



Sun and Sky towers on Al Reem Island in Abu Dhabi. Flavindranath K / The National

Real Estate: The Next Step in Abu Dhabi's Economic Future

Unlock new investment potential through a strategic approach to real estate development

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Executive Summary

The Emirate of Abu Dhabi is one of the Middle East region's economic powerhouses, with a strong GDP growth rate. However, its reliance on oil & gas to drive growth is unsustainable for the long term. The Abu Dhabi government is looking to diversify the types of industries that operate within the Emirate. The real estate sector there is primed for success, and the government should invest in key potential economic diversification levers at its disposal. The industry has massive potential to rapidly attract local, regional, and foreign direct investment by leveraging and maximizing projects already underway around the Emirate's islands and elsewhere.

Here, we demonstrate how Peppers & Rogers Group's Real Estate Investment Decision-Making Framework can be applied to unlock the enormous economic potential of the Abu Dhabi real estate sector.



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At a Glance

- Abu Dhabi's extensive reliance on oil & gas is unsustainable moving forward.
- Solid real estate legislative frameworks drive investments in the global real estate market.
- Areas of focus include real estate indices, regulating real estate professions, and increasing real estate investment promotion.

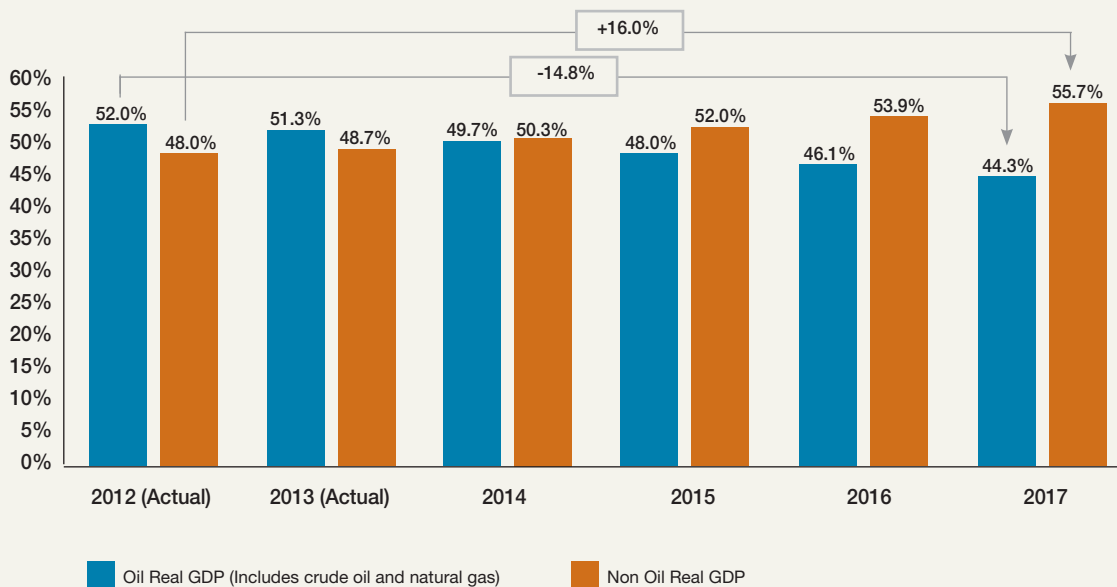
Real Estate: A Key Pillar for Economic Diversification

From a macroeconomic perspective, the Emirate of Abu Dhabi is performing well. Its estimated 7 percent growth in population in 2014 is coupled with 4.3 percent growth in GDP in 2014. It has received solid ratings across the board from global agencies: Aa2 Moody's Rating, AA S&P Rating, and AA Fitch Rating¹. Furthermore, Abu Dhabi will witness this year an influx of more than 3.1 million tourists². To maintain its economic growth, the Abu Dhabi government is investing more than USD 100 billion in major infrastructure projects¹.

Much of this growth is built on the oil and gas resources in the region. Government leadership established a consensus that the extensive reliance on oil and gas is unsustainable moving forward. In the report, Abu Dhabi Economic Vision 2030, the government highlights the importance of building a sustainable knowledge-based economy supported by an empowered private sector engaged in diverse areas of the economy.

One of the key potential economic diversification levers at the disposal of the Abu Dhabi government is the real estate sector.

FIGURE 1: Percentage Distribution of Abu Dhabi GDP by Economic Activity at Constant Prices 2012-2017



Source: Abu Dhabi Department of Economic Development

We at Peppers & Rogers Group believe that one of the key potential economic diversification levers at the disposal of the Abu Dhabi government is the real estate sector. By leveraging infrastructure projects already underway, particularly the development of landmark free-hold projects such as Al Reem Island and Saadiyat Island, there is massive potential to rapidly attract local, regional and foreign direct investment into the Emirate.

