Intelligent Investment

2023 Market Outlook

REPORT

MIDDLE EAST
REAL ESTATE

CBRE RESEARCH

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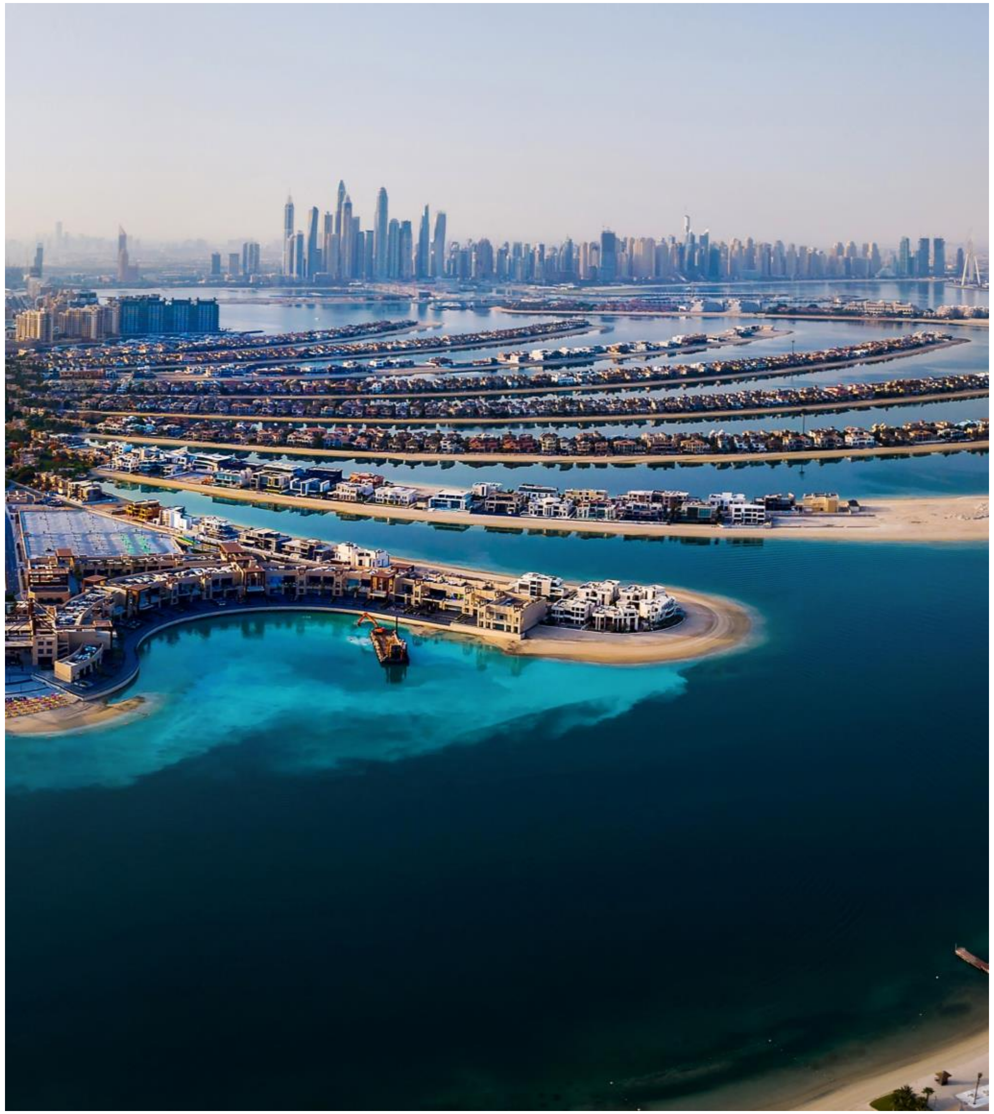


Key Takeaways

01

MACROECONOMIC

The economies of GCC countries are expected to continue to record strong rates of growth in 2023. Both the hydrocarbon and non-hydrocarbon sectors are expected to continue to provide material contributions to headline growth rates. The average GDP growth across GCC countries in 2023 is set to reach 2.7%

02

REAL ESTATE PROJECTS

Total value of real estate projects planned or underway in the GCC currently stands at $1.36 trillion. Saudi Arabia accounted for 64.5% of this total, equating to around $877 billion worth of projects. This is followed by the UAE, where its $293 billion worth of projects accounts for 21.6% of the total.

03

OFFICES

Strong levels of economic growth are continuing to attract occupiers to the region with both Saudi Arabia and the UAE being key beneficiaries. With supply being constrained in these two markets, we expect rental rates to continue to grow. In other markets, a combination of subdued demand and excess supply will mean rental growth is likely to remain anemic.

04

RESIDENTIAL

Residential markets in the region will likely see somewhat fragmented performance in 2023, supply gluts in certain markets will drive down performance, whereas lack of supply in key business hubs such as Dubai and Riyadh is likely to mean these markets outperform.

05

HOTELS

We expect that this will be the first full year which does not have pandemic related restrictions and as a result, in most parts, we forecast that KPIs will continue to improve and will by year-end almost uniformly surpass 2019 levels.

01

Macroeconomic Outlook

The economies of GCC countries are expected to continue to record strong rates of growth in 2023. Both the hydrocarbon and non-hydrocarbon sectors are expected to continue to provide material contributions to headline growth rates.

Macroeconomic Outlook

- The average GDP growth across GCC countries in 2023 is set to reach 2.7%
- The rate of inflation is forecast to ease from 3.9% to 2.4%
- Oil prices are forecast to remain at elevated levels at $86/pb and production is expected to remain steady, providing significant fiscal buffers for the region to achieve its diversification targets
- Total value of real estate projects planned or underway in the GCC currently stands at $1.36 trillion

Both the hydrocarbon and non-hydrocarbon sectors have seen strong rates of recovery over the course of the last year, with economic growth in the GCC region noticeably outpacing the global average during 2022. Over this period, economic growth in GCC countries recorded an average growth rate of 6.3%.

As we move into 2023, GDP growth in GCC countries is expected to reach 2.7%. Headline growth rates have been revised down over the course of the last quarter of 2022; this has been primarily due to weaker growth expectations in the hydrocarbon sectors brought on by what is expected to be a weaker global economic backdrop in 2023. Although, the re-opening of the Chinese economy, a major trading partner for the region, may mean higher than expected growth within this sector. With regards to the non-hydrocarbon sectors, growth outlooks have remained relatively steadfast and, in some cases, have even been revised higher.

Inflationary pressures in GCC countries, which were relatively tame compared to the global average, are expected to dissipate, with the average rate of inflation expected to fall to 2.4% in 2023. For most countries, the projected rate of inflation in 2023 will now be in line with their historic average.

