

## Quick Stats

Change from

Lease Rates	Q1 10	Q4 10
Residential	↓	↓
Sale Prices	Q1 10	Q4 10
Residential	↓	↓

## Hot Topics

- A positive economic outlook is forecast for Abu Dhabi with GDP estimated to grow at 3.8% (ADCCI).
- The 5% rent cap is retained according to the Abu Dhabi Executive Council.
- Tawtheeq, a searchable online database for finding and leasing properties in Abu Dhabi and Al Ain, is announced during the quarter.
- Tamouh received the completion certificates for three residential buildings and one office tower in Marina Square, Reem Island.

## OVERVIEW

2011 started on a note of optimism amidst an environment of improving economic conditions in the capital. Reports from the Abu Dhabi Chamber of Commerce and Industry (ADCCI) forecast GDP growth for the year at around 3.8%.

The anticipated economic expansion will be driven by a strong non-oil sector performance, now estimated at 10.6% of total income, highlighting the success of the diversification strategy.

The Abu Dhabi Economic Development Department is planning for sustained growth in non-oil activities and is estimating that such activity will generate 64% of the Emirate's income by 2030.

Prevailing political unrest in the region has had a significant impact on oil prices, pushing them well over US\$100 per barrel, and with revenue from oil and related industries clearly the key source of income for Abu Dhabi the Emirate is looking at its options given the huge budget surplus it is likely to enjoy during 2011.

Although the wider implications for the Middle East are as yet unclear, there has been a notable pick up in commercial requirements during the first quarter of 2011 and this is likely to be sustained through the year.

Demand is emerging from the corporate sector and this trend can be expected to continue as occupiers seek a safe haven from political uncertainty.

The Abu Dhabi Executive Council has announced that the 5% rent cap will remain in place for 2011. In the absence of a more regulated market framework the rent cap system is viewed as an essential tool in guarding the interests of both property owners and occupiers.

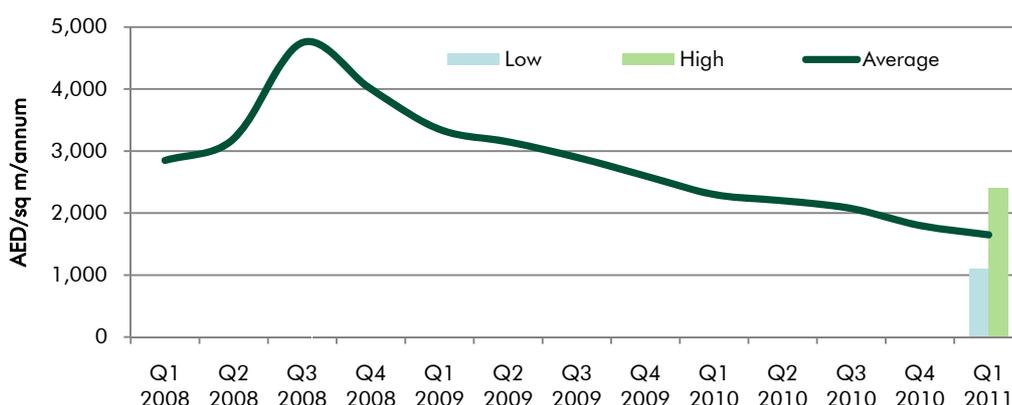
Last year Abu Dhabi issued Resolution No. 64, 2010 governing the registration of real estate ownership and related rights. During Q1, 2011 the 'Tawtheeq' system was initiated and is widely expected to be accessible on-line by the end of the year.

Phase 1 requires all development owners and management companies to register their properties. Related fees of AED1,000/per property and AED5/per unit will be applicable, whilst registration, renewal and modification of rental contracts will be charged between AED50-100/per unit.

It is understood that the property registration process will be linked with other Government agencies, such as ADWEA, and non-compliance could result in difficulties in receiving basic services.

It is somewhat inevitable that the system will elicit varied reactions from concerned parties, similar to any institutional reform process. The key challenges will be effectively conveying the positives of creating an integrated process and explaining exactly how the market benefits. Strict enforcement will be essential if tangible changes to current practices are to be felt.

## Abu Dhabi Office Lease Rate Movement (Q1, 2008 – Q1, 2011)



## OFFICE SECTOR

Office leasing activity remained subdued during Q1, although signs of renewed interest from commercial occupiers is becoming increasingly apparent. Despite this supply growth continues to outstrip the growth in demand with office stock across the Emirate expected to reach nearly three million square metres by year end. This reflects a massive 35% growth in the prime office space sector in just one year.

Growing interest from international firms is set to bolster take-up levels during the remainder of the year, although delays at key projects have thus far constrained a more impressive start to the year for the capital's office sector.

With very limited real "Grade A" space expected to become available this year, those coming first into the market are likely to benefit. Amongst the throng of office developments in the pipeline, only Al Sowwah Square, Aldar HQ and International Tower qualify as internationally recognisable Grade A buildings. The distinct level of quality and prominence are evident as these prime commercial spaces continue to command rents starting from AED2,300/sqm/pa, around 40% higher than the average rental rate which currently sits at AED1,650/sqm/pa.

Falling rents across the capital continue to encourage a "flight to quality" as occupiers seek to upgrade from their existing office accommodation. Encouraged by improving economic conditions but vastly reduced rental rates, occupiers are now also committing to far longer lease terms. With massive new supply looming, landlords are also seeking greater security amidst fears of rising vacancies and this is resulting in elongated contract periods being mutually agreed, albeit on tenant-friendly terms.

