Transcription for ALDAR PROPERTIES

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Presentation

Operator
Ladies and gentlemen, welcome to Aldar's Full Year 2018 Financial Results analyst call. I will now be handing you over to your host, Mr Greg Fewer, CFO. Sir, the floor is yours.

Greg Fewer
Good afternoon everybody and welcome to Aldar's fiscal year 2018 results call. I would like to give you a brief overview now of our 2018 performance and will be opening the floor for Q&A right at the end.

2018 was definitely a transformational year for Aldar, where we set the stage for powerful growth in 2019 and beyond. We delivered a strong performance both financially and operationally, which will accelerate further as our mature asset portfolio grows and more of our developments enter the handover phase. We undertook a series of game changing corporate actions during the year. The first of these announcements was in March when we signed a strategic partnership with Emaar to co-develop two mega developments in Abu Dhabi and Dubai. The JV will not only add and contribute to our destination development on Saadiyat Island, but will also give Aldar exposure to Dubai, setting the stage for further growth and expansion. We are now finalising the JV agreement with our counterparty and hope to announce details shortly.

This was followed in May by our acquisition of AED 3.7 billion in assets from the Tourism Development & Investment Company here in Abu Dhabi, one of the largest real estate acquisitions in the UAE's history. The acquisition facilitated our entry into the sought after Saadiyat Island, giving Aldar exposure to all key investment zones in Abu Dhabi, further cementing our strategy.

The diverse portfolio of assets acquired from TDIC has already made a meaningful contribution to our financial performance, adding approximately AED 700 million to our revenue and AED 200 million to our gross profit in the year 2018. This is set to grow in 2019 as these assets make a full year's contribution for the first time. We will continue to focus on maximising the returns from these assets and to deliver additional recurring revenue income across the portfolio.

In September, we created a new company called Aldar Investments. We are transferring all of our recurring revenue assets from our asset management business into Aldar Investments, including our malls, our residential unit, our commercial portfolio and our hotels, creating the region's largest most diversified real estate investment company, ultimately AED 20 billion worth of assets.

We then went out and raised independent finance in the form of a seven year $500 million Sukuk on the back of a Baa1 credit rating from Moody's, which is the highest rating for a non-Government, non-financial corporate in the region. This demonstrated Aldar Investment's ability to raise cost effective long-term debt independently, being more than twice oversubscribed across the region.

Turning now to some financial highlights, we reported a 2% increase in revenue to AED 6.3 billion for 2018, which was supported by our asset acquisition and the recognition of revenues as our projects under construction achieved critical construction milestones. Our development sales were AED 2.6 billion supported by strong Q4 sales of AED 1.3 billion. Our gross profit of AED 2.6 billion reflected the steady performance across our asset management and development management businesses. Our net operating income was up 3% to AED 1.6 billion from our resilient recurring revenue asset base. We reported net profit of AED 1.9 billion in 2018, this was impacted by several key below the line items that we would like to touch on.

Firstly, other income in Q4 2018 saw the completion of our Government infrastructure handover programme to the Government of Abu Dhabi, something we have clearly guided to the market for some time. As at 31st December 2018, there remains approximately AED 600 million of cash to collect, which we expect to come through over the next 12 months.

Further to this, we saw a full AED 700 million fair value adjustment to our AED 20 billion asset management business, which follows the annual third-party independent valuation process that we completed in the fourth quarter. We do this to reflect the current views on rates and values across the asset management portfolio, and how they impact the values of our assets.

Our balance sheet position as at the 31st December 2018 remains very strong. Following the drawdown of AED 1.5 billion of debt in the second quarter to partly fund our asset acquisition, our debt levels remain well within our disclosed debt policy ranges for the asset management division, which is a maximum of 40% loan-to-value, and our development business, which is maximum 25% loan-to-cost. In line with our debt policies, we are currently recording 35% and 5% respectively. We're well funded and covered for 2019 and beyond with extremely strong cash and liquidity in place.

From an operational standpoint, our development business launched 1,423 residential units for sale during 2018 across a number of new developments. We also handed over over 1,200 homes and plots during 2018 across our completed project portfolio to customers. Collectively, we have 15 projects at various stages of completion within the development pipeline, with approximately 1,500 homes scheduled to be handed over in 2019. In addition to what I already mentioned on our asset management business, we have reported steady occupancies of approximately 90% across our retail, residential and commercial portfolios, which is the hub of the wider Abu Dhabi market, demonstrating Aldar's competence and ability to sweat our assets, and deliver our shareholders the best possible returns.

