The Abu Dhabi Analysis
Market Performance, Trends and Affordability
Introduction

Affordability is a relative measure, especially in an undersupplied market, with a high per capita income, such as Abu Dhabi.

Affordability in the housing market is highly pertinent to Abu Dhabi owing to the limited supply in the market. The lack of mid-market properties has been addressed by the government; the Urban Planning Council (UPC) in 2010 announced that at least 20% of new residential developments need to be set aside for middle income residents. Developments applicable under the guideline are projects involving a minimum of 75,000m² of housing (villas/townhouses are excluded).

A commonly accepted guideline globally for housing affordability is when accommodation costs are within 30% of a household's gross income. However, according to the latest income and expenditure survey published by the Statistics Centre Abu Dhabi, it is the accepted guideline that expatriate households spend 37% of their income on housing. This percentage is only likely to increase in the future due the combination of an acute undersupply and a growing population.

With 72% of households in Abu Dhabi (excluding blue collar workers) earning between AED9,500 and AED32,000 per month, the majority of residents can afford rental levels between AED43,000 and AED140,000 per annum. These rental levels are based on the average expatriate household spend in the capital (37% of household income).

While the provision of affordable housing involves important social and economical values, our focus in this whitepaper is aimed at highlighting Abu Dhabi’s overall residential market performance, trends and some strategies for addressing the growing demand for affordable housing towards a sustainable and competitive asset class.

The availability of affordable housing not only improves worker and employer attraction and retention, but it also increases the overall spending power of households. These households can then afford to improve their existing quality of life by increasing their spending on vital social infrastructure facilities such as better levels of education and healthcare for their families.
**Demand Vs. Supply**

The gap between residential demand and supply is currently -21% across Abu Dhabi, indicating a significantly undersupplied market. This gap is expected to reach -31% in 2018, provided existing developer timelines are met.

Colliers International estimates that an additional 47,900 housing units are due to enter the market during 2014 – 2018, representing an annual increase of 3.6%. Despite the increase in supply, high population growth rates of 5.5% per annum combined with declining household sizes are expected to maintain an undersupplied residential market in the capital during the short to medium term.

“With demand growing at a higher rate than supply, in an already undersupplied residential sector, market fundamentals are likely to remain undersupplied in the short to medium term”
Affordability in the Rental Market

Affordable housing takes many different forms, and this whitepaper uses the term to define all housing units at levels affordable to average households in Abu Dhabi.

Analysing the latest available income and expenditure surveys published by the Statistics Centre Abu Dhabi (SCAD), suggests that an accepted guideline for spending on accommodation is approximately 37% of their income. This number however, is likely to increase as a result of the removal of the rental cap (Q4 2013) in a market that is acutely undersupplied.

This ratio is significantly higher when compared to a number of established international benchmarks, such as the Department of Housing and Urban Development (USA) and NSW Government (AUS), where the accepted definition of affordability is for a household to pay no more than 30% of its annual income on housing. In the UK, The National Housing Federation defines affordable rent levels at 25% of household income.

With rental levels increasing at a significantly higher rate than average income, affordable housing in Abu Dhabi is a limited commodity.

The distribution of income levels in the capital suggests that 41% of total households are earning less than AED9,500 per month. As households in this income category are generally provided with accommodation by their employers (mainly comprising of contractors, hospitals, hotels and retailers), or are living in shared/alternative accommodation facilities, they are omitted from the study.

Analysis of monthly household income levels also suggests that 44% of households* earn between AED9,500 and AED19,000. At this income bracket, they can afford rental levels between AED42,000 and AED85,000 per annum.

Households earning between AED19,000 and AED32,000 a month, represented by 28% of households, can afford rentals ranging between AED85,000 and AED140,000 per annum. The highest income bracket represented by households earning AED32,000 and above per month are 28% of households. Rental affordability at this top tier of the market starts at AED140,000 per annum.