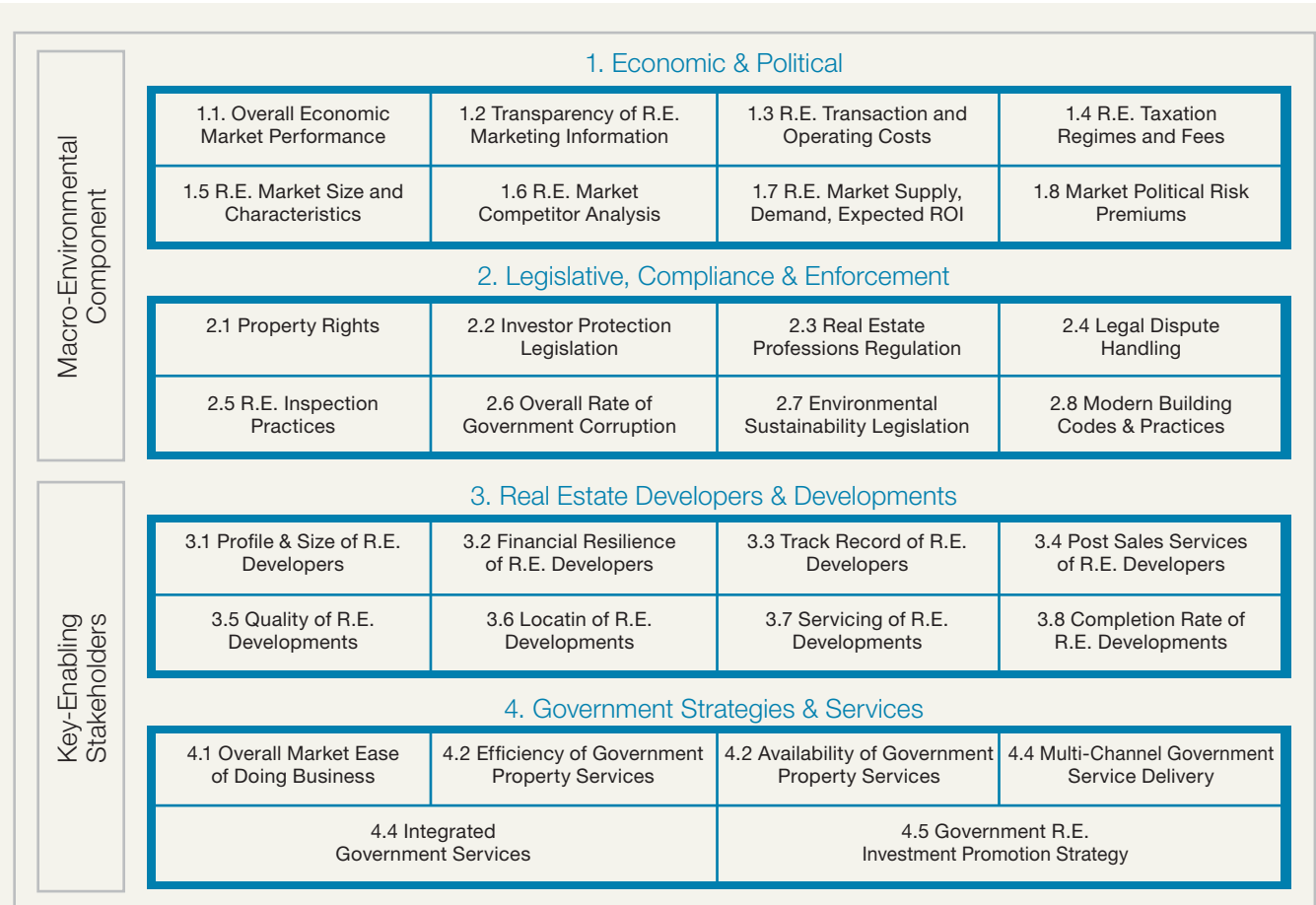
Four Ways to Unlock Economic Potential

In its *2009 Investor Sentiment Report*, Jones Lang LaSalle highlighted the fact that in the pre-crisis economy, the leading factor driving foreign direct investment in the real estate markets globally was capital growth². Alternatively, in the post-crisis economy, global real estate investors facing new realities now believe that the leading factor driving investments in global real estate markets is the presence of solid real estate legislative frameworks². Today, investor sentiment is being pulled toward a heavy focus on capital growth and financial gains³ once again by an increasingly bullish real estate market outlook.

The leading factor driving investments in global real estate markets is the presence of solid real estate legislative frameworks.

These trends can be put into practice in Abu Dhabi. The government can transform its real estate sector to compete both locally and regionally with some of the most vibrant real estate markets by applying Peppers & Rogers Group's Real Estate Investment Decision-Making Framework. Specifically, there are four areas of opportunity in which to focus: legislative frameworks, real estate indices, regulating real estate professions, and increasing real estate investment promotion.

