A biannual review of key trends and the performance of Dubai's office market

Knight Frank

Dubai Office Market Review

Spring | 2022

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PRIME OFFICE RENTS RECOVER TO PRE-COVID LEVELS

Prime office rents in 5 of the 27 submarkets we track across Dubai have seen rents recover to pre-COVID levels during first quarter of 2022, while a further 13 submarkets now command rents that are higher than at the start of the pandemic.

Leading the recovery in rents is Business Bay, where average rents have climbed from AED 76 psf in Q1 2020 to AED 101 psf at present. The area which for a long time was seen as the poorer cousin to Downtown, filled with strata-owned stock and in a near-perpetual state of construction has begun to come into its own, with construction levels gradually easing and at the same time, new transport infrastructure projects being delivered, improving access.

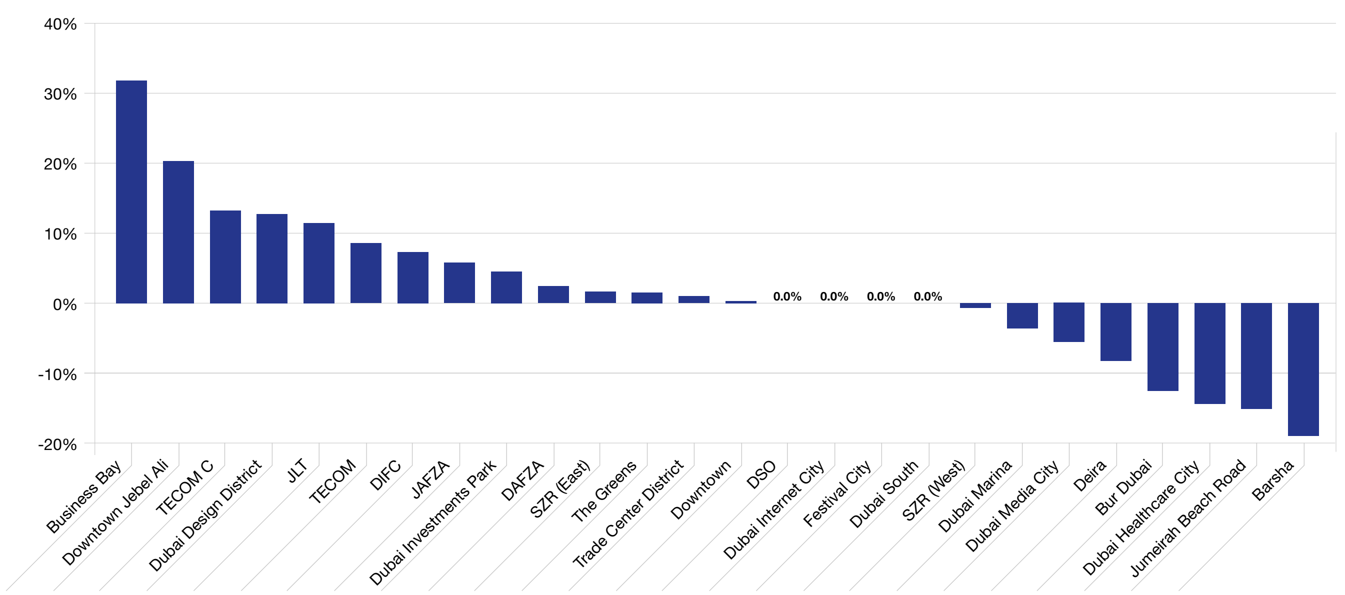
In addition, the completion of residential developments has given Business Bay a new lease of life, with new residents helping to improve the vibe of the area.

BUSINESS BAY AND JEBEL ALI EMERGE AS STAR PERFORMERS

Separately, the widening halo-effect from Downtown, has catalysed demand for residential space here, with multiple high-end branded residential operators moving in – think Mama Shelter, The Dorchester Collection and Missoni, for instance, all boosting the appeal of Business Bay. Despite this, office space here remains approximately 34% cheaper than in adjacent Downtown.

