Knight Frank

Here's the Gulf

A market guide to real estate in the Gulf | **2019**

Newmark Knight Frank

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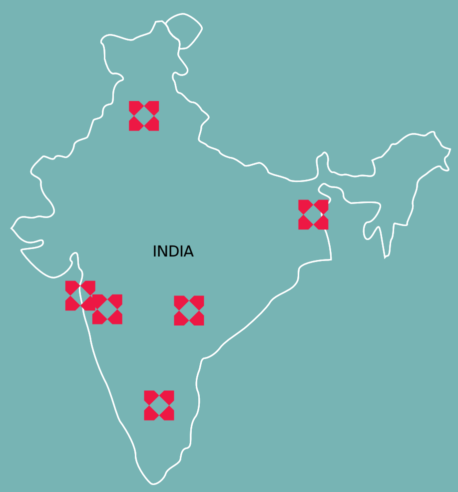
Africa, Middle East & India Occupier Services

Knight Frank has transacted in all GCC countries in the last 12 months and has advised in 39 African countries and successfully concluded 190 transactions across 3.8 m sq ft throughout Africa, the Middle East and India.



Botswana
Gaboron

Kenya
Westlands
Nairobi
Mombasa

Malawi
Lilongwe
Blantyre

Nigeria
Lagos
Aboja
Port Harcourt

South Africa
Cape Town
Sea Point
Gauteng
Durban
Hout Bay

Tanzania
Tanzania

Uganda
Kampala

Zambia
Lusaka

Zimbabwe
Bulawayo
Harare

India
Mumbai
Hyderabad
Pune
Gurugram
Kolkata
Bengaluru

United Arab Emirates
Dubai
Abu Dhabi

Kingdom of Saudi Arabia
Riyadh

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The outlook & the opportunity

The Outlook

"A sustained increase in oil prices over the past two years has driven an economic recovery in the Gulf Cooperation Council (GCC) countries, but government-led reforms need to continue to keep up the momentum"

World Bank, Gulf Economic Monitor

In summary

In 2019, ongoing reforms should prove fruitful for the GCC economies in the medium term as countries diversify away from hydrocarbons. Over recent years in the GCC, the weak global economic backdrop and drop in oil prices, which saw prices fall from 2014 highs of $115 per barrel (pb) to lows of $27.7pb before settling at around $50pb, over the course of 2016 and 2017. Prices settled at c. $72 pb on average in 2018 and this has proven to be a strong headwind for the region.

This new norm in oil prices and fiscal realities have forced the governments to act. GCC countries have since then, not only cut spending but most have enacted ambitious diversification plans to reduce the dependence on the hydrocarbon sector. Three of the six GCC countries have also implemented a new Value Added Tax (VAT) to diversify revenue sources, set at 5%, it is expected not to significantly impact economic activity.

Two of the six GCC countries implemented Value Added Tax in 2018, at a rate of 5%, in an effort to diversify revenue sources. Overall the impact of inflation has been more limited than expect, however, inflation has still been above the historic average recorded in both countries.

Bahrain is the third GCC country to implement VAT, which will came into force in 2019. The impact of VAT is likely to be fairly limited in Bahrain given that, in comparison to Saudi Arabia and the UAE, basic items such as food are zero-rate with exemption also being granted for the sale and leasing of real estate.

The remaining three countries are expected to implement VAT from 2019 onwards. As oil prices show somewhat of a rebound and global economic and trade growth strengthens, the pace of fiscal consolidation is expected to slow in most countries, which is likely to underpin a stronger rate of growth in both oil and non-oil GDP.

However, as some GCC countries failed to enact the required fiscal consolidations we are likely to witness fragmented rates of growth. This will feed through to the real estate sector performance across the GCC countries. Overall, we are likely to see the real estate markets soft performance continue in most countries and sectors, although there are will be some areas of outperformance.

The real estate sector has continued to be one of the most active economic sectors in the region in recent years. This trend has been further strengthened by the awards of international events such as Expo 2020 and the FIFA World Cup 2022 alongside new ambitious projects such as NEOM city and Qiddya in Saudi Arabia. This has meant a strong level of infrastructure investment to service these major events and future cities. As a result we have seen an increase in supply in the residential, office, hospitality and industrial and logistic markets. More so, we have also seen pockets of growth in healthcare and educational real estate projects, offering a more diverse and sophisticated range of investment products.

The opportunity in the Gulf

By **2020**, the GCC will grow in importance as an economic and trading hub as it still provides **one quarter** of the world's oil.

Emerging markets will become important **trading partners** of the GCC and primary destination of investments. Gulf assets are likely to be diversified through **Asia** and **The Gulf**.

Closer political and **economic integration** between GCC countries is likely to expand. A **single currency**, a single central bank and a greater harmonisation of legal and **regulatory environments** are all expected to take place in the GCC. However, economic integration will depend on good **political relations**, but will take importance over political integration

The **dependency** of the GCC on **foreign labour** will remain by **2020** despite efforts to encourage the employment of nationals. The GCC's labour market is expected to change at a very low level as there is a **high dependency** on low-cost **expatriate labour**. GCC education systems and promotion of labour participation is at an early stage of development, but is growing rapidly across the region. Therefore, the region still encourages employers to recruit expatriate workers, the GCC's large-scale **imports** of **labour** and **exports** of **remittances** will remain one key factor of exchange with the rest of the world.

By **2020**, the **US** is likely to remain the **key foreign ally** particularly in terms of **security**. It is however still not clear what security role **emerging powers** will play in the region.

Water scarcity and high **costs** of local **agriculture** will increase **food imports** in the GCC region. Investment in this sector is expected to grow and provide greater food security for each sovereign state. It is projected that food imports will more than **double** from US$24bn in 2008 to **US$49bn** by **2020**.

The GCC's focus on **manufacturing** and production of **hydrocarbons** will rise by **2020**. GCC nations will aim to turn more of their oil into **refined products** or petrochemicals, and to use their **oil** and **gas** resources for industries that will **add more value** and provide more jobs.