FIGURE 2: Peppers & Rogers Group's Real Estate Investment Decision-Making Framework



Source: Peppers & Rogers Group

1. Real estate legislative frameworks

To attract local, regional, and foreign direct investment into the real estate market of the Emirate of Abu Dhabi, the local government should enact key legislations aimed at revamping the current legislative frameworks with a concrete mandate to protect investors. There are three critical legislative reforms required to this end:

1. Escrow law
2. Off-plan sale law
3. Strata ownership law

Escrow accounts are accounts established by real estate developers and managed jointly by banks and the pertinent authorities, under the provisions of the aforementioned legal frameworks, for the purpose of holding funds on behalf of investor's principal until the completion of the units by the real estate developers. Payments are handed out to real estate developers as they complete the construction of units. Off-plan sale law is about governing the relationship and obligations of the involved parties (such as handling of delays, cancellations, etc.) from the period of sales launch until property handover.

Both of the legislations combined will safeguard the interests of investors when it comes to off-plan sales protecting them from potential reneging real estate developers in the event of an unforeseen economic downturn.

Strata ownership laws advocate for the creation of governance bodies, including real estate owners and owners associations. They will increase investor confidence and protect them against the total control that developers enjoy today in terms of setting service fees and other essential interest points. On the other hand, Abu Dhabi should learn from neighboring Dubai regarding the cultural and operational hurdles it may face during the implementation of such a law. Although Dubai enacted Law No. (27) concerning Jointly Owned Property Declarations (JOPD) in the Emirate of Dubai in 2007, implementation issues persist.

"In the current market where everybody is getting excited about real estate, asking prices rise more quickly than achieved prices, which means that the gap between the two is widening. The lack of reliable information does cause distortion to the market. We believe that asking prices are currently probably around 20 percent higher than achieved sales prices. At the moment, there is very little that individual buyers can do to find out reliable information about the market, but we believe this is an opportunity for the government and the industry to work together to provide more reliable information."

*—Jones Lang LaSalle Dubai – February 2014
Head of Research*

2. Real estate indices

The real estate market in Abu Dhabi suffers from a rampant lack of accurate indicators or measures to drive investment decisions. The introduction of real estate indices will aid in promoting transparency and sound decision making on behalf of real estate investors. There are a large number of potential real estate indices that the Abu Dhabi government may choose to publish, but we believe that there are three essential and simple indicators that can be made immediately available:

1. The average price of real estate units per unit type per area will support investment decision making by real estate investors.
2. The average rental price of real estate units per type per area will assist investors in having accurate estimates regarding rental return on investments in the immediate future, as well as support them in revisiting their position in the future.
3. Occupancy rates per unit type per area in collaboration with Abu Dhabi Water & Electricity Authority will help investors determine the rental supply market.

3. Regulating real estate professions

Today, key real estate professionals in the Emirate of Abu Dhabi such as brokers, surveyors, valuers, and auctioneers are either largely unregulated or consolidated within the public sector. The unregulated workforce is leaving the market open to opportunistic ventures by unqualified professionals. On the other hand, professions restricted to the public sector are intrinsically inefficient.

Regulating real estate professions by introducing mandatory trainings and certifications, as well as opening up the opportunity for professionals from the private sector, will revitalize the real estate professional market by creating more jobs in the private sector which will in turn drive competition leading to cheaper services with an overall higher quality. The above mentioned scenario will in turn increase the interest of investors to invest in the Abu Dhabi real estate market.

4. Increasing real estate investment promotion

Abu Dhabi resides in a highly competitive neighborhood in terms of real estate markets, with competitors investing large sums of money in promoting their real estate markets and attracting foreign direct investments into them.

Therefore, the Abu Dhabi government should establish a solid real estate investment promotion strategy focusing on projecting the strengths and stability of the Abu Dhabi real estate market, as well as promoting and attracting foreign direct investment from global real estate investors. An illustrative example of stability that Abu Dhabi could potentially leverage is that unlike neighboring Dubai, where the global financial crisis had a profound effect on the real estate market, Abu Dhabi remained relatively unaffected due to a quick and effective action plan by its government. The action plan included injecting 330 billion AED into the real estate market and re-prioritizing government-backed projects⁴.

The Abu Dhabi government should establish a solid real estate investment promotion strategy focusing on projecting its strengths and stability.

Conclusion

The Emirate of Abu Dhabi is on a solid economic growth trajectory. Major developers in the Emirate are well-known to be high quality developers with a strong history of financial resilience, mainly due to backing by the oil-rich government of Abu Dhabi. In order to further push its economic diversification agenda, we believe real estate is one of the key levers the Emirate can rely on. To promote investment in real estate, Abu Dhabi should modernize its related legal frameworks, increase transparency by introducing reliable and available real estate indices, regulate real estate professions, and increase spending on real estate investment promotion, among other things.

Today, it is widely discussed that the Department of Municipal Affairs, the custodian of real estate governance in Abu Dhabi, along with major government partners such as municipalities, General Secretariat of the Executive Council and Urban Planning Council, and major private and semi-governmental developers and financial institutions, are collaborating to draft and enact an upcoming real estate law that may transform the Emirate's real estate market in the near future.

About Peppers & Rogers Group

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