“The buoyancy in demand for office space in Jebel Ali is reflective of the surge in industrial sector activity”

CHANGE IN OFFICE RENTS SINCE THE START OF THE PANDEMIC (Q1I20 V Q1I22)



Source: Knight Frank

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On an annual basis, however, Downtown Jebel Ali (58.3%) and JAFZA (31.6%) have seen the sharpest turnaround in rents, leaving them at AED 95 psf and AED 125 psf. The buoyancy in demand for office space in Jebel Ali is reflective of the surge in industrial sector activity across the emirate, which is seeing the rapid growth in both existing and new businesses, which is separately driving a dearth of high quality of warehousing.

LARGER SPACE REQUIREMENTS RISE

As is usually the case in the final quarter of any year, new space requirements edged down to 96,000 sq ft in Q4 2021, from 116,000 sq ft during Q3 2021. Excluding confidential requirements, demand from the healthcare sector (55.3%) dominated requirements during the final three-months of 2021, followed by the banking & finance sector (8.3%) and the industry and manufacturing sector (6.6%).

Interestingly, the industry and manufacturing sector is expected to add the most net new jobs to Dubai’s economy between 2022 and 2026, with 127,000 new jobs likely to be created (Oxford Economics).

That said our experience in Q1 2022 so far has shown an upturn in larger space requirements from occupiers. These have increased on average to 8,000+ sq ft, compared to smaller requirements of c. 2,500 sq ft at the end of last year.

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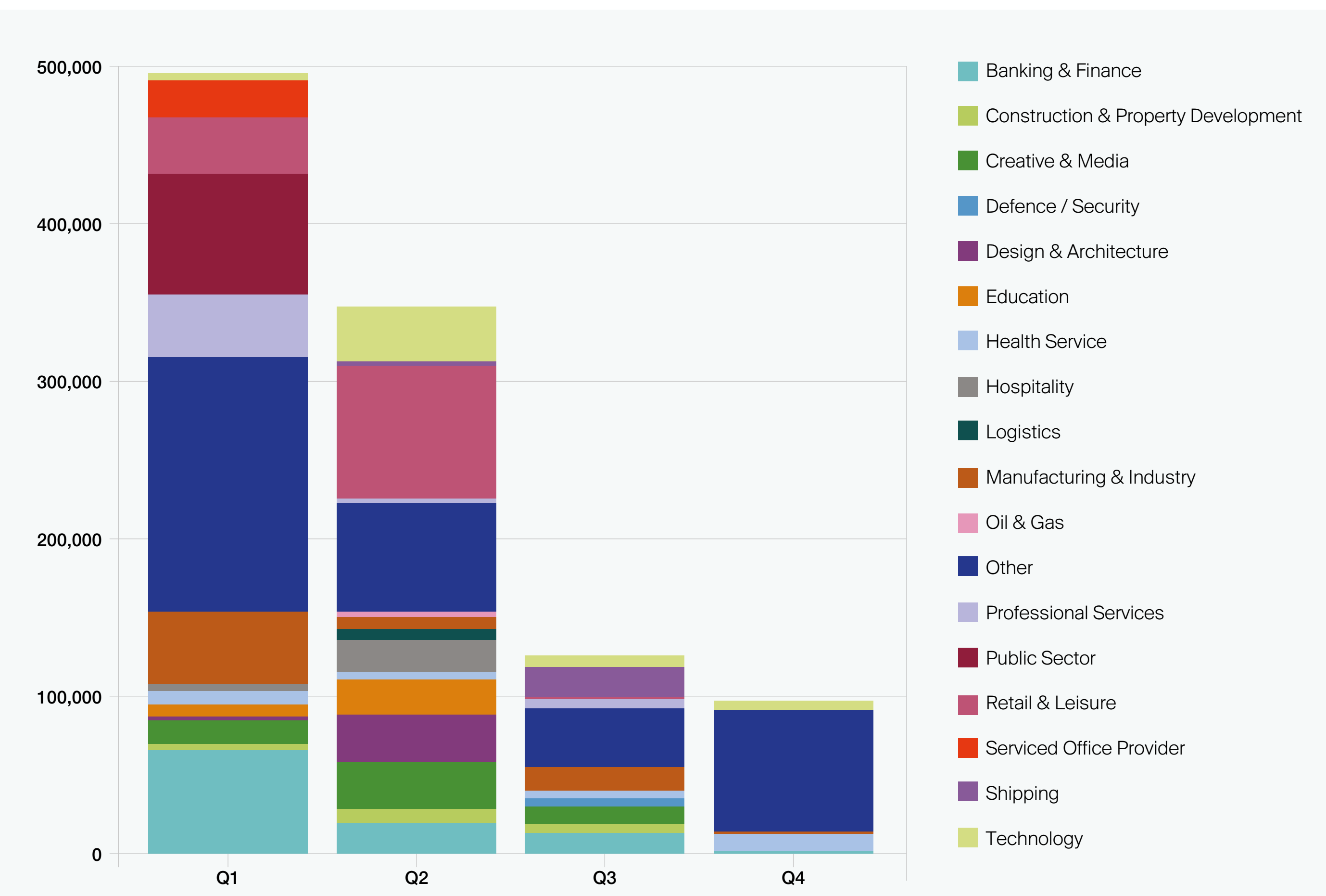
2021 OFFICE DEMAND BY SECTOR - DUBAI SQ FT



