

White Paper

Measuring Affordability Levels in Abu Dhabi | UAE  
December 2014



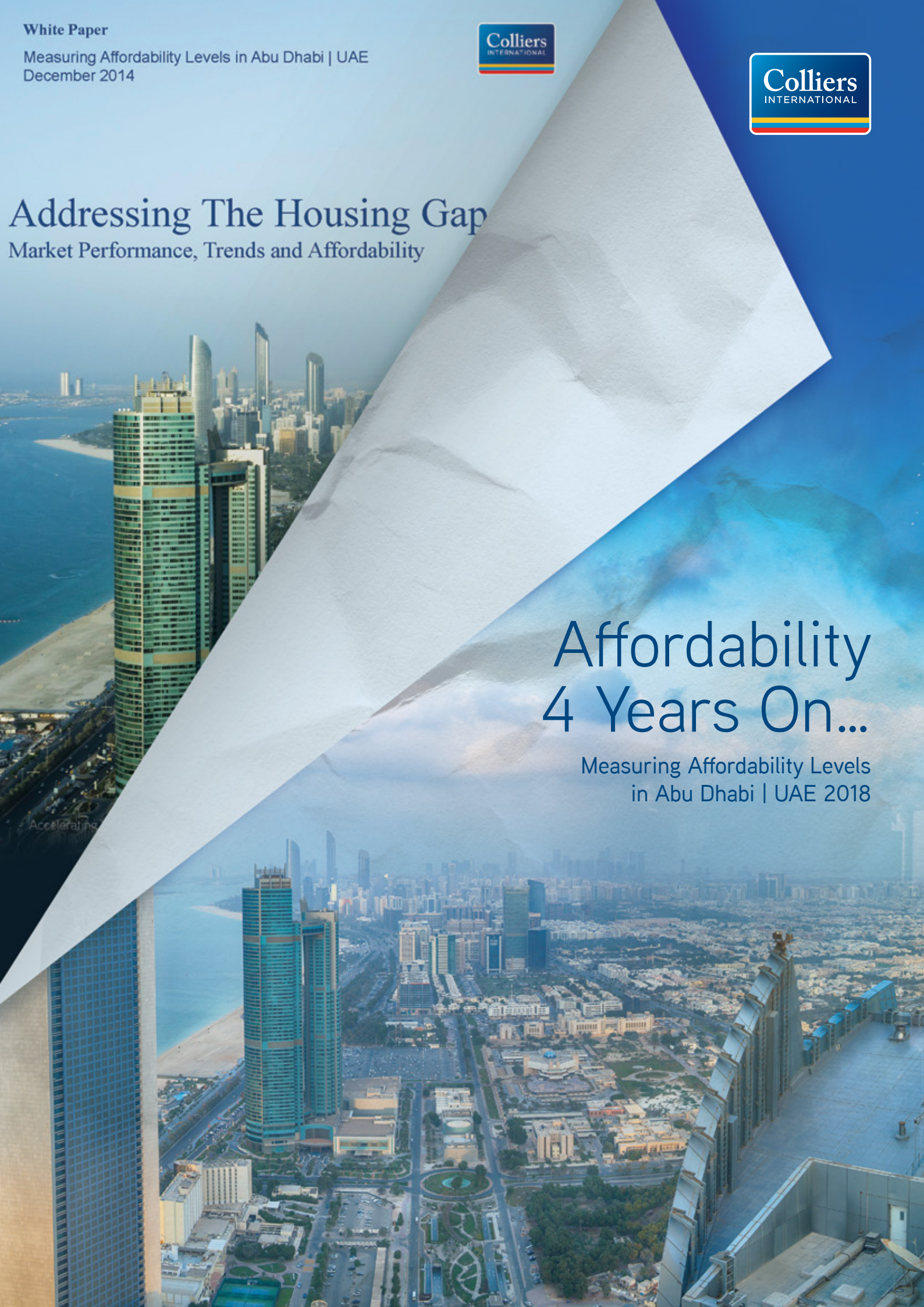
# Addressing The Housing Gap

Market Performance, Trends and Affordability

# Affordability 4 Years On...

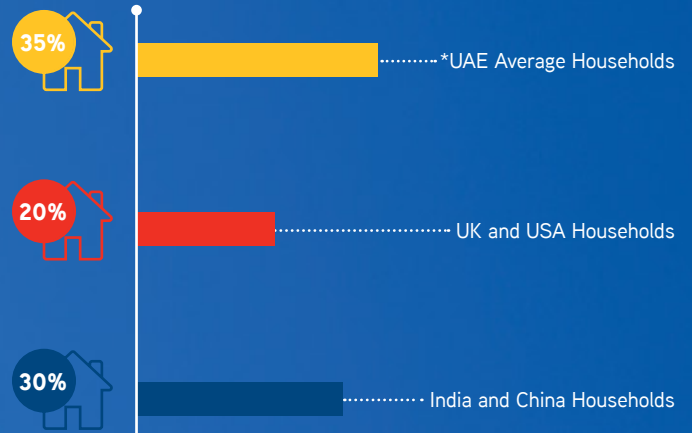
Measuring Affordability Levels  
in Abu Dhabi | UAE 2018

Accelerating



# Definition of Affordable Housing:

The definition of affordable housing varies from market to market subject to local economic variances. For this overview, Colliers defines Affordable Housing as housing units that are priced in a manner that could be purchased and/ rented by an average household utilizing 35%\* of their income. In mature real estate markets such as UK and USA, households spend approximately 20% on housing, while developing markets such as India and China households spend approximately 30%. The relatively higher spend of housing in the UAE is likely to the tax free economy.



\* In the UAE, income expenditure surveys conducted by government bodies suggests that average households spend 32% - 37% on housing.



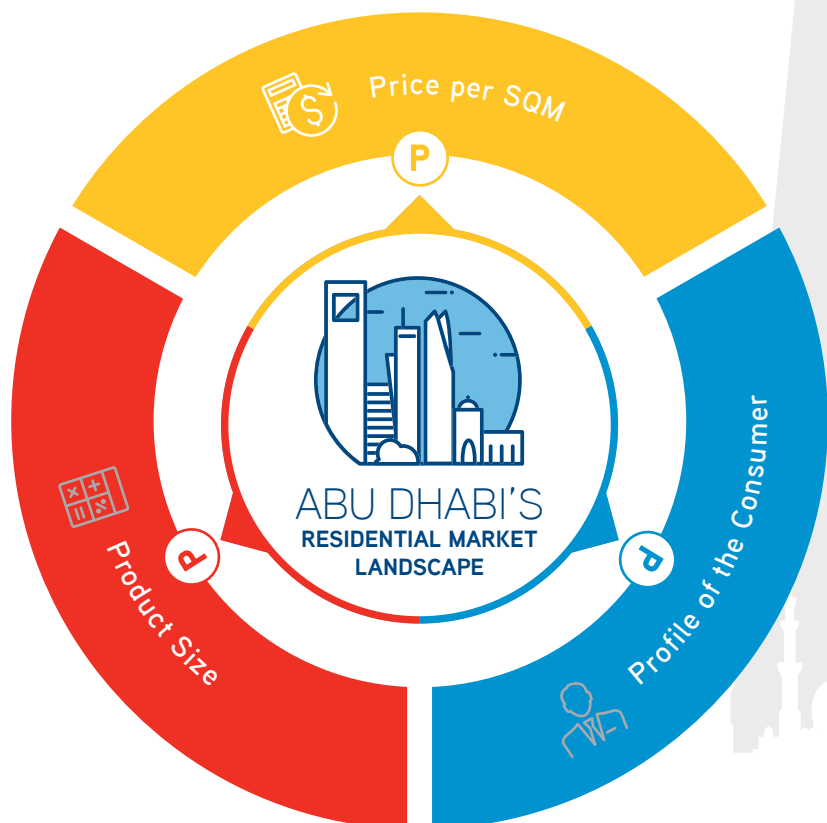
# AN INTRODUCTION TO ABU DHABI'S RESIDENTIAL MARKET LANDSCAPE

## An ongoing transformation of quality affordable living

2014 saw the publication of the first report, authored by Colliers, that looked into the need for and the size of the affordable housing market in Abu Dhabi – Four years later we return to look at the impact of that report and what, if anything, has changed.

In the 2014 report Colliers studied average income levels of households in the emirate and highlighted the opportunity for developers within this undersupplied market. Since then, the market witnessed significant changes; the introduction of new affordable housing plans and tier-one developers such as Aldar launching more affordable developments have proved successful despite increasingly competitive environment.

Affordable housing has not only driven by the price per sqm of net sellable area of the unit, but also the product/ unit size and the changing consumer profile (income vs, expenditure). These critical elements form part of the platform of the residential market. In 2018, the net effect of the introduction of affordable housing units priced less than AED 11,000/sqm are expected to reach approximately 15% of total freehold units.