Occupiers are now also enjoying the luxury of an improved range of accommodation options, typically at lower rental rates than their existing leases. Many landlords are now faced with the dilemma of how to retain their existing tenants in order to minimise vacancy rates.

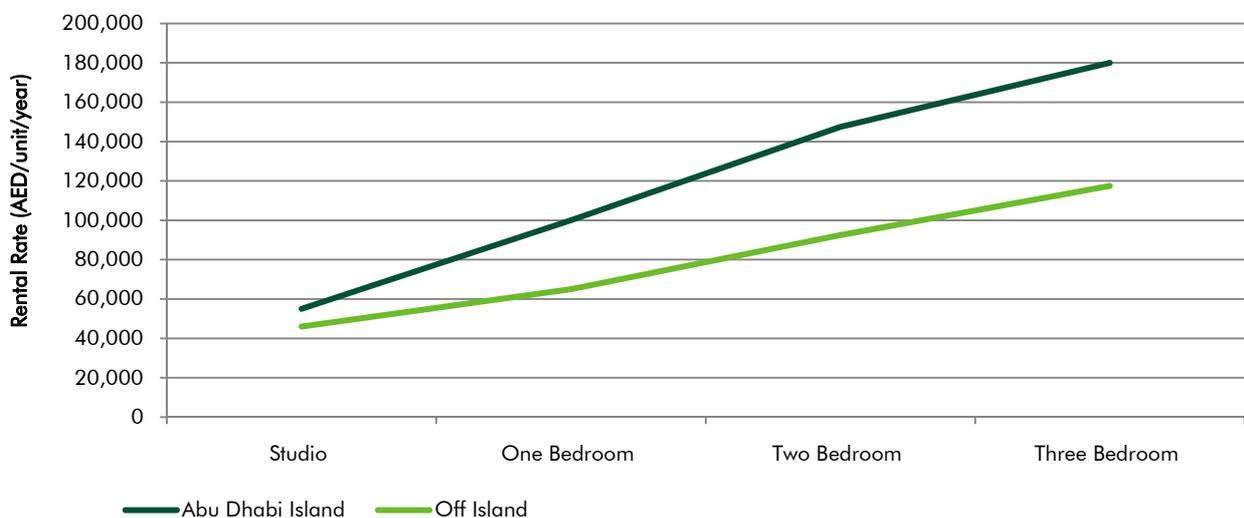
## RESIDENTIAL SECTOR

The much anticipated and long overdue handover of completed residential buildings at the Marina Square development on Reem Island moved a step closer this quarter with Tamouh now understood to be in possession of completion certificates for three residential buildings. The remainder of the towers are expected to receive full approval from the Government within the year, although this may come as little relief for disgruntled investors who are currently missing out on potential revenue generation.

The imminent handover of units at Marina Square will signify the first freehold deliveries on Reem Island. A large number of the units are expected to come back to the leasing market as investors look to exploit continued shortages of quality product within prime areas. The completions should help to release some of the considerable pressure that has been building within the CBD where rents have maintained a higher level when compared to the more pronounced downturn in rates elsewhere in city.

An ever growing residential stock continues to add downward pressure to rents in secondary locations and to inferior product types. The trend of segmentation in residential properties is becoming more and more prevalent as new units are released to the market and as tenants think with their feet to find alternative accommodation.

### Residential Apartment Rents (Q1 2011)



The residential transactional market remains subdued as slow sales loads are compounded by an ever-growing number of residential offerings available in the secondary market. Sales prices for residential properties within the middle to high-end segments were observed in the range of AED1,000 to 1,500/sqft/annum whilst more affordable housing units on the Abu Dhabi mainland were offered from AED500 to 750/sqft/annum.

Amongst available products, properties within Al Reef Villas, Al Reem Island and Al Raha Beach developments are achieving the highest enquiry numbers from both investors and potential end-users alike. This is not really surprising as these developments allow purchase from both nationals and foreign investors, with completed product available for immediate occupation.

In addition to property related specifications, buyers' criteria for selecting properties have clearly expanded to include developer's reputation and construction status. In an emerging market such as Abu Dhabi, where the legal framework for property is not yet fully in place, the perceived level of confidence and peer trust in a developer can strongly increase the attractiveness of a given property in the eyes of investors.

Amidst growing residential supply, it is still evident that the market for affordable housing units remains largely untapped. Despite the increase in overall housing supply, rental levels of current residential offerings remains high, particularly for those residents living on lower income. With a growing middle-income population, high mortgage rates and limited access to finance, opportunities for budget-conscious developments exist but are difficult to exploit.

## OUTLOOK

2011 is set to be a more positive year for occupier demand in the capital, although actual completion timing of key projects will go some way to determining just how good the performance can be. Downward trends on rents for both office and residential properties are expected to continue and this will be a key driver for increased tenant movements as opportunistic occupiers exploit favourable conditions to secure preferential deals.

As stock levels continue to expand, landlords will have to fight harder to attract new occupiers and to maintain tenant loyalty. Rental rates remain a key consideration in property selection, although there is also growing weight behind well managed and well maintained properties with realistic service charge levels, as occupiers try to find a long term solution to their accommodation needs.

Long-awaited property legislation addressing investor security and the acknowledgment of property related rights remains allusive and with imminent delivery of new freehold products to the market the need for better defined property laws intensifies. This is particularly true in the context of ongoing unrest in the region as a tangible opportunity emerges to underline the stability and overall attractiveness of the UAE as the region's key marketplace for safe and secure business.

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