Source: The GCC in 2020, Economist Intelligence Unit

Occupier trends affecting the Gulf

Oil prices and the ripple effect

Oil trade

Investment in sustainable energy will grow in importance. Being highly oil dependent economies, GCC occupiers have been deeply affected by oil price declines of around 60%, affecting multi-sector profitability, recruitment and development.

Liquidity and solvency

The GCC banking system is well capitalised but faces liquidity pressures related to Government deficit financing and deterioration of asset quality related to lower economic activity.

Economic diversification

All GCC countries are actively trying to diversify their economies, investing heavily in non-oil reliant sectors such as logistics, tourism, energy, financial services, healthcare, and manufacturing. They will need to focus on their strengths to grow and develop their economies.

Market consolidation

Roughly 50 banks in the UAE fiercely compete for only 9 million people. This means that the room for meaningful growth for these banks is very limited. Market consolidation is one way of addressing this situation.

Economic interconnectedness

The GCC economy seeks to establish a single currency and a local trade market independent of oil by 2050.

Legal systems

The GCC economies aim to establish corporate governance systems allowing fast decision-making in line with countries' objectives, specifically private sector growth.

Demographics

Large portions of immigrant labour, both skilled and unskilled, has created diverse hubs of people.

Private sector

Private sector investment is proven to be the key for several GCC economies in launching SME growth, market liquidity and improved solvency.

Development pipelines

Large scale multi-sector developments have become prevalent throughout the GCC, where master planned community developments have proved very successful as micro-economies.

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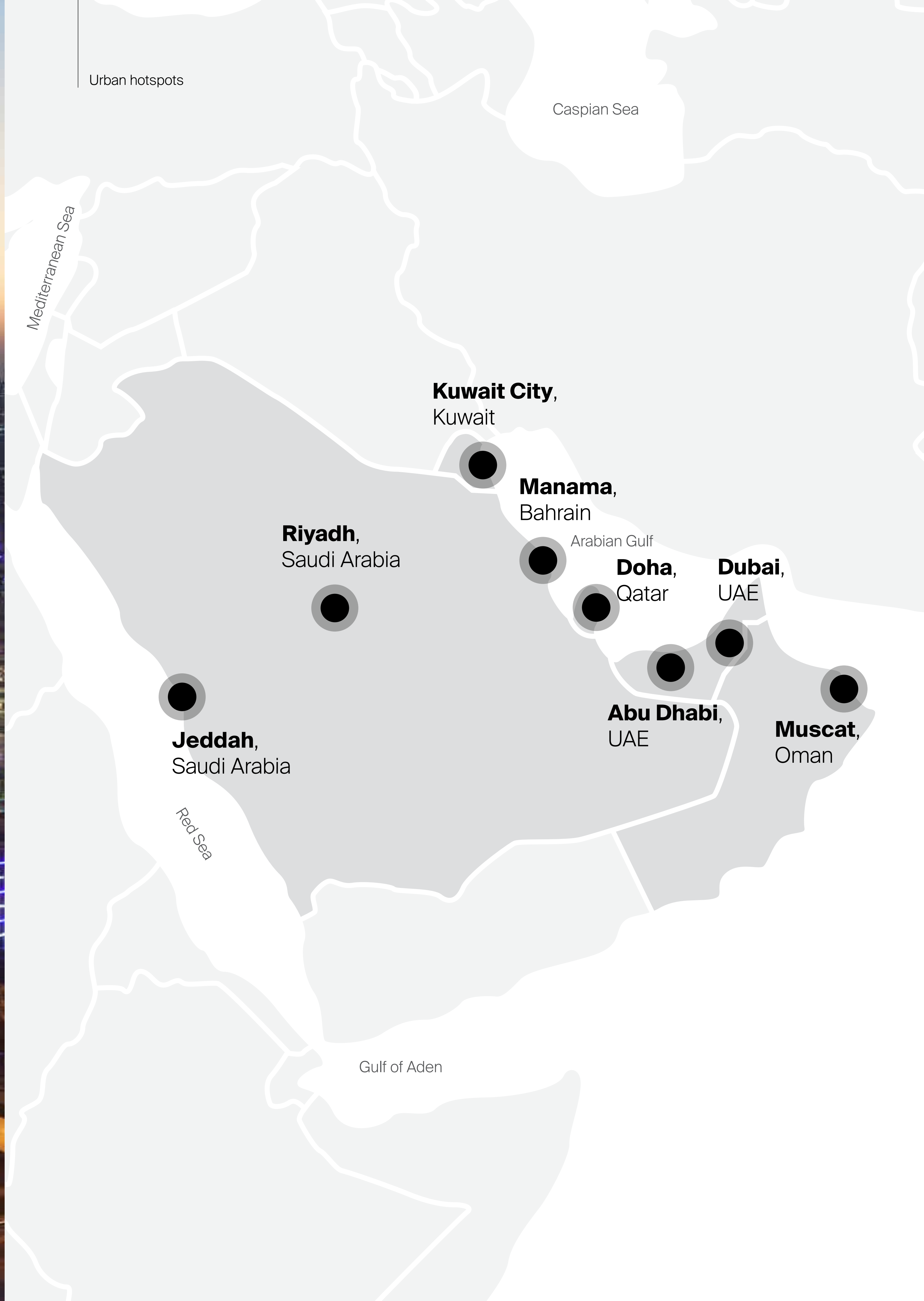
The Gulf's urban hotspots


Locations
In this section we have profiled the following locations


Caspian Sea
Mediterranean Sea
Kuwait City, Kuwait
Manama, Bahrain
Riyadh, Saudi Arabia
Arabian Gulf
Doha, Qatar
Dubai, UAE
Jeddah, Saudi Arabia
Abu Dhabi, UAE
Muscat, Oman
Red Sea
Gulf of Aden

KEY FACTS

Capital: Manama
Language: Arabic, English
Population: 1.39 million
GDP growth (2018): 2.6%
Currency: Bahraini Dinar (BHD)

Bahrain

Office rents across the Kingdom's key submarkets remained largely unchanged throughout 2018. The limited activity in Bahrain's commercial market continues to be largely driven by internal relocation activity. The market has already seen concessions made on lease terms and we expect this trend to intensify. There has been a concerted move to offer greater flexibility around lease terms, whilst also offering smaller amounts of office space.

