

Quick Stats

Change from

Lease Rates	Q4 09	Q3 10
Residential	↓	↓
Sale Prices	Q4 09	Q3 10
Residential	↓	↓

Hot Topics

- Resolution No. 64, 2010, governing the registration of real estate ownership and related rights has been issued.
- The Department of Municipal Affairs has introduced construction regulations as part of Abu Dhabi's efforts to regulate the property sector.
- Average commercial lease rates have declined by 13% since the previous quarter as supply growth has outstripped demand growth.

OVERVIEW

2010 proved to be another challenging year as many of the world's major economies remained firmly in the grip of recession. The knock-on effect for emerging markets was also highly evident with an anaemic economic performance in the UAE.

Abu Dhabi's real estate sector has suffered acutely as a result of the economic downturn. The swift departure of international investors and subsequent withdrawal of liquidity changed the face of the investment market almost overnight. A notable retraction in local demand also occurred as growth in the economy and populace stuttered.

Rapidly increasing property inventory, declining rental rates, limp property demand and weak investor appetite represent the major threats to any revival in fortunes. However, the external economic environment is now showing promise of a recovery with positive growth expectations for the coming year.

Abu Dhabi is now faced with the challenge of creating a more attractive investment environment with improvements in the regulatory system essential in order to provide greater protection to investors and to encourage further FDI into the Emirate. Whilst a number of draft laws and regulations are understood to be under consideration, implementation continues to lag.

'Strata' and 'Escrow' are two of the most important issues still to be addressed and

with the negative impact of fractional ownership becoming all too apparent in Dubai, now would seem a prudent time to provide clarity in the capital. Any further regulatory changes that can be addressed to improve transparency will be welcomed by the market.

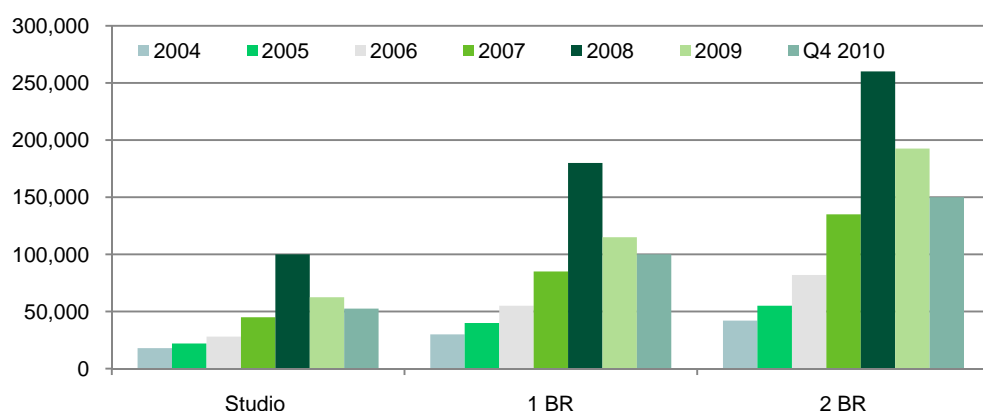
To keep pace with the Emirate's changing characteristics, the Department of Municipal Affairs has taken steps to introduce construction regulations anticipated for implementation in 2011. The regulations are intended to complement the Urban Planning Council's development programme.

In Q4 2010, the Abu Dhabi Executive Council (ADEC) issued Resolution No. 64, 2010 which regulates to property registration rights in the Emirate. Under this regulatory framework all transactions related to Abu Dhabi real estate or any rights related to property ownership, land development lease and mortgage contracts must be registered.

It is hoped that the decree will help to renew confidence while facilitating access to finance for real estate developments. The biggest single benefit for investors is likely to be improved transparency.

The registration system will effectively create a tracking system for property transactions and a live snapshot of the health of the sales market. How the information is used will be the acid test, although we would hope to see information made publicly available, similar to the Land Department in Dubai.

