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UAE  
REAL ESTATE MARKET OUTLOOK

# RESETTING IN THE NEW NORMAL

CBRE

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# UAE REAL ESTATE IN THE NEW NORMAL

AN INNOVATION DRIVEN ECONOMY



## ECONOMY

### REcover

Rebound in GDP anticipated as travel restrictions are lifted and business confidence improves. Other economic indicators to follow similar trend



## RESIDENTIAL

### REvival

Tangible opportunities within sub-markets continue to thrive, providing investors and developers with development opportunities in niche segments



## OFFICE

### REcalibrate

Physical offices to stay; portfolio optimization and hybrid working anticipated to be dominant themes



## RETAIL

### REdefine

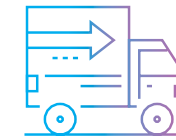
Retail formats and configurations to realign; tech and e-commerce to drive change



## HOSPITALITY

### REbound

Strengthening recovery, especially at year-end with Dubai Expo. Long-term potential as Dubai puts tourism at the core of its economic strategy



## I&L

### REsilience

Network, diversified and tech-enhanced supply chain to reshape the sector, with e-commerce continuing to drive logistics requirements



## ALTERNATIVE SECTORS

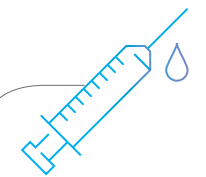
### REfresh

Cold storage and data centers to remain lucrative investment classes; student accommodation and flexible spaces to also gain steam

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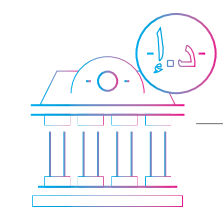
# UAE ECONOMY

GAINING MOMENTUM



The UAE government has successfully launched vaccination programs across the country, boasting the world's second largest vaccine campaign.

World economy expected to improve in 2021, as vaccination programs pick up pace and mobility; **global GDP projected to rebound to 5.5% in 2021<sup>1</sup>, from a contraction of 3.5% in 2020.** Improvement in the global economic outlook and the upcoming Expo are expected to support UAE's economic recovery.



The introduction of key policies and initiatives is expected to support economic recovery and future growth, such as **100% foreign ownership, citizenship laws, remote working visas, and enhanced diplomatic relations** with Israel.



1. IMF's World Economic Outlook Update, January 2021

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# UAE ECONOMY

GAINING MOMENTUM

Figure 1: UAE GDP Growth (2019 – 2022)

