Q2 2018: UAE Commercial Property Monitor

Sentiment remains downbeat

The Q2 2018 UAE Commercial Property Monitor results show sentiment across both the occupier and investment markets remains subdued, unsurprising given that preliminary estimates for growth last year indicate that GDP growth came in at just 0.8%, the slowest is since 2009. The economic picture is however expected to improve over the course of this year and next. Reflecting this, capital value expectations are slightly less downbeat in comparison to the previous quarter. Indeed, the outlook has turned from negative to flat for prime office and industrial assets. That said, rental growth projections remain negative across the board for the time being.

Occupier Market

- The Occupier Sentiment Index (a combined measure of occupier market variables shown on Chart 1 overleaf) moved to -37 in Q2 from -47 previously. This is still consistent with a deterioration in overall occupier market conditions and represents the twelfth consecutive negative quarterly reading.
- Tenant demand continued to decline across all three areas of the market (office, industrial and retail), the steepest rate of decline was, once again, reported in the retail sector for the fourth quarter running.
- Alongside this, the availability of leasable space continued to rise, albeit the pace of growth moderated somewhat from Q1. Meanwhile landlords increased the value of incentive packages offered to tenants, predominately in the office and retail portions of the market.
- Given these market dynamics, average rental projections for the coming year remain in negative territory across all sub-markets. Secondary retail rents are anticipated to see the steepest decline, while the outlook is similarly negative for secondary offices. Projections for prime assets were revised down from Q1 but are sill significantly less downbeat than those across secondary locations (chart 6).
- Projections for the next three years point to a more stable trends over the longer time horizon. Respondents envisage rental values in the prime industrial and retail markets holding steady while modest rental gains are seen across the prime office sub-sector.
- At the city level, twelve month rental expectations are weaker in Dubai compared to Abu Dhabi, with rents across secondary retail and office markets in particular forecast to come under greater downward pressure.

Investment Market

- The Investment Sentiment Index (a combined gauge of investment market indicators also shown on Chart 1) posted a reading of -29, although less negative that the reading of -44 in Q1, it still points to investment market fundamentals worsening.
- Investor demand continued to decline in the latest results with each area of the market seeing a pull-back. This marks the thirteenth successive report in which survey participants ave noted a decline in enquiries. At the same time, demand from foreign investors also fell across the board.
- On the back of falling demand, the supply of property on the market for sale increased once again.
- Respondents continue to anticipate a decline in capital values at the all-sector level over the coming year (Chart 5). That said, in comparison the previous quarter, the outlook appears to be slightly more resilient with capital values in the prime office and industrial sub-markets expected to hold broadly steady in the year ahead.
- In Abu Dhabi, prime industrial properties are seen posting modest capital value gains in the coming twelve months, while the outlook is flat across all other prime markets.
- Although almost a quarter sense the market has now reached the bottom of the current property cycle, the majority of respondents (57%) believe market is still in the midst of a downturn.
- 41% of contributors sense commercial real estate to be above fair value at present, up slightly from 36% in Q1 (chart 4).
- On balance, credit conditions reportedly worsened in Q2 with 37% of respondents noting a deterioration (chart 3).

