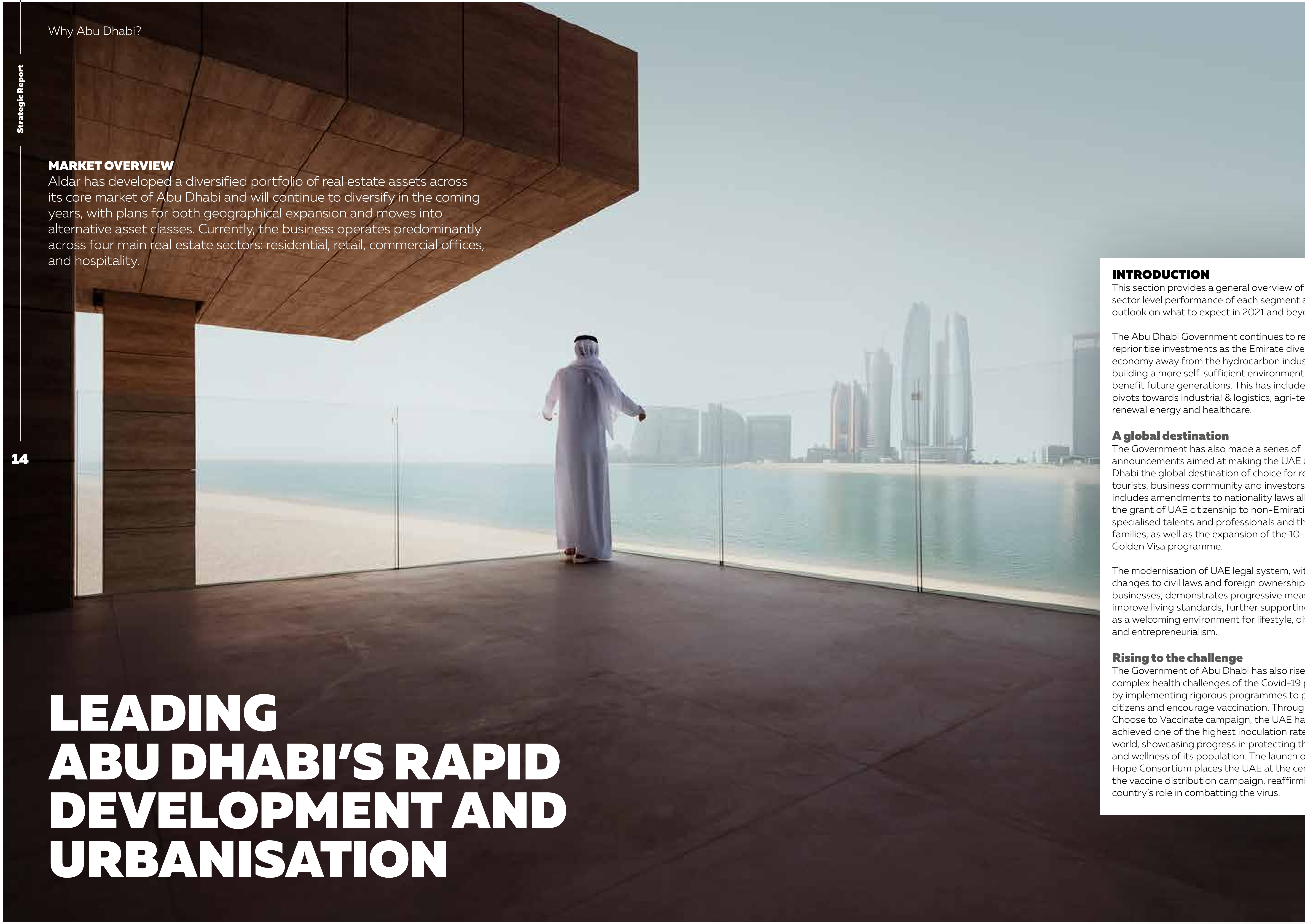


**MARKET OVERVIEW**

Aldar has developed a diversified portfolio of real estate assets across its core market of Abu Dhabi and will continue to diversify in the coming years, with plans for both geographical expansion and moves into alternative asset classes. Currently, the business operates predominantly across four main real estate sectors: residential, retail, commercial offices, and hospitality.

# LEADING ABU DHABI'S RAPID DEVELOPMENT AND URBANISATION

## INTRODUCTION

This section provides a general overview of the sector level performance of each segment and a brief outlook on what to expect in 2021 and beyond.

