

MOODY'S

RATINGS

Rating Action: Moody's Ratings affirms Arada's B1 rating, changes outlook to negative

17 Apr 2026

Frankfurt am Main, April 17, 2026 -- Moody's Ratings (Moody's) has today affirmed Arada Developments LLC's (Arada) B1 corporate family rating (CFR) and Arada's B1-PD probability of default rating (PDR). At the same time we also affirmed the B1 senior unsecured rating of the sukuk certificates issued by Arada Sukuk Limited, the B1 backed senior unsecured ratings of the Sukuk EMTNS and the (P)B1 backed senior unsecured MTN programme rating issued by Arada Sukuk 2 Limited. The outlook on all entities was changed to negative from stable.

RATINGS RATIONALE

Today's rating action reflects Arada's entry into a period of heightened uncertainty for the UAE real estate market while leverage remains high and liquidity remains sensitive to timely execution of its development and delivery schedule. Leverage remains above our target guidance for the B1 rating of less than 60% debt to book capitalization, standing at 66% as of December 2025, and progress toward this target has taken longer than we expected despite strong growth in operating scale. In 2025, contracted sales increased to \$4.7 billion from \$1.4 billion a year earlier, while backlog expanded to \$5.4 billion from \$2.5 billion. The sizable backlog supports good revenue and EBITDA visibility over the next one to two years and could eventually underpin deleveraging if market conditions improve and sales recover to pre conflict levels, although uncertainty around this outcome has increased.

In addition to financial debt, Arada also carries joint venture (JV) profit sharing obligations, which are not captured in our adjusted credit metrics but continue to weigh on free cash flow generation in the future from more recent projects that have JV partners. While we expect Arada to maintain sufficient liquidity to meet upcoming debt maturities and to benefit from the ongoing support of its strategic and influential shareholders, elevated leverage and a liquidity profile dependent on deliveries leave the company with limited headroom entering this period of increased uncertainty.

Arada's liquidity profile is particularly reliant on the timely execution of property handovers. Ongoing geopolitical tensions in the Middle East, including disruptions to shipping through the Strait of Hormuz, are placing pressure on building material supply chains and could lead to delays in the completion of units scheduled for delivery in 2026 and 2027. Arada's back ended payment plans in Sharjah, with approximately 60%–70% of the purchase price payable only at handover, heighten its sensitivity to any construction and cash collection delays and differentiate its liquidity risk from that of other UAE based developers we rate.

A large volume of units is scheduled for delivery in 2026 across Masaar, Jouri Hills and Aljada. The final stages of construction are more exposed to supply chain disruptions, given their greater reliance on imported finishing materials, and any material delays could shift cash inflows into 2027 and beyond. While management has indicated that construction materials required for the next 12 months have already been sourced, execution risk remains elevated given the scale and concentration of planned deliveries.

Although Arada's more back ended customer payment profile increases susceptibility to customer defaults in the event of a sharp correction in real estate prices, we believe this risk is mitigated by the company's concentration in Sharjah, which we expect to account for around 80% of revenue over the next two to three years. The Sharjah residential market has historically demonstrated greater resilience than Dubai, supported by more affordable pricing and a predominantly end user driven buyer base. We expect this demand profile to remain relatively resilient amid the current geopolitical backdrop.

This rating action reflects our baseline scenario that the current geopolitical conflict involving the US, Israel and Iran will have a contained impact on the security situation in the UAE. Nevertheless, the near-term implications for the UAE real estate market are broadly negative, with elevated uncertainty around future market conditions. A prolonged market downturn could materialize if confidence in the UAE as a destination for investment and immigration was durably impaired. As visibility over market conditions improves, we will reassess whether the market experiences any long-term structural changes that could weaken the credit quality of our rated UAE developers, such as Arada and warrant a reassessment of ratings.

Our base case also assumes no major damage to key production facilities or critical infrastructure, but allows for a more prolonged disruption to navigation through the Strait of Hormuz. Such disruptions directly affect developers' access to construction materials and are reflected in our expectation of higher building costs. A sustained inability to source materials would delay project completion and handovers, which could prompt a reassessment of ratings for the UAE developers.

Arada's B1 CFR continues to reflect (1) its unique market position in Sharjah (Ba1 stable), which we expect to be less exposed to property cyclical and shifts in investor sentiment than Dubai, particularly against the backdrop of heightened geopolitical uncertainty; (2) strong off-plan sales of \$4.7 billion in 2025, up from \$1.4 billion the prior year, which lifted revenue backlog to \$5.4 billion and underpins solid revenue visibility over the next two years, largely independent of new sales activity; (3) good profitability, with gross margins of around 40% providing resilience against potential increases in construction costs; and (4) a strong and consistent track record of support from strategic and influential shareholders, which we expect will continue to facilitate access to premium land plots.

The rating also reflects (1) uncertainty stemming from the conflict in the Middle East and its impact on demand for real estate in the UAE, which is Arada's sole geographic market of operations; (2) the risk of rising construction costs and delays, particularly if disruptions to shipping through the Strait of Hormuz persist; (3) Arada's relatively limited operating track record in delivering large scale projects through economic cycles, alongside past delays in construction completion and handovers; (4) reliance on timely project completions in 2026–27 to support liquidity, given that, in Sharjah, around 60% to 70% of sales proceeds are collected at handover under back ended payment plans; (5) elevated leverage for the rating level, with debt to book capitalization of 66% as of December 2025, which we expect to remain broadly at this level over the next year.

NEGATIVE OUTLOOK

The negative outlook reflects greater uncertainty around the company's deleveraging trajectory, as well as its reliance on timely project completions and property handovers to support liquidity, which could face heightened execution risks and delays amid the ongoing geopolitical conflict in the Middle East.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Given the negative outlook, an upgrade in the near term is unlikely. We could move the outlook to stable if Arada's Moody's adjusted debt to book capitalization sustainably trends below 60% and the company's liquidity improves as construction completions and customer collections proceed as planned.

Arada's rating could be upgraded over time, if the company sustainably improves its business profile through consistently derisking construction risk through high off-plan sales and increased customer prepayments. We expect this would also help the company in reducing leverage and improving liquidity. To consider an upgrade Moody's adjusted debt to book capitalization should be sustained below 50% and Moody's adjusted EBIT to interest expense above 4.0x. At the same time, we would also expect economic and homebuilding conditions in the UAE to be stable.

We would consider a rating downgrade if (1) the company experiences material delays in delivering its pipeline of pre-sold homes or pre-completion payment collections weaken materially, or (2) debt to book capitalization ratio fails to trend below 60% when the level of new sales reduces, or EBIT to interest expense remains below 3.0x (all metrics are Moody's-adjusted), or (3) liquidity materially weakens, or (4) the company engages in riskier financial management, such as large scale purchases of land or high dividend payments that materially weaken the company's credit metrics, or (5) economic and homebuilding conditions in the UAE weaken materially.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Homebuilding and Property Development published in September 2025 and available at <https://ratings.moodys.com/rmc-documents/450639>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

The net effect of any adjustments applied to rating factor scores or scorecard outputs under the primary methodology(ies), if any, was not material to the ratings addressed in this announcement.

The local market analyst for these ratings is Lisa Jaeger, +971 (423) 796-59.

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