Taking a more macro view, Abu Dhabi's real estate sector is definitely a key beneficiary of the Government of Abu Dhabi's policies, which are driving economic growth. There are a number of initiatives announced during the year, including the Ghadan Fiscal Stimulus Plan, as well as enhancements at the federal level to visa regulations, which are shaping positive sentiment and making Abu Dhabi an even more attractive place to live, work and visit. Another contributing factor to our confident outlook is the incredible response to our launch of our Alreeman project in Alshamkha, Abu Dhabi, which generated AED 1.6 billion of sales to date.

Overall, we continue to play an integral role in the evolution of the real estate sector and our success is really delivering on our strategy to become the most efficient platform to build and manage real estate in our region. Our confidence in the future growth of our business is no better reflected in the fact that we have proposed a 14 fils per share dividend, representing a 17% increase on 2017 and our sixth consecutive year of progressive dividend growth. The proposed total pay-out of AED 1.1 billion reflects the quality of Aldar's recurring revenue assets that continue to underpin the dividend with the strong growth supported by our development management business and the handovers and collections that we receive on final payment.

Thank you very much for your time, I am very happy to open the call up to some questions now.

Question and Answer Session

Operator
Our first question comes from Rakesh Tripathi, Franklin Templeton. Please go ahead.

Rakesh Tripathi
I had one question regarding the recurring revenue business. Could you provide some guidance on when you might come out with the detailed results for Aldar Investments?

Greg Fewer
The main disclosures will continue to come in the form of our public releases from Aldar Properties. We issue statements onto the stock exchange for the Aldar Investment Properties Sukuk every six months.

Rakesh Tripathi
It would be fair to expect financials for this year-end in some time, right, for the investments business?

Greg Fewer
The end of April.

Rakesh Tripathi
Just one more thing, there were some recurring revenue assets that were due to be transferred over the course of time when Aldar Investments was setup. Could you help us with some details on how these have progressed and what is the current statement of the transfer of assets?

Greg Fewer
We're completing the final process now for handing over a few of the TDIC assets that we had acquired, but we're just in the final process of handing those over now and there are some administrative formalities still to complete.

Rakesh Tripathi
Would there be any disclosures that would give a clear view of the assets that would lie with the investments entity at the end of FY18, or not quite.

Greg Fewer
Well, we will be disclosing financials. As we said, it is substantially all our assets. The best way to think about it, it is all our recurring revenue assets

minus maybe one or two buildings that just weren't convenient or relevant to transfer over. There will be financial statements that will list our investment properties by value and property, plant and equipment by value.

Operator
Our next question comes from Tahir Safeiddine, Citi. Please go ahead.

Tahir Safeiddine
A couple of questions from my end. First, I am just looking at your guidance on the development which is around AED 4 billion for the year. This is more like 50% higher than 2018 numbers. How confident are you in terms of, it looks like optimistic numbers? If you can just run us through your strategy. I know you have launched Alreeman and the uptake has been very solid, but how to look at this moving forward. This is my first question.

The second question, looking at the NOI guidance of AED 1.7 billion, if we just take into consideration that Al Jimi Mall is coming through and full contribution from TDIC, organically, it looks like a muted growth. I am just looking at it y-on-y basis. Isn't this true to look that 2018 maybe was a tough for your residential and retail recurring portfolios? Just some colour there would be helpful. Thank you.

Greg Fewer
First on the guidance on development. Look, we thought through that one very carefully. That guidance reflects the fact that we had a very successful launch of Alreeman, so it already includes 800 million of sales that are already booked. We have, obviously, a lot of pent up demand and, importantly, we have got product in our land bank that can be focused towards that middle-income land villa sub-segment, so that will follow.

The other thing to take away from that guidance is in a market like ours where we have a Government who is heavily involved in a fiscal stimulus campaign and people asking questions about when are we going to start to see some of these fiscal stimulus programmes translate into business, well, here is a good indication. Our guidance is based on stuff we're seeing in our pipeline through some very constructive and important discussions with customers, including the Government, who in the past has purchased villas from us for many different reasons. I think our guidance reflects existing book sales, pipeline and very credible and identifiable sub-segments in our markets that are ready and we have land bank to avail to, and an economy who is 12 months into a fiscal stimulus programme where some of the fruits of that programme are going to start to show up in the books of key beneficiaries like ourselves.