The Abu Dhabi Government continues to refocus and reprioritise investments as the Emirate diversifies the economy away from the hydrocarbon industry, building a more self-sufficient environment to benefit future generations. This has included recent pivots towards industrial & logistics, agri-tech, renewal energy and healthcare.

### A global destination

The Government has also made a series of announcements aimed at making the UAE and Abu Dhabi the global destination of choice for residents, tourists, business community and investors alike. This includes amendments to nationality laws allowing the grant of UAE citizenship to non-Emirati investors, specialised talents and professionals and their families, as well as the expansion of the 10-year Golden Visa programme.

The modernisation of UAE legal system, with changes to civil laws and foreign ownership of businesses, demonstrates progressive measures to improve living standards, further supporting the UAE as a welcoming environment for lifestyle, diversity, and entrepreneurialism.

### Rising to the challenge

The Government of Abu Dhabi has also risen to the complex health challenges of the Covid-19 pandemic by implementing rigorous programmes to protect its citizens and encourage vaccination. Through the Choose to Vaccinate campaign, the UAE has achieved one of the highest inoculation rates in the world, showcasing progress in protecting the health and wellness of its population. The launch of the Hope Consortium places the UAE at the centre of the vaccine distribution campaign, reaffirming the country's role in combatting the virus.

Amidst these changes, Abu Dhabi continues to receive strong support from both international debt and investment markets, with successful and oversubscribed bond offerings totalling around US$ 15 billion completed during 2020, including a 50-year tranche which was the longest term for a bond issuance from any GCC sovereign issuer. Major FDI transactions were also concluded, including a US$ 20.7 billion institutional investment into ADNOC's oil pipeline and wider oil infrastructure by Global Infrastructure Partners, Brookfield Asset Management, Singapore's sovereign wealth fund GIC, Ontario Teachers' Pension Plan Board, NH Investment & Securities and Snam. The deal was one of the single largest energy infrastructure deals of the year and reaffirms investor confidence in the national oil company.

With estimates for Brent Crude oil pricing in 2021 generally in the range of US$ 65-70/barrel, the Abu Dhabi economy is set to see an improved outlook as demand in global oil markets rebound from 2020's lows. ADNOC's US$ 122 billion five-year investment programme underlines Abu Dhabi's fundamental economic strength and strong ability to deploy capital ahead of recovery in global demand, ensuring the Emirate will remain a major, reliable energy producer in years ahead. This will have a positive impact on Abu Dhabi's oil and gas ecosystem and supply chain, and will inject further liquidity into the local economy.



## STIMULUS MEASURES

Amidst the unprecedented impact of Covid-19 on the global economy, the UAE and Abu Dhabi and government acted swiftly to help protect the economy and local businesses and citizens, by launching a series of stimulus packages, some of which will continue into 2021 as the effects of the pandemic continue to disrupt normal business activity.

### UAE Central Bank

The UAE Government and Central Bank of UAE have put in place far-reaching support measures to ensure the stability of the economy and shore up the financial position of individuals and businesses.

The AED 100 billion stimulus package includes measures to promote lending activity to small and medium enterprises (SMEs) and encourage new mortgages and reduce fees for individuals. The Targeted Economic Support Scheme (TESS) has also been extended to June 30, 2021 to further protect the economy from the financial impact of the pandemic. This includes an extension of the AED 50 billion Zero Cost Facility (ZCF) to support retail and corporate banking customers through collateralised zero cost funding.

### Abu Dhabi Finance and Department of Economic Development

The Abu Dhabi Department of Finance and Department of Economic Development and several Abu Dhabi banks, set out a 10-point package to help sectors and individuals worst affected by the pandemic, including retail, trade, and hospitality customers. This includes deferred instalments on both principal and interest payments on existing loans (personal, auto, mortgages, credit cards), halting of foreclosures on mortgages for defaulted customers, refunding of processing fees and instalment programs.

### Abu Dhabi Executive Council

To promote and encourage continued economic activity across the Emirate, all approved capital expenditure and development projects would be continued, whilst priorities would be given to start-ups and SMEs to help kick-start expansion of small business activities, including various initiatives through Ghadan 21 and Hub71, which focused on incubating new tech ventures. This was further supported by development of new investment laws and regulations, to ensure greater flexibility and to help maintain long-term economic growth.

