



بنك الإمارات دبي الوطني
Emirates NBD

Sector Outlook

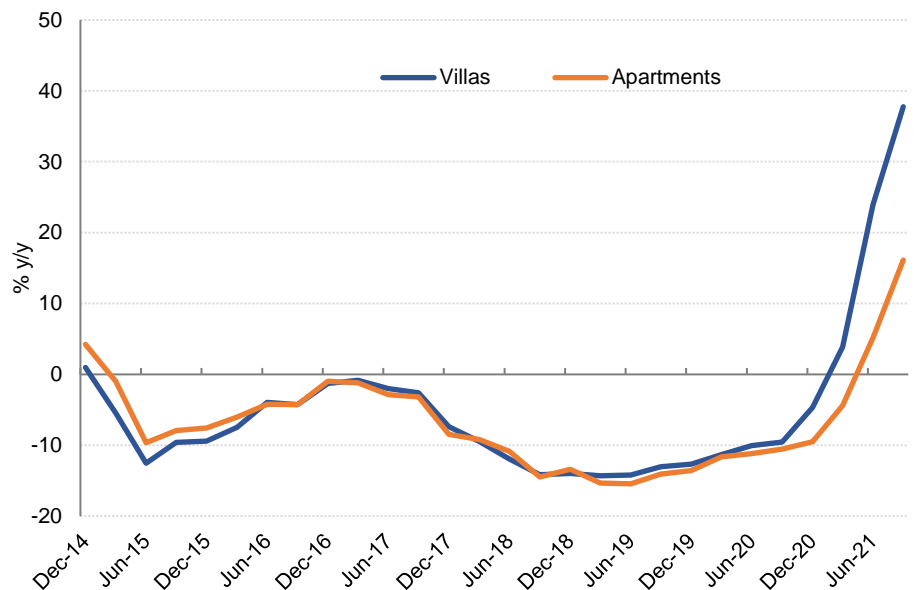
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Dubai Property: A solid 2021

The Dubai property market performed well in 2021, with apartment and villa sales prices showing their first yearly increase since 2014. Commercial real estate also showed signs of recovery in H2 2021. The Omicron wave arrived at the tail end of 2021, driving a return to working and schooling from home for some, trends that have driven a migration for larger spaced residential units, through H2 2020 into much of 2021. Are those trends likely to continue driving the market going forward? So far, the data shows that prices and rents for smaller sized residential units is beginning to rise and the pace of price increases for larger units at the end of the year is moderating. This is a sign the market is normalizing with uptake at the low end of the offering spectrum driven by factors such price differentials to those larger units.

Overall, we see the improvement in sales and rents of both residential apartments and villas as a sign of stabilisation after a multiyear decline. The commercial property sector also started reflecting improvement in the H2 2021, and while omicron might dampen some of that recovery, the medium- and long-term outlooks strongly point to a return to office agenda, as businesses more comfortably adapt to the dynamics of the virus. Higher interests may pose some challenges, however we are mindful they are rising from a low base, so expect the impact on mortgage demand to be moderate at least into the 2022 rate hike cycle. An unexpected adverse evolution of the virus, and any related restrictions are headwinds to the market outlook.

Apartment vs Villa Sales (y/y)



Source: Asteco, Emirates NBD Research

Data by the Dubai Land Department showed a robust rise across almost all metrics of transactional data it collated for the emirate last year. For 2021 Dubai recorded 84K transactions (up 65% y/y) with a value of AED300bn (up 71%/y/y) in 2021. Foreign investors (by nationality) represented 73% of the total investor base and they executed transactions worth almost AED 99bn, close to 33% of the total transaction base. This reflects strong interest in Dubai, likely given policies that kept the emirate safe and open during the pandemic. The total number of investors in the market was in 2021 sharply higher at 52K investors (+66% y/y) executing 72K new investments in 2021 (+74% y/y), and at AED 148bn represented an almost (+100%/y/y) increase in the value of investments compared to 2020. The data combined with the pricing metrics we have confirm that both prices and transactions across most market segments were up in 2021.