The second was on the NOI guidance for asset management. The 1.7 coming off 1.6 this year, that is reflecting clearly the full contribution from the TDIC assets. Look, we updated the market in Q2 on some of the renewals that we were seeing at Yas Mall. We have also revisited the portfolio since. The accrual impact of some of the renewals that we did during calendar year 2018 really don’t feed through for a full year until 2019 before you see the accounting impact of those. I think you have got that offsetting the growth we’re seeing from full year TDIC and from Jimi. Again, it is a very diversified portfolio, so there are lots of other asset classes that are moving up and down, but 1.7 I think is a good solid reflection of what this diversified portfolio will do.

Tahir Safeiddine
Okay, thank you - just one small question on the adjacencies, just how to look at this business. The growth has been decent, do you expect further pace of growth or this is just mainly given that TDIC has a big portion of district cooling assets that fed into these numbers.

Greg Fewer
There are a couple of things going on there and that is an interesting segment for us going forward, embedded in that is we have got Khidmah, and you would have seen earlier in the year that we acquired 100% Khidmah and we are in the midst of concluding some important restructuring at that company and we’re very excited about the potential for Khidmah going forward. You have got schools in there, academies which now manage well over 14,000 students and growing, and academies has been taking on a number of management mandates as of late, including the ADNOC schools and including a couple of new awards we have received from the Government of Abu Dhabi to manage, not own, but to manage for a fee schools on their behalf. The growth you're seeing in academies is also coming through there, in addition to, as you said, a new asset class which is the district cooling that came from TDIC.

Operator
Our next question comes from Zohaib Pervez, Al Rayan. Please go ahead.

Zohaib Pervez

Just looking at the investment property segment, now the TDIC assets have already been part of it, but the fourth quarter revenue and NOI has been lower on a year over year basis. How would you expect that… this quarter might be a good indication of what to expect including the TDIC assets. Jimi Mall is coming, are you expecting the NOI to grow or how should I look at it?

Greg Fewer
In terms of the contribution from TDIC, it was pretty balanced across investment properties, hospitality and leisure and the adjacencies, so I think that would be the first point to make. It was the minority of the assets actually went into investment properties. We had hotels, we have beach clubs, we have got district cooling assets, we have got operative village, so what you're seeing on the quarterly performance in hospitality and leisure and adjacencies is where some of that growth from the TDIC assets are embedded.

Zohaib Pervez
Could you give us more colour on the residential and retail segment, because these two segments, the NOI have declined while commercial has fared well? Could you give us more colour on what is happening there, what is the market and what could we expect for 2019?

Greg Fewer
The residential and retail, first, residential, I think the first comment there is that this is still a nice performing portfolio, and our city is still at that 90%, 88% sort of overall occupancy levels, which is far outperforming the market. When you read JLL reports and CBRE, it seems to be ground zero for year-on-year price declines, 10% plus coming in that segment. We're not seeing those kinds of reductions, we have got good defensive attributes from these long-term bulk leases that we have that are in that segment for us, so we think that will continue to help.

I think in part of our exposure where – or that portfolio that still marks to market every year like one-year renewals, I think we're still anticipating firmness, let's say, not increases but certainly not significant declines.

On the retail side, we have finished our renewal cycles through Yas Mall that we took last year, and we updated everyone at Q2 on that. As I said, the accrual impact on the NOI really feeds through in 2019, so I think that is the main point you will see coming through retail in addition to 2019, the expansion at Jimi Mall starting, which is opening, I think, in the next couple of weeks.

Zohaib Pervez

The fourth quarter, excluding Jimi Mall, the fourth quarter retail segment would be a good indication of – NOI, would be a good indication of what the renewals have been doing for the Yas Mall and etc, right?

Greg Fewer

We have been renewing right up to November of 2018. In November is when we opened our mall and a lot of work happened in November, so it would probably be Q1 where you could expect a more normalised…

Zohaib Pervez

On the adjacencies segment, if I exclude the Pivot gross profit and revenues, I come out with the revenues for the other segments, and it seems like the other segments on a gross level actually went into a gross loss. Could you give us more colour on that, and do you think I am correct?

