

RESEARCH



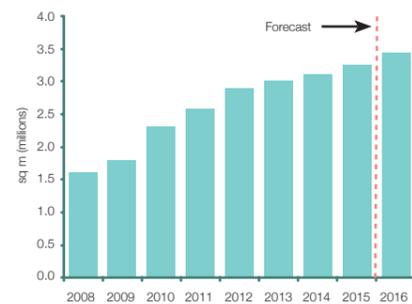
# ABU DHABI OFFICE RESEARCH REPORT

H2 2015



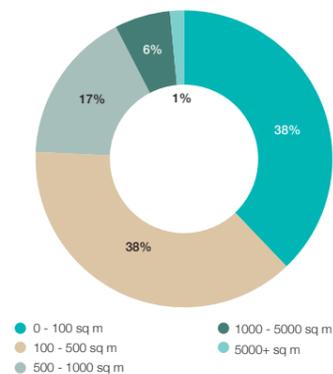
# MARKET REVIEW

FIGURE 1  
Abu Dhabi office stock, 2008 - 2016



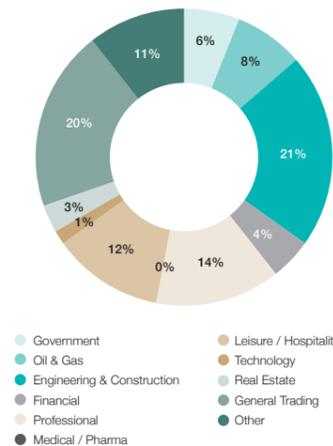
Source: Knight Frank Research

FIGURE 2  
Size requirements, H2 2015



Source: Knight Frank Research

FIGURE 3  
Demand by sector, H2 2015



Source: Knight Frank Research

Please refer to the important notice at the end of this report.

## Oil price instability continues into 2016

- The Economist Intelligence Unit (EIU) estimates that overall real GDP growth in the UAE slowed to 4.6% in 2014 and is expected to fall further in 2015 to 4.0%(f) and 2.7%(f) in 2016.
- With economic growth expected to slow and UAE inflation expected to fall in 2016 from 4.0%(f) in 2015 to 3.5%(f) in 2016 according to the EIU, the outlook for the UAE still remains positive.
- Current Brent Crude oil price at the beginning of January was c. USD\$36 a barrel, from USD\$50 in the same period last year, which has meant further government reviews on federal spending. There are some analysts predicting that average oil prices will stabilise around US\$60 between 2016 and 2020.

## Abu Dhabi Global Market (ADGM) Square and Al Maryah Island

- The ADGM has continued to publish additional regulations which affects the real estate market on Al Maryah Island, which it governs.
- The financial free zone and investment zone for foreigners will benefit from better clarity and regulations for all companies and individuals wishing to invest in real estate on the island.
- Current and potential occupiers are also benefiting from further updates on the structure of the free zone and how companies can establish and operate within the free zone. Dual licensing has been a key concern and is to be addressed to allow for Department of Economic Development (DED) and the ADGM licences.
- With c. 150,000 sq m of vacant office space available on the island and within the jurisdiction of the ADGM, the law and structure will be imperative for growth of the financial free zone.

## Market Comment

- There is continued downward pressure on the occupier market in Abu Dhabi as the falling oil price affects market sentiment. We witnessed a slowdown in the number of enquiries in H2 2015, partly due to companies reviewing the impact in falling oil prices, the consequential effect on federal spending and the implications on the wider market.
- The main demand for offices was between 100 sq m and 500 sq m, with over 75% of enquiries within this size range, as seen in fig. 2.
- Engineering & Construction continued to be the most active sector by the number of enquires, which reflects the recent growth in the number of infrastructure and real estate projects under progress. To date, take up was led by Engineering & Construction (21%) and General Trading (20%), as seen in fig. 3.
- Grade A and prime supply remains subdued, which will be important for landlords to maintain headline rents. There are limited new developments under construction and those under construction could see some further delay in completion. The overall changes in the market rents over H2 2015 was minimal.
- Prime office rents remained steady in H2 2015 at AED 1,850 per sq m, whilst rental values for Grade A shell and core office space remained steady at AED 1,250 per sq m, as seen in fig. 4.

## Market Sentiment

- With regional unrest and global economic headwinds, we are seeing reduced interest and take up from international companies looking to locate in Abu Dhabi.
- Buildings which do not meet occupiers' exact requirements in terms of specification, parking, access and egress will face continued voids, as occupiers that do relocate review the market more carefully.
- GDP growth in China fell to a 25-year low of 6.9% in 2015, which may impact on global markets and oil demand, which will have an impact on Abu Dhabi in 2016.
- Weaker market sentiment will impact on the government and the delivery of projects and employment, which will reduce occupier take up.