Exhibit 4: Monthly Household Income Distribution in Abu Dhabi

Source: Colliers International

* Total households excluding households in company/shared accommodation
“44% of households* in Abu Dhabi can afford rentals between AED42,000 and AED85,000 p.a.”

*Total households excluding households in company/shared accommodation
Rental Rates

Average rents across Abu Dhabi increased 11% year-on-year (Avg. 2013 – Avg. 2014). Compared to 2008 however, average rents are currently 49% below the peak.

While newer established residential developments such as Al Raha Beach and Al Reem Island continue to witness significant increases in rentals, more affordable housing locations such as Mohammed Bin Zayed City, Markaziya and Al Zahiya have witnessed the highest increases in rental rates YOY (10%), highlighting the growing demand for more affordable housing.

The combination of increasing population and the removal of the rent cap* is expected to maintain the upward trend in rental rates, until the supply gap met.

*The rent cap was introduced in 2006 and was set at 5% in 2010, before being removed in November 2013.

“More affordable housing locations such as Mohammed Bin Zayed City, Markaziya and Al Zahiya witnessed the highest YOY rental increases”

Exhibit 5: Average Rental Rates in Key Residential Districts across Abu Dhabi

Source: Colliers International

Exhibit 6: Average Rental Rates per m²

Source: Colliers International
According to Colliers’ Rental Affordability Analysis, households earning AED15,000 can afford rentals across areas such as Mohammed Bin Zayed City and Markaziya. There are a number of households within this income bracket that occupy units in more expensive locations, however, they are spending more than 37% of their annual income doing so.

Exhibit 7 highlights rental options across key residential locations for two sample households in Abu Dhabi: households earning AED15,000 per month and a household earning AED35,000 per month.

As graphically illustrated, those earning AED15,000 per month are not only limited by location, but are also restricted to one bedroom units within these areas. The only two bedroom units that are even marginally affordable are those in MBZ City.

Rental options for households with a monthly income of AED35,000 are spread across many locations, albeit the majority are limited to one bedroom and two bedroom apartments. Households requiring a minimum of three bedroom units can afford these larger units in MBR City, Markaziya, Al Reef Downtown and Al Zahiya (TCA).

“Households earning AED15,000 or less, represent 33% of Abu Dhabi’s residential market, but are limited for rental options across areas such as Mohammed Bin Zayed City and Markaziya, and that too within one bedroom units. One bedroom units in Markaziya and Al Zahiya, as well as two bedroom units in MBZ City are also affordable, albeit marginally”

Exhibit 7: Rental Affordability Analysis : A comparison between two households
(1) Household earning AED15,000 per month  (2) Household earning AED35,000 per month

<table>
<thead>
<tr>
<th>Monthly Income: AED15,000</th>
<th>Locations</th>
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<td>Corniche</td>
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<td>Markaziya (City Centre)</td>
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<td>Khaldiya</td>
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<td>Al Zahiya (Tourist Club Area)</td>
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<td>Mohd Bin Zayed</td>
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<td>Al Reem Island</td>
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<td>Al Reem Island-Marina Square</td>
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<td>Al Reef Downtown</td>
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Source: Colliers International
According to Colliers’ Rental Affordability Analysis, households earning between AED10,000 – AED22,000 can afford to rent apartments in MBZ City. Households with a minimum income of AED14,700 can afford apartments in Al Zahiya (TCA), Markaziya and Khalidiya. Renting an apartment in the Corniche, Al Reem and Al Raha Beach would require a minimum monthly income of AED20,000.

Exhibit 8 maps rental options by household income levels across popular apartment locations in Abu Dhabi. Exhibit 9 illustrates the distribution of affordability levels by area.