A range of other fee reductions and waivers were also made, including commercial property registration (Tawtheeq) and commercial vehicle registration fees, rental rebates for restaurants, suspended tourism and municipality fees, reduced land rents for new industrial leases, as well as AED 5 billion in water and electricity subsidies for UAE Nationals and commercial and industrial sector businesses, as the governments strived to lower business and living costs. There was also a AED 3 billion allocation to the SME Credit Guarantee Scheme, which is managed by Abu Dhabi Investment Office (ADIO), to help protect smaller businesses.

## MARKET ANALYSIS

This section provides an overview of the performance of Abu Dhabi's residential, retail, office, and hospitality real estate segments during 2021 and an outlook for the coming years.

### Residential

During 2020, the residential sector saw contrasting fortunes for the sales and leasing segments, with the transactional market generally outperforming the leasing market. This was reflected in continued downside to average rentals across the year, against a more positive shift in sales values, at least during the second half of the year, as pricing levels found a floor after a multi-year decline in values. This included growth in sales values for many of Abu Dhabi's established investment zone villa communities as well as some other select projects.

Whilst most locations and unit typologies experienced lower rental rates, there were some exceptions, specifically good quality low-density housing communities (villas and townhouses) which witnessed an increase in demand and, in some cases, even modest rental growth. This was primarily driven by the impact of Covid-19 and some new emergent occupational trends, including higher demand from tenants seeking bigger spaces and greater privacy.

There was also an increase in the propensity of expatriates to upgrade their accommodation amidst heightened market affordability. This was also evident in the strong occupancy and rental performance of high-quality, well managed residential apartments, which bucked a broader shift away from high density locations.

With residential occupiers focusing on quality and space, there has been increased migration of residents from older areas on Abu Dhabi Island towards newer master planned destinations such as Saadiyat, Yas, Reem and Raha Beach. This trend is expected to continue as the market continues to experience rental deflation resulting in heightened affordability.

Overall supply and demand dynamics for the residential market remained finely balanced, with minimal new launches and a relatively manageable development pipeline, which has been supported by developer consolidations over the past decade, ultimately limiting private-led supply. However, demand has been impacted by job redundancies, with an overweight impact across the lower income segments, as the economic fallout resulted in employment losses across sectors such as aviation, construction, hospitality and trade.

Despite the impact to wider market sentiment, sales across Aldar's developments remained buoyant in 2020, driven by a combination of demand for standing inventory and off-plan through the launch of Noya. Moving forwards, sustained UAE household formation is expected to help drive sales for villas/townhouses and villa plots, further supplemented by upgrading trends of resident expatriates. Investment demand for smaller higher yielding apartments is also anticipated, supporting new launches of more affordable housing projects such as Water's Edge.

During 2020, the Abu Dhabi Region saw the completion of around 6,500[1] new units, bringing the total housing stock to approximately 267,000 units. Most units were delivered across master planned communities such as Reem Island, Raha Beach, including various legacy projects from previous development cycles.

Despite otherwise testing conditions, Aldar's residential asset management portfolio saw occupancy increase, rising from 88% in December 2019 to 89% at the end of 2020, significantly outperforming the wider market average, supported by a continued "flight-to-quality" to newer and well managed residential developments. Rental rates also demonstrated a premium to other similar secondary-landlord products in the market, underlining the strength of both the Aldar product appeal and property management regime.

### Outlook

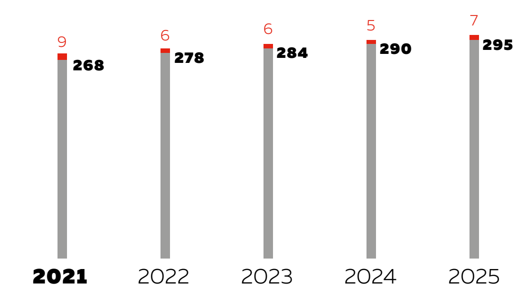
The long-term supply picture up to 2025 comprises over 30,000 new residential units, with the near-term picture oriented towards the investment zones, particularly Reem Island, Raha Beach and Yas Island, which together will dominate deliveries in the coming years. However, based on historical trends, the realisation rates for this supply may be much lower. This is likely to result in rising vacancy levels amongst secondary held units, amidst heightened competition between independent landlords, with rentals likely to face further sustained downward pressure at least in the immediate near term. However, as what has been the case, quality assets will continue to generate a premium and will attract the stronger demand flows, supporting more attractive long-term occupancy rates.



