# Capital gains

Abu Dhabi's mid-level real estate market took a hit in 2009. A new report into its fortunes isn't pretty reading, predicting a wait until at least 2012 until the market revives

**BY ED ATTWOOD**


WHILE DUBAI HAS RECENTLY BEEN labelled the fall guy by commentators outside the Middle East, there is a growing consensus that the correction in the emirate's real estate market is just the first in a pattern of realignments in the GCC's housing sector. At least partially proving that theory has been Abu Dhabi's poor performance in 2009.

According to a substantial new report on the UAE capital's real estate market — canvassing opinions including those of government agencies and local real estate stakeholders and developers such as Aldar — which has been released last week, house prices in Abu Dhabi won't be back on an upward trajectory until 2012, at the earliest.

A number of underlying factors have caused the sector to become depressed and unstable — and the prognosis, according to the report, is not particularly strong.

In an exclusive preview of the report published by real estate advisory outfit Investment Boutique, CEO Heather Wipperman Amiji explains that there are several underlying factors behind the Abu Dhabi malaise, not least a mismatch in prices and the available products that a majority of the population can afford.

"Abu Dhabi did have a number of middle-income products being launched in the market to target that particular segment, but because they were put in the market at reasonable price levels and on reasonable payment plans, they ended up being snapped up by the speculators," she points out, referring in particular to locations like Al Reef and Hydra Village. "So you now have a product that is priced at a premium level but is more specified to a medium- to upper-level income bracket; there needs to be a reduction in terms of value and price."

On top of that, there are three contributing causes to the drop-off in prices from their third-quarter 2008 peak. Wipperman Amiji cites the recent dearth of previously generous redeployment packages handed out to executives to convince them to move to the UAE capital, and also the lack of liquidity and confidence in the underlying economy. The latter is a factor that may be due to the travails of the global markets, but the bad news is that it won't be resolved any time soon.

Another key element has been the emergence of Dubai as a 'substitute product' for the Abu Dhabi market. "For a while, many believed that Dubai couldn't be a substitute, but we really saw in the 2009 numbers that singles, professional couples or price-sensitive workers were willing to make the commute between the cities for more affordable housing in Dubai. You can see that phenomenon in terms of the relative strength of pricing for products on the south side of Dubai," she says.

**◂ Investment Boutique CEO Heather Wipperman Amiji (above) estimates that currently there is around 1.24 million sq m of retail space available to the sector.**

As a result, Wipperman Amjii says that 2010 will be characterised by continued delays in construction activity and the handover of projects. Although Dubai has suffered more from this phenomenon in the past, it seems likely that Abu Dhabi will not be exempted.

"In addition, liquidity will also remain low, particularly as some banks are waiting for more certainty around the timing of payments with regard to large restructured loans so they can figure out when that money is coming in and how they can recycle it into the retail community," she claims.

The Investment Boutique report says that there will be a downward pressure on rents and sale prices, leading to further declines in 2010. Long term, however, Wipperman says the big projects being delivered in 2012 should see prices start to rise due to higher employment levels, increased liquidity and more investors coming back into the local community.

On the commercial side, the Abu Dhabi market has been characterised by a lack of Grade A space, which the Investment Boutique CEO said was causing companies to hold off on big expansion plans.

"A combination of global and local uncertainty is causing people to put off relocations in the commercial sector until we've seen rents and prices fall quite considerably," she explains. "So in 2010, the undersupply will

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Investment Boutique predicts an upturn with increased demand for office space from corporates.

continue, and most of the extra supply will come online in 2011 and 2012, which is when we expect rates to get hit harder."

One of the major features of the office sector in the UAE market in the past has been the mistaken belief that firms could service both Abu Dhabi and Dubai from their Dubai offices. Investment Boutique expects that more premium requirements from multinational and international firms upsizing their Abu Dhabi footprints will drive the high-end demand for office space.

It is a tale of different grades, though. New Grade A office space in locations such as Al Raha Beach will continue to command annual rents at around the AED325 mark. And while that undersupply of premium space should keep Grade A space at around the level it is now — between AED200 to AED240 per sq m — over the next two years, inferior grades look set to suffer.

Wipperman Amiji says that Grade B and C rental prices will drop by five percent and ten percent, respectively, this year, and by 20 percent and close to 30 percent, again respectively, in 2011.

Bearing in mind the report's assertion that 90 percent of the office space available in Abu Dhabi is graded either B or C, owners may well have to get creative if they're going to be able to retain their tenants. Overall, the supply of office space coming online in the report period will increase the current stock by around 50 percent.

Abu Dhabi's retail space is characterised by yet another tremendous lack of supply. Wipperman Amiji estimates that there is 1.24 million sq m of retail space available to the sector right now, of which 693,000 sq m is 'high street' retail, with the balance being made up of structured assets such as malls.

However, current demand stands at almost double that figure, at around two million square metres.

"But the interesting thing is that the retailers we surveyed said that despite the undersupply, people were seeing revenues fall for 2009, so there's a general softness in buying activity right now," she explains, adding that this is again attributable to the lack of liquidity and general economic conditions.

On the plus side, there's a lot of structured retail in the development pipeline, with developers considering retail offerings to service their masterplans, and the firm predicts that around 2.4 million sq m of retail space will be available in 2012 — twice as much as currently.

While the quantity that is being made available is positive, the whereabouts of that property is more concerning. A challenge that the market could face is concentrations of retail in similar catchment areas. Wipperman Amiji points towards a cluster of six permanent structured retail offerings that will provide 314,000 sq m of space by 2012 — all within six km of each other in southern Abu Dhabi. A similar problem is manifesting itself on Al Reem Island.

"So it's not necessarily the quantity of supply that's going to be delivered, but concentrations themselves of the retail supply," the CEO observes.

The Investment Boutique report indicates that the hospitality sector had a generally successful year, in what was a cataclysmic twelve months for the global tourist industry. "Occupancy levels stood up well at around 70 percent against a regional average of 61 percent and Dubai figures of 68 percent," Wipperman Amiji says. "Average room rates were $285 a night — the highest in the region, and while revPAR [the product of the average daily rate and occupancy] decreased, it fell by less than its regional peers."

Astonishingly, Abu Dhabi witnessed a 53 percent increase in hotel rooms in 2009, and around 48 percent of that was for the luxury market. Considering those figures, the sector has held up remarkably well. "In 2010 and 2011, there will be similar announcements that supply will continue to be delivered into the Abu Dhabi market," she says.

"Despite the huge increase, we feel confident that the occupancy levels in terms of increases should be relatively modest. We expect some pricing pressure in terms of average room rates as they try to keep occupancy high, which will soften revPAR, but this sector will be a strong performer over next few years."

Generally speaking, the report highlights a shift in emphasis away from the business traveller and 'sun-and-sand' tourist towards cultural visitors. But in the short term, Investment Boutique believes that the combination of depressed global business and leisure markets as well as the steady pace of new supply coming onto the market are likely to keep rises in occupancy levels modest and to soften revPAR.

If there is good news from what is likely to be a tepid three-year period in the capital's real estate sector, it's that developers seem to be learning from the Dubai experience.

"We've seen a proactive approach — many of the developers have reassessed whether their masterplans were appropriate for the target market, and there's been lot of redesign in terms of focusing on the middle income segment," Wipperman Amiji adds. "There's been a lot of attention in making sure that the products in the pipeline are appropriate for the specific demographic." AB