Bahrain's GDP growth rate is expected to slow in 2018 to 2.6% from 3.5% in 2017. The fall in oil prices since 2014 has had a particularly adverse impact on Bahrain's economy due to its impact on government revenues, however despite this, the government has maintained an expansionary fiscal stance which in turn has led to an accumulation of fiscal deficits.

However, governments of Kuwait, Saudi Arabia and the UAE have stepped in to provide a US$10bn aid package in late 2018. The money will support a new fiscal balance program announced on the same day and is designed to eliminate the country's sizeable budget deficit by 2022.

With the introduction of VAT and Bahrain's ambitions plans to grow the non-oil economy we expect to see the pressure on government finances slightly ease and GDP growth rate to increase to 2.8% in 2019. In addition, there are significant investments in the exploration and refining of oil and gas in the Kingdom, which is hoped, will help support ongoing fiscal reforms in the long term.

Lease terms

Rents quoted	Typical lease lengths	Frequency of rent payments	Basis of rent reviews	Break options	Ability to assign lease
BHD/sq m/month	3 years	Quarterly to annually in advance	Periodic rent reviews based on open market rents	Can be exercised by either party. Typical notice period is 3 months	Subletting permissible, with landlord's content

Occupational costs

Service charges	Utilities	Relevant local taxes payable	Internal repairs	External repairs	Building insurance	Reinstatement
Paid by tenant. Typically 12-15% of net rent	Tenant pays for all utilities consumed	No VAT on rents. Urban Property Tax applies to commercial rents, at an effective rate of 15%	Tenant responsible	Landlord responsible	Landlord responsible	Yes

Transaction costs

Agency fees: new lease	Agency fees: renewal	Agency fees: sublease	Legal fees	Are other fees payable on leases?
Paid by the party representing each side.	Paid by the party representing each side.	Paid by the party representing each side.	Landlord and tenant pay their own fees. Need to register the lease with the LMRA RERA is the newly formed regulatory body for the real estate industry.	10% LMRA payable

KEY FACTS

Capital: Kuwait
Language: Arabic, English
Population: 4.15 million
GDP growth (2018): 2.4%
Currency: Kuwaiti Dinar (KWD)

Kuwait

Whilst the decline in oil prices from 2014 highs have been a strong headwind for the economy (Hydrocarbons account for almost half of GDP), Kuwait has been able to deal with this from a position of strength given its large fiscal buffers and low levels of debt. Despite this we have seen a weakened fiscal position develop with a growing need for external financing, particularly as implementation of VAT has been delayed to 2021, therefore there is a clear requirement for an accelerated fiscal reform package alongside the five year development plan which looks to diversify economic activity.

Higher oil prices have supported GDP growth over the last year with 2018 GDP growth expected to register at 2.4% up from -3.5% in 2017. While forecast show that GDP growth is expected to strengthen to 4.6% in 2019 on the back of these higher oil prices and implementation of capital expenditures, we note that given the recent decision to reduce oil product from OPEC we may not see the full forecast growth rate come to fruition.

Costs are highly variable depending on location and accessibility but prime space is likely to remain stable going forward.

Lease terms

Rents quoted	Typical lease lengths	Frequency of rent payments	Basis of rent reviews	Break options	Ability to assign lease
KWD/sq m/month	5 years	Monthly / quarterly	Kuwait Rental Law applies and rents are reviewed every 5 years	Depends on the rental contract agreed by both parties	Subletting is illegal, unless agreed by landlord and tenant

Occupational costs

Service charges	Utilities	Relevant local taxes payable	Internal repairs	External repairs	Building insurance	Reinstatement
No service charge applied on older buildings	Utilities can be included and paid for by the landlord. In most cases they are to be paid for by the tenant.	No taxes	Tenant responsible	Landlord responsible	Landlord responsible	Yes

Transaction costs

Agency fees: new lease	Agency fees: renewal	Agency fees: sublease	Legal fees	Are other fees payable on leases?
Paid by the party representing each side, typically one month's rent.	Renewal charges are paid for by the tenant, as a % of the lease contract.	Not applicable	As stipulated by the contract.	Not applicable

KEY FACTS

Capital: Muscat
Language: Arabic, English
Population: 4.76 million
GDP growth (2018): 3.6%
Currency: Omani Riyal (OMR)

Oman

Oman's GDP growth rate in 2018 is expected to register at 3.6% up from 0.2% in 2017. The country's economy continues to be in a fragile state with the level of public debt rapidly rising over recent years and the country increasingly resorting to external markets to finance this debt. However, in 2017 and 2018 due to an increase in government revenues, we have also seen the fiscal situation begin to improve.

More so, given higher oil prices and the fact that Oman continues to benefit from sanctions on Qatar, acting as a conduit for exports to Qatar, we expect GDP to strengthen in 2019, albeit at a slower rate compared to 2018.

There has been minimal activity in the commercial market in Oman. Many corporates are adopting a wait and see approach when it comes to expansion plans, and are weary of rising costs, taxation, changes in visa regulations for expats and general operating overheads combined with reduced income projections.

The longer term scenario may be more optimistic as a result of the drive for economic diversification which could lead to new company start-ups and space absorption.

The market is generally tenant favourable as they are likely to be able to secure lease reductions as landlords seek to retain occupiers and avoid what could be significant re-letting void periods.