In 2022, Employment levels increased by 3.3% on average, although when taking into account higher frequency economic indicators, we estimate that this rate of growth is likely to register at a much higher rate. Looking at employment growth into 2023, we expect the pace of growth to remain relatively robust over the course of the coming year at 1.9%. Only Qatar is expected to record a decline in employment levels, down 0.1%, something which was to be expected following the culmination of the FIFA

Macroeconomic Outlook

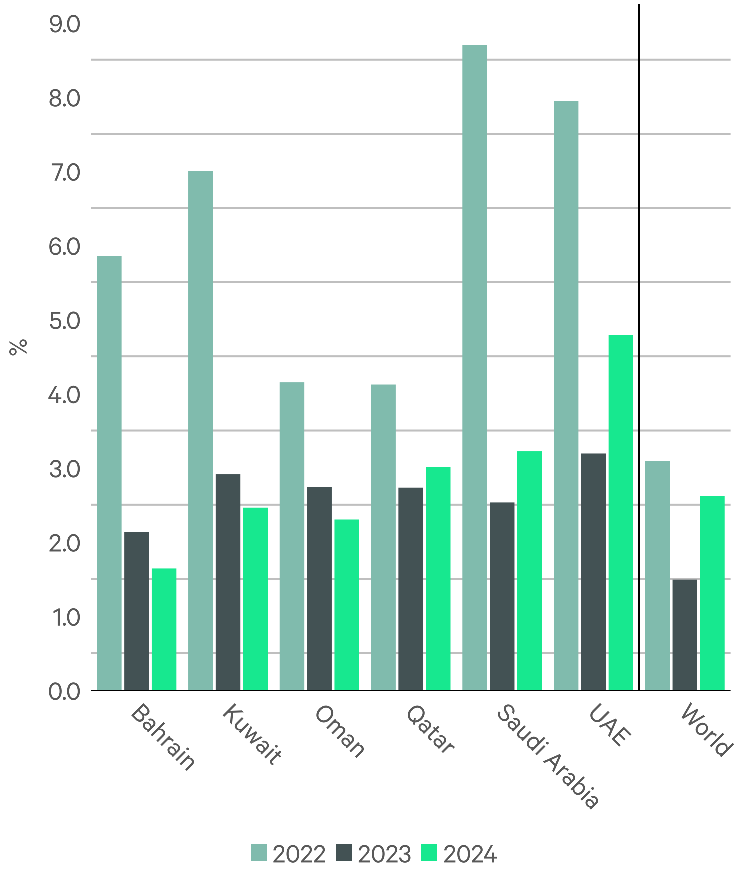
World Cup. In the likes of Bahrain, Saudi Arabia and the UAE, employment growth is expected to register at 2.2%, 2.0% and 2.6% respectively.

Oil prices have reached an average of $98.7/pb in 2022, their highest level in almost a decade. Alongside this, we have also seen oil production in Kuwait, Saudi Arabia and the UAE show a marked increase for the full year. Oil prices are expected to remain at elevated levels, forecasted at $86 p/b in 2023, and production is expected to remain steady. This will provide a strong footing to regional economies.

This economic backdrop is expected to continue to provide the support required for regional economies to work towards their economic diversification targets. Real estate projects and associated sectors such as the hotels and industrial, logistics and manufacturing sectors will play a central role in this diversification drive. As such, to date, the total value of real estate projects currently planned or under construction currently stands at an estimated $1.36 trillion. Saudi Arabia accounts for 64.5% of this total or some $877 billion, followed by the UAE, which at $293 billion, accounts for 21.6% of the total. Bahrain, Kuwait, Oman and Qatar share 1.7%, 4.4%, 4.6% and 3.3% of the total respectively.

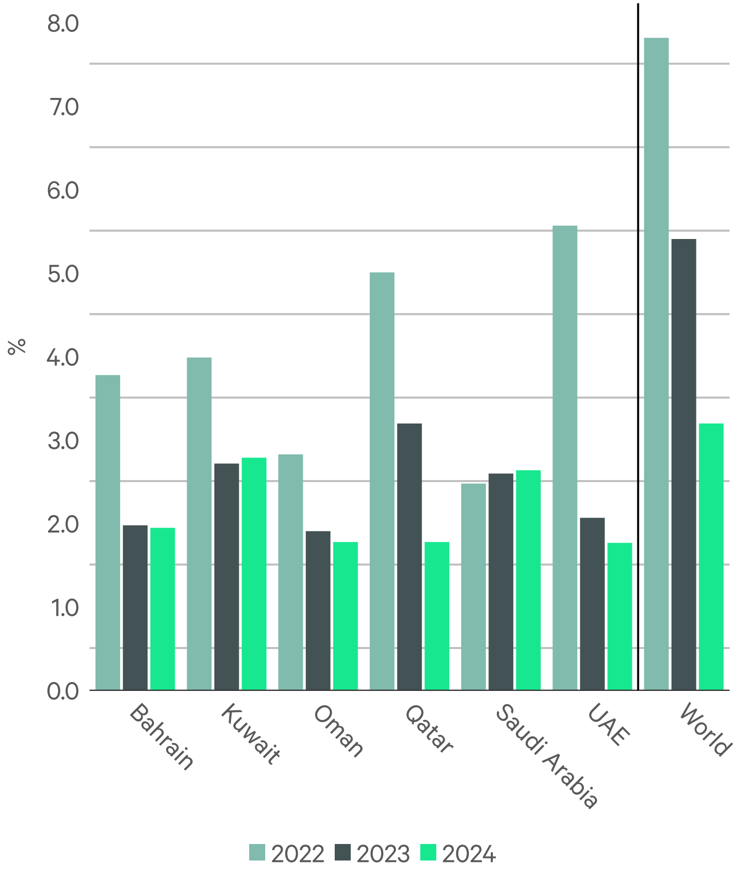
Whilst this level of investment in real estate is a core part of a number of countries' diversification strategies, the continued development and easing of regulations will be crucial in supporting these initiatives. As such, we expect that the ease of doing business and the stringency of long-term residency visa regulations are expected to further improve across a number of GCC countries in the coming year.