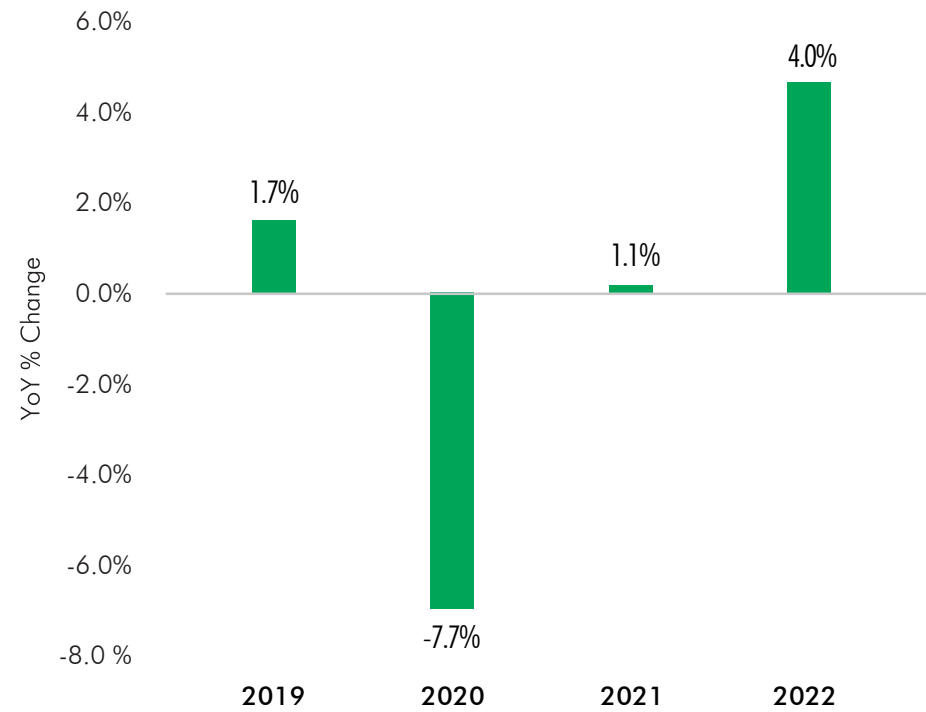
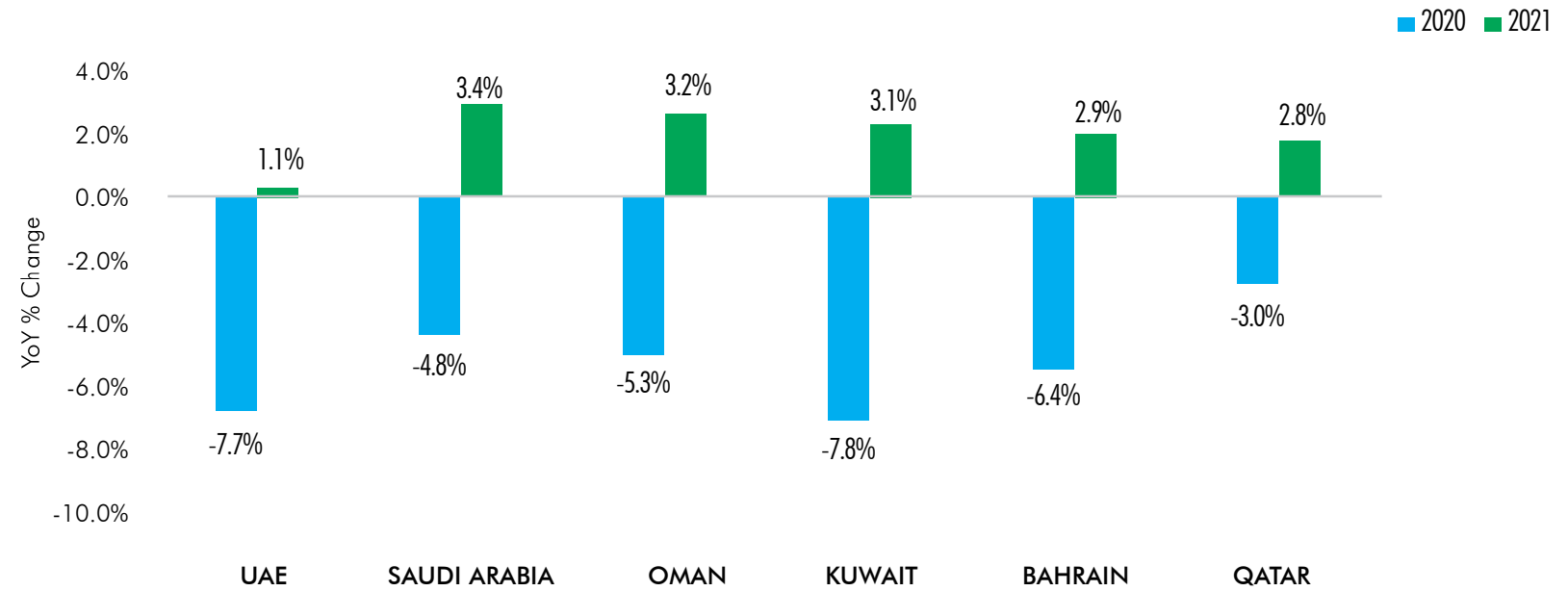


Figure 2: GDP Forecast for GCC economies



Source: CBRE Research & Analysis, Oxford Economics

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# UAE ECONOMY

## GAINING MOMENTUM



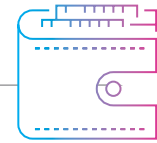
Key economic indicators, such as FOREX reserves and oil prices, are expected to **improve in 2021 and support economic recovery.**