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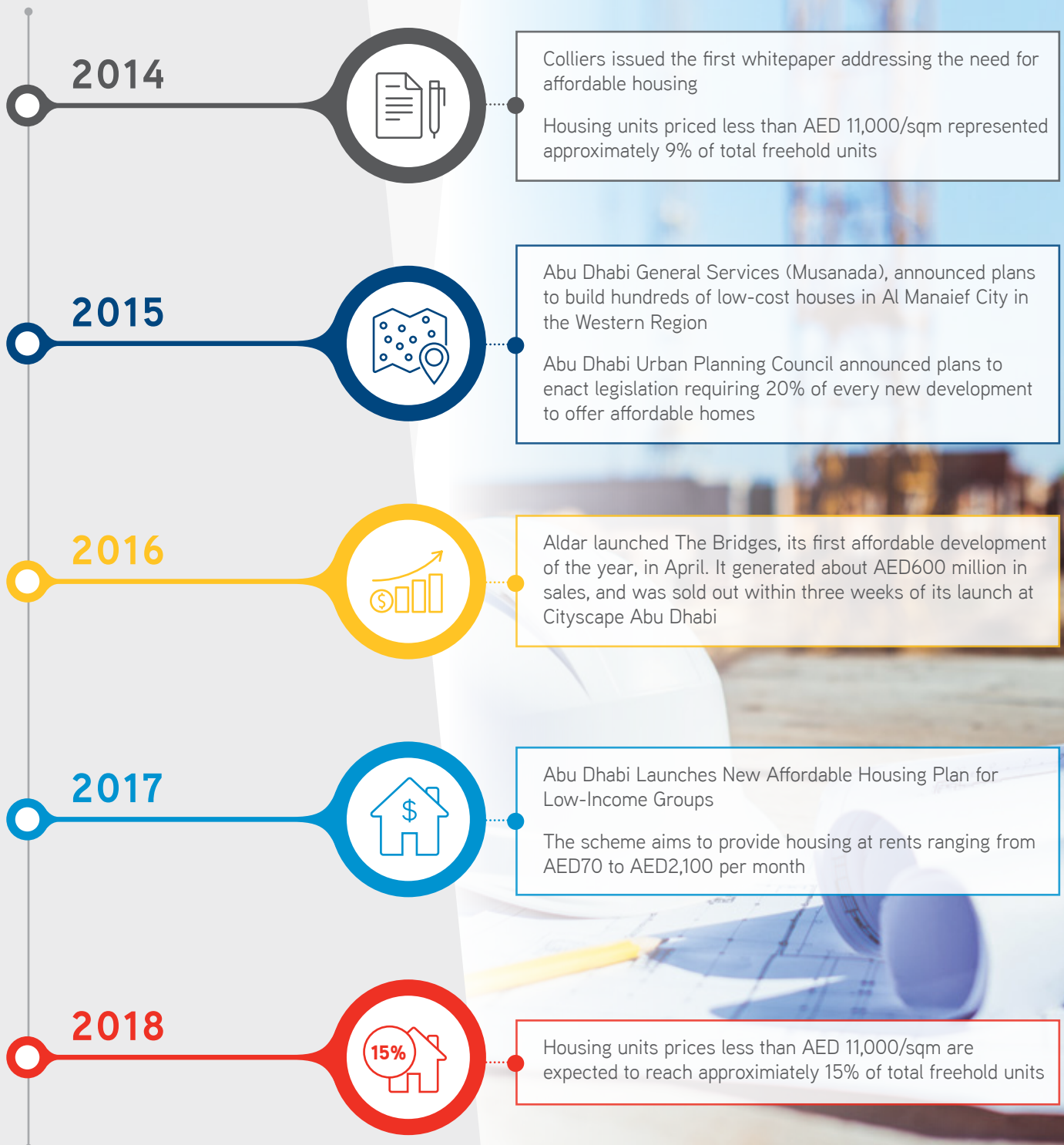


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These elements have been analysed in detail since 2014 (the first whitepaper issued by Colliers on Abu Dhabi's affordable housing gap). The results of the landscape shift have been summarized in this overview

# Price Affordability Landscape – Rental Market

THE TIMELINE BELOW GRAPHICALLY PRESENTS THE KEY EVENTS DURING 2014 – 2018 WHICH SHAPED THE EMIRATES HOUSING MARKET.