Figure 1: GCC Countries, GDP, YoY % Change



Source: CBRE Research/ Oxford Economics

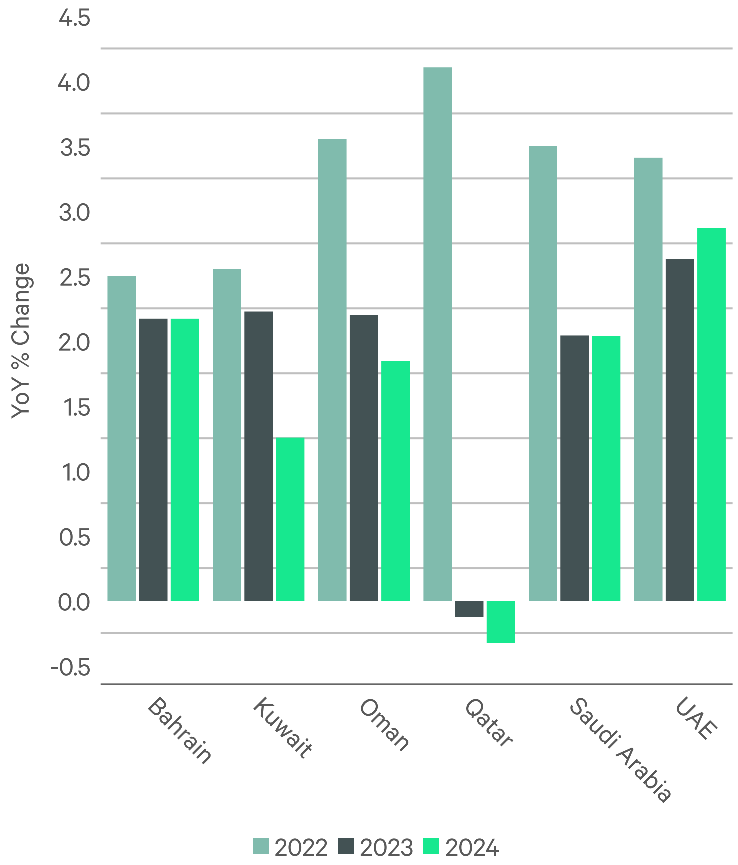
Figure 2: GCC Countries, Inflation, YoY % Change



Source: CBRE Research/ Oxford Economics

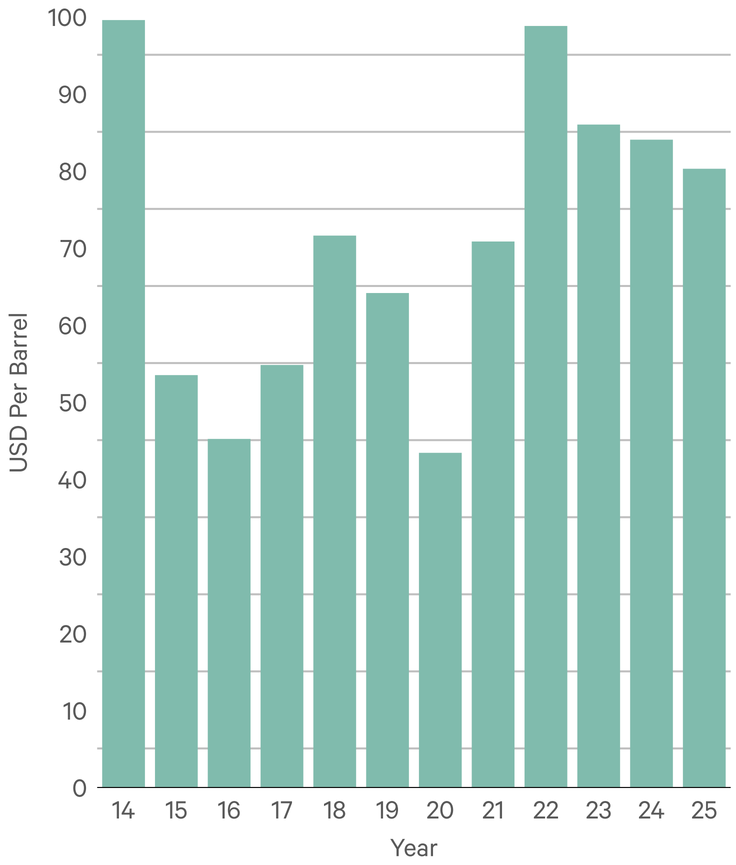
Macroeconomic Outlook

Figure 3: GCC Countries, Employment, YoY % Change



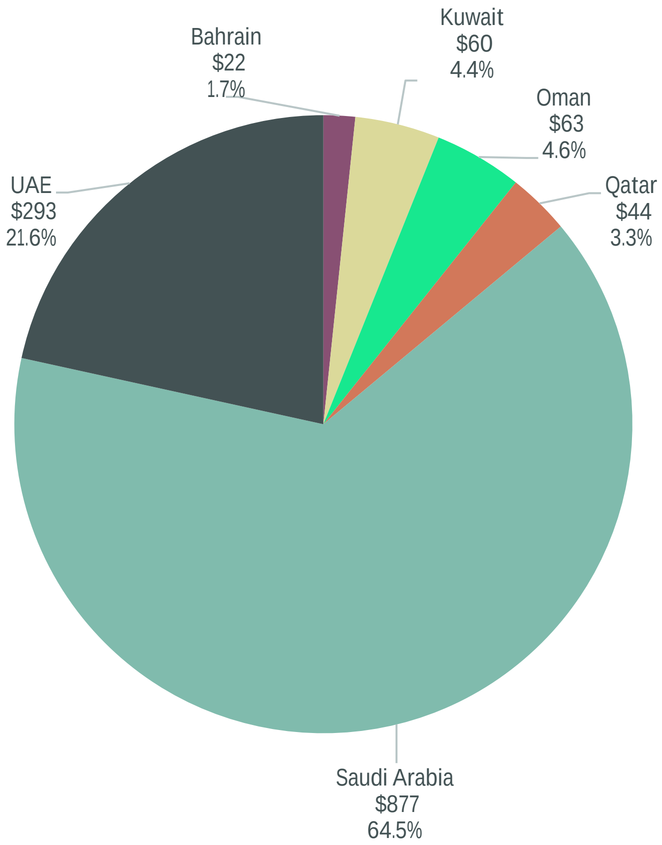
Source: CBRE Research/ Oxford Economics

Figure 4: Oil Prices, US$ per Barrel



Source: CBRE Research/ Macrobond/ Oxford Economic

Figure 5: GCC Countries, Projects Pipeline, US$, Billions



Source: CBRE Research/ MEED Projects

02

Offices

Strong levels of economic growth are continuing to attract occupiers to the region with both Saudi Arabia and the UAE being key beneficiaries. With supply being constrained in these two markets, we expect rental rates to continue to grow. In other markets, a combination of subdued demand and excess supply will mean rental growth is likely to remain anemic.