Lease terms

Rents quoted	Typical lease lengths	Frequency of rent payments	Basis of rent reviews	Break options	Ability to assign lease
OMR/sq m/month	3-5 years	Quarterly / Annually	1 - 3 months	Not standard	Subletting and assignment to third parties are subject to negotiation.

Occupational costs

Service charges	Utilities	Relevant local taxes payable	Internal repairs	External repairs	Building insurance	Reinstatement
Included in rent	Paid by the tenant	Lease registration paid by landlord	Tenant responsible	Often included within service charge	Landlord responsible	Varies by building

Transaction costs

Agency fees: new lease	Agency fees: renewal	Agency fees: sublease	Legal fees	Are other fees payable on leases?
Negotiable, depending on landlord.	Negotiable	Negotiable	Each party is responsible for their own legal fees	Landlord responsible for lease registration fees

KEY FACTS

Capital: Doha
Language: Arabic, English
Population: 2.66 million
GDP growth (2018): 2.7%
Currency: Qatari Riyal (QAR)

Qatar

As a result of Qatar's rift with some GCC nations, including Saudi Araba, Bahrain and the UAE, economic activity was impacted in late 2016 and for parts of 2017, however, due to its large financial buffers the impact of sanctions have not been too severe. Initial estimates show that Qatar's GDP has grown by 2.7% in 2018, up from 1.6% in 2017. Looking ahead, GDP growth in 2019 is expected to increase to 3.3% on the back of continued infrastructure spending on the 2022 FIFA World Cup and also increased gas output.

Despite the rebound in economic growth, leasing activity has been fairly limited with the majority of leasing activity has been limited to existing occupiers relocations. Where new occupiers are entering the market, the space demanded tends to be a significant amount lower compared to that demand from those relocating.

In addition to unfavourable economic conditions, the market is seeing an oversupply of office space. A number of new buildings in Lusail and the Qatar Petroleum District are scheduled for completion over the next 12 months, adding almost 300,000 square metres of office GLA, which will weigh down the market recovery.

Locations including West Bay currently command an average of c. QAR 1,500 to QAR 2,000 per square metre per annum depending on fit-out and size requirements. More, given the adverse market conditions rent-free periods are now more common place.

Lease terms

Rents quoted	Typical lease lengths	Frequency of rent payments	Basis of rent reviews	Break options	Ability to assign lease
QAR/sq m/month	3 years	Monthly - in advance	Annually	1-3 months notice and only if tenant leaves Qatar	Not common in the market

Occupational costs

Service charges	Utilities	Relevant local taxes payable	Internal repairs	External repairs	Building insurance	Reinstatement
Paid by tenant	Paid by tenant	1% of the total rental value per annum	Landlords responsibility (wear and tear)	Landlord responsibility	Landlord responsibility	Yes

Transaction costs

Agency fees: new lease	Agency fees: renewal	Agency fees: sublease	Legal fees	Are other fees payable on leases?
Tenants	Tenants	Negotiable	Each party is responsible for their own legal fees.	N/A

KEY FACTS

Capital: Riyadh
Language: Arabic
Population: 33.4 million
GDP growth (2018): 2.0%
Currency: Saudi Riyal (SAR)