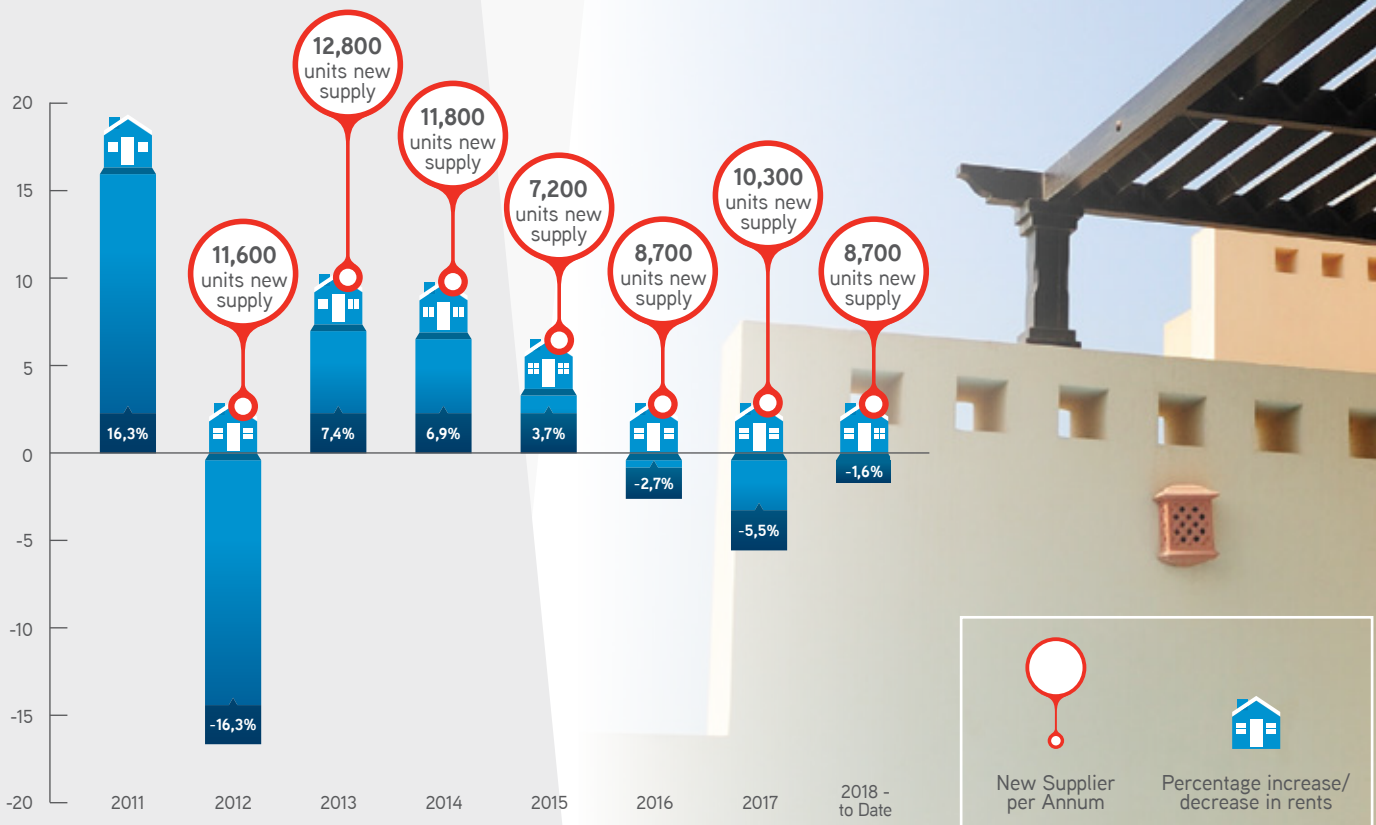


# Price Affordability Landscape – Rental Market

## Abu Dhabi's

Residential Rental Market - YOY % Change

Source: Colliers International 2018



From 2015 Abu Dhabi's rental market has witnessed YOY declines, albeit not greater than 5.5% (overall). Declines however, vary significantly from location, community and unit type. However, unlike its neighbor, Dubai where there is a large volume of freehold properties, in Abu Dhabi, the market continues to be dominated by the leasehold market. Popular locations for rentals include Abu Dhabi Corniche, Markaziya, Tourist Club Area, Khalidiya and Mohammad Bin Zayed City.

Affordable freehold areas such as Al Reef and to a certain degree Yas Island have gained popularity among the mid and upper-mid income groups.