Offices

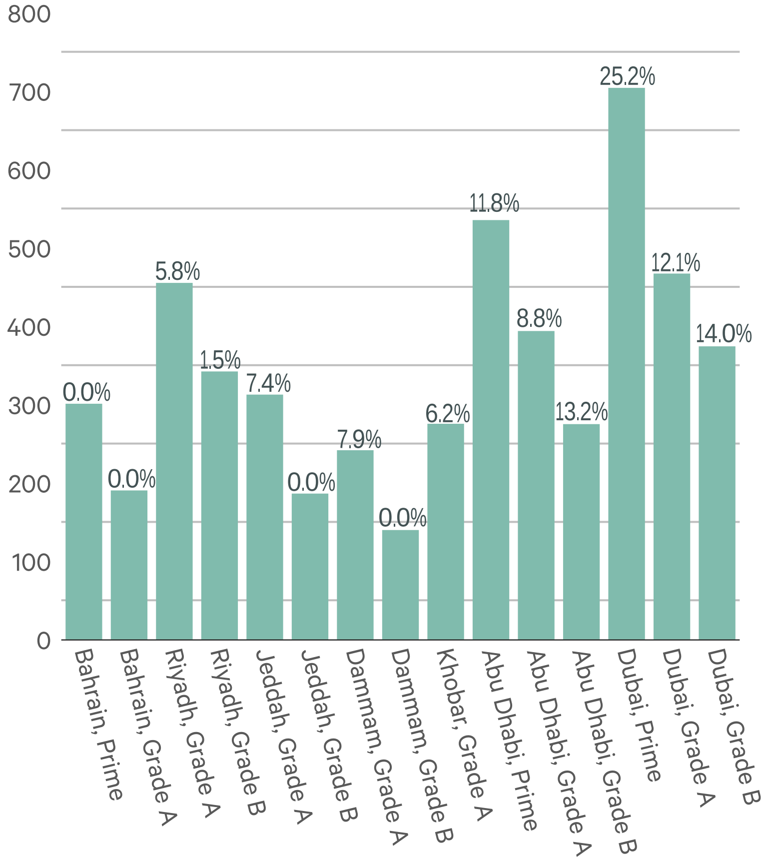
Performance in the GCC's office market was relatively upbeat over the course of 2022.

In Bahrain, the prime and Grade A markets saw rates remain stable. Despite new developments scheduled to be delivered over the course of 2023, we anticipate the occupancy rate, which currently stands at 74.0%, ticking up and rental rates to remain stable.

Occupier activity in Saudi Arabia will continue to be centred towards Riyadh, where the average occupancy rate sits at 99.0%. With a lack of existing supply and strong pre-leasing activity taking place in new projects which are not scheduled for delivery in the immediate future, we expect that rental rates this year will continue to increase, albeit at a slower rate than the prior year. In Jeddah and the Eastern Province, we forecast that Grade A rental growth will slow and reach a plateau respectively.

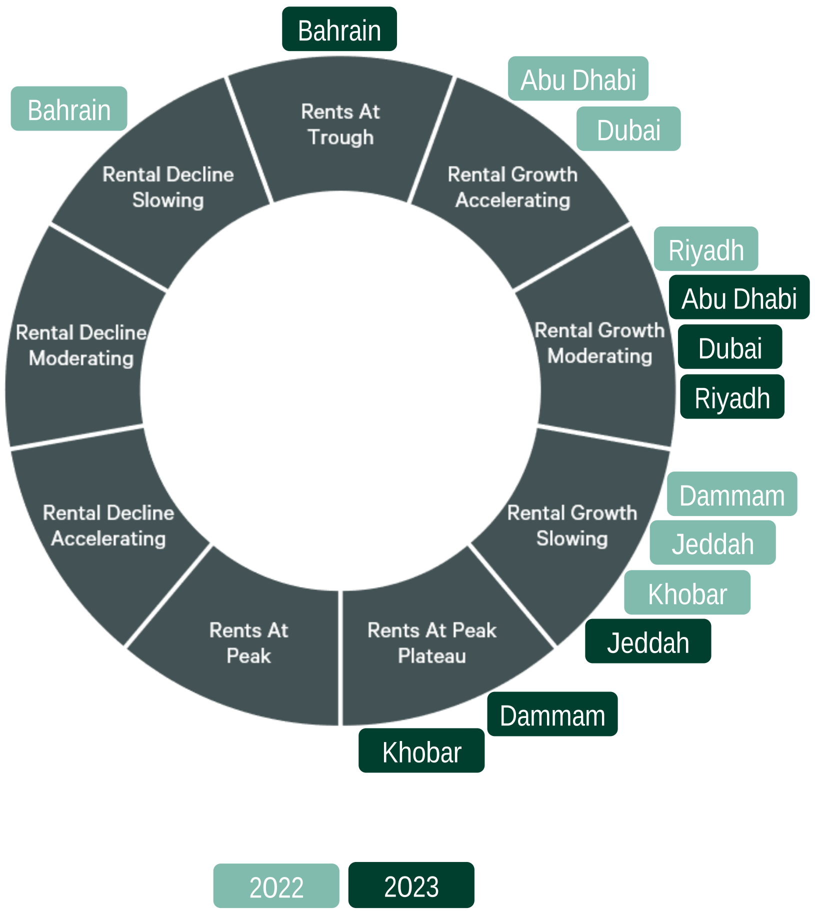
In the UAE, Abu Dhabi's office market will start to see increased levels of activity, which, alongside constrained levels of new supply, will underpin further rental growth. However, we do envisage that this rate of growth will slow. In Dubai's office market, the current occupancy rate stands at 88.0%, up from 78.8% a year earlier. With a limited amount of new quality supply scheduled to be delivered over the course of next year, we expect that rental rates will continue to increase in all segments of the market, albeit at slower rates than we have seen in 2022. Whilst occupier demand is likely to remain unwavering, the lack of supply may hamper market activity over the course of the year.

Figure 6: Office Rents, US$ per Square Metre per Annum and YoY % Change, 2022



Source: CBRE Research

Figure 7: GCC, Office Rents Tracker, Prime and Grade A Offices



03

Residential

Residential markets in the region will likely see somewhat fragmented performance in 2023, supply gluts in certain markets will drive down performance, whereas lack of supply in key business hubs such as Dubai and Riyadh is likely to mean these markets outperform.