**Table 1: UAE Key Economic Indicators (2019 - 2021)**



	Forex Reserves (in USD mn)	Oil Prices (USD per Barrel)	FDI (in USD mn)	Manufacturing PMI	Inflation
2019	106,381	64.3	-2,123.9	50.2	-1.9%
2020	102,164	41.9	-3,594.6	51.2	-3.0%
2021	105,918	58.5*	-3,666.5	52.7**	2.9%

Source : Central Bank of the UAE, Oxford Economics  
\* Estimated \*\* April 2021



- UAE experienced deflationary trend in 2020.
- Deflation was primarily fuelled by declining housing, water, electricity and fuel costs, as well as lower costs for education and other utilities.
- Government subsidies also played a major role as the UAE reduced various fees and offered waivers to support the economy and minimize the impact of COVID-19 across various sectors.
- Inflation is expected to increase in 2021, as the economy starts to recover.



**Key Government initiatives are likely to have an impact on UAE real estate market in the short to medium term:**

- New visa schemes, such as the retirement visa, virtual work visa and long-term residency visa, are expected to help strengthen the UAE's position as an attractive destination to live, work and retire in.
- The Dubai 2040 Urban Master Plan aims to provide better housing options, increase green spaces and introduce sustainable mobility solutions, ultimately creating new opportunities for investment in infrastructure and helping to deliver this plan.
- The Government introduced, 'Make it in the Emirates,' an industrial strategy which aims to transform UAE into a manufacturing powerhouse and thereby creating increased demand for industrial and logistics uses.
- The upcoming Expo is anticipated to generate 25 million visits, which will further boost retail, hospitality and leisure spend in the UAE.

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# RESIDENTIAL

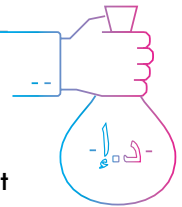
'RE'-EVALUATING LIVING SPACES



**UAE increasingly a tenant-led market**, with occupiers having greater bargaining power and flexibility in negotiating with landlords. Incentives seen more and more frequently include rental reductions and the possibility of rental payments in multiple cheques.



The **UAE senior housing, staff accommodation and student housing** offerings are currently in a nascent stage. Range of Government initiatives expected to support future demand for these relatively untapped market segments.



Developers are offering **rent-to-own schemes, fee waivers, attractive post hand-over payment plans** to attract investor and owner-occupier demand.



**Millennials emerging as a key consumer class**, with reconfiguration of residential spaces expected as well as increased demand for digitally enabled homes and larger unit sizes to accommodate home offices.



Increased working from home and the Dubai 2040 Urban Master Plan are expected to further accelerate the shift towards green housing, with end-users increasingly motivated to reduce utility costs as they spend more time at home.



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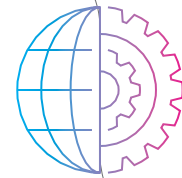
# OFFICE

## 'RE'ASSESSING THE WORKPLACE



Post COVID-19, **Dubai to remain the preferred regional hub for multinational occupiers** in the region, for the short term at least, given it remains the most mature and secure market for occupiers to operate in.

Enhanced demand for local tech and Fin Tech start ups with key government initiatives being introduced across the region **to support and encourage innovation and technology.**



**Flexibility to be critical** – sustained flexibility in lease terms and tenures expected. Flexible spaces to remain attractive options in the short term.

Workplace strategies would involve repositioning spaces, amenities and services to meet changing employee needs; **enhanced tech tools to transform the way commercial properties are being designed and marketed.**

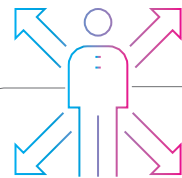
**Environmental, Social and Corporate Governance (ESG), health and wellness** likely to be at the forefront of CRE strategies; employee productivity to be key.