Greg Fewer

A gross loss, what do you… so we're not seeing a gross loss? What might you be referring to?

Zohaib Pervez

So what I have done is, so I have got the adjacencies segment, which includes the pivot, right, so the pivot information you give, like what is the revenue and the gross profit for fourth quarter. If I exclude the revenue and the gross profit for pivot, for the fourth quarter only, I am coming out with a gross loss on the other segments.

Greg Fewer

You are referring to the segment note in the financials. The difference then is depreciation. You need to look at the depreciation that runs through there, so schools, our property, plant and equipment (PPE), we depreciate those assets and so is district cooling, which is PPE, so we have increased depreciation significantly that is attributed to that adjacency segment. You have seen that increase in depreciation run through our front pages of P&L as well.

Zohaib Pervez

Because of the district cooling, you consolidated that part that we saw the depreciation increase.

Greg Fewer
Right, the district cooling assets that were acquired from TDIC.

Operator
Our next question comes from Ayub Ansari, SICO Bahrain. Please go ahead.

Ayub Ansari
A couple of questions, firstly, again, something on your NOI guidance of 1.7 billion for 2019. I was curious to know if you could share some of your assumptions. What sorts of rentals are you assuming at Yas Mall? Are you assuming flat rentals year-on-year, and similarly for your residential and commercial portfolio, should we more or less – are you expecting flat rentals over there as well? That is my first question.

Second question relates to your bio profile by nationality. What was the trend in 2018 and are you seeing some sort of interest from Chinese nationals buying real estate in Abu Dhabi or specifically Aldar Properties? Some colour on that would also be very useful. Thank you.

Greg Fewer
Just on the NOI guidance, so just going through those sectors in turn. As I mentioned earlier, on the residential side, the two-bed, let's say, segment on Reem would probably be the softest in terms of… we do have some exposure there, but across our portfolio, because we have a third of our portfolio upward only, and in terms of the asset management, they are actually very good at working that switching cost differential with the tenants in terms of the renewal rate.

We're not forecasting large declines, very small in that main segment. Then across the rest of the portfolio, we're forecasting relative stability.

On the retail side, we renewed some big tenants at Yas Mall in June, we renewed again in November. I think Q1 you're going to start to see some more normalised numbers there. In terms of averages across the mall, you will be at high 1,500s, let's say, in terms of renewal rates across the mall, that is AED 1,500 per square metre and overall net rent, that is a blend across the entire mall. That is obviously slightly down on where we have been in the past. Commercial is a good story in terms of rental rates. I mean, that market is slightly different. If you're in a tier one location in a category A building, that's just a certain market and those tenants who choose to be in those buildings are in that AED 1,600-1,800 a square metre range, so we're not seeing a lot of change in that, to be honest, so that's been a relatively firm market. To be honest, in terms of green shoots, and talking about green shoots that we're seeing across our portfolio, we've been encouraged by the amount of inbound queries for vacant tier one space coming from the kinds of people that do large capex projects and that do… the typical beneficiaries of fiscal-led expansion like the planners, the feed engineers, the consultants, so that's… we're very optimistic about what we're seeing on the commercial portfolio, other than the fact that we're almost fully let across the portfolio. All that is going into the 1.7 guidance.

The second question was on the nationality of our homebuyers, so in terms of Alreeman, still very much majority Emirati, even though the Alreeman project was available, and remains available, for international purchasers. Again, more of a statement around just the insatiable demand for that location and that product from UAE nationals, more than anything.

On the rest of the portfolio, the Saadiyat stuff, I mean we're selling at Mamsha every day of the week, and that's a much more diversified group. UAE nationals clearly are the most important buyer base, but probably 50/50 on Saadiyat in terms of buyers, and of course Yas Acres as well in masterplan communities, gated communities, on the tier one destination. Saadiyat is a little bit more UAE national oriented, upwards of 60, but Saadiyat is certainly down to 50.

Ayub Ansari
So fair to assume till now more or less Emiratis are the dominant buyers in Aldar Properties. Just a follow-up question on real estate, what would be… any sort of estimate on what would be your market share in the property development segment – I mean, in 2018, what were the total projects launched in Abu Dhabi and what was your share in that? Was it a very concentrated market? Are you the dominant player? Just some colour on the market, please.