Residential Prices

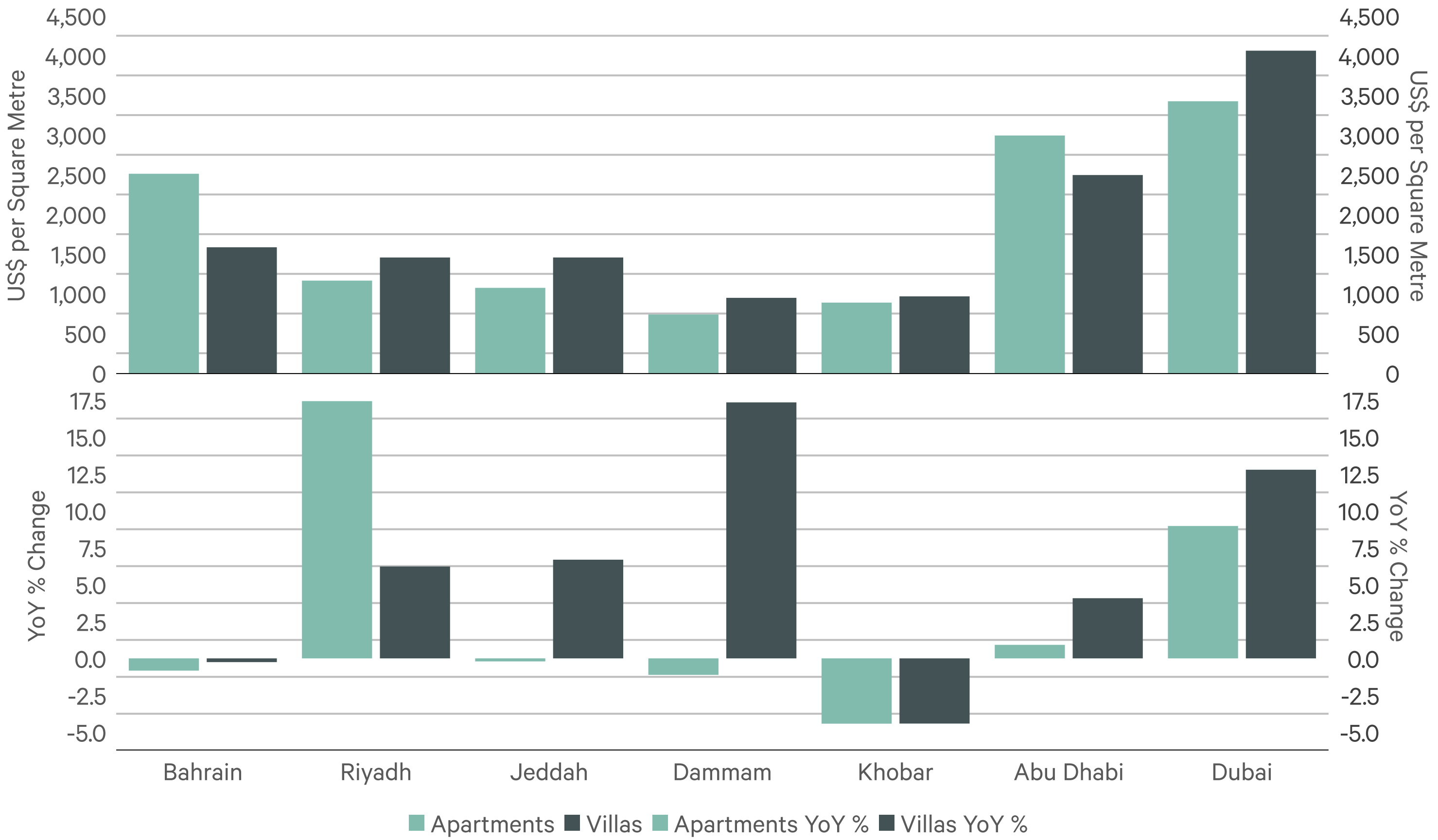
Price performance in the GCC's residential sector was fragmented in 2022. First, on a positive note, where we have seen prices decline, it has been relatively marginal. However, price growth in Dubai and Riyadh have significantly outpaced the regional average.

In 2022, the UAE was the only market to record price growth and transaction volume growth across all cities and sectors. In Dubai, whilst we do expect transaction volumes to soften year-on-year, we expect that prices will continue to increase, across both the apartment and villa segments of the market, albeit at a slower rate. In Abu Dhabi, we are forecasting growth in both the volume of transactions and the rate of price growth over the course of the coming year.

In Bahrain, villa prices are expected to record low-single digit price growth. In the apartment segment of the market, given new launches and existing levels of supply, prices are forecast to decrease more substantially.

In Saudi Arabia, price performance in both the apartment and villa segment of the market is forecast to become more polarised over the coming year. Villa prices are expected to continue to increase, albeit at slower rates, whereas apartment prices are likely to continue to soften. However, we do not anticipate this trend occurring in Riyadh, where the rate of price growth is expected to moderate.

Figure 8: Average Sales Prices, US$ per Square Metre YoY % Change, 2022



Source: CBRE Research

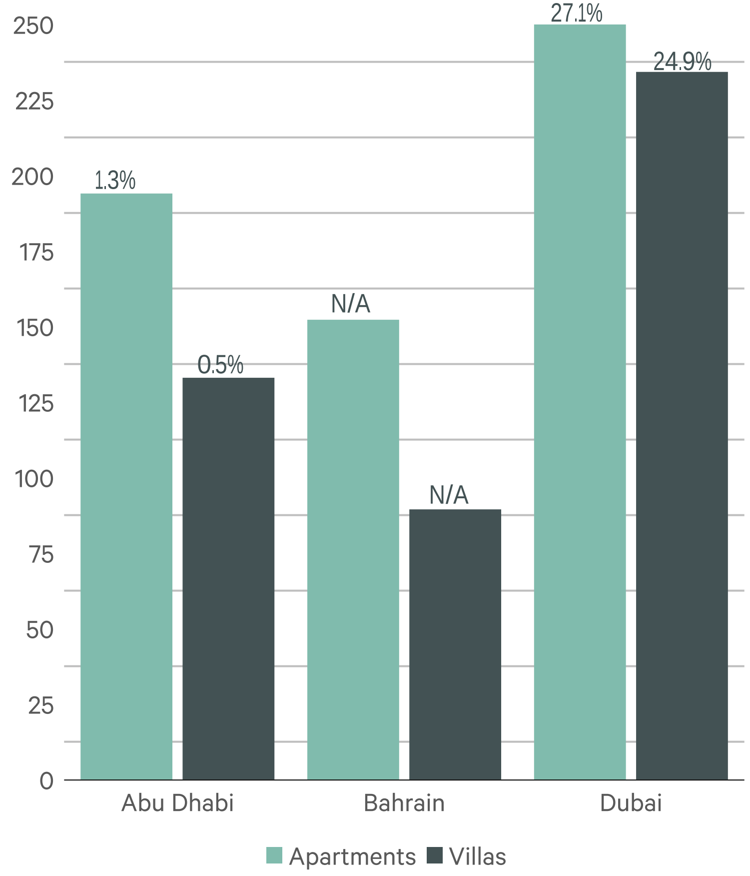
Residential Rents

On par with trends in its sales market, in Bahrain, we are expecting villa rents to increase marginally in 2023, whereas, over the same period, average apartments rents are forecast to decrease further.

Dubai's residential rents reached their highest level on record in 2022. Throughout this period, average apartment rents increased by 27.1%, and average villa rents rose by 24.9%. Demand has also increased significantly with the number of tenancy contracts registered increasing by 10.8% year-on-year, however, new registrations fell by 7.0%. In 2023, rents in Dubai will continue to increase uniformly, however we will not see this happen at the same pace.