Evolution of a 'traditional' to 'hybrid' workforce via work-from-anywhere to ensure Business Continuity. **Occupiers are still working on their long term future occupational strategies across their regional portfolio.**



**Physical offices here to stay;** portfolio optimization via the right mix of traditional, flexible spaces and any relevant remote working strategy.



**Hotelisation of office space via amenities and services through 'phygital' experiences;** tech-enhanced spaces to serve as a differentiator of quality.



**Significant increase in second generation (sub-lease) space** coming to the market over the last 12-18 months with this trend likely to continue placing further pressure on supply and rental performance.



# RETAIL

'RE'DEFINING THE CUSTOMER EXPERIENCE



Prominent stakeholders to remain focused on the sector; **focus on reinventing the "experience"**; realignment of existing spaces expected as emphasis on outdoor and open areas to increase. Store size optimization expected to allow for faster recovery and better profitability.



**Flexibility to remain key to success** – landlords with flexible lease terms, malls with flexible/convertible/open spaces to witness greater retailer interest.



**Accelerated growth in e-commerce expected; QSRs, grocery and homeware segments** to lead retail recovery while consumer electronics would continue to capitalize on "time at home".



**Rapid growth** of online shopping is resulting in more omni-channel retail, however preserving the "physical experience" will be a critical component of these omnichannel strategies, **particularly in the Middle East.**



Omnichannel strategies to push retailers to streamline supply chains and focus on workforce planning, automation, inventory management and flexibility in production cycles. **Initiatives such as Click & Collect and product returns via the store expected to increase significantly.**



**Retail transformation** to be led by technologies that improve the **customer experience**, allow **cost optimization** and **enable agility.**



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# HOSPITALITY

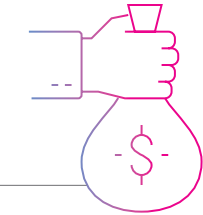
'RE'BOUND IN PROGRESS



On the rise before COVID-19, the pandemic was a catalyst and growth accelerated for the **domestic tourism** sector. The trend is here to stay, and further growth is expected for the segment in the medium term.



Despite positive trends, **some pressure remains** on the wider tourism sector. With a reduced number of tourists and restrictions on F&B & leisure facilities, the adaption to the new norm is here for the foreseeable future.



Despite the troubles industry players have gone through, **investors remain confident** in the UAE as a tourism destination, and the development pipeline of new hotels is still strong.

Several properties have opened in 2020, along with hotel transactions.

### Government initiatives.

Early re-opening of borders, coupled with strong preventive measures and testing policies, has helped the UAE position itself as one of the only international destinations to attract visitors.

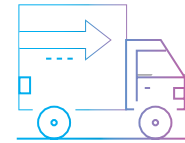
New visas introduced, such as "remote working visas" to create incremental demand.



Hoteliers have made cost reductions, mainly through salary cuts and efficiency creation. Whilst salaries are reverting back to normal, **reductions and rationalizations** are here to stay as they have little or no impact on a guests' experience, but do contribute to higher GOPs.

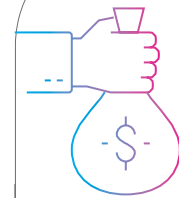
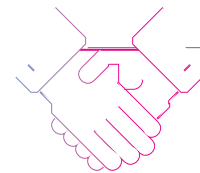
# INDUSTRIAL & LOGISTICS

REDEFINING 'RE'SILIENCE



**E-commerce and 3PL expected to continue to drive demand of Grade A warehousing.** There will be an increase in demand for such space outside of the customs bonded Free Zone, to enable servicing of the local market.

Diversification away from under performing traditional asset types, such as residential, office and retail will be the focus for investor activity. **The challenge will remain a shortage of medium to long term income, paired with good under lying real estate.**

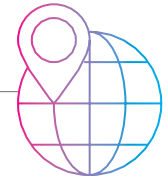


Focus on food security and cold storage space is expected to form a **key component of speculative development** in the industrial and logistics market.

**Ongoing investment into multi channel supply chains,** resulting in more resilience and less impact from transport specific delays.