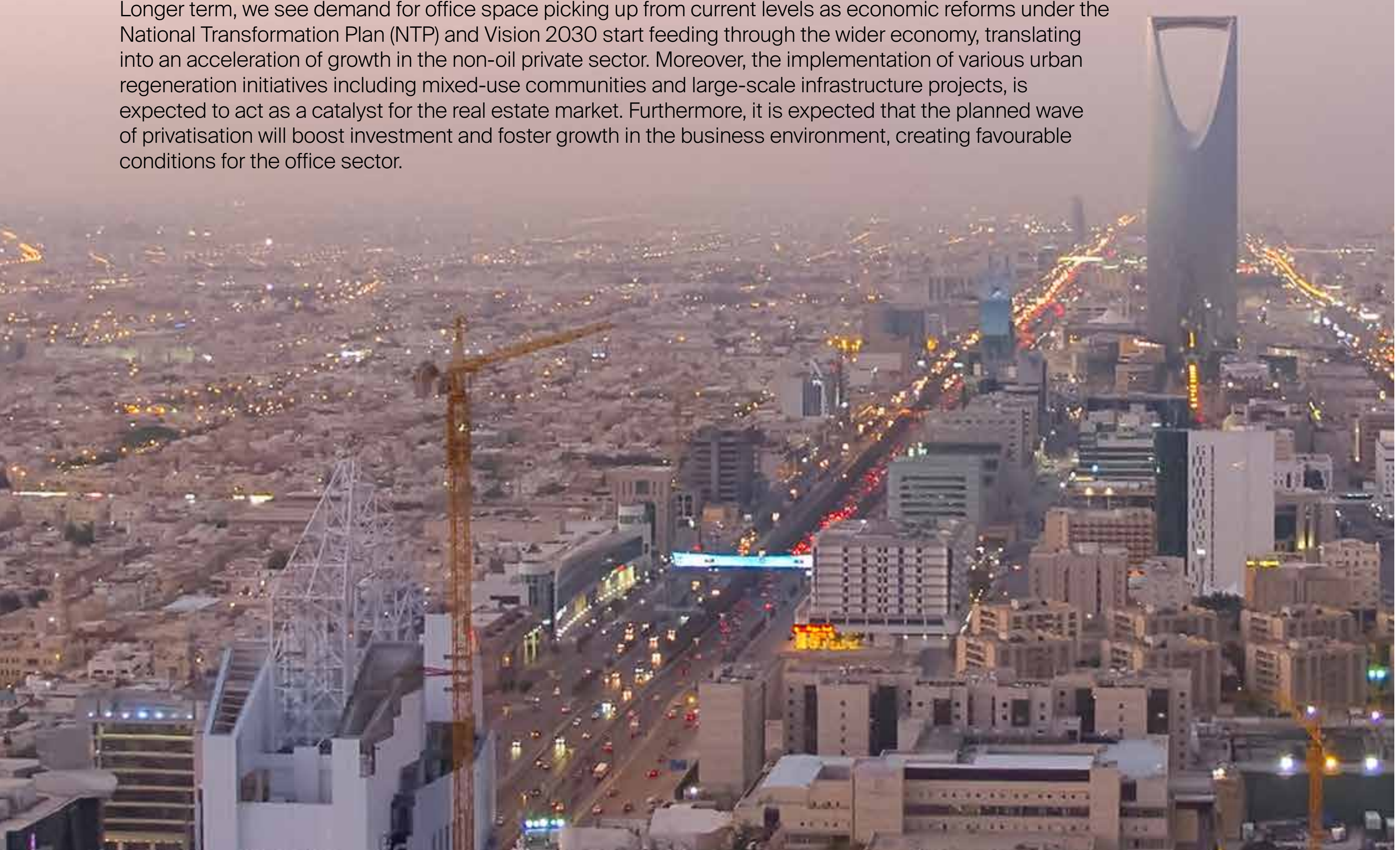
Saudi Arabia market overview

Following a deceleration in 2017, Saudi Arabia's GDP growth started recovering in the first quarter of 2018. It is estimated to have reached 2% in 2018 according to Oxford economics estimates and is set to further accelerate, reaching 3% in 2019. The return to growth has been underpinned by a combination of favourable factors including the rebound in oil prices, a gradual acceleration in the growth of the non-oil economy and the government's shift away from a tight fiscal policy as highlighted by the large budgeted expenditures for 2018 and 2019. GDP growth is expected to remain on a positive trajectory in the medium term, averaging 3% over the next five years.

Whilst there have been a number of notable commercial office transactions throughout 2018, as key occupiers both from the public and private sector look to expand or move to upgraded premises, the market continues to be dominated by a lack of Grade A stock and a large supply pipeline. In terms of performance, market wide rents and occupancy levels have been under pressure since 2016, with the trend continuing into 2018 amid increasing levels of supply and subdued occupier demand. Key prime schemes continued to perform better than the market average as a result of a lack of high quality stock. However as new schemes are released into the market this trend is unlikely to persist over the long term.

Although we have seen an improvement in business sentiment in 2018, we believe that any increase in demand will remain subdued in the short term, with rents and occupancy likely to remain under pressure as increased demand will be met with new supply. Vacancy rates can therefore, be expected to rise, placing downward pressure on rents. In this context, we expect landlords to continue offering incentives in order to maintain occupancy levels amid an increasingly competitive market.

Longer term, we see demand for office space picking up from current levels as economic reforms under the National Transformation Plan (NTP) and Vision 2030 start feeding through the wider economy, translating into an acceleration of growth in the non-oil private sector. Moreover, the implementation of various urban regeneration initiatives including mixed-use communities and large-scale infrastructure projects, is expected to act as a catalyst for the real estate market. Furthermore, it is expected that the planned wave of privatisation will boost investment and foster growth in the business environment, creating favourable conditions for the office sector.



KEY FACTS

Language: Arabic
Population: 7.0 million
GDP growth (2018): 2.7%
Currency: Saudi Riyal (SAR)

Riyadh, KSA

Riyadh's GDP regained momentum in 2018 reaching 2.7% for the full year according to Oxford Economics estimates after falling to 0.7% in 2017. GDP growth is expected to accelerate reaching 3.8% in 2019 and 2020. The recovery in economic growth is being triggered by higher oil prices compared to previous years and an expansionary government budget for 2018 and 2019. OPEC's yearly basket price reached an average of USD 70 in 2018 after falling to its lowest point in a decade in 2016 averaging USD 41.

Employment growth is expected to regain some momentum in 2019 reaching 2.1% after remaining subdued in 2018 (-0.1%) due to the rising pressures on the expat labour market resulting from the ramp up in government fees and Saudization plans.

Whilst 2018 has seen a number of high profile occupiers expanding or moving to upgraded premises, market wide demand has remained subdued over the past 12 months. This market sentiment has mainly been driven by the slowdown in the economy throughout 2017. Improved economic data throughout 2018 has yet to result in an increase in demand for office accommodation across the city.

Lack of Grade A space continues to underpin rents and occupancy levels in this segment. To this end, good quality schemes such as Kingdom Tower, Faisaliah Tower and Business Gate maintain high occupancy rates, a trend that we see continuing in the short to medium term until King Abdullah Financial District (KAFD) hands over meaningful levels of stock which is estimated to be in Phase 2 post 2021.

In the short to medium term, we expect rental rates of Grade A stock to remain underpinned by supply shortages while the Grade B segment will continue to see declines in rental rates as stock becomes more dated and demand for Grade B space weakens considerably as occupiers look to upgrade their premises amid increasingly tenant friendly market dynamics. Looking ahead, we see a two-tiered market developing where buildings situated in better locations with attractive facilities will command premium rents while secondary assets will struggle to drive rental rates and occupancy levels.

Lease terms

Rents quoted	Typical lease lengths	Frequency of rent payments	Basis of rent reviews	Break options	Ability to assign lease
SAR/sq m/annum	3 years	Annually in advance	To open market at end of term	Break clauses are not common, except for longer leases	Subletting permissible with landlord's consent

Occupational costs

Service charges	Utilities	Relevant local taxes payable	Internal repairs	External repairs	Building insurance	Reinstatement
15% to 20%	Tenant pays for all utitlities consumed.	No VAT on rents. (Urban Property Tax to be applied in due course)	Tenant responsible	Landlord responsible	Landlord responsible	Yes

Transaction costs

Agency fees: new lease	Agency fees: renewal	Agency fees: sublease	Legal fees	Are other fees payable on leases?
Paid by tenant	Paid by tenant	Paid by tenant	Landlord and tenant pay their own fees	No

KEY FACTS

Language: Arabic
Population: 4.4 million
GDP growth (2018): 2.6%
Currency: Saudi Riyal (SAR)

Jeddah, KSA

Jeddah's GDP regained momentum in 2018 reaching 2.6% for the full year according to Oxford Economics estimates after falling to 0.5% in 2017. GDP growth is expected to further accelerate, reaching 3.7% in 2019 and further strengthening to 3.9% in 2020. The recovery in economic growth is being triggered by higher oil prices compared to previous years and an expansionary government budget for 2018 and 2019. OPEC's yearly basket price reached an average of USD 70 in 2018 after falling to its lowest point in a decade in 2016 averaging USD 41.

