

# OUR MARKETS

**Aldar's recent acquisition of SODIC, one of Egypt's largest real estate developers, and the acquisitions in Ras Al Khaimah in 2022 reflect the company's ongoing diversification efforts.**

**Whilst the business continues to operate primarily within the residential, retail, commercial offices, and hospitality sectors, diversification efforts continue to broaden the breadth of assets and create alternative sources of revenue for the portfolio, as highlighted by recent investment activity in Ras Al Khaimah, with the acquisition of Al Hamra Mall and Rixos Bab Al Bahr hotel.**

This section provides a general overview of performance during 2021 across each asset segment and a brief outlook for 2022 and beyond.

The UAE government has continued to evolve the country's laws, rules, and regulations, positioning the Emirates for further growth and expansion, including recent changes to the Commercial Companies Law, Labour Law, UAE Industrial Property Rights, Crime and Punishment Law, Data Protection Law and The Personal Data Protection Law, to name just a few of the 40+ laws which have been amended.

As part of 2021, the "Year of the 50th" which marked the fiftieth anniversary of the federation of the United Arab Emirates, a number of legal and regulatory amendments were passed. The amendments aim to strengthen the country's economic, investment and commercial opportunities, as well as making it a more attractive location for global talent, entrepreneurship, and foreign capital, whilst also continuing to promote social stability, security and ensuring equal rights.

As part of plans to attract increased foreign direct investment, the UAE is now working to improve trade relations and to agree several new trade deals, including with Israel, Colombia, and Indonesia. This follows a recently completed agreement with India which aims to double non-oil trade over the next five years to over US\$ 100 billion.

2021 saw continued activity in capital markets across debt and equity for Abu Dhabi and the UAE, with US\$ 5.0 billion in new bond offerings and significant IPO launches across the year.

In May, Abu Dhabi raised US\$ 2.0 billion in seven-year dollar denominated bonds, and in October, raised US\$ 3.0 billion in 10 and 30-year notes: 10-year US\$ 1.75 billion tranche priced at 63bps over Treasuries and US\$ 1.25 billion in a 30-year tranche priced at a 3% yield<sup>1</sup>.

Support for Abu Dhabi, and Aldar in particular, has been further underlined by the recent US\$ 1.4 billion investment from Apollo Global Asset Management, one of the world's largest alternative investment managers. The deal follows the Apollo led US\$ 5.5 billion investment into Abu Dhabi's national oil company ADNOC during 2020 and long-standing relationships with Emirate's sovereign wealth funds, which reflects the widening breadth of institutional interest in the Emirate.

The economy has also been boosted by a very strong recovery in the oil sector. Oil prices for Brent Crude averaged US\$ 70.86/barrel across 2021 and have already breached US\$ 130/barrel during March 2022<sup>2</sup>. With oil prices currently well above the fiscal breakeven rate, the Emirate looks set to deliver a budget surplus, facilitating the potential for greater levels of investment in the years ahead.

The country's economy is expected to expand by 4.2% in 2022, up from 2.1% in 2021, driven by the relative strength of both the oil and non-oil private sectors<sup>3</sup>.

## MARKET ANALYSIS

This section provides an overview of the performance of Abu Dhabi's residential, retail, office, and hospitality real estate segments during 2021 and an outlook for the coming years.

### Residential

The residential market witnessed a significant improvement during 2021, led by rising demand for low-density housing, as unit upgrading and relocations to quality communities supported a modest recovery across both the leasing and transactional markets.

However, the recovery has remained quite fragmented, with consumer preference for villas, townhouses, and high-quality apartments, but more constrained demand for lower quality assets. This underlines the demonstrable shift in end-user preferences, led in part by Covid-19 driven shifts for work-from-home and desire for larger living and outdoor spaces.

In general, the transactional market has outperformed the leasing sector, with value growth across all asset types recorded during 2021. Abu Dhabi property values increased by an average of 1.6% year-on-year, although at an asset level much higher levels of growth were achieved<sup>4</sup>.

For the leasing market, rental rates declined by an average of 1.4% year-on-year<sup>4</sup>. However, there was a positive recovery during the second half of the year, with an 0.8% increase quarter-on-quarter in December, following a 0.7% increase quarter-on-quarter in September.

From an off-plan perspective, the market remained buoyant throughout the year with many successful project launches. This reflects growing strength in real estate investment demand across the country, from both domestic and foreign capital, supported by recent regulatory changes and a positive international reaction to the UAE's response to the pandemic.

Abu Dhabi has witnessed a rise in global livability rankings such as safest cities in the world, global talent attractiveness and the best cities during Covid.

