a number of significant regulatory and legal changes have signalled positive steps that should assist future recovery. Further legislative enhancements are crucial for the overall economy should Abu Dhabi wish to strengthen its position as one of the leading destinations for business and leisure.

As the global economy slowly enters a recovery stage, the Abu Dhabi market is envisaged to move further towards maturity.

The quarter was witness to an increase in the overall enquiry numbers for both commercial and residential properties, reflecting a renewed level of optimism from investors, while businesses are also slowly regaining confidence with some even looking to re-hire. However, short-term softening of rents for both offices and residential units seems inescapable within the short term, with past rates artificially fuelled by product scarcity and robust economic growth. Rental rates for high quality commercial products should remain more stable and could even see a return to rental growth later in the year and into 2011. Rental variance for older and inferior product against newly available stocks, is likely to widen as more supply becomes available and greater choice for tenants becomes apparent.

Market acceptance of new residential and commercial products from masterplanned developments at Reem Island, Al Raha Beach and Al Reef will be followed with some interest, and could become a barometer of recovery progress during 2010.

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