Employment growth is expected to regain some momentum in 2019 reaching 1.9% after witnessing a 0.4% decline in 2018, due to the rising pressures on the expat labour market resulting from the ramp up in government fees and Saudization plans.

Demand for office space has remained subdued since 2017 due to economic conditions. Office demand across the city has been focused on smaller offices as companies look to downsize their office space and avoid capital expenditure on customized fit out options. We expect this trend to continue in the short term until we start seeing a substantial improvement in business conditions and as the reforms set out in Vision 2030 and the NTP feed through into the wider economic system.

On the supply side, Jeddah continues to lack a well-defined CBD. Looking ahead, there is a large amount of potential office space that could be released to the market, the majority of which is Grade A (60%-70%), while an additional 30% of stock is set to come online in smaller projects along major arterial routes such as King Abdulaziz Road and Prince Sultan Road. A key prime scheme in the pipeline is Jeddah Gate, a masterplan development by Emaar located on two sites along King Abdullah Street and Abdullah Al Sulaiman Street.

While a few select Grade A buildings continue to perform above market average, rents and occupancy rates are likely to soften further in the short term as supply outstrips demand for the foreseeable future. Schemes which have good floor plates and are well located within a mixed-use environment will have the potential to outperform the rest of the market.

Lease terms

Rents quoted	Typical lease lengths	Frequency of rent payments	Basis of rent reviews	Break options	Ability to assign lease
SAR/sq m/annum	3 years	Annually in advance	To open market at end of term	Break clauses are not common, except for older basic leases.	Subletting permissible, with landlord's consent

Occupational costs

Service charges	Utilities	Relevant local taxes payable	Internal repairs	External repairs	Building insurance	Reinstatement
15% to 20%	Tenant pays for all utitlities consumed. Older buildings will be inclusive.	No VAT on rents. Urban Property Tax to be applied in due course	Tenant responsible	Landlord responsible	Landlord responsible	Yes

Transaction costs

Agency fees: new lease	Agency fees: renewal	Agency fees: sublease	Legal fees	Are other fees payable on leases?
Paid by tenant	Paid by tenant	Paid by tenant	Landlord and tenant pay their own fees	No

KEY FACTS

Capital: Abu Dhabi
Language: Arabic
Population: 9.54 million
GDP growth (2017): 2.0%
Currency: Dirham (AED)

United Arab Emirates market overview

The United Arab Emirates' GDP increased by 0.8% in 2017, down from 3.0% in 2016. Over the course of 2018, the Central Bank of the UAE's Overall Augmented Economic Composite Indicator, has shown that GDP growth has strengthened throughout the year on the back on higher oil prices, higher levels of production in the hydrocarbon sector and a strengthening non-oil sector. This indicator estimates that the year-on-year GDP percentage change to Q3 2018 stands at 3.1%, with the overall 2018 annual growth rate expected to register at 2.8% and 4.2% in 2019

After a relatively strong start to the year in Abu Dhabi's office market, we have witnessed activity become muted once again over the course of 2018. Whilst there is increased activity from certain sectors in the market, there has been a notable slowdown in demand from the general trading and professional sectors.

Abu Dhabi's fragile economic backdrop is a likely contributor to this slowdown, as firms are likely to hold off executing many corporate decisions until there is a clearer understanding and implementation of 100% foreign ownership laws and the outcome of proposed mergers in the banking sector.

Dubai's office market continues to see performance softening as a result of subdued market activity which has led to the market remaining tenant favourable. In 2018, we have seen limited activity from new corporate occupiers, this is despite new business license issuance increasing by 10.4% in 2018, however cancellations have also increased by 12.8% in 2018 according to data from Dubai Statistics Centre.

The primary source of activity has come from firms looking to consolidate their commercial real estate portfolios or occupiers looking to downsize. On a positive note, these market conditions do provide opportunity for occupiers looking to take advantage of softer market conditions and as a result of this activity, landlords who actively manage their assets have fared better.

KEY FACTS

Language: Arabic, English
Population: 2.89 million
GCP growth (2018): 0.0%
Currency: Dirham (AED)

Dubai, UAE

Initial estimates show that Dubai's GDP growth rate has remained flat in 2018, down from the 2.8% registered in 2017. A range of stimulus packages and easing of business regulations is likely to support GDP growth in 2019, where GDP is expected to increase by 3.6% and strengthen further to 4.2% in 2020. Employment growth is expected to register a growth rate of 2.7% in 2018, however the rate of growth is expected to fall in 2019 to 1.5%. The Central Bank of the UAE estimates that Dubai created 45,900 jobs in the first three quarters of 2018.

Dubai's office market continues to see performance softening as a result of subdued market activity which has led to the market remaining tenant favourable. In 2018, we have seen limited activity from new corporate occupiers, this is despite new business licence issuance increasing by 10.4% in 2018, however cancellations have also increased by 12.8% in 2018 according to data from Dubai Statistics Centre. The primary source of activity has come from firms looking to consolidate their commercial real estate portfolios or occupiers looking to downsize. On a positive note, these market conditions do provide opportunity for occupiers looking to take advantage of softer market conditions and as a result of this activity, landlords who actively manage their assets have fared better.

The short to medium term outlook for Dubai's commercial market remains negative with rents expected to continue to decline across all market segments. This trend is likely to be primarily driven by the delivery of additional supply which we expect to total at over 400,000 square metres by the end of 2019. However, the vast majority of this supply is concentrated in the Grade A and Citywide office market. As a result, we expect that prime market rents are likely to be less impacted by the influx of new supply in the medium term.