**“While Mohammed Bin Zayed City is affordable to nearly all households in Abu Dhabi, Al Raha Beach is affordable to only 29% of households”**

**Exhibit 8: Rental Affordability Analysis: Affordability in Popular Apartment Districts**

<table>
<thead>
<tr>
<th>Household Monthly Income</th>
<th>Percentages</th>
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<tr>
<td>AED 10,000 – AED 22,000+</td>
<td>100%</td>
</tr>
<tr>
<td>AED 14,700 – AED 38,000+</td>
<td>80%</td>
</tr>
<tr>
<td>AED 20,000 – AED 48,000+</td>
<td>29%</td>
</tr>
</tbody>
</table>

Source: Colliers International
Affordability in the Sales Market

Similar to the rental market, sales prices in Abu Dhabi have also witnessed an upward trend since 2012.

In 2014, average sales prices across freehold units in Abu Dhabi increased by 27% YOY (Avg. 2013 – Avg. 2014). Al Raha Beach remains a popular investment asset class, witnessing the highest YOY increase of 32% compared to all freehold developments illustrated in Exhibit 11.

Increasing rentals, and limited freehold supply in Abu Dhabi’s residential market is likely to improve investor appetite in the short to medium term.

“Sales prices have increased 27% YOY. The highest increase was witnessed in Al Raha Beach at 32%”
“Colliers International’s Mortgage Affordability Analysis suggests that, 67% of Abu Dhabi’s households* can afford mortgage payments for properties AED1 million and below”

*Total households excluding households in company/shared accommodation
Mortgage Affordability

Mortgages available for expatriates in Abu Dhabi generally require a minimum average monthly income AED15,000 (some banks set the minimum income at AED20,000), along with a down payment of 25% of the property’s value.

Interest rates vary significantly and are dependent on both the terms of the lender as well as the credit rating of the borrower.

Exhibit 12 illustrates the monthly instalments payable on a sample of properties of which the values range between AED 1 million and AED 5 million.

Colliers International’s Mortgage Affordability Analysis suggests that, 67% of Abu Dhabi’s households can afford mortgage payments for properties AED1 million and below.

Properties priced AED2 million or less require monthly installments up to AED8,200. These payments are affordable by 39% of households.

Properties priced AED2 million and above require mortgage payments in more than AED8,200, and therefore are affordable by 24% of households.

Exhibit 12: Average Monthly Instalments for Mortgages Based on Property Value

<table>
<thead>
<tr>
<th>Affordability by % of Households</th>
<th>Property Value</th>
<th>Avg. Monthly Instalment for Mortgage</th>
<th>Distribution (%) of Existing Freehold Apartment Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>67%</td>
<td>&lt; AED 1 Million</td>
<td>&lt; AED 4,100</td>
<td>6%</td>
</tr>
<tr>
<td>39%</td>
<td>&lt; AED 2 Million</td>
<td>&lt; AED 8,200</td>
<td>48%</td>
</tr>
<tr>
<td>24%</td>
<td>&lt; AED 3 Million</td>
<td>&lt; AED12,200</td>
<td>41%</td>
</tr>
<tr>
<td></td>
<td>&lt; AED 4 Million</td>
<td>&lt; AED16,300</td>
<td></td>
</tr>
<tr>
<td></td>
<td>&gt; AED 5 Million</td>
<td>&gt; AED20,300</td>
<td></td>
</tr>
</tbody>
</table>

Assumptions used to calculate mortgage payments:
- Interest rate: 4.25% reducing rate
- Repayment period: 25 years
- Borrowers’ leverage: 35% of income
- Down payment: 25% of property value

“The mortgage instalment for a property priced AED 2 Million is AED8,200 per month – a 35% leverage of a resident earning AED23,000 per month.”

Source: Colliers International
Affordability in Freehold Supply

Colliers’ research suggests that there are just over 16,000 freehold apartments handed over in Abu Dhabi; 6% of which are priced below AED1 million, and as previously mentioned require a mortgage payment of up to AED4,100 per month. These properties are affordable to 67% of Abu Dhabi’s households; clear mismatch between demand and availability of suitable and affordable supply. The market gap is graphically illustrated in Exhibit 13.

