

HOME SENTIMENT SURVEY

MENA | Quarter 3 - 2020



KEY FINDINGS

- In the UAE, homeowners have become more positive on the outlook for residential real estate in the coming 12 months. At the end of Q3 2020, 50% of homeowners responding to the survey reported that they expect home prices to be stable or increase in the next 12 months. This is up from 41% at the end of Q2 2020.
- 33% of UAE homeowners expressed their belief that home prices will increase in the next 12 months, up from only 11% of respondents in Q2.
- Renters in the UAE whose lease expired in Q3 2020 were, on average, able to negotiate a decrease in rent of between 5 to 10%. Similar declines are expected in the next 12 months when current leases expire.
- Sentiment in Saudi Arabia and Egypt continues to be more positive than in the UAE. In Saudi Arabia, 59% of respondents expect prices and rents to increase in the next 12 months. In Egypt, the bull market seems largely unaffected by Covid - with 72% of respondents expecting prices and rents to rise in the coming 12 months.

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UAE homeowners see light at the end of the tunnel; while renters look forward to lower rents in the next 12 months. Saudi Arabia and Egypt respondents are more bullish

With the most stringent of the Covid-19 lockdown measures having taken place in the second quarter, and with economic activity picking up in the third quarter, homeowners' sentiment towards real estate has improved, albeit modestly. As with Q2, in Q3 the most bullish sentiment could be found in Egypt; and in the Gulf, sentiment in Saudi Arabia was noticeably more positive than the United Arab Emirates. Within the UAE, 50% of owners expect to see prices remain stable or increase in the next 12 months; whereas 80% of renters are expecting to negotiate lower rent when their current lease expires.

In the UAE, renters whose lease expired during Q3 were able to negotiate significant decreases. Roughly a third of all respondents reported seeing their rent decline by 10% or more; 46% reported a decline in rent of less than 10%. No respondents reported rent increases. Overall, the survey suggests that rents in Q3 2020 versus Q2 2019 fell by between 5 and 10%.

The vast majority of UAE renters (80% of respondents) continue to believe that rents will fall as leases expire in the coming 12 months. While concerning for landlords, this figure is marginally lower than in Q2, when 84% of renters reported expecting their rent to fall in the coming year. The responses also signal that the rate of decline is slowing; in Q2, for instance, 36% of respondents expected rents to decline by 5 to 10% in the coming 12 months; this proportion has now fallen to 28%.

Homeowners in the UAE are significantly more positive on the outlook for the next 12 months than renters. This may reflect their own interests. However, given that rent negotiations are backward looking, incorporating market movements over the past 12 months, more positive sentiment from homeowners may be a genuine signal that there is light at the end of tunnel for the housing market.

At the end of Q2, 59% of homeowners reported their expectation for home values to fall in the following 12 months, with around half of those expecting prices to decline by 10% or more. In Q3, this number has fallen to 50%, with just under two-thirds of this group expecting prices to fall by less than 10%.

Of the 50% that believe that prices will remain the same or increase in the next 12 months, two-thirds (or 33% of the all respondents) believe prices will increase, one-third that prices will remain the same. This is a significant shift from Q2, when only 11% of all respondents thought prices would increase in the next 12 months. A significant portion of respondents appear to view Q2 2020, and the deep Covid-related economic slowdown, as marking the lows of the current real estate cycle.

While UAE renters are still expecting to negotiate lower rents in the next 12 months; more renters are now contemplating buying homes in the coming year than were 3 months ago. At the end of Q2, 63% of respondents said they were less likely in the next 12 months to buy a home than in the previous 12 months. That figure has now dropped to 48%.

In summary, in the UAE, while overall sentiment remains negative, respondents to our survey are signalling that the rate of decline has slowed. But it is clearly too early to say that the market has stabilized.

Sentiment continues to be better in Saudi Arabia and Egypt than in the UAE. Saudi's residential market, particularly in Riyadh, rebounded strongly in the second half of 2019, on the back of better non-oil economic growth and a boom in the mortgage market. While sentiment has probably taken a hit from Covid, the majority of respondents in Saudi Arabia (59%) still reported expecting prices and rents to increase in the next 12 months. In Egypt, the bull market seems largely unaffected by Covid – with 72% of respondents expecting prices and rents to rise in the coming 12 months. Inflationary expectations appear to be well entrenched.



