Abu Dhabi Office Market Update





KEY HEADLINES

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Abu Dhabi's economy returned to growth in 2018, with GDP increasing by 1.9%, up from the 0.9% contraction witnessed a year earlier. This growth has been primarily been driven by the oil sector which grew by 3.4%, up from the 2.9% contraction in 2017. Whereas the non-oil sector's growth has slowed marginally to 0.6% in 2018 from 0.9% in 2017.

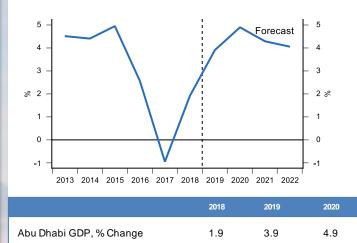
In Abu Dhabi, the economic recovery may be aided by a range of initiatives and new regulations designed to increase the ease of doing business, increased investments as part of the three year 'Ghadan 21' AED 50 billion (USD\$ 13bn) stimulus package and higher oil prices. As a result of these initiatives, alongside other investment programs which have been announced in early 2019, Abu Dhabi's GDP growth rate over the course of 2019 and 2020 is expected to strengthen, with GDP forecast to grow by 3.9% and 4.9% respectively.

As at Q2 2019 Prime rents across Abu Dhabi on average were recorded at AED 1,585/sqm, Grade A rents at AED 1,290/sqm and Citywide rents were recorded at AED 925/sqm.

On average, Grade A office rents across Abu Dhabi fell 3.1% in the year to Q2 2019. Whilst the rate of decline has moderated in the last six months. we expect rents to continue to soften in 2019.

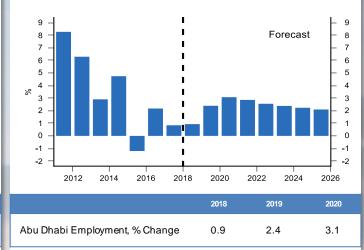
Market wide vacancy in Abu Dhabi's market registered at 22% as at Q2 2019, down from 24% in the prior quarter.

FIGURE 1 ABU DHABI GDP, Y-O-Y % CHANGE

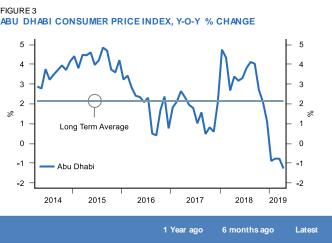


Abu Dhabi's economy returned to growth in 2018, with GDP increasing by 1.9%, up from the 0.9% contraction witnessed a year earlier. This growth has been primarily been driven by the oil sector which grew by 3.4%, up from the 2.9% contraction in 2017. Whereas the non-oil sector's growth has slowed marginally to 0.6% in 2018 from 0.9% in 2017. Abu Dhabi's GDP growth rate is expected to strengthen to 3.9% in 2019.



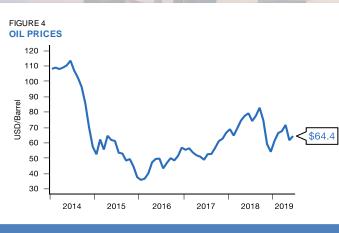


Employment growth is expected to register a growth rate of 0.9% in 2018, this rate of growth is forecast to increase to 2.4% in 2019 and 3.1% in 2020.



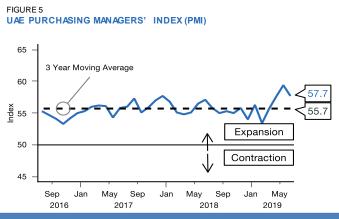
Abu Dhabi CPI, YOY % Change	3.4	2.7	-1.3
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Abu Dhabi has witnessed deflation since the start of 2019 with prices falling by 1.3% in the year to April 2019. This trend has been driven by lower housing, dothing and footwear and food and beverage costs. Over the same period, transport costs increased marginally after falling for five straight months.