Decline in Rental Market since 2014: **10% - 30%**

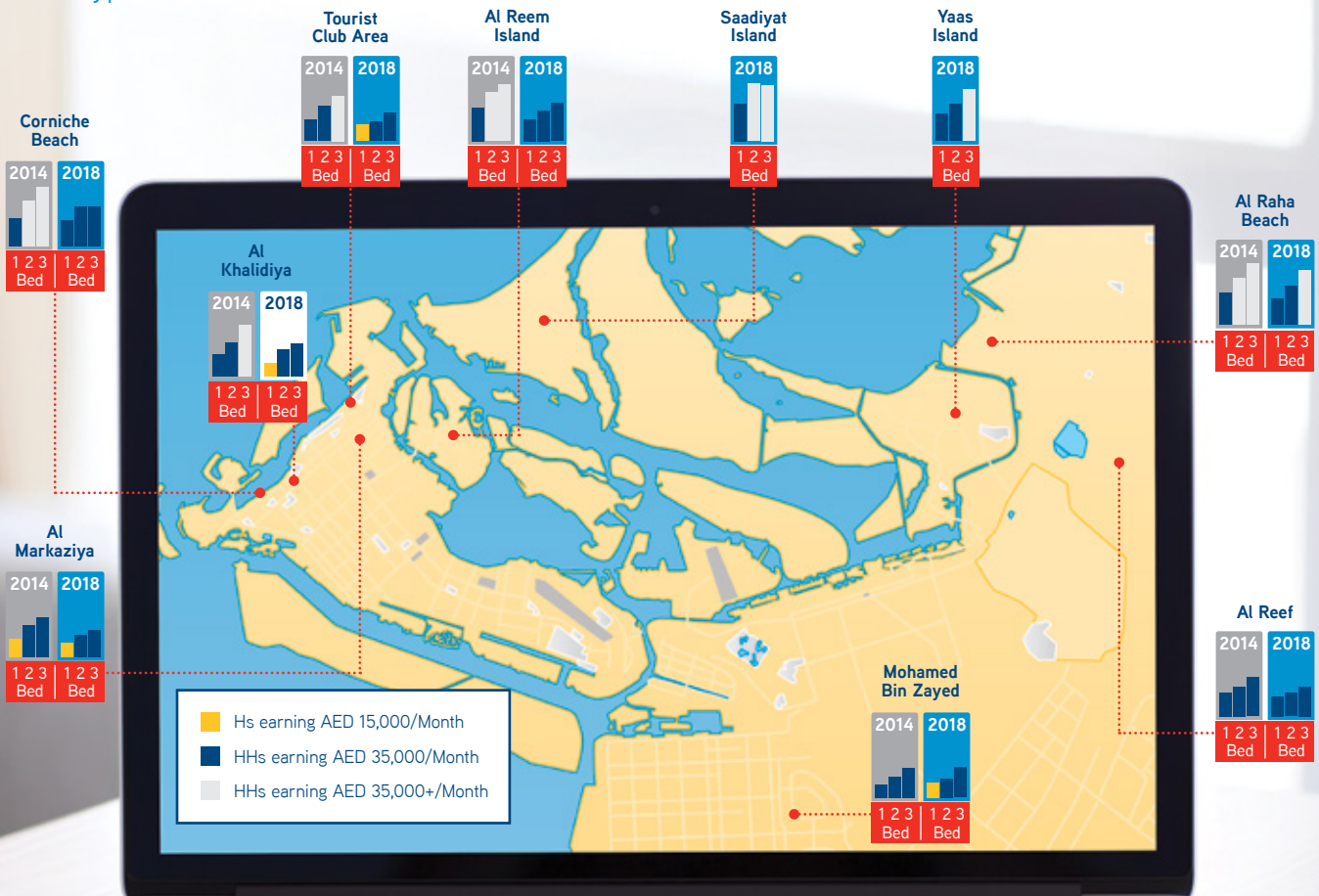
# Rental Market Landscape



In our whitepaper in 2014 we compared two household income types; those earning AED 15,000 and AED 35,000 per month. The same analysis was conducted with 2018 prices, and the results reflect a more affordable market landscape. The illustration below outlines the monthly payments required to rent an average apartment in key residential districts across Abu Dhabi by unit type.

The rental options now available for a household earning AED 15,000 spreads across Al Markaziya, Khalidiya, TCA and MBZ City. However, these are limited to 1-bedroom apartments only. Renting a two-bedroom apartment or larger for households in this brackets will result in the household spending more than 35% of their income on rent. The rental analysis also suggests that options for those earning AED 35,000 have also increased since 2014. These households can now afford to rent three bedroom apartments in Corniche, Khalidiya, TCA and Reem Island. Four years ago renting a three bedroom apartment for the same household was affordable only in Markaziya, MBZ and Al Reef.