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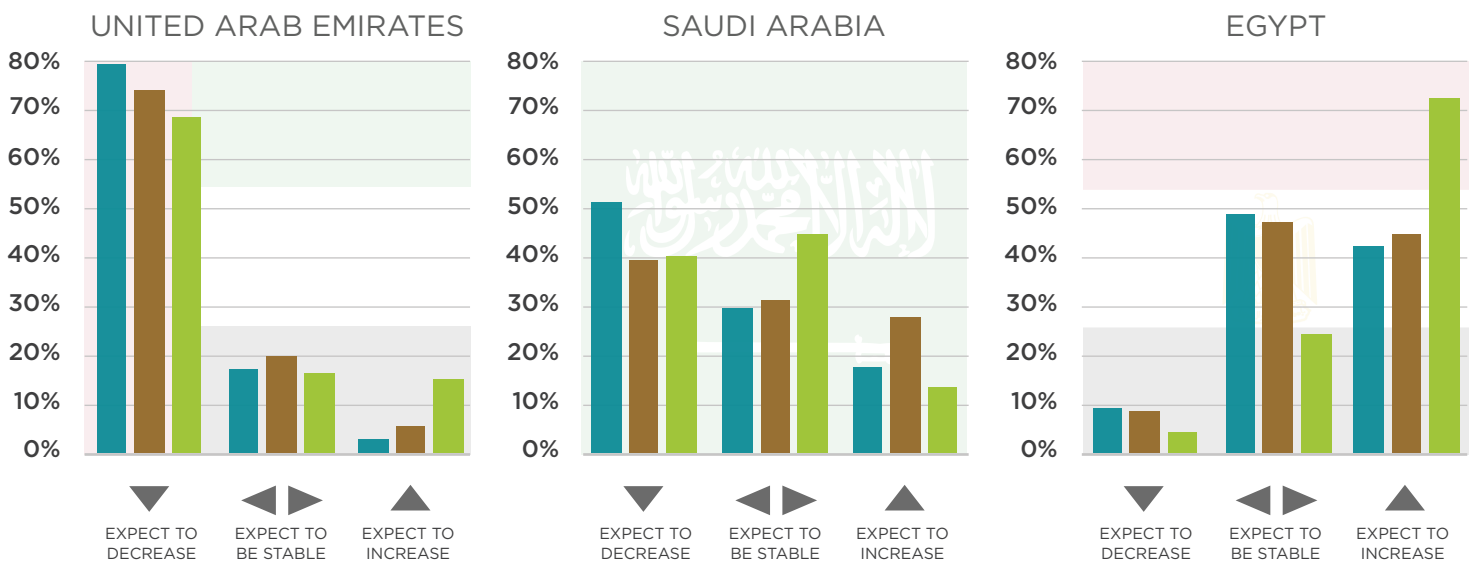
The charts below demonstrate the marked differences in home sentiment in the region between the UAE, Saudi Arabia and Egypt. On the face of it, the differences between Egypt and the Gulf look quite remarkable in the context of Covid-19. However, in many respects, more bullish sentiment in Egypt just reflects the relative strength of its economy.

Take consensus 2020 GDP estimates. While growth in the Egyptian economy is expected to show sharply, from 5.6% in 2019 to 1.9% in 2020, the economy is still expected to grow; marking Egypt out as one of the few countries in the world that will report growth. This contrasts sharply to Saudi Arabia and the UAE, where GDP is expected to shrink by 4.5% and 5.4% respectively in 2020. Essentially, with high population growth and continued support from the IMF, the residential real estate market in Egypt seems set to continue to prosper.

While Covid has reduced the proportion of respondents expecting prices to increase in the next 12 months (from 28% in Q2 to 14% in Q1), Saudi Arabia real estate continues to benefit from strong government support for higher homeownership facilitated by a better functioning mortgage market.