Source: Knight Frank

HYBRID WORKING MODELS DRIVING CONSOLIDATION ACTIVITY

Despite the quieter end to 2021, early data from Q1 suggests a rebound in demand, led by technology businesses that are expanding their footprints, albeit many are start-ups, so their footprint growth is relatively small, mainly moving from 500-1,000 sq ft to 1,000-2,000 sq ft.

To an extent, the expansion by this group of occupiers is being eroded by a number of businesses that are still reassessing their occupational strategies, many of whom are shrinking their office footprints as a result of the rise in hybrid working models, which appear to be gaining a sense of permanency, particularly amongst international blue chip and professional services businesses, as well as a handful of international banks.

Whilst this has contributed to the decrease in overall vacancy levels across Dubai to c. 74% at the end of 2021, well below the 81% average for the preceding five years, there is a very limited supply pipeline of high-quality office stock, which is where the attention of businesses remains centred.

The resultant impact of this market dichotomy is upward pressure on rents, or at worst, stability in lease rates for the city's best buildings, while some of the older, more secondary stock is starting to experience a migration of businesses to better quality buildings.

What this means is that some sought after submarkets with high concentrations of prime office buildings, are unable to satisfy demand. The DIFC is a prime example of a particularly active submarket, particularly from financial services businesses downsizing their footprints to approximately 1,000-3,000 sq ft, from c.30% more than that prior to the pandemic.

SERVICED OFFICE BUSINESSES EXPANDING

Away from the consolidation activity, serviced office providers are increasingly active in the market, offering enterprise solutions to businesses that are looking for greater lease flexibility and plug n' play space, which is growing in popularity, as it has done in major global gateway cities. We see this trend continuing as we work our way through the long-term structural changes to working habits that have been accelerated by the onset of COVID-19.

Overall, however, as the impact of the pandemic on Dubai's economy abates, we are starting to see larger corporates requesting staff to attend the workplace more often. Smaller businesses however are likely to persevere with hybrid working models and indeed enterprise, or serviced office solutions for their space requirements.