## Average Monthly Rental Payments by Location and Unit Type (AED)



Source: Colliers International 2018



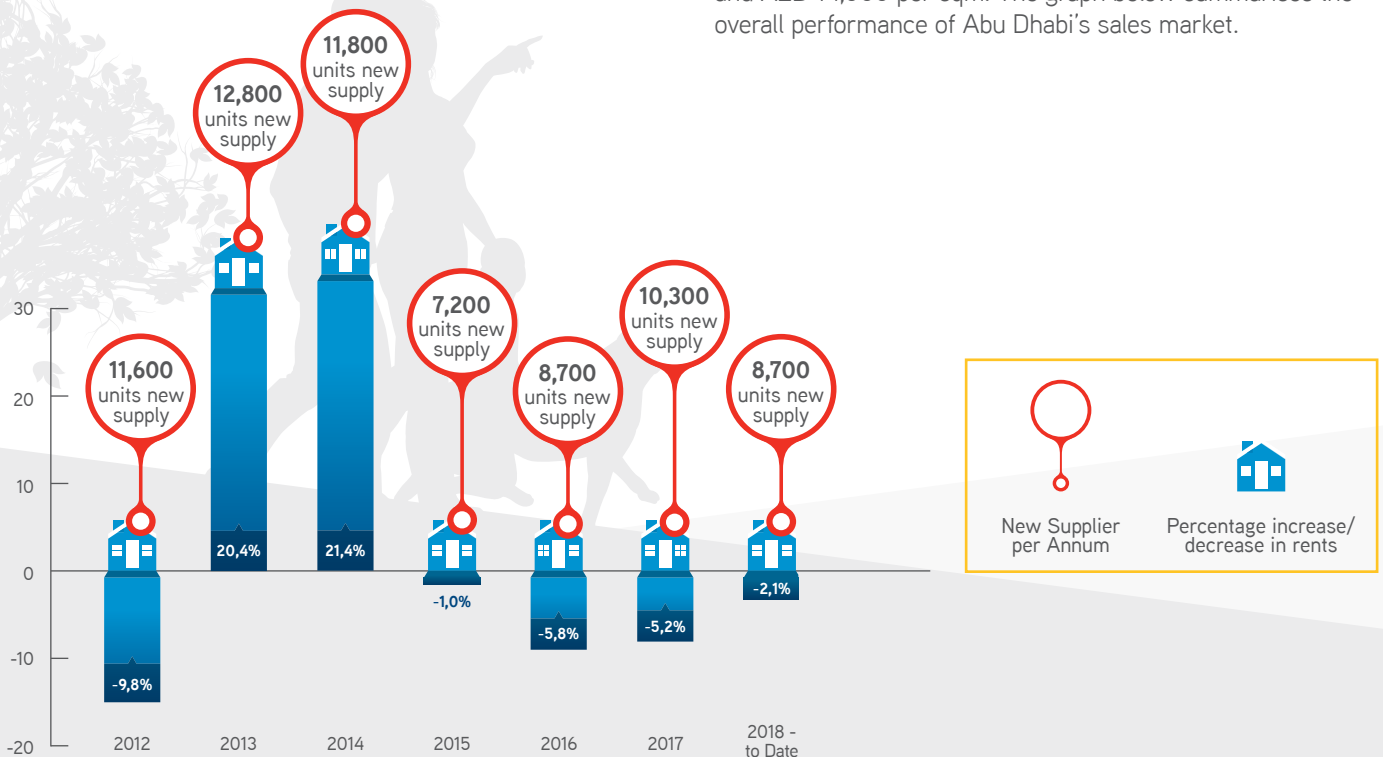
# Price Affordability Landscape – Sales Market

## Abu Dhabi's Residential Sales Market - YOY % Change

Source: Colliers International 2018

### A DECLINE IN PRICES, BUT INCREASED AFFORDABILITY

Like the rental market, Abu Dhabi's residential sales market witnessed YOY declines each year from 2015. The freehold market also witnessed a number of new supply coming in with more affordable price tags, especially in Al Reef and Yas Island. Saadiyat Island currently represents the higher-end of the freehold market with average prices ranging between AED 14,000 and AED 17,000 per sqm for apartments. Alternatively, average prices in Al Reef, which is a more affordable freehold development ranges between AED 9,500 and AED 14,000 per sqm. The graph below summarises the overall performance of Abu Dhabi's sales market.