### FUTURE SUPPLY BY YEAR (2021-2025F)

Completed supply  Future supply

#### RESIDENTIAL




Residential Supply ('000/units)
Source: Aldar internal research/estimates.

## Commercial

As with 2019, only a small number of office completions were recorded during 2020, comprising nearly 50,000 sqm of Grade B accommodation, with total office stock now equating to around 3.8 million sqm of GLA as of year end.

With minimal new speculative supply delivered, high-quality Grade A office properties have generally benefitted from a "flight-to-quality" and have been able to either protect or grow their occupancy rates, despite an otherwise challenging macro-economic and business environment.

This has been primarily been driven by sustained demand from Government and GREs occupiers, as well as consistent take up of smaller fitted office spaces, due to prevalence of short-term contract work and rising demand for flexibility due to Covid-19 as well as other global trends. However, there has been some weakness in the SME segments, mainly impacting the Grade B/C market, with further muted performance expected during 2021.

At a wider market level, average vacancy rates have continued to rise, reflecting the continuation of a two-tiered market between prime Grade A and Grade B assets. Aldar's overall commercial office portfolio, witnessed positive tenant inflows, ending the year at an average occupancy of around 92%, the same level as 2019. However, the Grade A component of the portfolio significantly outperformed, with an average occupancy of around 96%[2] at the end of 2020.

### Outlook

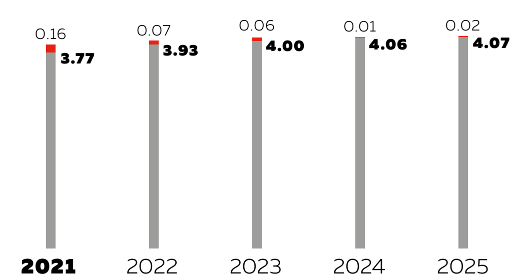
With no major recent launches, the future office pipeline remains steady with around 0.4 million sqm set for delivery between 2021-25. A large portion of this (circa. 90,000 sqm) will comprise the new Abu Dhabi Media Zone campus in Yas Island, which is being developed by Aldar on behalf of twofour54, meaning there is actually very limited speculative office accommodation likely to be delivered over the next five years.

This will provide some level of support to the Grade A market, although overall demand levels are likely to remain somewhat subdued in the short term with modest economic growth in 2021, likely to take place amidst an employment recovery.

### FUTURE SUPPLY BY YEAR (2021-2025F)

Completed supply   Future supply

**COMMERCIAL**




Office Supply (Mn/sqm/GLA)
Source: Aldar internal research/estimates.

## Retail

There were no major retail completions during 2020, with various projects seeing delivery dates pushed back into 2021 amidst prevailing difficulties across the sector. As a result, total retail stock remained close to 2.8 million sqm GLA[3] as of 31 December 2020.

With many malls closed for parts of the year and capacity restrictions in place across the majority, the sector faced a very testing 2020. Whilst asset performances have clearly been impacted, there was a strong rebound during H2 2020, with footfall and sales volumes recovering a significant portion of the ground lost during H1.

The market was also aided by a captive domestic market, with less outbound travel to popular shopping destinations in Europe, US and Asia during the summer months, meaning spending capacity remained in-country and specifically within Abu Dhabi. This was most evident in the performance of luxury, convenience, and parts of the Home segments, which saw growth across certain centres and retail brands.

However, the sector overall has been impacted by a reduction in spending power, with job losses and depopulation, adding to consumer led spending cuts due to ongoing uncertainty in the economy and wider jobs market. The impact has been most pronounced within lower income job segments, particularly across sectors such as construction, aviation, trade, and hospitality, which have seen the bulk of job losses over the past 12 months, with a lesser impact on higher yielding jobs. Consequently, there has been a more noticeable shift in remittance patterns, and a less noticeable change in sales volumes through high-quality retail assets.

Occupancy rates have come under pressure during the year, with Aldar's portfolio seeing a decline from 89% at the end of 2019 to 83% a year later, although occupation levels were impacted by ongoing redesign and refurbishment works across a number of retail facilities.

### Outlook

There is approximately 550,000 sqm GLA of new retail space set to be delivered by the end of 2025, with the largest component coming from the anticipated completion of Reem Mall on Reem Island. The super-regional centre comprises around 185,000 sqm and is likely to be completed in 2022.