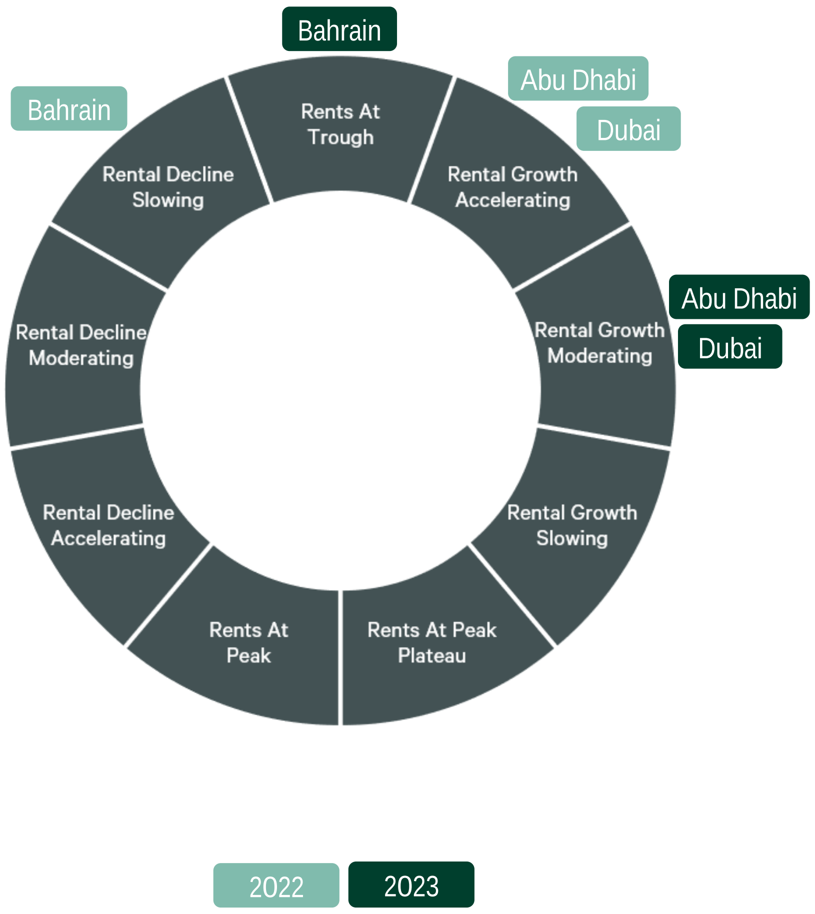
Finally, in Abu Dhabi, in the villa segment of the market, we expect that the rate of growth is likely to remain positive, although will remain in the low single digits. In the apartment segment of the market, we are forecasting for positive rental growth to return over the course of the year, however, the growth rates will not be material.

Figure 9: Average Rental Rates, US$ per Square Metre and YoY % Change , 2022



Source: CBRE Research

Figure 10: GCC, Residential Rents Tracker



04

Hotels

We expect that this will be the first full year which does not have pandemic related restrictions and as a result, in most parts, we forecast that KPIs will continue to improve and will by year-end almost uniformly surpass 2019 levels.

Hotels

On the whole, in 2022, the GCC's hotel sector continued to record increasing visitation numbers, higher ADRs and ultimately higher RevPARs. Given that this will be the first year that does not have any pandemic related restrictions, we forecast that KPIs will, by year-end, almost uniformly surpass 2019 levels. That being said, there will be headwinds for the sector to navigate, including but not limited to a slowdown in global economic growth, a strong US dollar and the materialisation of new supply. These factors will impact country and city markets by varying degrees.

In Bahrain, given the number of hotel openings in the five-star market segment, we expect that this sector is likely to see KPIs soften. Hotels in the four-star market, particularly those in proximity to retail and leisure assets, are expected to outperform the wider market.

The full-scale return of religious tourism will continue to drive occupancy in the Holy Cities and Jeddah. More so across the Kingdom, with the materialisation of luxury and ultra-luxury developments, we are also likely to see an uptick in ADRs. In Riyadh and Dammam, the return of corporate tourism, which forms a material part of demand in these markets, will help lift occupancy rates in these markets.

In the UAE, although we expected occupancy rates to continue to increase, we forecast that ADRs will soften over the course of the year, which will put pressure on RevPARs. The beachfront luxury segment of the market is expected to continue registering outperformance, both in terms of occupancy and ADRs.

Kuwait is likely to see occupancy rates continue to improve steadily throughout the year, however, we do expect the ADRs growth to be limited. Oman's COVID-19 restrictions were arguably the strictest and longest lasting in the region. Given this, Oman's hotel market performance is still very much in its recovery phase, and due to this low base, we expect strong KPIs to be recorded throughout 2023. After the FIFA World Cup 2022, unsurprisingly, we expect Qatar's KPIs to soften amidst the dramatically higher supply and recently announced regulatory dynamics.

Figure 11: GCC, Hotel, KPIs

	Year-on-Year 2022 vs 2019			Year-on-Year 2022 vs 2021			ADR (US$)	RevPAR (US$)
	Occ PP Change	ADR % Change	RevPAR % Change	Occ PP Change	ADR % Change	RevPAR % Change	2022	2022
Bahrain	-5.6%	7.5%	-13.7%	6.6%	21.1%	39.6%	172.5	86.2
Manama	-5.6%	6.4%	-13.4%	6.8%	22.1%	41.2%	167.3	84.1
Kuwait	-13.8%	4.0%	5.6%	8.7%	-4.7%	23.4%	208.0	79.2
Kuwait City	-13.1%	1.3%	-0.6%	10.5%	-4.1%	32.7%	206.6	78.2
Oman	-9.7%	-14.3%	-40.3%	9.7%	38.7%	75.4%	136.9	63.3
Muscat	-8.2%	-24.2%	-47.9%	11.8%	37.3%	81.2%	117.8	57.5
Qatar	-9.4%	97.3%	1.4%	-10.0%	91.2%	62.8%	202.6	115.4
Doha Centre	-4.1%	103.6%	12.6%	-9.6%	81.7%	57.4%	151.4	93.8
Saudi Arabia	-1.0%	-3.6%	-24.4%	17.2%	17.9%	67.2%	160.4	93.8
Al Khobar	-	-	-	-2.5%	-3.6%	-7.8%	119.3	65.1
Dammam	-	-	-	-8.0%	4.1%	-10.8%	73.9	35.4
Jeddah	-0.8%	-17.6%	-36.9%	6.2%	16.2%	30.4%	206.5	117.9
Makkah	-1.2%	-7.2%	-35.3%	35.9%	34.2%	229.0%	153.1	92.9
Medina	5.5%	4.0%	-30.1%	33.7%	41.9%	185.2%	147.9	99.2
Riyadh	1.3%	10.9%	-13.8%	3.9%	24.0%	32.3%	181.9	112.4
UAE	-1.8%	22.9%	-5.8%	5.4%	18.2%	27.8%	170.4	121.9
Abu Dhabi	-3.8%	2.5%	-11.7%	2.2%	21.7%	25.6%	122.0	84.9
Dubai	-1.8%	25.7%	-5.8%	7.1%	17.1%	29.7%	188.7	137.5
Ras Al-Khaimah	-10.3%	4.4%	-11.1%	-1.4%	0.0%	-2.3%	148.6	91.6
Sharjah	3.1%	15.7%	-15.8%	4.6%	23.6%	32.3%	72.9	51.3
Fujairah	5.0%	17.0%	10.2%	3.4%	-5.3%	0.1%	108.2	68.8
Ajman	3.8%	21.1%	-1.7%	-1.1%	15.2%	13.7%	120.2	96.3

Source: CBRE Research/ STR Global

05

Retail

The region's retail sector is undergoing a resurgence. In quality assets, we are seeing marked improvements in occupancy and rents, something we expect to continue. Performance in secondary assets remains relatively subdued, with many requiring repositioning.