Average Residential Rental Rates, Abu Dhabi (AED/year)



RESIDENTIAL SECTOR

Employment generation in Abu Dhabi has continued to drive growth in demand for housing but unfortunately, the slowing rate of economic growth means that demand for housing both on and off-island, has fallen behind the growth in housing supply with the result that rents declined further during the fourth quarter. Since Q3 2008, lease rates have fallen for eight consecutive quarters. The availability of new units in one-off projects and masterplanned communities continues to have an impact despite relatively strong demand fundamentals.

Housing in the newly completed Al Bandar development at Al Raha Beach posted the highest rents amongst off-island locations with a premium achieved over average island rents. Older and inferior quality units are now facing mounting pressure to carry out improvements to upgrade or to re-let properties at lower rental rates.

The sales market remains muted with a number of significant hurdles still outstanding. A reluctance to lend amongst banks, indicated by low LTV rates and high interest rates have created significant barriers to entry for potential buyers. Continued negative sentiment regarding the direction of rents and lingering job uncertainty for many expatriates also remain as stumbling blocks to any imminent resurgence in transactional activity.

Average asking prices for residential units on sale at Reem Island now range between AED1,220 and AED1,650/sqft, with developments near completion generating the strongest attention from both potential tenants and investors. These prices mainly cover completed resale residential products in Marina Square, Sun and Sky Towers although owners continue to find difficulty in actually disposing of properties close to their perceived value. The small band of remaining buyers are found to be highly price-sensitive, and by and large, in search of a bargain. This means that they are more than happy to wait and pick off the best deals as they emerge as opposed to being dictated to by an individual seller.

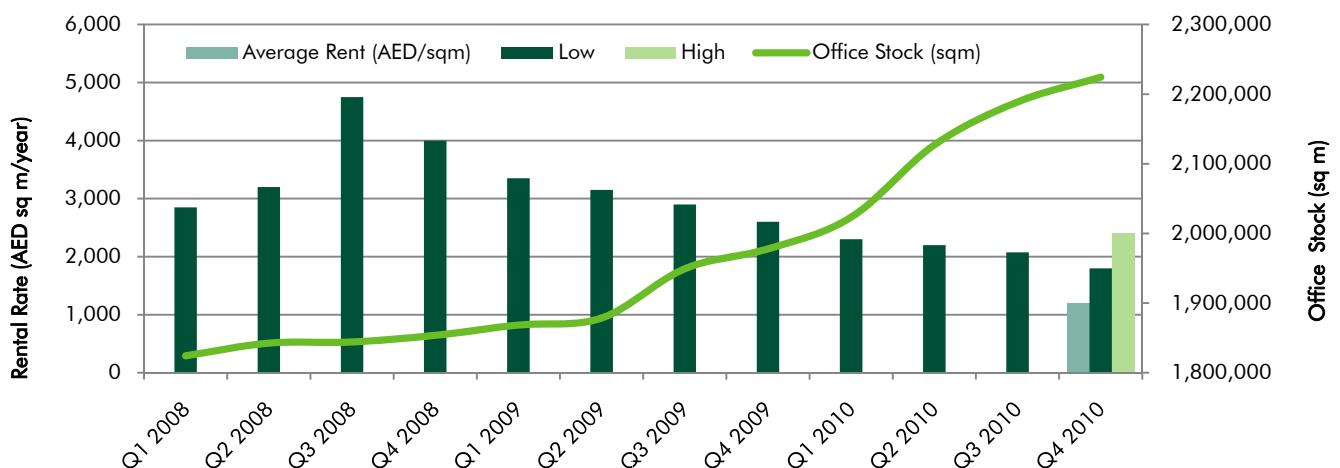
OFFICE SECTOR

The past 12 months have seen office lease rates plunge as new supply has been completed and whilst the economic environment has worked against commercial property. A significant portion of this new supply has emerged within private developments in and around the CBD in locations such as Khalidiya and Al Markaziyah. The completion of additional stock over the next 24 months will create further downward pressure on rental rates. During Q4 2010, commercial lease rates declined by approximately 13% to around AED1,800/sqm/pa.