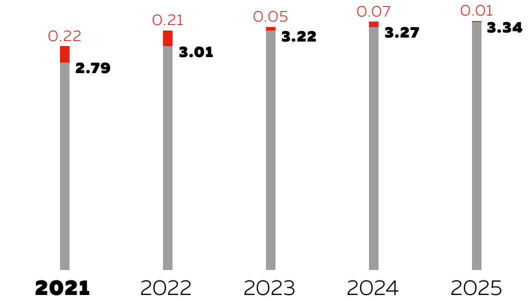
Most of the remaining supply is spread across community malls and other street and mixed-use retail projects, as developers in the Emirate start to move away from the construction of large scale malls. Whilst new supply will add further pressure to the retail sector, it is likely to be felt more acutely across older retail assets which lack entertainment and destination appeal.



### FUTURE SUPPLY BY YEAR (2021-2025F)

Completed supply   Future supply

**RETAIL**




Retail Supply (Mn/sqm/GLA)
Source: Aldar internal research/estimates.

## Hospitality

As with all markets globally, Abu Dhabi's hospitality sector was severely disrupted by the negative impact of Covid-19, which led to restricted tourism flows both internationally and domestically. Many major sport and leisure events and conferences were also cancelled. As a result, during 2020, visitors totalled 3.15 million, down around 39% from 5.1 million in the previous year[5].

However, despite the very challenging landscape for global and regional tourism, Abu Dhabi's hotels ended the year with an average occupancy of around 66%, down from 73% in 2019[5] fairing better than neighbouring Dubai which saw average occupancy rates fall from 75% in 2019 to just 54% in 2020[5].

Occupancy rates in Abu Dhabi were supported by the temporary closure of some properties and the use of others for quarantine facilities, which effectively removed some rooms from the market and helped to stabilise performance. This was further supported by the lack of new supply, with no major hotels opening during the year as completions were pushed back into 2021.

Average room rates were also widely affected, with ADRs of AED 283/night versus AED 369/night during 2019, down around 23% year-on-year[5].

Aldar's hospitality portfolio, which includes nearly 3,000 hotel keys was significantly disrupted by Covid-19 with average occupancy rates declining from 75% in 2019 to 46% in 2020, with hotel closures limiting the performance of key assets over the course of the year.

### Outlook

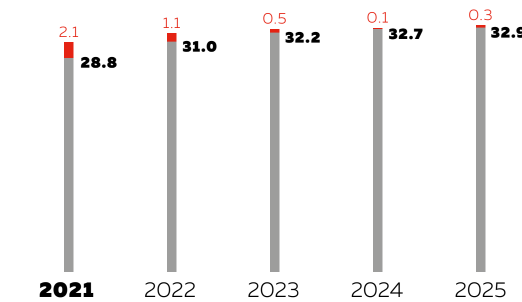
After no major deliveries were recorded during 2020, a number of new properties will start operations during 2021, including the recently opened Hilton Yas Bay, potentially adding close to 2,000 new keys to the existing 28,854 rooms across the Abu Dhabi Region[4]. With overall tourism demand likely to remain muted in the face of ongoing travel restrictions, the market is expected to see a modest recovery, but visitor numbers will remain well below 2019 levels, in what is likely to be a multi-year recovery.

Despite the challenges, the Government of Abu Dhabi continues to invest in the tourism and hospitality sector, with various cultural and leisure facilities set to be completed over the next two years which will further bolster the Emirate's vacation market appeal, including the Zayed National Museum on Saadiyat Island and Sea World on Yas Island.

### FUTURE SUPPLY BY YEAR (2021-2025F)

Completed supply   Future supply

**HOSPITALITY**




Hospitality Supply (keys) Thousands
Source: Aldar internal research/estimates.

References
1 Aldar research estimation.
2 Aldar Grade A office portfolio consists of HQ, International Tower, North Park, Al Mamoura, and excludes other Grade B properties.
3 Aldar Super Regional Mall portfolio consists of Yas Mall and Al Jimi Mall excludes other smaller Regional, Community and Neighbourhood sized schemes.
4 Department of Culture and Tourism (DCT) data on hospitality performance across Abu Dhabi.
5 Department of Tourism and Commerce Marketing (DTCM) data on hospitality performance across Dubai.