Greg Fewer
We're by far the number one player. I mean, we're upwards of 75% of the off-plan market recently in Abu Dhabi and certainly during the year we… with the wind-down of TDIC and our acquisition of their assets and their development franchise, I mean that position was really further solidified.

Operator
Our next question comes from Metehan Mete, Waha Capital. Please go ahead.

Metehan Mete
I just wanted to ask you about a few things. First of all, in Reem Island I see new developments being completed of course by Aldar, but also by some unlisted peers, and we also be seeing the Reem Mall opening by 2020. I just wanted to ask is this something that as a management you're worried about, because… I mean, right now in the… there is also… in front of the Galleria Mall there is going to be a new mall opening and in the meantime, we're seeing bank mergers and possibly more job cuts on the horizon, whereas the employment grows quarter-on-quarter, might be negative. Is this something that worries you?

Greg Fewer
The first point I'd make would be about the overall supply situation in Abu Dhabi. There are pockets of buildings going up and that's true, and that's important, deliveries in the next couple of years in and around that 8,000, 9,000 units range across the city, so not just at Reem. Reem has been the centre for tall blasts in that area. That's still a constructive level in that less than 5% replacement rate for a city in terms of new homes, that's healthy and especially when you consider the state of a lot of the existing real estate stock in Abu Dhabi being fairly old and dilapidation rates being actually quite high here, so when you stand back and look at the whole city, if there is supply coming up, you feel okay about it as a place to develop and as a place to bring.

Now, when you zoom in then on Reem, again the first thing you look at and you say, look, the Reem destination was really developed as a destination, a lot of tall growth, we were very happy to open Reem Central Park earlier this year, which is starting to fill out the urban masterplan a lot there, and to have some retail opening up there as well in and amongst a high density population of people, I mean that's the kind of thing that good urban destinations are supposed to have.

With those first two premise kind of making sense, that is how you would approach, I guess the third point you make, which is, okay, well, then how do you think about specifically some of these asset classes opening up within that, so you've got a mall at Reem, you've got a mall next to it at this… certainly it looks like it's been repositioned a bit at Al Maryah Central, and then our thinking on that, though, is we like our incumbency in the Abu Dhabi retail market. We have by far the best piece of retail infrastructure in our city, and through our renewal cycles with our tenants, no one is left in terms of the big groups, which really control and manage a lot of the brand portfolios here. Time and time again we have the same discussions with them, which is it's a tough retail market, they're generally consolidating their portfolios.

When it comes to Abu Dhabi retail, Yas Mall is the place to be. Yas Mall, strong footfall, continuing investment from the Government, new populations opening up directly adjacent to it, Sea World being announced, again, with the Government, with the next theme park opening up out there; there's a new stadium that's being developed by Miral, also on Yas Island, so it's really doubling down its destination significance and in the eyes of the retailers, they're quite happy with… and it's very important to them, in fact, that they're at Yas, so we feel really good about the incumbency that we get with that.

Metehan Mete
On the population count, do you see a decline in… I was looking at the UAE Central Bank statistics as of the first quarter, like the employment growth was actually negative, low single digits quarter-on-quarter. What are your thoughts around that?

Greg Fewer
Look, our thoughts are the worst of that is past us. I mean, I think when ADNOC rationalised, when Etihad restructured, I think that was the real adjustment for our market and we've gotten through that, and you've seen the numbers we've posted since then. I think moving forward we certainly see a lot more reasons to be optimistic. I mean, since that time you've seen the Government come out with these significant capex-led fiscal stimulus programmes that we're seeing here announced today some real tangible signs of growth coming and that's embedded in our guidance. You've got that working for us and you've got a bank merger going on, you might be worried about a couple of jobs there, but again I mention the point about our queries, the inbounds coming from our commercial portfolio, we're certainly talking to a lot of people who are actually bringing people into Abu Dhabi, so big picture we have more reasons I think to be a bit more optimistic than negative, and I'm certainly a lot more concerned about what ADNOC and Etihad did to the market than what the current pipeline of rationalisations might do.

Metehan Mete

Another question, on the Alreeman project, do you get benefits from this Government subsidy mechanism that was announced this year? Do the UAE nationals get subsidies to purchase land in the Alreeman project?

Greg Fewer
No, not at all. This was pure clean purchases from customers.