Al Sowwah Square, which is expected to be ready for occupation by the middle of 2011, further strengthened its standing amongst the capital's prime office schemes with the highest office rents during the quarter. Rents now start at around AED2,200/sqm/pa but can be considerably higher for prime units. Despite the delivery of numerous new office projects, the existing supply of "prime" office space remains somewhat constrained with less than 20% of the upcoming commercial space in 2011 expected to be of Grade A quality. This lack of competing supply at the top end of the market is likely to see more robust rental trends emerging for prime buildings against the relative supply of inferior commercial accommodation. One project set to benefit from this imbalance is International Tower at Capital Centre. The 41,000 sq m Grade A office is scheduled for completion in H2 2011.

One of the key market drivers going forward will come from the enforced movement of commercial tenants away from residential accommodations. The decision by the Abu Dhabi Municipality and the Department of Economic Development to ban commercial occupiers from operating out of villas and other perceived residential premises is likely to drive increased demand for office space but this is likely to be in the price-sensitive Class B sector.

Abu Dhabi Office Rental Rates (AED/sqm/pa)



Delays in the handover of a number of key commercial properties in the capital have meant that 2010 failed to live up to earlier expectations. It is hoped that indications of positive economic growth in the coming year will produce a more lively commercial market. Anticipated completions at Sowwah Square and Capital Centre also look set to boost the Emirate's office market during 2011.

OUTLOOK

Significant office and residential project completions in Abu Dhabi are anticipated to outstrip growth in demand over the next five years with the result that vacancy rates are likely to increase in both sectors during this period. In consideration of the development pipeline an overshoot in supply seems inevitable, especially if there is no corresponding growth in demand requirements. At present, the effects of this process are being moderated by handover delays and a widespread slowdown in the pace of construction, particularly in the residential market. In the interim this could help prevent any severe fluctuation in rents, although a steady decline is set to continue until prevailing levels become more realistic and reflective of the product quality on offer.

Despite growing quality supply off-island, the market positioning of city centre apartment stock is anticipated to remain "prime", with many residents preferring the convenience of the CBD location over newer and arguably higher specification inventory elsewhere. The completion of a number of high quality towers amidst ageing stock has thus far enabled the central area to maintain its position at the pinnacle of the Emirate's apartment rents.

Strong apartment rental levels around the Khalidiya, Al Markaziyah and Al Wahda areas are attributable to easy access to retail centres, places of work, recreational and social services. However, the situation is really compounded by the lack of quality supply in the area which creates a false market and allows landlords to achieve inflated rents. Moving forward, the redevelopment of a growing number of tired and dilapidated buildings within the CBD will help to even out existing imbalances and bring down high rents to more attainable levels.

If the shortfall in commercial occupier demand persists, office rents are likely to experience a further and prolonged slide over the next 12 months. Rental depreciation will be most severe in ageing and inferior products with higher specification dedicated office spaces likely to be able to hold their pricing despite tenants seeking greater quality and value in the market. Commercial occupiers are seeing growing incentives to upgrade office accommodation in terms of unit size, classification and location, with prevailing rents now far more affordable when compared with the peak of the market in 2008. However, at this point, market uncertainties are prevailing and the expected growth in occupier movement has not yet materialised.

The Government's proactive stance for policy and regulatory reforms remains the fundamental catalyst for Abu Dhabi to achieve a sustainable recovery and although the real estate sector is guided by the invisible hand of the free market, the Government remains a vital driver as the city's real estate sector marches towards maturity.

At this challenging time for the local market, it is essential that all reasonable measures are taken to help boost investor confidence. As such, a strengthening of local and federal property laws is required to improve market transparency and to provide greater security for both local and foreign investors.

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