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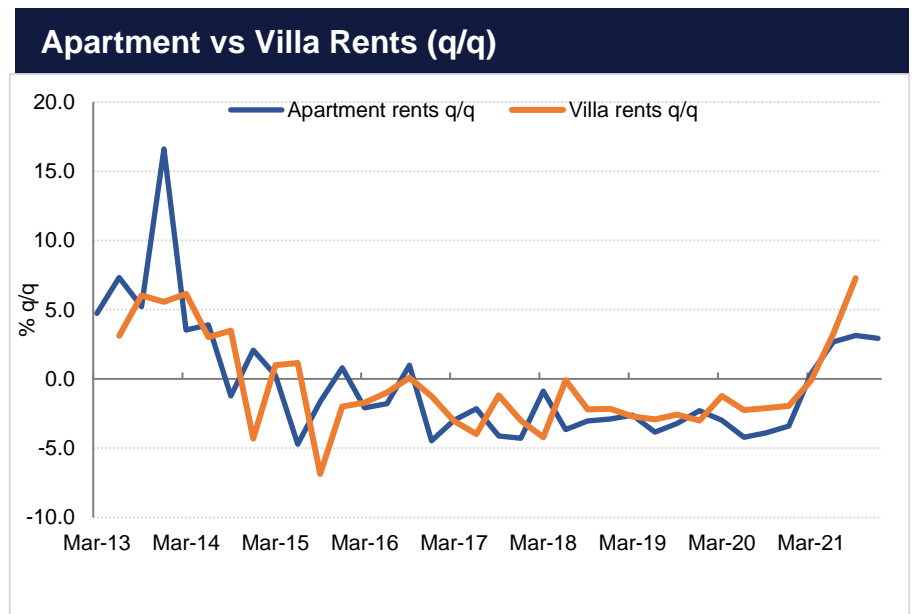
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Residential real estate trends

Sales

Residential property market sales prices increased relative to 2020, however slowed on the quarter.

- Apartment prices were up almost 10% y/y and villa prices up 27% y/y in 2021. This was the first such robust performance since property prices began the long-term decline back in 2014, when the decline in oil prices then was a drag on the market.
- The rate of growth in villa prices slowed quarterly, with q/q price growth slowing from a high of 15.9% q/q in Q2 to 6.3% q/q in Q4 (8.9% q/q in Q3).
- The rate of growth in apartment prices also slowed, from a high of 7.9% q/q in Q3 2021 to 4% q/q in Q4 2021

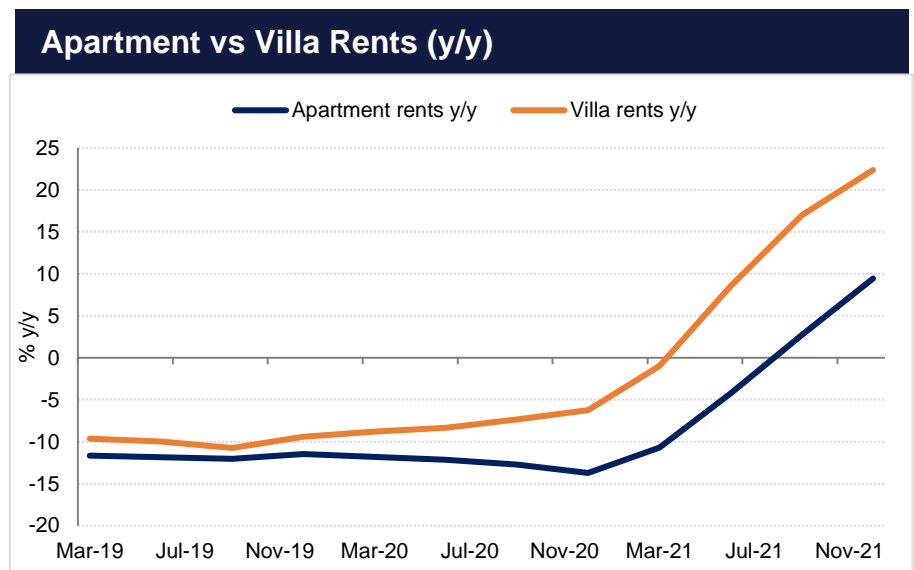


Source: Asteco, Emirates NBD Research

Rents

Residential rents increased in 2021 but at a slower pace than sales prices.

- Villa rents increased by almost 12% y/y in 2021 while apartment rents were broadly unchanged.
- The full year data masks the recovery in apartment rents in H2 2021, with average rents in Q4 up more than 9% on Q4 2020. Within the apartment market, larger units saw faster rental growth in H1 2021 while smaller units outperformed q/q in the final quarter of 2021.
- Studios and single bedrooms for example were up 6.5% q/q and 8.5% q/q respectively in Q4 2021 from contractions -14.3% q/q and -10.0% q/q respectively in Q1 2021
- In the villa market, larger units continue to see faster rent growth than smaller villas, with 5BR villa rents up 5% q/q and 28% y/y in Q4 2021.