End of month price	Latest	3 months ago	12 months ago
Oil Prices-Brent Crude (\$)	64.4	67.6	79.2

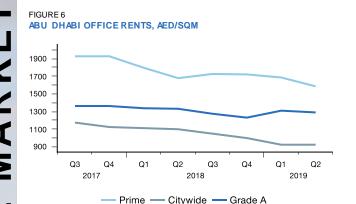
Oil prices have fallen to \$64.4 as at June 2019, down from \$79.2 a year earlier. Trade wars and slower economic growth have contributed to the lower price level. However, given recent geopolitical tensions we may see oil prices increase on the back of greater uncertainty and this trend will be further aided by the continuation of oil production cuts agreed by OPEC and OPEC+ nations



	Latest	3 months ago	12 months ago
Composite PMI	57.7	55.7	57.1

The Purchasing Manager's Index (PMI), which tracks non-oil activity in the UAE, registered a reading of 57.7 as at June 2019, down from the almost five year high of 59.4 posted last month. Output and new work continue to underpin the strong result of the index, however this is amidst lower selling prices, whilst input prices have remained relatively steadfast. As a result, firms are still under cost pressures and increased activity has not led to arowth in employment, in June none of the firms surveyed reported hiring.





Grade A

1.290

Prime

1,585

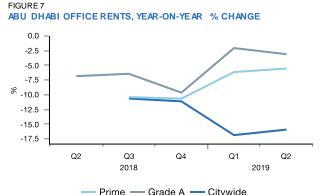
(AED/sq. m./p.a.)

recorded at AED 925/sqm.

Q2 2019

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Citywide		Prime	Grade A	Citywide
925	Y-o-Y % Change	-5.5	-3.1	-15.9

On average, Grade A office rents across Abu Dhabi fell 3.1% in the year to Q2 2019. Whilst the rate of dedine has moderated in the last six months, we expect Grade A rents to continue to soften in 2019.





Currently there are estimated to be 44 active projects within Abu Dhabi, with delivery dates up to 2021, which are either being executed or in the study or design phase. The total value of these projects currently is estimated at US\$ 1.34bn.

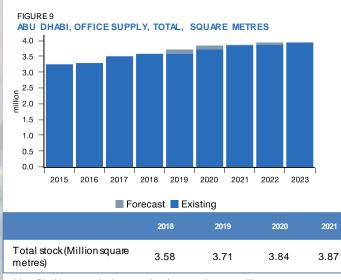
ABU DHABI MARKET OUTLOOK, 12 MONTHS

Prime Rents

Grade A Rents

Vacancy

FIGURE 11

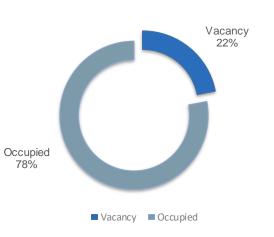


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AED 1,585/sqm, Grade A rents at AED 1,290/sqm and citywide rents were

Abu Dhabi currently has stock of around 3.58 million square metres of commercial space. By 2021 total supply of commercial property is expected to be around 3.87 million square metres. However, much of this expected stock is owner occupied or being pre-leased.





Market wide vacancy in Abu Dhabi's market registered at 22% as at Q2 2019, down from 24% in the prior guarter. Grade B stock has seen vacancy increase, whereas Grade A and Prime stock has seen vacancy remain steady and decrease marginally respectively over the last guarter.

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 dedine is likely to start to moderate as non-oil activity strengthens and demand from occupiers begins to return.

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Note: * The Property Monitor Index methodology is based on a basket of properties where the property value is estimated using a range of sources compared to the price changes for apartments and townhouses/villas which is based on DLD transfers (or asking prices for Abu Dhabi) which may result in the average price changes not tallying with one another. This report is published for general information only and not to be relied upon in any way. Although high standards have been used in the preparation of the information, analysis, views and projectors presented in this report, no responsibility or liability whats oever can be accepted by Knight Frank LLP for any loss or damage resultant from any use of, reliance on or reference to the contents of this document. As a general report, this material does not necessarily represent the view of Kright Frank LLP in relation to particular properties or projects. Reproduction of this report in whole or in part is not allowed without prior written approval of Knight Frank LLP to the form and content within which it appears. Knight Frank Middle East Limited (Dubai Branch): Prime Star International Real Estate Brokers (PSIREB RERA ORN: 11964 trading as Knight Frank with registration number 653414. Our registered office is: 5th Floor, Building 2, Emaar Business Park, PO Box 487207, Dubai, UAE.