Retail

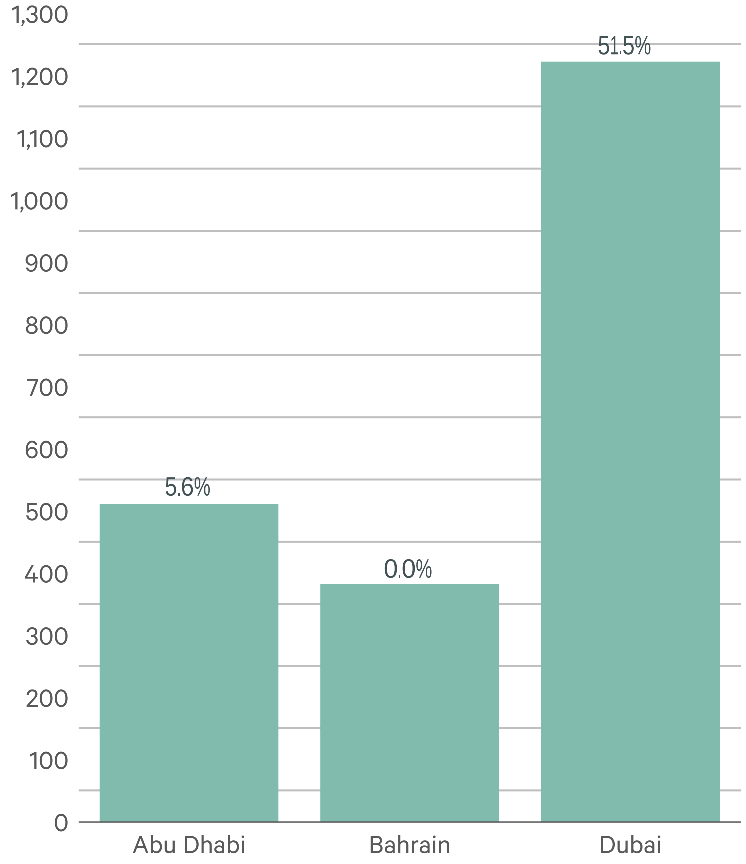
For a number of years, the retail sector in the GCC has been under considerable pressure in terms of performance. This has largely been driven by excess supply and, to a point, by increasing levels of e-commerce penetration. The pandemic exerted even more complications and pressures. To the sector's credit, it has weathered these challenges and even, in some cases, has returned with stronger fundamentals.

In Bahrain, in the second half of 2022, we have seen occupancy levels start to increase. Furthermore, with consumers now preferring to return to traditional bricks and mortar retail, we expect that occupancy is likely to edge up over the course of 2023. We also are anticipating that after sharp declines in rental rates in recent years, we are near or at the bottom of the market.

The UAE's retail market has been operating at varying performance levels over the course of the last year, with rental rates in Abu Dhabi and Dubai increasing by 5.6% and 51.5%, respectively. Looking ahead, we expect that we will see a convergence in performance, with Abu Dhabi likely to see rental growth accelerate and Dubai likely to see considerable moderation. In Abu Dhabi, many retailers have delayed expansion plans due to the prolonged COVID-19 restrictions which were in place in the capital in 2022, we are likely to see many revisit these plans. In Dubai, particularly in the Prime segments of the market, due to a lack of available supply, and above all in the F&B sector, we may see activity levels taper-off during the year.

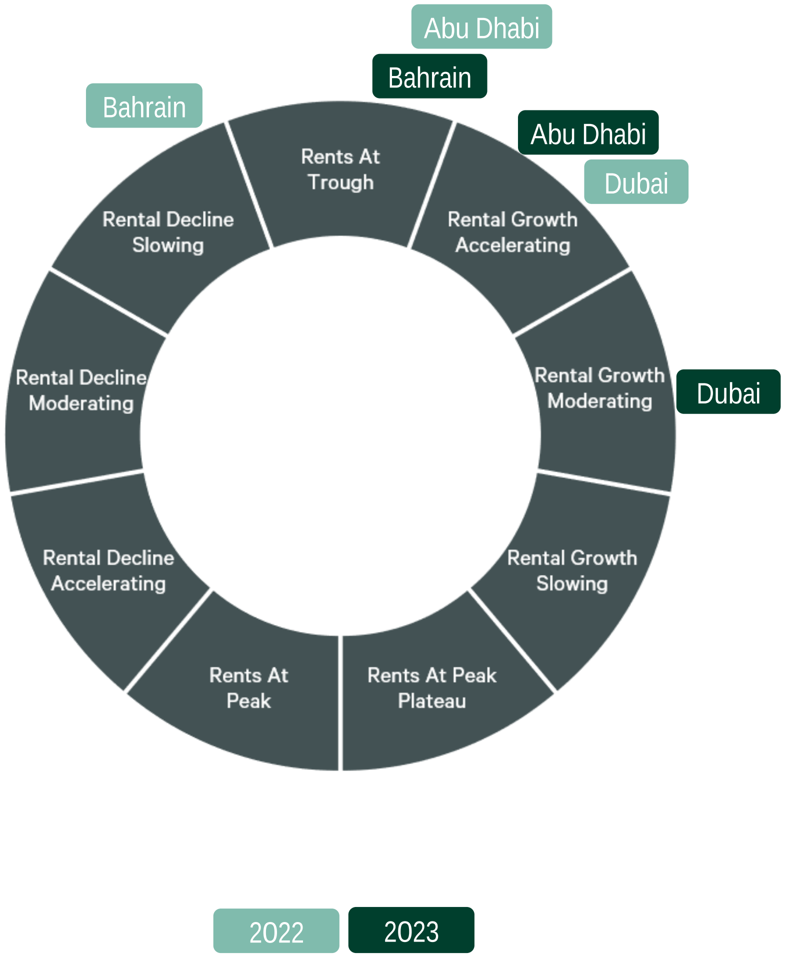
Finally, one common theme across the region is the subdued performance in secondary assets. Going forward, a key requisite for this to improve will be capital expenditures and asset repositioning.

Figure 12: Average Retail Rents, US$ per Square Metre, Per Annum and YoY % Change, 2022



Source: CBRE Research

Figure 13: GCC, Retail Rents Tracker



06

Industrial & Logistics

Demand will continue to outstrip supply, both from investors and occupiers, and despite new supply being delivered, we expect rents to continue their upward trajectory.