Freehold apartments priced between AED1 million and AED2 million represent 48% of supply, while demand for these properties are characterised by 39% of households.

Freehold apartments priced AED2 million and above comprises 45% of supply. However, based on mortgage affordability, demand for these properties are represented by 24% of households, highlighting a possible oversupply within the higher price category (considering only the resident market).

It is Colliers’ opinion that the mismatch between affordability and the availability of suitable housing, needs to be addressed when planning future developments.

“The combination of limited supply and upward rental trends in Abu Dhabi has resulted in an increased appetite for end-user investment. Al Reef 2 for example, is a popular development among owner occupiers, given its affordability”
“In order to prevent prices reaching unsustainable levels, governments regionally and internationally implement price controls to regulate the market and protect the interest of all parties”
Developing Affordable Communities Successfully

The development of affordable housing represents great potential to Abu Dhabi. Despite UPC’s attempt to address this market gap by means of planning guidelines, the acute undersupply of residential units persists.

Affordable housing when developed effectively, can provide high returns for investors. Community facilities such as neighbourhood retail, schools, healthcare services and leisure facilities can generate significant additional revenue for the developer, whilst maintaining affordable rental levels.

Developing a community integrated with such facilities in well connected locations (easy access to the main arteries, and public transport network), attracts high occupancy rates and retains the value of developments.

Public Private Partnerships between developers and the government can also assist to increase the availability of more affordable residential communities in Abu Dhabi.

Conclusion

As seen globally, governments are actively involved in providing developers access to well located and serviced land, home investment partnership funds, and favourable developer financing options as active incentives for developers to develop affordable housing.

Land infrastructure by the government is leveraged against social infrastructure and greater returns to the local economy. Revenues can take the form of fees for permissions, zoning, and utilities, or they can reflect sales, income, or fees generated by construction related economic activity.

Having access to housing that is affordable by the majority of households clearly results in both social and economical benefits.

With innovations in low-cost building technology (cost-effective construction methods, and not low-build quality) being applied across the globe, developers in Abu Dhabi can combine these mechanisms to effectively service the increasing demand for affordable housing.

It is Colliers’ opinion that offering more government incentive programs, access to well located and service land, affordable developer financing options, and Public Private Partnerships will increase the availability of housing units that are affordable to the majority of households.

“Public Private Partnership (PPP) is a potential way for developing Affordable Housing in partnership with Private Developers”

<table>
<thead>
<tr>
<th>Economic Benefits</th>
<th>Developer Benefits</th>
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<tbody>
<tr>
<td>Revenues can take the form of fees for permitting, zoning, and utilities, or they can reflect sales, income, or fees generated by construction related economic activity.</td>
<td>Incorporating revenue accelerators (retail / F&amp;B, healthcare and educational facilities) within affordable housing communities are likely to increase the developers’ overall returns on the project.</td>
</tr>
<tr>
<td>Improving Worker and Employer Attraction and Retention.</td>
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<tr>
<td>Increasing the Buying Power of Residents.</td>
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Source: Colliers International
Colliers International Development Solutions

SERVICES AT A GLANCE

• Strategic & Business Planning
• Economic Impact Studies
• Market & Competitive Studies
• Highest & Best Use (HBU) Studies
• Market & Financial Feasibility Studies
• Destination Consulting
• Design Reviews
• Financial Modelling
• Mergers & Acquisitions Assistance
• Buy Side Advisory/Sell Side Advisory
• Sale and Leaseback Advisory
• Public Private Partnership (PPP) & Privatisation
• Operator Search & Selection and Contract Negotiation
• Land, Property and Business Valuation
• Asset & Performance Management
• Site Selection & Land / Property Acquisition
• Performance Management and Industry Benchmark Surveys
485 offices in 63 countries on 6 continents

United States: 146
Canada: 44
Latin America: 25
Asia Pacific: 186
EMEA: 84

$2.1 billion in annual revenue
1.46 billion square feet under management
15,800 professionals and staff

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