WHAT RESPONDENTS EXPECT FROM RENTS AND PRICES IN THE NEXT 12 MONTHS



EXPECTATIONS FOR THE FOLLOWING 12 MONTHS FOR RENT AND PRICES

■ Q1 SURVEY RESULTS ■ Q2 SURVEY RESULTS ■ Q3 SURVEY RESULTS



Focus on UAE

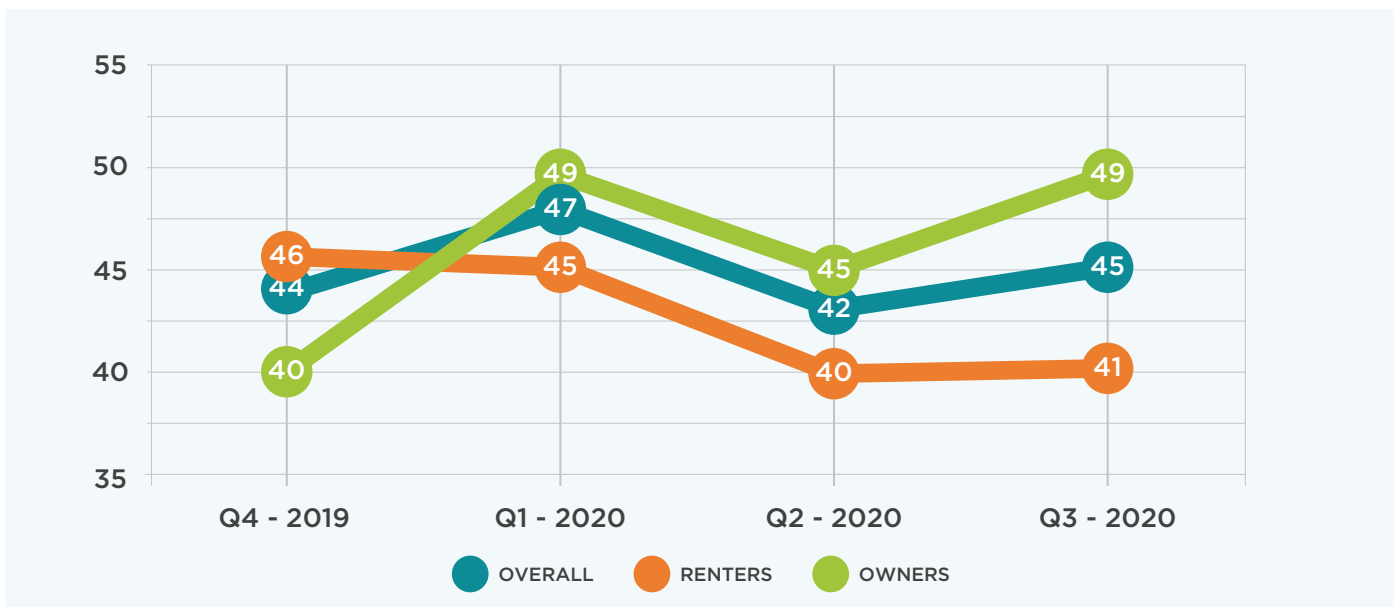
The Peninsula Home Sentiment Index for the UAE increased to 45; having previously fallen to 42 in Q2 2020. The improvement in sentiment was driven by a noticeable increase in the expectations of homeowners.

A score of under 50 represents, on balance, more negative than positive sentiment. With a score of 45, the survey respondents were signalling their expectation for the real estate market (prices and rents) to fall by around 5% in the next 12 months.

The improvement in homeowners' sentiment offers a better leading indicator than renters' expectations, as rent negotiations factor in market changes in the previous 12 months. Renters are still expecting rents to drop by just under 10% when current leases expire.



PENINSULA HOME SENTIMENT SURVEY INDEX



Findings from UAE Owners

50%
of owners

expect the value of their home to fall in the next 12 months.

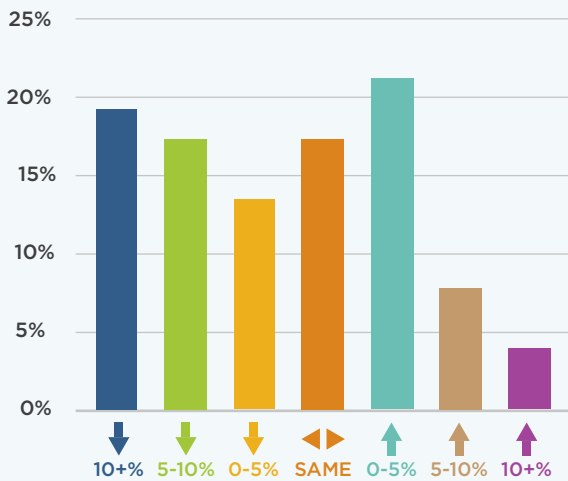
33%
of owners

expect the value of their home to increase in the next 12 months.