Source: Asteco, Emirates NBD Research

The stronger gain in the larger units falls in line with tenant migration patterns we have seen post lockdown into larger spaced units, as the pandemic shifted perspectives on housing and space requirements especially for those who had to and continue to work from home, a recurring theme post Omicron. The generally larger space allowance, outdoor amenities, and more privacy are all factors that add to the attractiveness of the villas segment for tenants. Additionally, the lower supply of villas versus apartments in Dubai further supported the performance of that segment when measured on an annual basis. However, pricing dynamics we saw in H2 2021 reflected that trend is beginning to change with higher priced larger units giving way to gains by smaller units, given the latter's more attractive pricing proposition. In the longer run while some of the trends around flexible working are likely to remain a feature in a post-pandemic world, higher interest rates and increased supply are likely to be a headwind to further significant growth in prices from current levels.

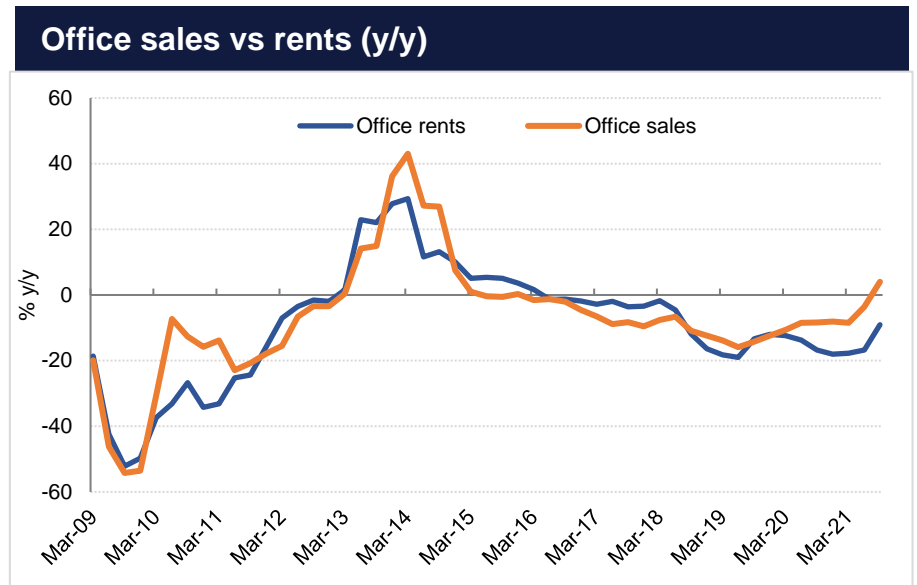
Commercial real estate trends

Sales

The commercial property segment faced multiple headwinds at the beginning of the year including a market that is oversupplied, in addition to the new work paradigms induced by the pandemic, that have reduced demand for new and existing office space.

- Office sales prices were almost flat rising just 0.83% y/y and quarterly performance was very mixed, with sales prices declining 8.4% y/y and 3.6% y/y respectively in Q1 and Q2, before recovering 4.0% y/y and 12.3% y/y respectively in Q3 and Q4.
- The recovery in both Q3 and Q4 can be clearly correlated to return to office work as virus numbers dropped to below 100 a day by October.

While many businesses reverted to work from home after the surge from the Omicron variant, higher vaccination levels, less stringent quarantine rules, will likely mean that headwind will subside, as many businesses still place value on human interactivity. In the long run, the more persistent headwinds of oversupply need to be dealt with through a clearly propositioned road map.



Source: Asteco, Emirates NBD Research

Rents

Commercial properties saw a broad decline in yearly rents, as Covid-19 precautions in H1 2021 saw businesses adopting work from home policies, that began to reverse after H2, as case numbers dropped and business got employees back into offices, prior to Omicron in December.

- There was a clear reflection in the pace of y/y quarterly declines that slowed to -0.3% in Q4 2021 from a high of -17.8% in Q1 2021.
- Office rents were down -11.0% y/y in 2021 compared to -15.2% y/y in 2020.
- Measured quarterly, commercial rents began to turn around in H2 2021 from declines of -2.7% q/q, -4.1% q/q in Q1 and Q2 respectively to gains of +2.9% and +3.8% q/q, respectively in Q3 and Q4 2021.

While the commercial property market will benefit from the eventual return to work from office, as life with virus becomes more and more adaptable, supply is a difficult call, and we need to see significant more uptake of available rentable space before market dynamics there normalize

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