Global market sensitivities - as in evidence over the last 18 months - will remain a key consideration for occupiers in their leasing strategies, and importantly **flexible lease terms.**



Increased investment in automation and robotics for supply chain and warehouses will be essential with the wider application of technology **to drive efficiencies across the entire supply chain.**



Leasing transactions of logistics grade warehousing will continue to drive the majority of demand and rents expected to see improvement owing to the shortage of stock. **Secondary grade assets will remain under pressure without capital investment through refurbishment and redevelopment.**



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**FLEXIBLE SPACES / CO-WORKING**

- Flexible spaces to remain key to increasing portfolio agility, providing short-term solutions and catering to headcount volatility; managed spaces to drive demand.
- Cautious expansion by operators; likely to maximize occupancy through various means such as day passes, reduced lock-ins, extended rent free periods, etc.



**COLD STORAGE (CS)**

- CS segment to be driven by increasing demand for Online Food Delivery (OFD) services and the growth of cloud kitchens / e-grocers; CS operators to continue to expand.
- Post COVID-19, impetus to life sciences segments such as vaccine / generic drug and formulation centers to also boost CS demand; higher domestic / global investment expected.



# ALTERNATIVE SECTORS

'RE'LEVANT TO THE CORE



**DATA CENTERS**

- Post COVID-19, DC demand to be augmented by the increasing need for data storage, sustained policy impetus and nationwide digital initiatives; third-party colocation and cloud demand likely to witness high growth.
- Domestic / global operators, and investors to expand their DC footprint.



**STUDENT ACCOMMODATION / CO-LIVING**

- A reconfiguration of the traditional student housing layout is expected; larger rooms / single occupancy rooms and larger common areas to allow for compliance with social distancing norms.
- Increased use of technology to provide virtual tours, contactless services/requests and access to premises.
- Growing prevalence of co-living as a residential typology, catering to quality, convenience living within unique, urban communities. Format of communal amenities to evolve in line with continued focus on health and safety post COVID-19.

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# WHAT DOES THE FUTURE HOLD?

The UAE Government has been active in issuing new reforms, initiatives and ambitious plans for the country, with the aim of increasing the UAE's global competitiveness and attracting international investors and skilled professionals to the country. These reforms are expected to support the economy as well as the recovery of the wider real estate market through bolstered and more diverse demand moving forward.

Table 2: Impact of Structural Changes across Real Estate Sector in the UAE

Asset	Acceleration of existing trends post COVID-19			New structural trends post COVID-19	
	Tech-enhanced spaces	Increased leasing & portfolio flexibility	Heightened e-commerce penetration	Global supply chain diversification	Remote working
RESIDENTIAL >	✓				✓
OFFICE >	✓	✓			✓
RETAIL >	✓	✓	✓	✓	
HOSPITALITY >	✓	✓			✓
I&L >	✓	✓	✓	✓	



Figure 3: How are key real estate sectors expected to fare in 2021?

● Lower than 2020 ● Similar to 2020 ● Improved from 2020

Asset	Outlook	Key Driver
RESIDENTIAL >	●	<ul style="list-style-type: none"> <li>Tenant-led market in the short run as market adjusts to increased supply levels</li> <li>Positive transaction growth witnessed in Q1 indicating improved market conditions</li> </ul>
OFFICE >	●	<ul style="list-style-type: none"> <li>Occupiers expected to take advantage of subdued market conditions and continue flight to quality</li> </ul>
RETAIL >	●	<ul style="list-style-type: none"> <li>Physical retailers expected to offer an integrated experience through e-commerce</li> <li>Tourism expected to gradually recover in the long run</li> </ul>
HOSPITALITY >	●	<ul style="list-style-type: none"> <li>Rise in domestic tourism and the upcoming Expo expected to boost demand for hospitality</li> </ul>
I&L >	●	<ul style="list-style-type: none"> <li>Operation 300bn expected to double the size of the industrial sector in the UAE</li> </ul>

Source: CBRE's 'Indian Real Estate in 2021: Reboot, Reimagine, Regain', January 2021

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