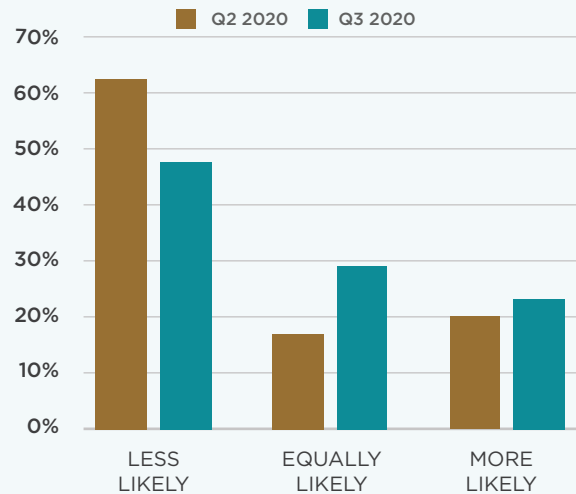
23%
of renters

say they are more likely to buy in the next 12 months than in the previous 12 months.

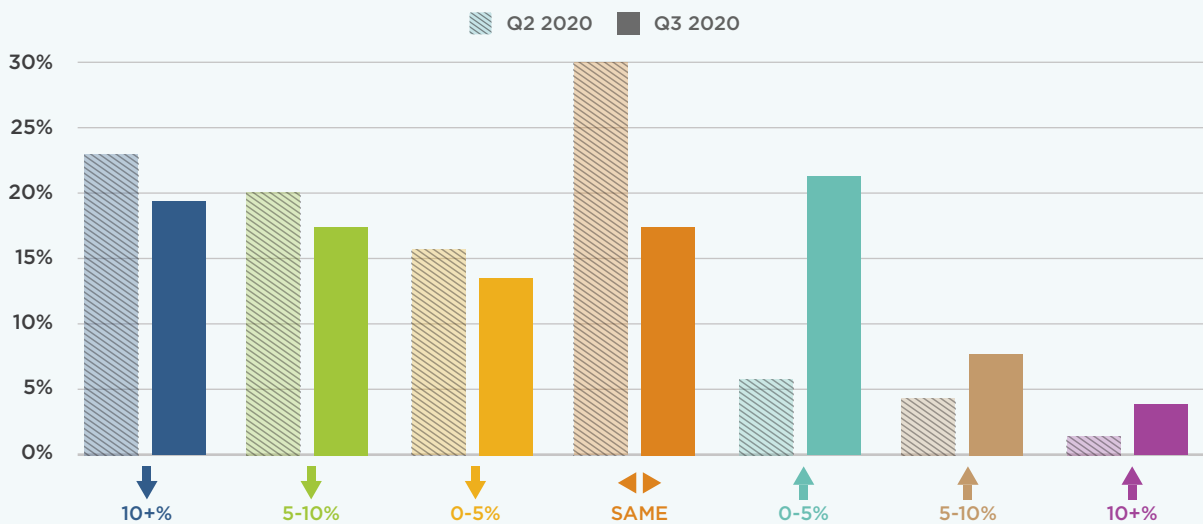
What change do you expect to the value of your home in the next 12 months?



Are renters more likely to buy in the next 12 months than previous 12 months?



Expectations for home values for the coming 12 months, Q3 versus Q2 2020



Findings from UAE Renters

81%
of renters

who had renegotiated their lease in Q2 2020 **say their rent fell.**

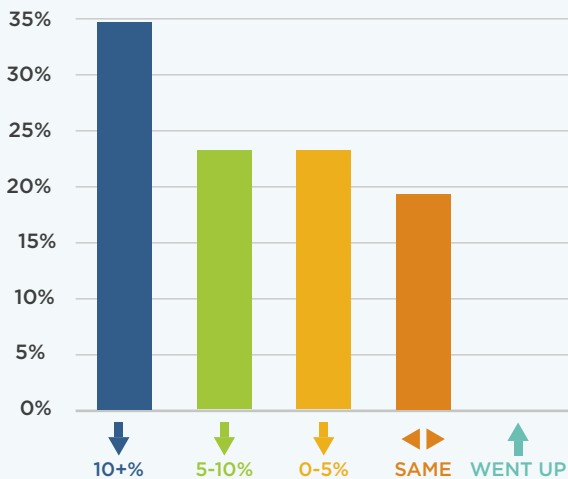
80%
of renters

expect their rent to fall when their current lease expires.