Whilst demand in 2018 was subdued, we believe that demand is likely to tick up over the short term to medium term from both existing and new market entrants.

Lease terms

Rents quoted	Typical lease lengths	Frequency of rent payments	Basis of rent reviews	Break options	Ability to assign lease
AED/sq ft/anum	1-5 years	Quarterly to annually in advance	The Dubai RERA Rental Calculator is a tightly controlled index based on government data	Break clauses exist for institutional leases	Subletting is permissible, but is not market practice.

Occupational costs

Service charges	Utilities	Relevant local taxes payable	Internal repairs	External repairs	Building insurance	Reinstatement
Paid by tenant, typically 20% of rent.	Tenant pays for DEWA (Dubai Electricity and Water Authority) in addition to service charge.	EJARI lease registratition fee chargeable upon execution of lease. VAT applicable at 5%	Tenant responsible	Landlord responsible	Landlord responsible	Yes

Transaction costs

Agency fees: new lease	Agency fees: renewal	Agency fees: sublease	Legal fees	Are other fees payable on leases?
Paid by the party representing each side.	Paid by the party representing each side.	Paid by the tenant	Landlord and tenant pay their own fees	EJARI lease registration fees are charged when registering a lease on the national database (legally required)

KEY FACTS

Language: Arabic, English
Population: 2.33 million
GCP growth (2018): 6.6%
Currency: Dirham (AED)

Abu Dhabi, UAE

Initial estimates show that Abu Dhabi's GDP has grown by 6.6% in 2018 on the back of higher oil prices and production and the spill over effect of this increased activity has also underpinned growth in the non-oil sector. GDP is expected to increase by 3.8% in 2019 and strengthen further to 4.8% in 2020.

After a relatively strong start to the year in Abu Dhabi's office market, we have witnessed activity become muted once again over the course of 2018. Whilst there is increased activity from certain sectors in the market, there has been a notable slowdown in demand from the general trading and professional sectors.

Abu Dhabi's fragile economic backdrop is a likely contributor to this slowdown, as firms are likely to hold off executing many corporate decisions until there is a clearer understanding and implementation of 100% foreign ownership laws and the outcome of proposed mergers in the banking sector.

In the short to medium term we expect that market conditions in Abu Dhabi's office sector will remain challenging with rental rates continuing to fall. However, we expect that the rate of decline is likely to start to moderate, particularly in the Prime and Grade A segments. Knight Frank's view is based on limited levels of supply due to enter the market in the Grade A and Prime segments, with the vast majority of the 165,000 square metres of additional supply expected by 2020 being classed as Citywide stock in non-core locations.

More so, a result of renewed activity in the oil sector and the expected benefits of the AED 50bn stimulus packages as well as the easing of regulation, we expect demand to tick up from mid 2019.

Lease terms

Rents quoted	Typical lease lengths	Frequency of rent payments	Basis of rent reviews	Break options	Ability to assign lease
AED/sq m/anum	3-4 years	Annually or bi-annually	Periodic rent reviews based on open market rents. Rental cap of 5% implemented.	Break clauses are not common, except for longer institutional leases.	Subletting permissible, with landlord's consent

Occupational costs

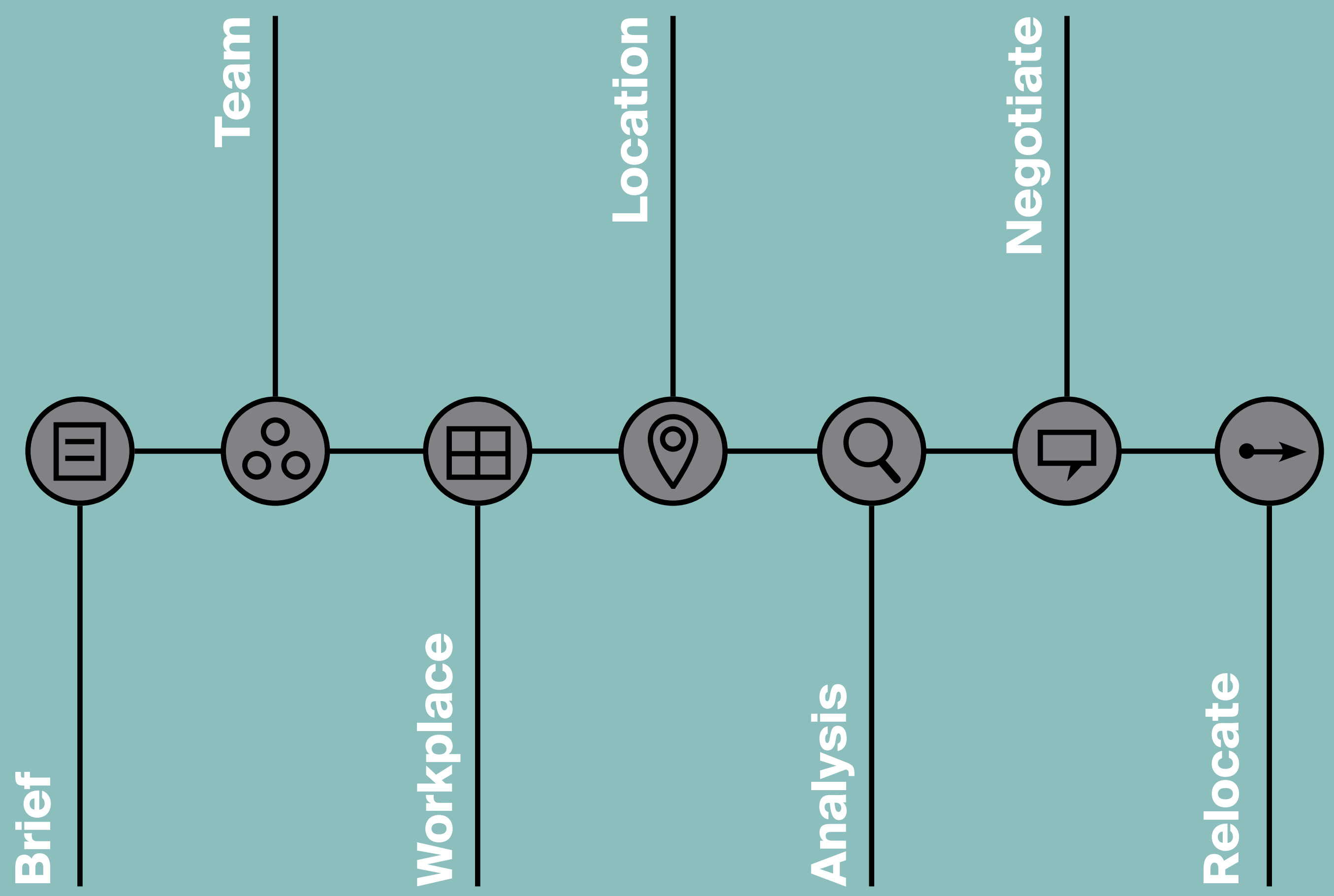
Service charges	Utilities	Relevant local taxes payable	Internal repairs	External repairs	Building insurance	Reinstatement
Paid by tenant, typically 15-20% of net rent.	Tenant pays for utilities	Tawtheeq lease registration fee payable.	Tenant responsible	Landlord responsible	Landlord responsible	Yes