# Sales Market Landscape

Colliers calculates equal monthly installments (EMIs) for purchasing a unit based on the households' ability to meet monthly repayments post of a minimum down payment of 25%. The the map below outlines the monthly payments required to rent an average apartment in key freehold residential districts across Abu Dhabi by unit type.

The options available for a household earning AED 15,000 (provided the 25% down payment is made) are spread across various unit types in Abu Dhabi's freehold districts. However, in upmarket districts such as Al Raha and Saadiyat Island, households earning AED 15,000 are limited only to studio units should they wish to spend a maximum of 35% of EMIs. Prices in Al Reef have become more affordable since 2014 and now with an average EMI of approx. AED 3,800 a household earning AED 15,000 a month can afford to purchase a 2-bedroom unit, spending 35% of their monthly income. The overall sales price analysis also suggests that investment options for those earning AED 35,000 have also increased since 2014.

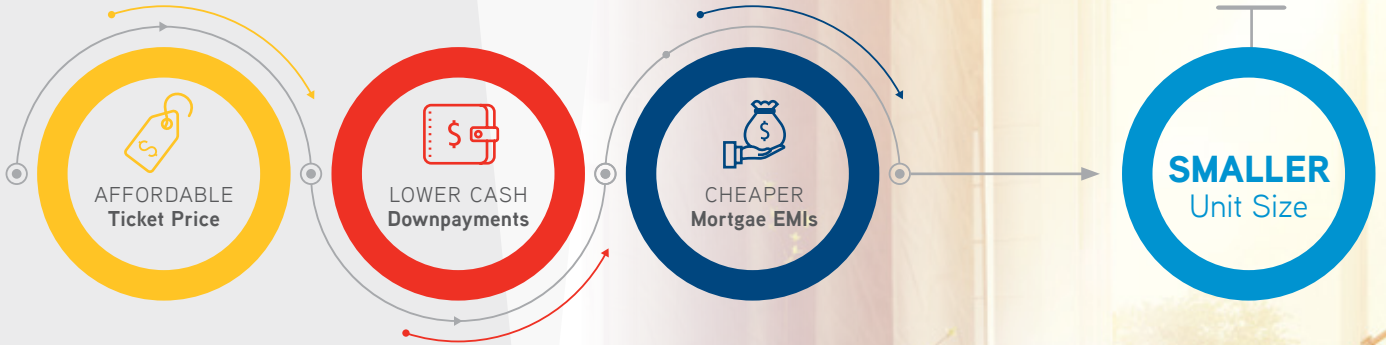
Average Monthly EMI by Location and Unit Type (AED)\*



# Product Sizes

## A CONTRIBUTION TOWARDS AN AFFORDABLE PRODUCT

While affordability primarily relates to price points, a closer look into the average unit sizes available in 2014 vs today suggests smaller, more compact units have entered the market. The smaller unit sizes have resulted in an overall affordable ticket price, lower cash down payments and cheaper mortgage EMIs, making the residential market more attractive for investors.



## Below Table

average unit sizes across Abu Dhabi's key freehold residential districts during 2014 vs. 2018





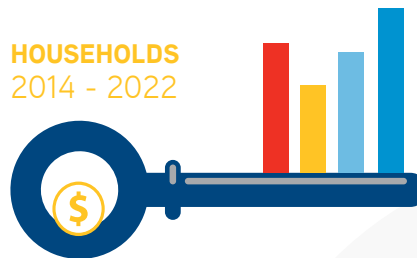
# Consumer Profile

## INCOME EXPENDITURE TRENDS AND THEIR RETURN ON INVESTMENT

The latest income expenditure survey for Abu Dhabi was published in 2009 and therefore, Colliers as a reliable alternative, has analyzed income and expenditure trends for the UAE since 2014. UAE's per capita expenditure suggests that total expenditure among households in UAE witnessed significant declines during 2014 - 2016.

In 2017 expenditure increased approximately 7% YOY, and is expected to continue the same momentum until