Commercial Property Market

Chart 1: Occupier, Investment Sentiment Indices

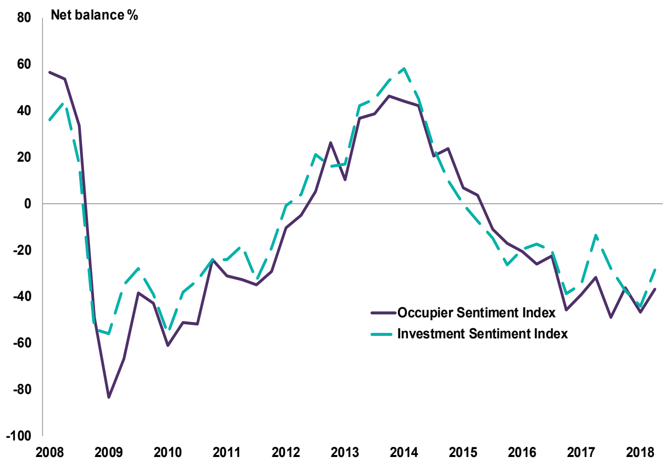


Chart 2: 3-month Rents, Capital Values

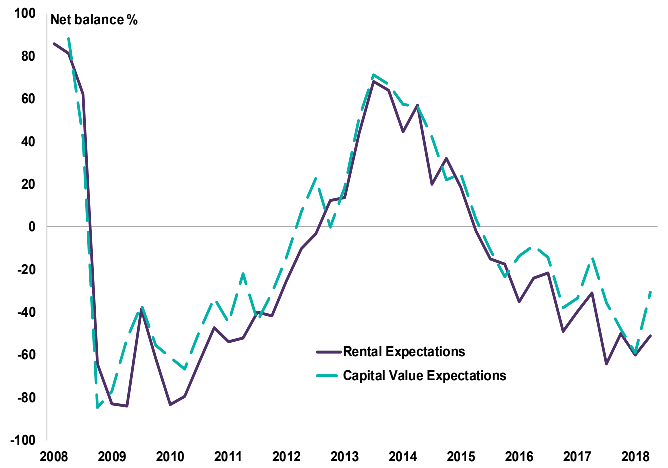


Chart 3: Credit Conditions

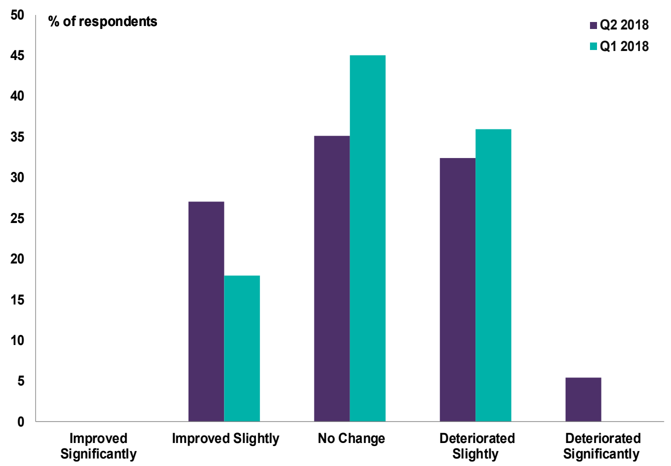


Chart 4: Valuations

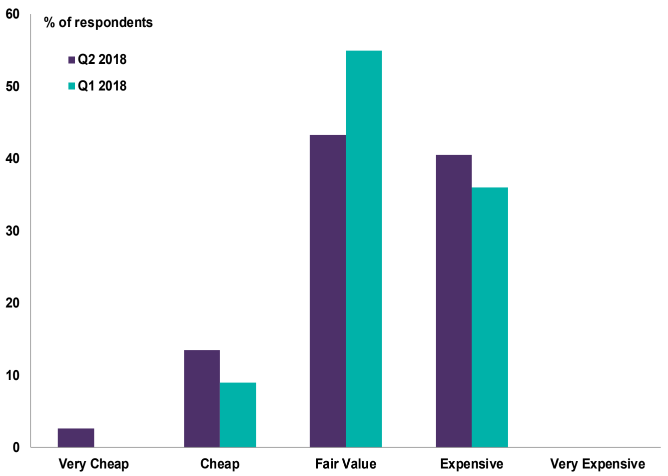


Chart 5: 12-month Capital Values Forecast

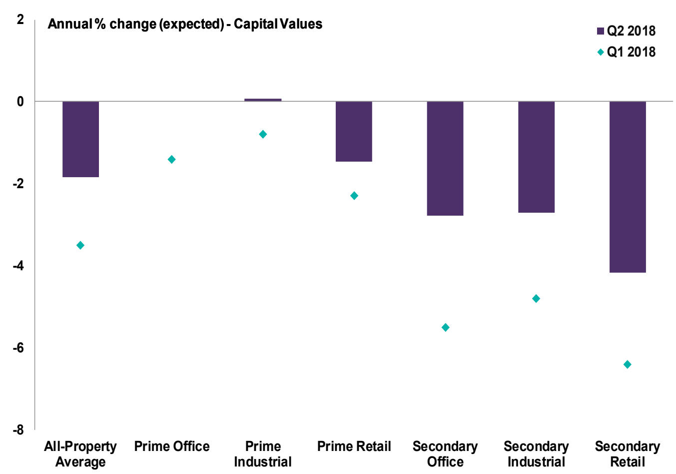
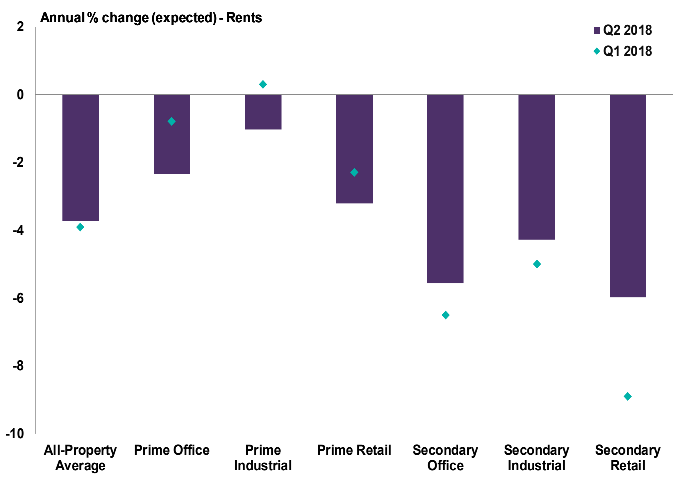


Chart 6: 12-month Rent Forecast



Information

Global Commercial Property Monitor

RICS' Global Commercial Property Monitor is a quarterly guide to the trends in the commercial property investment and occupier markets. The report is available from the RICS website www.rics.org/economics along with other surveys covering the housing market, residential lettings, commercial property, construction activity and the rural land market.

Methodology

Survey questionnaires were sent out on 13 June 2018 with responses received until 8 July 2018. Respondents were asked to compare conditions over the latest three months with the previous three months as well as their views as to the outlook. A total of 1965 company responses were received, with 371 from the UK. Responses for Ireland were collated in conjunction with the Society of Chartered Surveyors Ireland. Responses for Spain and Portugal were collated in conjunction with Iberian Property. Responses for New Zealand were collated in conjunction with Property Council New Zealand.

Responses have been amalgamated across the three real estate sub-sectors (offices, retail and industrial) at a country level, to form a net balance reading for the market as a whole.

Net balance = Proportion of respondents reporting a rise in a variable (e.g. occupier demand) minus those reporting a fall (if 30% reported a rise and 5% reported a fall, the net balance will be 25%). Net balance data can range from -100 to +100.

A positive net balance reading indicates an overall increase while a negative reading indicates an overall decline. The RICS Occupier Sentiment Index (OSI) is constructed by taking an unweighted average of readings for three series relating to the occupier market measured on a net balance basis; occupier demand, the level of inducements and rent expectations. The RICS Investment Sentiment Index (ISI) is constructed by taking an unweighted average of readings for three series relating to the investment market measured on a net balance basis; investment enquiries, capital value expectations and the supply of properties for sale.

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