



H1 2014  
ABU DHABI  
OFFICES  
Market update

## HIGHLIGHTS

- Abu Dhabi's office sector is witnessing improved occupier sentiment, with enquiries stemming from a range of sectors as they look to relocate or expand operations.
- In H2 2013, rents for Grade 'A' shell and core offices fell by around 5% year-on-year to AED 1,180 per m<sup>2</sup>. The removal of the rent cap has helped reduce occupier demand for this type of accommodation due to associated uncertainties.
- On a more positive note, a sharp rise in demand from government departments has helped absorb excess supply and kept market-wide rents stable.
- Little in the way of new large mixed-use developments were handed over in the second half of last year, thus providing fewer options for occupiers seeking newly completed office space.
- Existing master-planned developments are becoming established, with food & beverage (F&B) and supporting amenities helping to increase demand in these locations.

### Market comment

- Between H1 and H2 2013, demand from the leisure/hospitality and general trading sectors stayed more or less stable, at 16% and 10%, respectively. What's more, in aggregate, the financial, real estate, technological and oil & gas sectors were responsible for about 30% of total take-up in the second half of last year.
- There was a strong rise in demand from government departments in Abu Dhabi. Indeed, in the second half of last year, this sector accounted for 15% of total take-up, up from 9% in the preceding six months.
- Around 48% of all recorded enquiries in the second half of 2013 were for space between 100 m<sup>2</sup> and 500 m<sup>2</sup>. However, the lack of availability of CAT A offices in the 100-250 m<sup>2</sup> range has meant that activity levels here were abnormally weak. The remainder of demand was for space sized between 0-100 m<sup>2</sup> (37%) and 500 m<sup>2</sup> or above (15%).
- Market wide vacancy rates in the emirate have risen sharply from 26% in 2012 to 33% last year. The current development pipeline for Grade A offices suggests that this headline figure will rise in 2014, albeit at a much slower rate compared to 2008-13.
- It is currently unclear how the introduction of multi-storey 'stacked' Mawaqif parking in downtown Abu Dhabi will affect take-up in nearby office buildings. However, we anticipate that corporate occupiers will continue to relocate to other districts if employees do not have access to improved amenities, good connectivity and, of course, suitable parking facilities.

Figure 3  
**Key market indicators**  
 To CAT A fit out

	Headline rents	Trending
Prime Rents	AED 1,650	↔
Grade A	AED 1,300	↔
Grade B	AED 950	↓
Availability	35%	↔
Average inducement	12%	↑

Source: Knight Frank

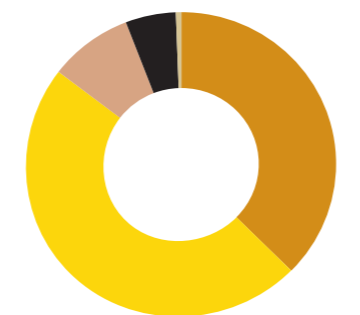
Figure 4  
**Current demand by occupier in H2 2013**



Medical / Pharma	1%
Engineering & Construction	4%
Professional	6%
Financial	7%
Real Estate	7%
Technology	8%
Oil & Gas	9%
General Trading	10%
Government	15%
Leisure / Hospitality	16%
Others	19%