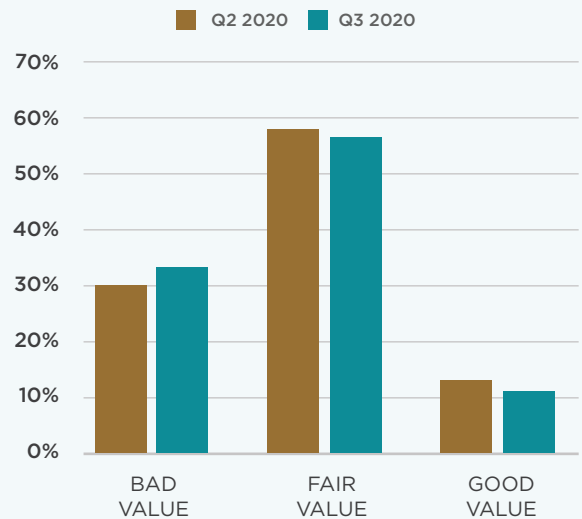
67%
of renters

think the rent they pay is fair or good value for the property their lease.

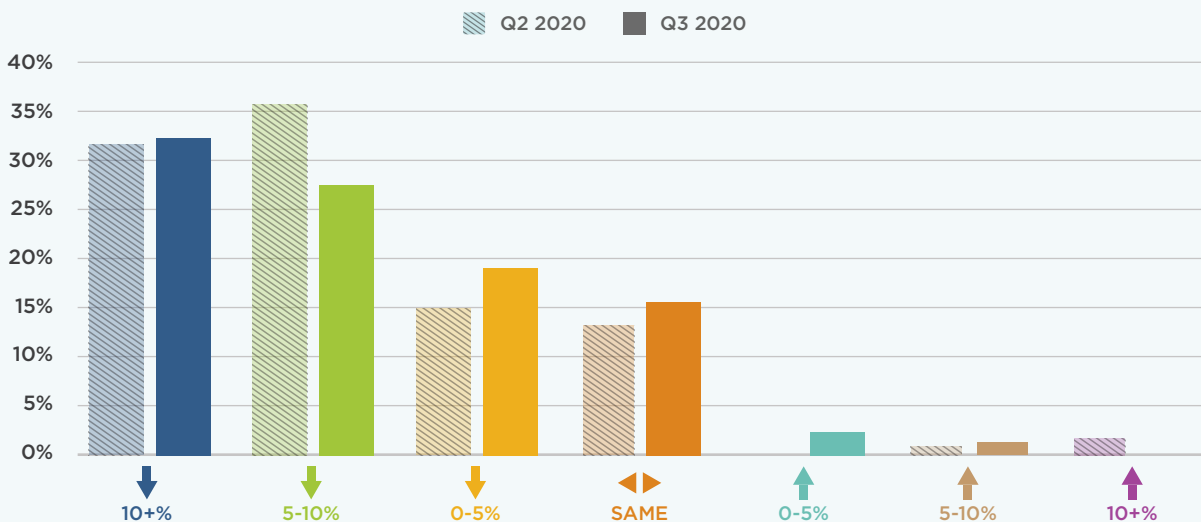
If your lease expired in Q3, how did you rent change?



Is the rent you pay bad, fair or good value?



What are your expectations for your rent when your current lease expires?



What is a Home Sentiment Survey?

A Home Sentiment Survey measures consumer sentiment towards the residential property market. It allows for the creation of an index, which is derived from regular surveys of a representative sample of homeowners and renters. The survey can determine sentiment regarding buying, selling, investing in, renting of and renovating property, as well as property market conditions in general.

Why do a Home Sentiment Survey?

Survey findings are useful in informing a variety of decisions made by stakeholders: from developers, government authorities, individual buyers, renters and investors.



Where did we collect data from?

- Received responses from residents and investors in 22 countries, including 9 in the Middle East North Africa region
- Our survey is conducted on a quarterly basis.
- Data only presented on countries where we received a sufficient number of responses.

Survey Timing

- Data was collected during the first two weeks of October 2020.
- The next survey will take place during the first two weeks of January 2021



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