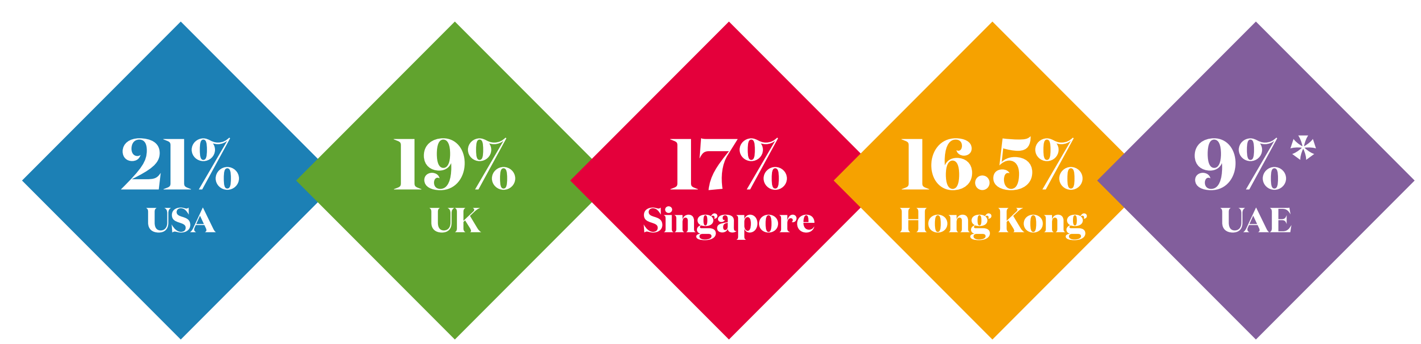
NEW CORPORATION RATE TAX

The recent announcement of the introduction of a Corporation Tax in the UAE from the summer of 2023 is not expected to have a negative impact on the market.

Many countries have tax treaties with the UAE to protect individuals and businesses from dual taxation. While the introduction of Corporation Tax is a first for the GCC, at 9% it is significantly lower than many major global financial centres. Furthermore, the move is part of wider OECD efforts to introduce Corporation Tax across all member states.

Separately worth noting is that businesses located in free zones across the UAE have been historically exempt from any taxation. Should they continue to remain outside any new tax regulations, their popularity is likely to rise amongst local and international businesses.

GLOBAL CORPORATION TAX RATES



Source: Knight Frank, various sources

*only for businesses with an annual income of over AED 375,000

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DUBAI OFFICE MARKET IN NUMBERS

NOTABLE REQUIREMENTS

Company name	Sector	Requirement size (sqm)
Confidential	Banking & Finance	1,300
Confidential	Aviation	1,250
Confidential	Manufacturing	15,000
Confidential	Banking & Finance	20,000
Confidential	Retail	12,000

	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q/Q	Y/Y
1. Dubai Hills	80	85	80	75	75	0.0%	-6.3%
2. Business Bay	77	78	78	100	101	0.6%	30.2%
3. Downtown Jebel Ali	60	65	88	95	95	0.0%	58.3%
4. TECOM C	140	150	150	160	160	0.0%	14.3%
5. Dubai Design District	140	140	143	175	175	0.0%	25.0%
6. JLT	82	82	87	93	98	5.4%	20.0%
7. TECOM	124	125	132	134	138	2.5%	10.7%
8. DIFC	202	198	213	225	225	0%	11.3%
9. JAFZA	95	95	118	125	125	0%	31.6%
10. Dubai Investment Park	63	63	63	70	70	0%	11.1%
11. DAFZA	170	170	170	175	175	0%	2.9%
12. SZR (East)	144	141	143	151	152	0.7%	15.2%
13. The Greens	83	88	95	95	95	0.0%	15.2%
14. Trade Center District	113	115	116	123	123	0%	8.8%
15. Downtown	136	136	138	152	152	0%	11.6%
16. DSO	100	100	100	120	120	0%	20%
17. Dubai Internet City	140	140	160	160	160	0%	14.3%
18. Festival City	130	130	135	140	140	0%	7.7%
19. Dubai South	60	60	60	60	60	0%	0%
20. SZR (West)	98	100	101	100	100	0%	2%
21. Dubai Marina	120	120	120	130	130	0%	8.3%
22. Dubai Media City	148	151	153	140	140	0%	-5.4%
23. Deira	87	87	84	82	82	0%	-6.5%
24. Bur Dubai	81	80	80	88	88	0%	8.6%
25. Dubai Healthcare City	100	100	105	90	90	0%	-10%
26. Jumeirah Beach Road	100	100	90	90	90	0%	-10%
27. Barsha	70	70	75	75	70	-6.7%	0%