Residential occupiers are focusing on quality and space, and have moved from older areas of Abu Dhabi island and the mainland to newer master-planned destinations such as Saadiyat Island, Yas Island, Reem Island and Raha Beach. This trend is expected to continue, accompanied by an increase in new units.

With 2022 expected to see a stronger economic landscape across the UAE, net new housing demand is likely to increase, supporting activity for both the leasing and sales segments, as a broader job recovery ensues.

With evidence of employment growth returning across highly impacted sectors such as aviation, construction, hospitality, and trade, there are also indications of an improving backdrop across higher yielding sectors. This is taking place in line with diversification into new areas of the economy and the recovery in key sectors such as oil and gas, and some areas of professional services.

Tracking the economic recovery, Aldar's development business saw a huge uptick in net sales value for 2021, with demand evident for a wide sub-set of residential off-plan projects, including villas, townhouses, apartments, and villa plots, as a more diversified investor profile emerged, supported by rising demand from resident foreign investors and non-resident investors.

Aldar's 2021 launches included new phases of Noya (Noya Luna and Noya Vida), Waters Edge, Yas Acres (The Magnolias), and Saadiyat Reserve, whilst demand for completed standing inventory was also sustained.

During 2021, Abu Dhabi saw completion of more than 10,000 new residential units, bringing total housing stock to approximately 278,000 units<sup>5</sup>. Most of these new properties were delivered across the communities of Raha Beach, Yas Island and Reem Island, including Aldar's handover of units within Waters Edge (Yas) and Reflections Building A (Shams, Reem Island).

Aldar's residential investment portfolio saw a very strong occupancy performance, rising from 89% in December 2020 to 93% at the end of 2021, as well-managed assets continued to outperform the market<sup>5</sup>. With widespread migration of expatriate residents to emerging masterplan areas, and an overall trend of a "flight-to-quality", superior properties continue to take an outweighed share of occupier demand.

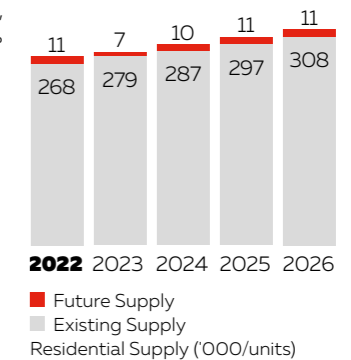
Consequently, residential rental rates have also recovered modestly, with low density housing and premium apartment offerings typically seeing the biggest upward movements, as residents focus on well-managed and well-located properties within the Emirate's lifestyle communities, such as Yas Island and Saadiyat Island, locations where Aldar holds control over upcoming supply and benefits from a large strategic land bank to drive future development activity, including the recent acquisition of 6.2 million square metres of prime land located on the east side of Saadiyat Island.

### Outlook

The long-term supply picture up to 2026 now comprises more than 40,000 residential units, which in the short to medium-term is dominated by investment zone locations such as Reem Island, Raha Beach and Yas Island, together comprising 40% of new supply during 2022 and 2023<sup>5</sup>.

With new supply being delivered primarily across new masterplan destinations, the migration of residents from aging areas of the city is effectively driving up population levels within Aldar's communities, whilst also supporting occupancy growth across individual assets.

### FUTURE RESIDENTIAL SUPPLY BY YEAR (2022 - 2026F)



Source: Aldar research

#### References

1. Bloomberg
2. EIA
3. UAE Central Bank
4. Reidin

#### References

5. Aldar

**Commercial Offices**

Following an extended period of limited new supply, the office sector saw the completion of close to 150,000 sqm of new accommodation, primarily due to the handover of the twofour54 campus on Yas Island, and to a lesser extent, the handover of several other commercial properties across the wider Abu Dhabi Island area<sup>5</sup>. Consequently, total office stock now measures around 3.9 million sqm GLA as of year-end 2021<sup>5</sup>.

Overall leasing market dynamics have remained subdued, with limited activity from the global corporates. However, government and GRE occupiers have continued to positively support market take-up, specifically across Grade A accommodations, which remain in relatively scarce supply versus the wider market stock.

Speculative office launches remain few and far between, supporting high-quality Grade A office properties in the short term, as they continue to benefit from a "flight to quality", resulting in rising occupancy rates across premium assets.

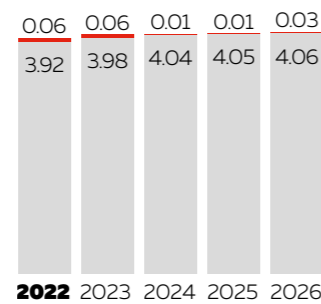
Average vacancy rates have recovered slightly over the past year, although Aldar's Grade A office assets continue to outperform attracting increased tenant inflows, resulting in an occupancy of around 93% at the end of Q4 2021<sup>5</sup>.