### HOUSEHOLDS 2014 - 2022

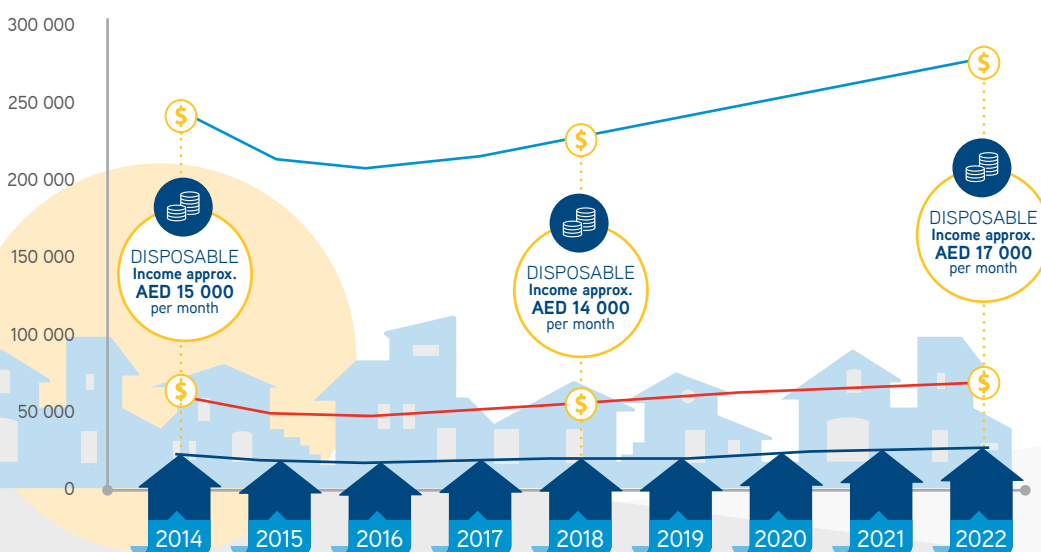


2020, after which YOY growth rates are expected to slow down to 4%. Household spending on housing and utilities are also expected to maintain the same growth rates of overall expenditure.

Per capita Household income on the other hand is expected to grow at 5% YOY until 2022. The chart below graphically illustrates the expected income and expenditure trends moving forward.

## Household Income Vs. Expenditure

Source: UAE National Bureau of Statistics, Business Monitor International, Colliers International Analysis, 2018

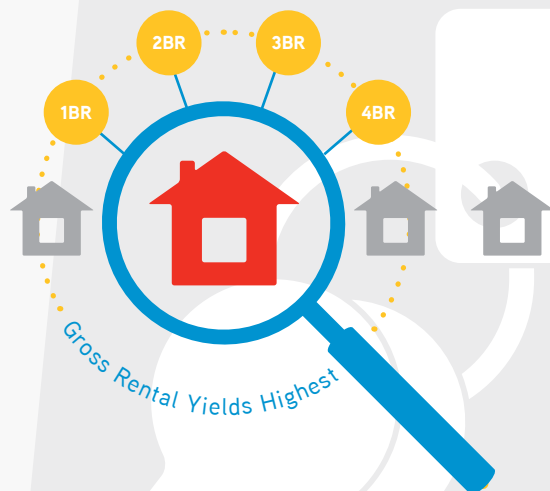


- HOUSEHOLD INCOME: Gross Income, per capita, AED
- HOUSEHOLD INCOME SPENDING PER CAPITA: Total household spending, AED per capita
- HOUSEHOLD INCOME SPENDING PER CAPITA: Housing and utilities spending, AED per capita

Analysing the overall income and expenditure trends in UAE, the primary factor supporting the maintenance of a residents' disposable income during 2014 - 2018 is the declining rentals (between 10% and 30%). Since average households spend approximately 35% of their income on housing, a reduction on this expenditure category translates into more comfortable household budgets.

# Average Gross Rental Yields

The expected return on investment also drives demand for investment products. Analysing different unit types across Abu Dhabi's freehold districts suggests that gross rental yields are the highest for the more affordable products. In terms of developments/ communities, the highest average yields are in Al Reef followed by Yas Island. While Al Raha and Al Reem share similar rates of return, the lowest is in Saadiyat Island. The table below outlines the average gross rental yield for each unit type across freehold districts in Abu Dhabi.



## Average Gross Rental Yields

Highest achieving development: affordable communities, such as Al Reef Development.

Highest achieving unit types: Studios and 1 Beds.



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## About Colliers International

Colliers International is a global leader in commercial real estate services, with over 15,400 professionals operating in 69 countries. Colliers International delivers a full range of services to real estate users, owners and investors worldwide, including global corporate solutions, brokerage, property and asset management, hotel investment sales and consulting, valuation, consulting and appraisal services and insightful research. The latest annual survey by the Lipsey Company ranked Colliers International as the second-most recognized commercial real estate firm in the world.

In MENA Colliers International has provided leading advisory services through its regional offices since 1996. Colliers International currently has six corporate offices in the region located in Dubai, Abu Dhabi, Egypt, Qatar, Riyadh and Jeddah.

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