Source: Knight Frank, REIDIN

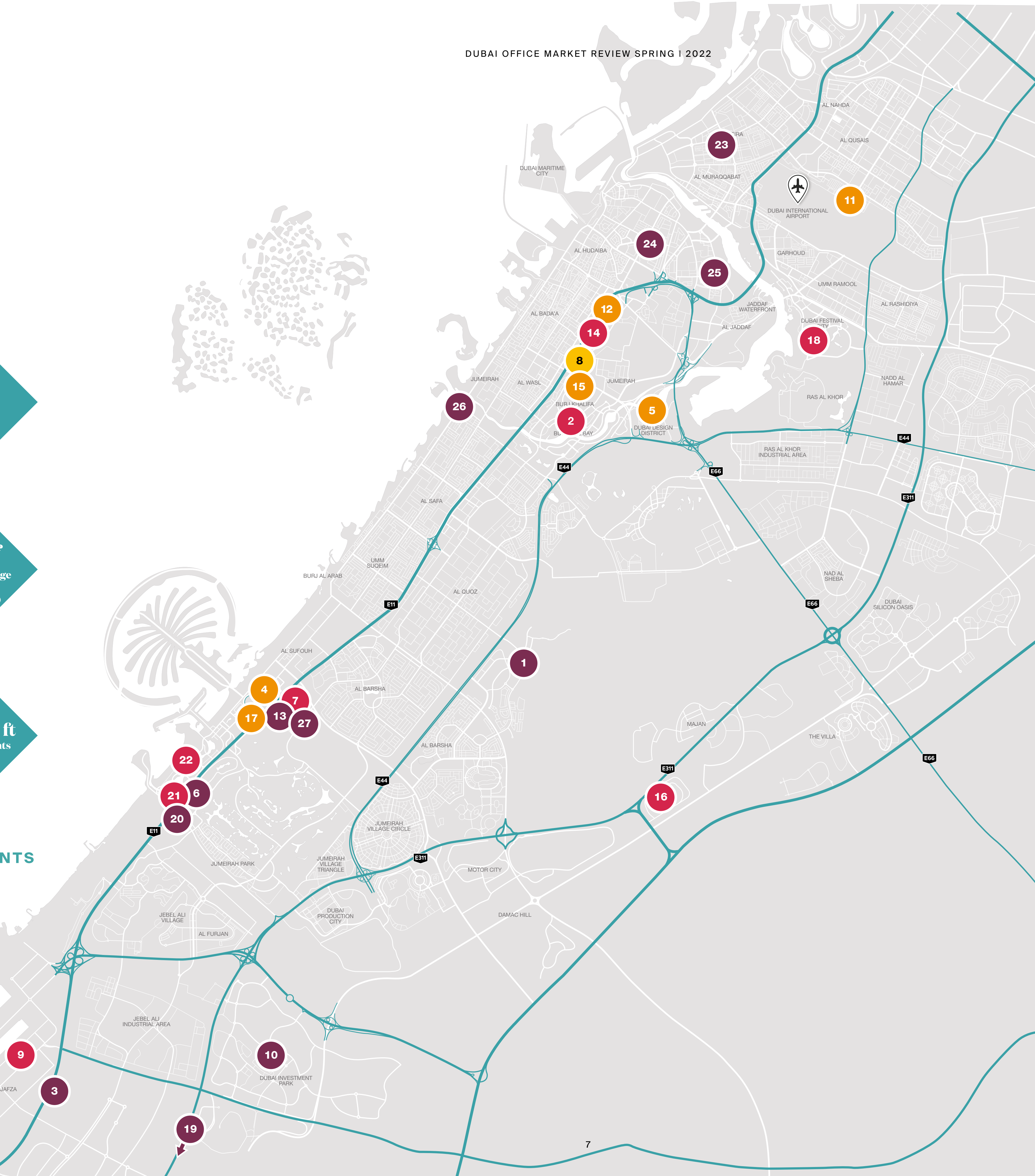
74%
Average occupancy (2021)

AED 101 psf
Highest y/y change (30.2%) (Business Bay)

96,000 sq ft
New requirements

PRIME RENTS (AED PSF)

- 201 - 250
- 151 - 200
- 101 - 150
- 50 - 100



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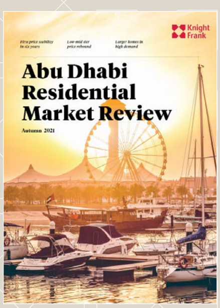

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