**Outlook**

The long-term office pipeline has continued to decline, with future projects now amounting to just 0.25 million sqm for the period 2022-26, meaning new speculative accommodation is likely to be quite constrained over the next five years<sup>5</sup>.

This will continue to support the performance of the Grade A market, although demand levels are unlikely to see any significant pick-up in activity without a more robust increase in office-based employment.

**FUTURE OFFICE SUPPLY BY YEAR (2022 – 2026F)**



Source: Aldar research

**Retail**

The retail market saw several major completions during 2021, including the handover and opening of the first retail units at Al Qana. In total, more than 100,000 sqm of new retail space was completed, raising the total stock to more than 2.9 million sqm GLA as of 31 December 2021<sup>5</sup>.

Whilst many Covid restrictions have already been lifted across the Emirate, there remain some limitations on capacity, whilst protocols for entry to retail, government, and entertainment events continue to be enforced.

Despite these restrictions, there was a positive recovery in retail activity during 2021, with higher footfall and sales volumes as compared to 2020.

Whilst outward travel has noticeably increased over the past year, the retail sector is still benefitting from a more captive domestic market, which supported recovery, particularly during the summer months, when outbound travel remained well below historical norms.

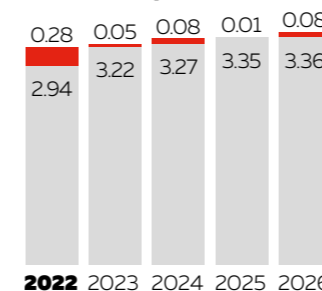
Occupancy rates rebounded positively during 2021, with Aldar's portfolio seeing an increase from 83% at the end of 2020, to 93% at the end of Q4 2021<sup>5</sup>. However, pressures remain elsewhere in the sector as a tenant's market prevails, reflected in the 5% decline in average rental rates amidst rising supply and weaker demand fundamentals across many secondary assets and locations<sup>6</sup>.

**Outlook**

There is approximately 500,000 sqm GLA of new retail space set to be delivered between 2022 and 2026, with the largest component coming from Reem Mall (Reem Island), which opened in Q1 2022<sup>5</sup>.

The remaining retail supply is more fragmented, spread across smaller scale neighbourhood and community malls and a range of other street and mixed-use retail projects. The large volume of new retail product is likely to mean a continuation of a tenant's market in the short to medium term.

**FUTURE RETAIL SUPPLY BY YEAR (2022 – 2026F)**



Source: Aldar research

**Hospitality**

Abu Dhabi's hospitality sector witnessed a year of recovery, as visitor inflows increased when Covid-related entry restrictions were eased for both international and domestic travelers.

Total hotel guests increased 4.1% from close to 3.15 million in 2020 to 3.28 million during 2021<sup>7</sup>. However, this was still down by 36.2% from the 5.1 million hotel guests in 2019<sup>7</sup>.

Abu Dhabi's hotels ended the year with an average occupancy of around 70%, down from 73% in 2019 during pre-pandemic times, but up from 66% in 2020<sup>7</sup>. This mirrored a general recovery story across the UAE's tourism and hospitality sector, with Dubai reaching an average occupancy of 67%, up from 54% in 2020, but down from 75% in 2019<sup>8</sup>.

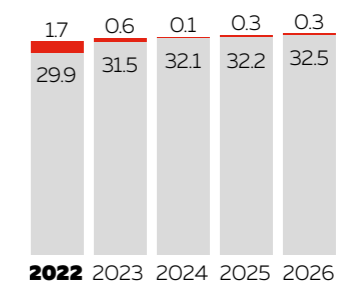
The recovery in occupancy rates in Abu Dhabi was despite the completion of more than 1,200 new rooms which added additional capacity to the market, predominantly around Yas Island<sup>5</sup>. A similar level of new keys are expected to open during 2022, primarily focused on the Abu Dhabi Main Island.

With stronger demand has come improvements in room rates, which averaged AED 314/room/night versus AED 278/room/night during 2020, up by more than 11% year-on-year, but still down around 13% from 2019<sup>7</sup>. For RevPAR, the recovery has been even stronger, jumping 18% from AED 187/room/night to AED 211/room/night. However, rates remained 18% below 2019 levels largely due to the lower ADRs<sup>7</sup>.

**Outlook**

Overall global tourism demand is expected to continue its recovery during 2022, supporting an improved domestic hotel market performance.

**FUTURE HOSPITALITY SUPPLY BY YEAR (2022 – 2026F)**



Source: Aldar research

References  
5. Aldar  
6. JLL

References  
7. Department of Culture and Tourism (Abu Dhabi)  
8. Department of Tourism and Economy (Dubai)