## Abu Dhabi Real Estate Law – Market Update

Abu Dhabi has recently published its long-awaited new property law aimed at better regulating the real estate market in Abu Dhabi, which will take effect from January 2016. The new law, which has been through more than seven years of consultation, review and drafting is a positive step towards attracting increased real estate investment in Abu Dhabi. Part One of the law defines several important terms including, but not limited to, the real estate register, the interim real estate register, the real estate development projects, escrow accounts, off-plan sales, service charges and community charges.

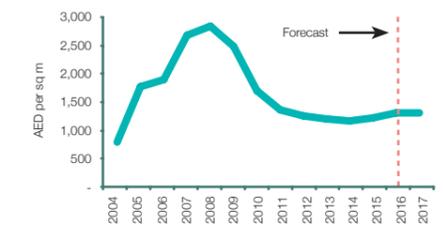
The law, in summary:

- Authorises Abu Dhabi's Department of Municipal Affairs ("the DMA") to organise and develop the real estate sector in Abu Dhabi, to supervise and control all aspects related to the sector and to coordinate with municipalities in this regard.
- Oversees the types of entities or persons that are allowed to obtain a licence to engage in development-related activities as master developers and sub-developers, brokers and their employees, owners' association managers, appraisers and surveyors.
- Ensures developers will not be allowed to engage in real estate development unless they have been registered in the real estate development register.
- Requires that all disposals of off-plan units be registered in the interim real estate register.
- Ensures a developer is not allowed to sell units off-plan unless, among other things, it proves that it owns a real estate right over the project land and that it has opened an escrow account for the project.
- Allows units sold off-plan to be mortgaged provided that the loan amount is paid into the relevant escrow account and the loan is allocated for payment of the purchase price.
- Includes provisions for setting up owners' associations comprising all the owners of units in multi-unit real estate developments. Owners' associations will be independent legal entities that hold title to the common parts of developments and will be responsible for the management of those common parts.
- Outlines punishments for anyone who violates its provisions.

Unsurprisingly, the law will not be well received by developers that fail to complete construction work. However, the law itself is a great achievement for Abu Dhabi and the UAE, in creating a more favourable real estate investment market. This will also benefit occupiers in the long term, as more developers/landlords will provide competition for occupiers.

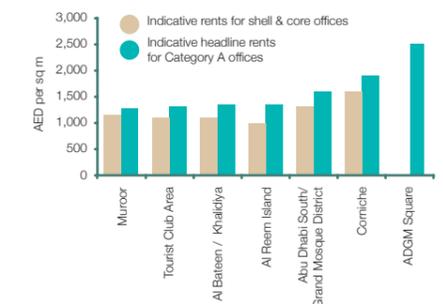
Research: Article extract from Al Tamimi & Co Law Firm, 2016 (modified)

FIGURE 4  
Average Grade A shell & core office rents, Abu Dhabi



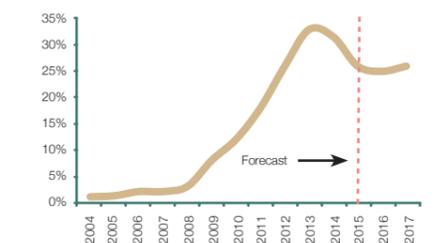
Source: Knight Frank Research

FIGURE 5  
Indicative headline office rents by district, H2 2015



Source: Knight Frank Research

FIGURE 6  
Vacancy rate, Abu Dhabi



Source: Knight Frank Research

FIGURE 7  
Key Market Indicators

	Headline rents	Trending
Prime rents	AED 1,850/m <sup>2</sup> /annum	→
Grade A	AED 1,400/m <sup>2</sup> /annum	→
Grade B	AED 1,250/m <sup>2</sup> /annum	↘
Availability	25%	→
Average inducement	12%	→

Source: Knight Frank Research



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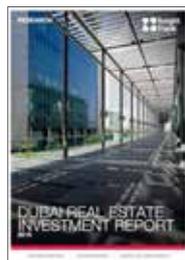
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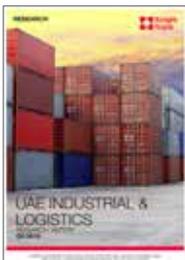
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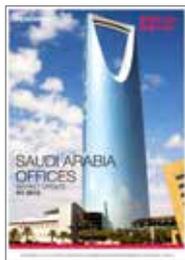
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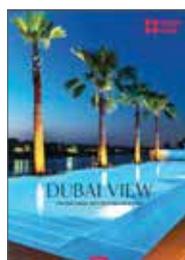
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