Operator
Our next question comes from Jagadishwar Pasunoori, Franklin Templeton. Please go ahead.

Jagadishwar Pasunoori
Can you help me understand… you're trying to invest AED 5-6 billion, how much have you spent investing so far and what is the remaining? NOI improved on the recurring asset business from ‘15 from AED 1.55 billion to almost AED 1.6 billion. What is the like-for-like increase or decline there? What are the plans for listing Aldar Investments?

Greg Fewer
The first question, if I understood you correctly, you're just referring to our capex guidance, if I understand you correctly.

Jagadishwar Pasunoori
That’s right.

Greg Fewer
We've got just about 2.5 billion of cash on the balance sheet right now and we've got escrow that takes it to about 3.7, let’s say. That’s free cash. We have 5 billion of cash on the balance sheet at year-end, some of it is restricted, some of it is reserved, but that’s our starting point. We've got instalment payments due from customers on our existing sales and that’s nearly 2 billion, and that’s just a high-level example. The overall model for this off-plan development business is… the land is free, that’s when we start all our projects, our average payment plan that we get from our customers is around 40%, some of it is 30/70, some of it is 50/50, but about 40% of the sales price gets paid to us before we hand over a project and then we collect the rest at the end. So, net-net this business generally cash flows itself quite strongly. Another, and very important, point to note, I mean our default rate, our delinquency rate from our customers on our payment plan,

because we collect post-dated cheques from every one of our sales, is less than 3%, so it's very strong and we don't really have any kind of concerns or latent issues about people not paying and it's never really been a problem for us. Of the capex guidance, only about 3.5 is going to be spent over the course of 2019.

Jagadishwar Pasunoori
… asset management side?

Greg Fewer
Sorry, what do you mean on the asset management side?

Jagadishwar Pasunoori
So you bought some assets from TDIC. You're expanding Al Jimi Mall and you'll remember a year or two back you had an investment plan for investment properties, so are you fully committed or is it still remaining?

Greg Fewer
Sorry, I misunderstood your question. So, we're basically fully committed on that. The outstanding units still to come into our investment property portfolio is middle-income products at Waters Edge and middle-income products at Bridges, with Al Jimi Mall completing right now, and overall capex still to be spent on those projects is about AED 1 billion.

Jagadishwar Pasunoori
Okay, so all of the assets will be with Aldar by the end of 2019 or end of 2020?

Greg Fewer
End of 2020 and early 2021.

Jagadishwar Pasunoori
On the NOI part, the like-for-like growth, was it growth or decline, by how much?

Greg Fewer

Yes, like-for-like… so there were some declines in the portfolio like-for-like, certainly on the residential side and on the retail side where we've had renewals at Yas Mall that were below existing rental rates and we have a portion of our residential portfolio that’s on one-year leases, and those renewal rates have been below previous years.

Jagadishwar Pasunoori
So is it like low single digits or somewhere in that line?

Greg Fewer
Correct, yes.

Jagadishwar Pasunoori
Anything you can comment on listing Aldar Investments at this moment?

Greg Fewer
Nothing to comment on at this time other than at the time we launched it we clearly said that it’s an independent business, it’s running itself independently, it continues to manage itself independently from the rest of Aldar Properties, and we’re continuing down that route. Obviously, any kind of corporate action would have to be assessed at the time based on market conditions, but we’re certainly just focused on managing the assets right now.

Jagadishwar Pasunoori
One last question, if I can go back on this asset management business, so if all the assets that you have invested come online and then start generating revenue, so what is the NOI that you guys are targeting? This year you were targeting 1.7, so in 2021 it will be the 2 billion range or less than that?

Greg Fewer
Incremental… we've guided for 2019, so that includes the contribution from Al Jimi. You're going to see middle-income assets from Waters Edge and Bridges come online, and just in terms of number of units, we’re looking at, say, about 1,200 units that will be contributing in from early 2021.

Operator
Our next question comes from Talal AlKhamis, NBK Capital. Please go ahead.

Talal AlKhamis
I just have a question on the fair value loss that happened during Q4, so if we look at the difference between the accumulated over Q3 and the full year there is approximately 400 million, so can you just elaborate on the fair value loss and how significant in Q4 will you be behind that.

