

Abolition of rents caps in Abu Dhabi

by David Bowman - d.bowman@tamimi.com - Abu Dhabi

December 2014 – January 2015

Abu Dhabi Law No. 20 of 2006 regulates most landlord and tenant relationships in the Emirate of Abu Dhabi. Until recently the law had protected tenants from rent increases beyond a defined rent cap and only allowed landlords to oppose lease renewals in a limited range of circumstances.

Landlords and tenants were allowed to agree to fix the rent payable under a lease. Where the rent was not fixed, landlords had the right to an annual increment which had been capped in recent years at 5% per annum.

Law No. 4 of 2010 introduced a change to these tenant protections and now allows landlords to oppose lease renewals provided either two months' notice is given in the case of residential premises, or three months' notice is given in the case of commercial premises. The implementation of this change was delayed by three years but took effect from 9 November 2013. It effectively allows landlords to oppose lease renewals if tenants do not agree to the increased rents landlords may now demand.

The rent caps were beneficial during the boom years when stability was needed in the property market in order to combat inflation and speculation. This has been less relevant since 2009 as rents have been stabilizing or even falling in some cases. A drawback for landlords has been that they were essentially stuck with tenants who have been in possession of premises for a long time and have been paying low rents, which do not correspond with current market rental levels. The abolition of the rent caps now means that market forces will be allowed to prevail.

Landlords with long standing tenants will seek to increase rents and bring them into line with the market. If these tenants do not agree to increases then it is expected that landlords will refuse to renew their leases. Long-term tenants who will have their rent increased by landlords may start to vote with their feet and move to take advantage of offers within newer developments where they may find that they will be paying rent equivalent to any increases imposed by their current landlord but with the benefit of better facilities. As new supply comes on to the market (for example new residential apartments on Reem Island), this should counter increases in demand from tenants wishing to move so as to secure better rental deals and higher-class accommodation. In turn this is likely to leave vacancies in older buildings where landlords will have to take note and respond to a shifting market by charging competitive rents.

In the longer term it is expected that many landlords and tenants will consider agreeing longer lease terms, with fixed rents or fixed rent increases, in order to have some certainty over rent increases. This is particularly relevant for commercial tenants who often incur significant expenditure fitting out their offices or places of business.