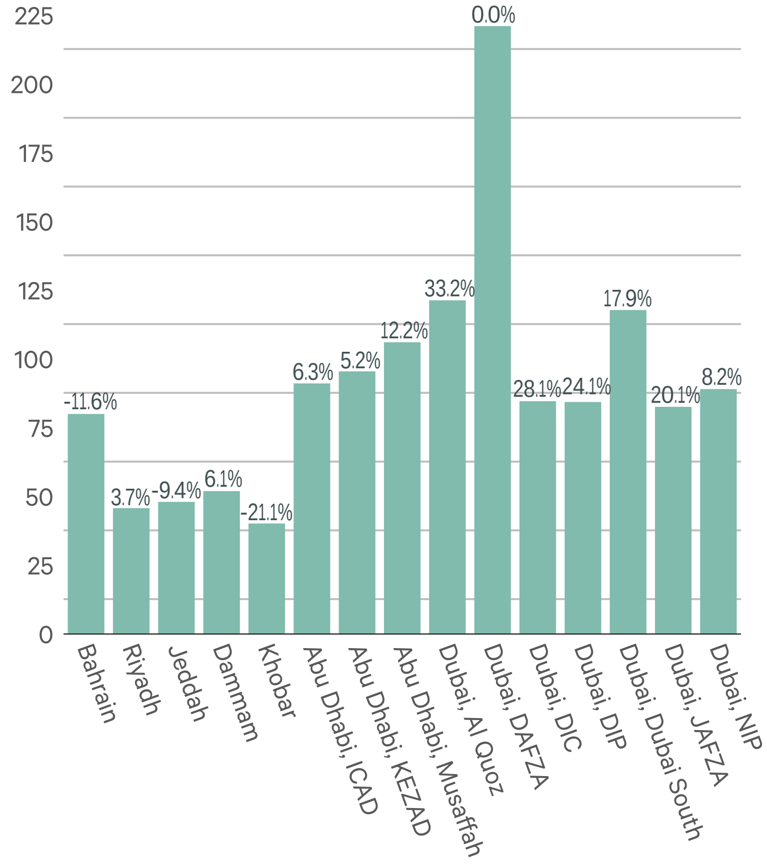
Industrial & Logistics

The GCC's industrial and logistics sector over recent years has garnered a considerable level of occupier and investor interest. However, it has at the same time also been the most undersupplied in terms of suitable stock, which has held back both occupier and investment activity considerably. This backdrop has meant that average rents have increased in the vast majority of markets over the course of the last year.

With reliance on the asset class expected to only increase, we feel that the sector will continue to record rental growth unanimously irrespective of location. We will, however, see polarised rates of growth across markets.

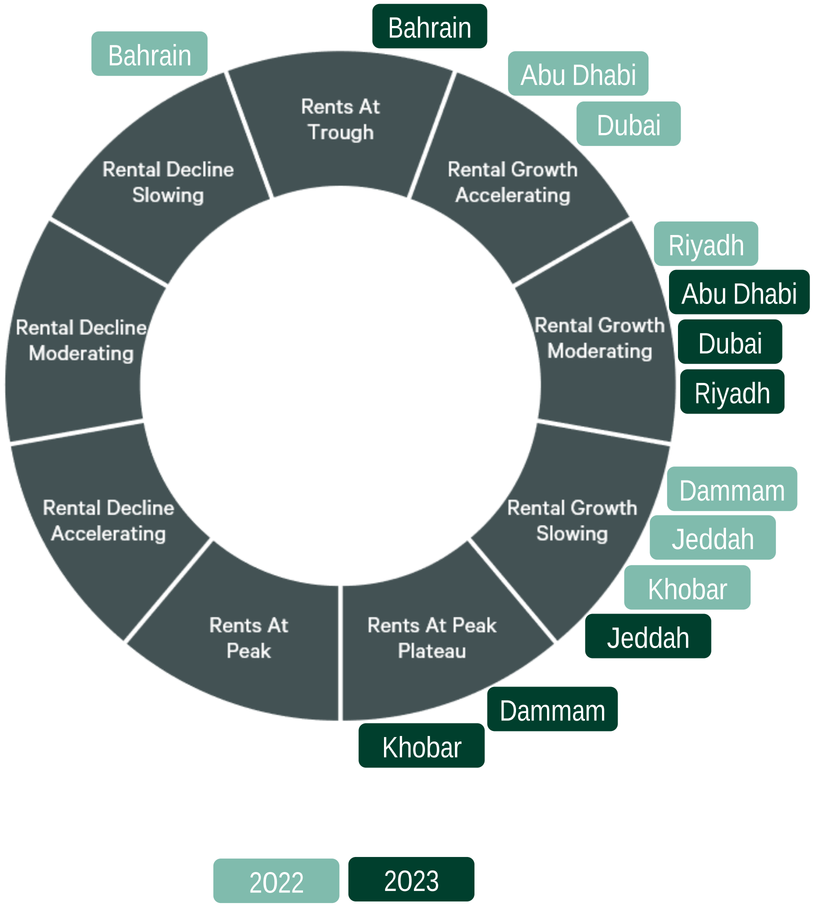
Although in key hub markets such as Abu Dhabi, Dubai, Riyadh and Jeddah we are expecting new supply to be delivered over the course of the year, we do not envisage that this will have a negative impact on prices. In fact, where this is institutional grade stock, we expect that it is more likely to set new benchmark rents. As a result, this may also cause fragmentation in rental rate performance going forward, with poorer quality stock likely to see rental rates come under pressure.

Figure 14: Average Industrial and Logistics Rents, US$ per Square Metre, Per Annum and YoY % Change, 2022



Source: CBRE Research

Figure 15: GCC, Industrial and Logistics Rents Tracker



07

Investment Yields Guide

CBRE's Investment Yield Guide provides an update on investment yields and the outlook for the year ahead.

Investment Yield Guide

Figure 16: Saudi Arabia, Investment Yields

Saudi Arabia	Yield Range	2023 Yield Outlook
Prime Offices	7.50% – 8.00%	Stable
Grade A Offices	8.25% – 8.75%	Stable
Residential	7.50% – 7.75%	Stable
Retail (Malls)	7.75% – 8.5%	Expand
Grade A Industrial and Logistics	8.00% – 9.00%	Stable
Luxury Hotels	6.75% – 7.75%	Stable
Midscale to Upscale Hotels	8.00% – 8.75%	Stable

Figure 17: UAE, Investment Yields

UAE	Yield Range	2023 Yield Outlook
Prime Offices	6.75% – 7.25%	Stable
Grade A Offices	7.25% – 7.50%	Stable
Prime Residential	6.25% – 7.00%	Stable
Residential	7.00% – 7.50%	Compress
Retail (Malls)	6.75% – 8.00%	Stable
Grade A Industrial and Logistics	7.50% – 7.75%	Stable
Industrial and Logistics	8.00% – 8.50%	Stable
Luxury Hotels	6.50% – 7.75%	Stable
Midscale to Upscale Hotels	8.00% – 8.75%	Stable

Source: CBRE Research

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