Greg Fewer
Sure. I mean, look, the 400 million, of course, that's against the overall asset base of nearly 20 billion, right, so it should be taken in context against all the assets that were tested, and, look, it just reflects the softness over the course of the year that we saw in the residential market and the retail market primarily. Commercial values held up pretty good and hotels, frankly, also held up pretty strongly.

Talal AlKhamis
So it's more on the residential or more on the retail specifically.

Greg Fewer
It's pretty balanced between the two, to be honest.

Talal AlKhamis
Do you expect that to continue, this trend, or do you see pockets or improvements currently that you're optimistic that in 2019 this shouldn't be the case?

Greg Fewer
Yes, I mean, look, we would never ordinarily forecast fair value losses. That's by definition, so that's not something that we would do. All the expected forward-looking rates are baked into these numbers, so earlier on the call I described some softness still that we're seeing in some pockets in rental rates in Abu Dhabi. We think the renewals that we signed up in 2018 for Yas Mall will start to accrue in Q1 fully in 2019, and overall macro-wise we definitely have more reasons to be confident about what we're seeing in the economy here than reasons to be pessimistic. The fiscal-led stimulus we're seeing, and we've guided to that effect in our sales guidance's, inbound queries to our commercial portfolio, these are quite positive.

Talal AlKhamis

One more. I know that you don't guide on fair value, but it has to do with occupancy, it has to do with rental growth, and basically the market price or the rental rates that you're leasing at, so in general you don't expect further deterioration at least in that sense on these three items, right?

Greg Fewer

Correct and certainly not against what's already programmed into those valuations.

Operator

Our next question comes from Mohammed Haydar, Arqaam Capital. Please go ahead.

Mohammed Haydar

May I ask about the basis of valuation of investment property assets? So, if occupancy goes down in one asset, does that automatically trigger fair value losses in that year?

Greg Fewer

Absolutely not. I think when you spend as much time with the JLLs and the CBREs of this world you quickly learn that valuation is not about a spreadsheet. Valuation is about a whole number of different factors, looking at discount rates, looking at alternative asset classes, looking at equivalent yields, looking at the Government bond rate, and ultimately what the valuer is doing is making a determination of what a third party purchaser would buy and pay for a piece of real estate, so obviously cash flow is important, but the valuation of those cash flows is somewhat of an art. So, it definitely does not translate, you know, percent occupancy translates into percent reduction in value by no means.

Operator

Our next question comes from Harshjit Oza, Shuaa Capital. Please go ahead.

Harshjit Oza

Two questions from my side. Firstly, seeing as the occupancy levels in the residential side have gone down from last year, so how do you see the trend going forward this year? That's number one. Secondly, with respect to the rents and serving price in Abu Dhabi has been on a downward cycle, so how are you factoring it into your pricing strategy for your current and upcoming projects? These are my questions.

Greg Fewer
Okay, so just on the pricing strategy, you're referring to off-plan development sales or are you referring to leasing?

Harshjit Oza
I mean, both, because both the sales price and the rent, both are actually down, so on both sides.

Greg Fewer
Look, on off-plan sales, pricing is actually pretty firm and I think one of the things we've seen both in the Dubai market and in the Abu Dhabi market is when we launch off-plan and we successfully launch off-plan, as we've been doing, buyers are really buying into a new building in a new location, and secondary trading out of those has not really featured a lot, so I would definitely argue that the pricing on off-plan sales is definitely showing a lot more stickiness than what you see in existing stock. In terms of residential, on rentals, we've had exceptionally high occupancy for years, 96% plus. We're down at about 88% now, which is just reflecting, as we said, some of the market headwinds that we've been seeing. One and two-bed units on Reem Island, let's say, these are your most competitive sub-segments of the market right now and where the guys are being very successful is, we're seeing some good stickiness. What's nice about our real estate is it's typically the best real estate in the city. We've run them the most professionally, we have the best amenities, and people continue to want to flock to our buildings, so switching costs, as long as we're within spitting distance of where someone else's cheaper rent might be, people tend to renew with us. We see slight increases in our budgets for promotions just to entice people to stay, tricks like that are working very good across our portfolio, which gives us some reason to be optimistic at the kind of occupancy rates we can expect next year. We've seen success in converting those people and enticing people to stay.

[No further questions]

Greg Fewer
Thank you everybody for dialling in and we look forward to speaking to you in the first quarter call. Thank you very much.

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