Transaction costs

Agency fees: new lease	Agency fees: renewal	Agency fees: sublease	Legal fees	Are other fees payable on leases?
Paid by the party representing each side.	Paid by the party representing each side.	Paid by the tenant	Landlord and tenant pay their own fees	Landlord will pay for the lease registration on Tawtheeq.

Occupiers in the Gulf

Knight Frank are positioned to work with you to meet your real estate objectives.



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Aligning your estate strategy with your business needs

To develop your strategy, we first understand your business requirements (functional, geographical and operational) and associated challenges.

We engage with stakeholders globally and locally to fully understand the current and future requirements. Driving factors for occupiers often range from a top down business strategy, geography or adapting to a different client market. Or they could be about improving space usage; reducing carbon emissions to designing accommodation with occupational flexibility.

Options appraisal

The next stage is to develop options and carry out analysis and evaluation using scenario and financial modelling in order to identify the optimal solution.

- Identifying the quick win opportunities
- Recommends innovative acquisition and disposal strategies
- Sets out long term benefits and productivity benefits
- Provides a detailed projection of costs

Our solutions also take into consideration sustainability, brand protection, reputational risk, and the global strategy of your business.

Knight Frank in the Gulf

Knight Frank established a permanent presence in the Middle East in 2008 with an office in the Kingdom of Bahrain. With a growing team of experienced professionals operating across the Middle East from offices in Abu Dhabi, Dubai, and Riyadh. Working with private individuals, developers, investors, banks, corporate occupiers and public sector bodies we provide a range of agency, investment and professional consultancy services which are supported by our dedicated market research teams, executed to the highest standards of quality and integrity.

Advisory Services

- Valuation & Advisory
- Development Consultancy & Research
- Hospitality Consultancy
- Education Consultancy
- Healthcare Consultancy
- Project Monitoring
- Property Asset Management

Residential Transactional Services

- International Residential Sales
- Residential Project Marketing
- UAE Residential Sales

Commercial Transactional Services

- Capital Markets and Investments
- Commercial Leasing
- Industrial and Logistics
- Retail Advisory & Consultancy

Risk and success factors

Risk—both real and perceived—is the primary reason more businesses are not flowing into The Gulf. Risk is about uncertainty. If you put a framework around that uncertainty, then you effectively reduce the risk of your project.

This means that you can move much more confidently to achieve your project goals. Working with Knight Frank is one way to mitigate risk.

Knight Frank will work with you through the steps to ensure that the risks are identified and managed accordingly.

Identify 1

You and your team uncover, recognise and describe risks that might affect your project or its outcomes. There are a number of techniques you can use to minimise project risks.

Analyse 2

Once risks are identified you determine the likelihood and consequence of each risk. You develop an understanding of the nature of the risk and its potential to affect project goals and objectives.

Evaluate 3

You evaluate or rank the risk by determining the risk magnitude, which is the combination of likelihood and consequence. You make decisions about whether the risk is acceptable or whether it is serious enough to warrant treatment.

Treat 4

During this step you assess your highest ranked risks and set out a plan to treat or modify these risks to achieve acceptable risk levels. How can you minimize the probability of the negative risks as well as enhancing the opportunities? You create risk mitigation strategies, preventive plans and contingency plans in this step.

Monitor 5

This is the step where you take your Project Risk Register and use it to monitor, track and review risks.

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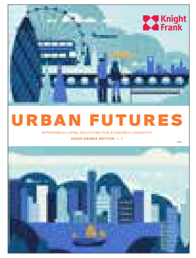
UAE Market Review and Forecast 2019

Education Report 2018

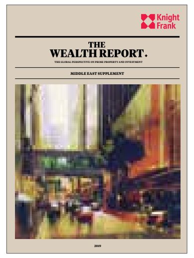
UAE Real Estate Investment Market Report 2019


Saudi Commercial Market Review 2018 English



Urban Futures KFME

Active Capital



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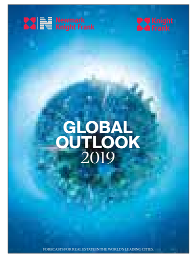
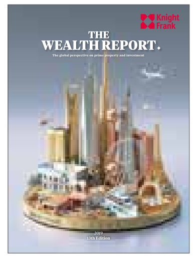


Global Outlook 2019



Knight Frank Wealth Report 2019

References/Sources: *Oxford Economics, Macrobond, United Nations Statistics*

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