Source: Knight Frank

Figure 5  
**Size requirement (m<sup>2</sup>) in H2 2013**

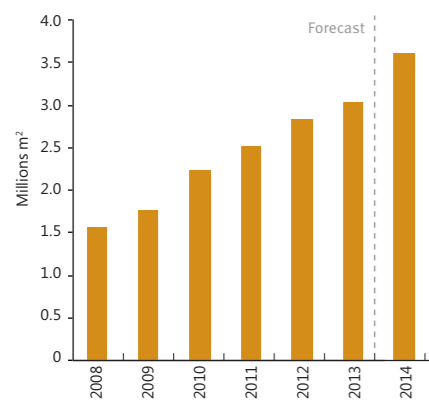


0-100	37%
100-500	48%
500-1,000	9%
1,000-5,000	5%
5,000+	1%

Source: Knight Frank

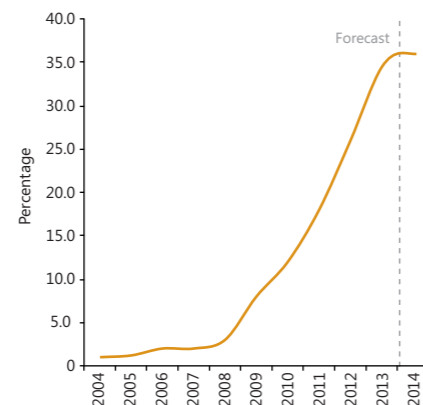


Figure 1  
**Abu Dhabi office stock (2008 to 2014)**



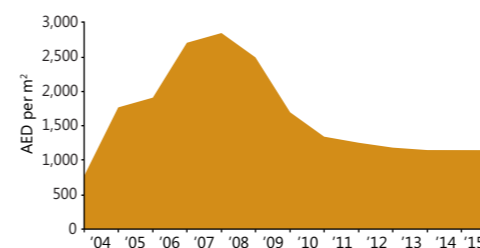
Source: Knight Frank

Figure 2  
**Total vacancy rates**



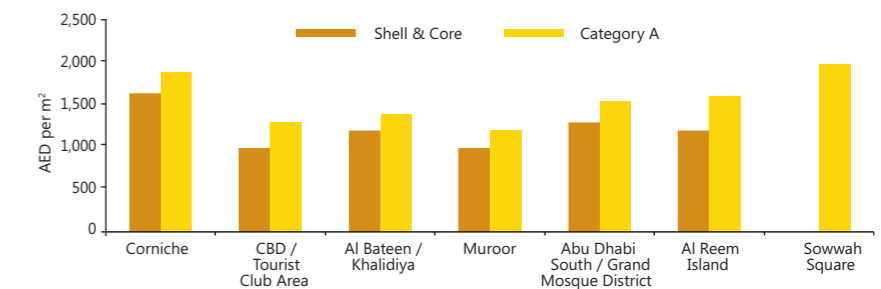
Source: Knight Frank

Figure 6  
**Average rents (per m<sup>2</sup>) for shell & core offices in Abu Dhabi**



Source: Knight Frank

Figure 7  
**Indicative rents by district H2 2013**



Source: Knight Frank

### MARKET VIEW

- In H2 2013, rental values for Grade 'A' shell & core office space in Abu Dhabi fell by around 5% year-on-year to AED 1,180 per m<sup>2</sup>. The removal of the 5% rent cap has raised concerns that any capital expenditure directed towards the fit-out of shell and core space may be a poor investment. After all, a landlord may choose to 'raise' rents on renewal, making occupation financially unviable.
- Since a number of new buildings that are due to be completed in 2014 will be owner occupied, the vacancy rate should only see a modest increase.
- This year, we envisage that rental values for Grade 'A' shell & core office accommodation will edge down a little further, before holding steady in 2015. In the longer term, however, the growth of the oil & gas and financial sectors in Abu Dhabi, improved connectivity and upward trending employment should ensure that rents see a recovery.

### MARKET NEWS

- Ethiad are taking occupation of the Ethiad Centre c. 18,000 m<sup>2</sup> at Al Raha Beach.
- Sowwah Square has recently seen new occupiers open offices including Taqa (c. 5,400 m<sup>2</sup>), Investcorp and RBS.
- KPMG have signed at Nation Tower with one remaining unit 473 m<sup>2</sup> within the c. 24,000 m<sup>2</sup> corniche tower.
- Masdar City have now completed the leasing of the Courtyard building c. 8,000 m<sup>2</sup>.

### CAPITAL CENTRE MARKET INSIGHT

- The Capital Centre is a new masterplan location by ADNOC, which provides excellent access to Abu Dhabi, Abu Dhabi International Airport, the Western Province and Dubai.
- Major occupiers include the National Bank of Abu Dhabi (who are in self occupation of c. 12,000 m<sup>2</sup>), as well as AECOM, Daman Insurance, Bin Hamooda, Al Nasser Holding & Abu Dhabi Systems & Information Centre.
- Circa 120,000 m<sup>2</sup> of office (NLA) of stock has been constructed at Capital Centre, with the masterplan including a total of twenty three mixed plots, of which ten plots are complete.
- Occupiers are concerned about limited street parking and no Mawaqif parking facilities being currently available. However, additional parking is available at the ADNOC multi-storey car park.

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**Technical Note**

- Floorspace has been sub-divided into Prime, A & B grade accommodation, reflecting high and low quality respectively. Whilst subjective, this categorisation is based on an assessment of each property's age, car parking ratio, specification, quality of finish, location, situation and overall attractiveness.
- Category A works comprise services, lift safety elements and basic fittings and finishes for the operation of lettable work space, including but not limited to suspended ceilings; raised floors and skirting; cooling and heating services.
- A Tenant Inducement % is the proportion of rent free period over the term certain.
- The U.A.E Dirham is pegged to the US Dollar at a rate of USD 1 : AED 3.673.

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