



H1 2011 ABU DHABI OFFICES

Market update

Knight Frank

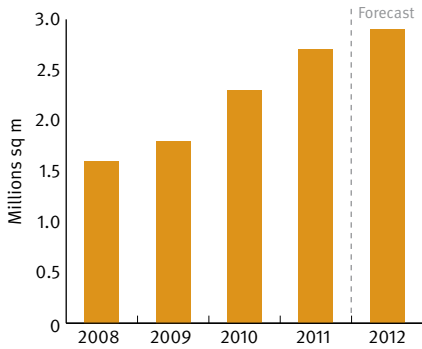
HIGHLIGHTS

- Prime headline rents remain unchanged over H1 2011, although greater incentives are being offered to secure occupiers.
- Grade A & B buildings and secondary locations are still witnessing continued downward pressure on rents.
- Occupiers continue to upgrade office accommodation as rents become more competitive.
- Political unrest in the Middle East has led to corporate occupiers reassessing their regional presence.
- Over 200,000 sq m of prime and Grade A office space is expected to be delivered to the market in H2 2011.

Market comment

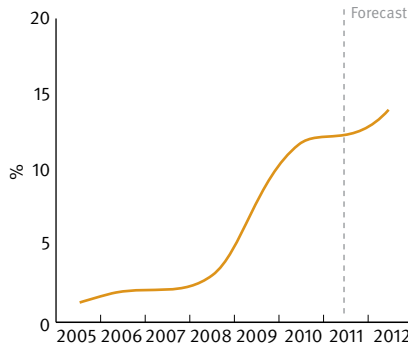
- The market dynamics have remained largely unchanged through the first half of 2011 with no new large prime developments being practically completed and fully delivered to the market.
- The continued downward pressure on rents is prompting a 'flight to quality' from existing occupiers.
- Landlords are responding to occupier requirements by fitting out to Category A, rather than delivering shell & core accommodation.
- Occupiers continue to search for out of town locations where there is better access, less congestion and new schemes being imminently handed over in H2 2011.

Figure 1
Abu Dhabi office stock (2008-2012)



Source: Knight Frank

Figure 2
Total vacancy rates



Source: Knight Frank



MARKET VIEW

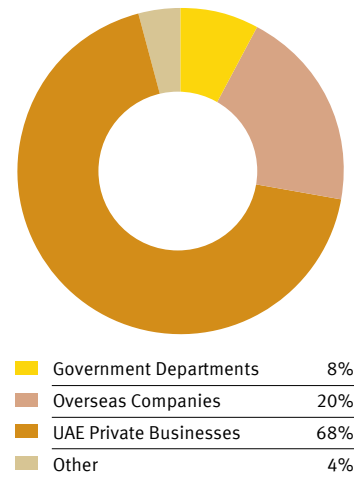
- Vacancy rates continue to rise across the sector, with H2 2011 expecting the delivery of several Prime and Grade A buildings which will add in excess of a further c. 200,000 sq m.
- Longer rent free inducement periods are being offered by landlords to incentivise tenants.
- Take up remains steady with the majority of occupiers requiring c. 250 - 500 sq m. As rents stabilise, we expect take up to increase as larger occupiers secure the best lease terms available.
- Average lease lengths remain broadly at 3 years for 250 - 500 sq m transactions, larger requirements tend to sign for longer periods. We expect this trend to be maintained for the foreseeable future.
- The completion of the infrastructure improvements to Al Salam Street and the introduction of Mawaqif paid parking could see renewed interest in the Tourist Club Area by smaller occupiers looking for affordable accommodation.

Figure 3
Key market indicators
To CAT A fit out

	Rents	Trending
Prime	AED 2,200	▲
Grade A	AED 1,400	▼
Grade B	AED 1,100	▼
Availability/vacancy	12%	▲
Average rent free inducement	5%	▲

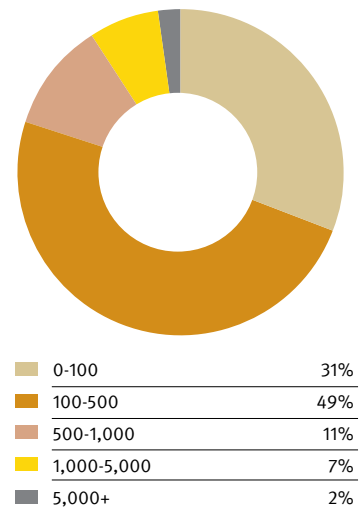
Source: Knight Frank

Figure 4
Current demand by occupier in H1 2011



Source: Knight Frank

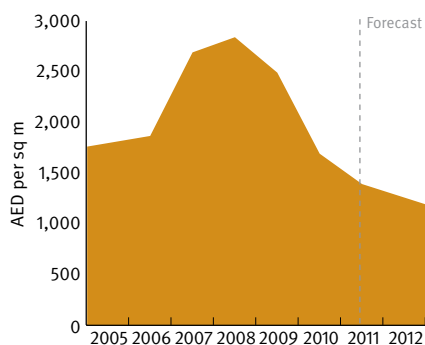
Figure 5
Size requirement (sq m) in H1 2011



Source: Knight Frank

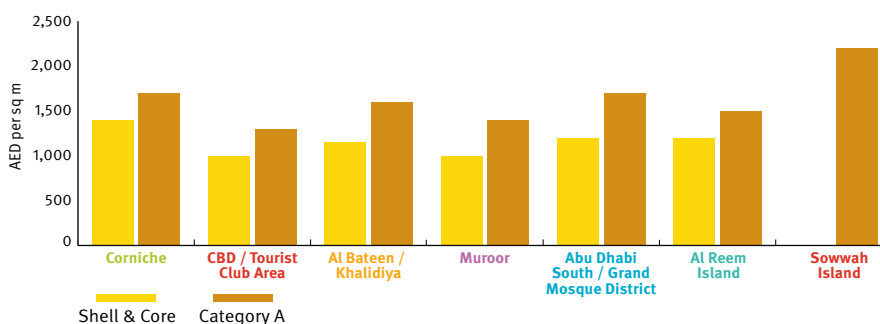


Figure 6
Average rents (per sq m) for shell & core offices in Abu Dhabi

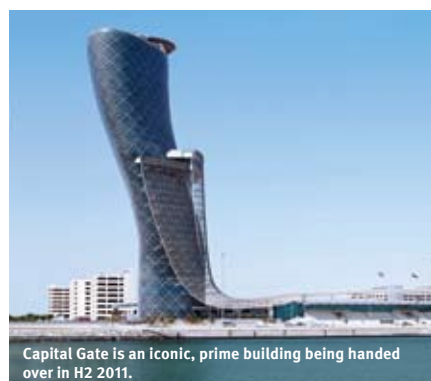


Source: Knight Frank

Figure 7
Indicative headline office rents by district (per sq m)



Source: Knight Frank Note: Category 'A' as defined by the BCO Guide to Specification 2009



MARKET VIEW

- Since the Department of Economic Development (DED) prohibited commercial licences being issued/renewed for villas late last year, we are now witnessing additional demand as occupiers move to purpose built commercial buildings.
- Tawtheeq (Executive Council Legislation, Resolution No.4 2011) was introduced which requires all commercial leases to be registered with the municipality. Other government departments (Etisalat & ADWEA) will be linked to this service and will cause more administrative hurdles for tenants.
- Political unrest in the Middle East has led to corporate occupiers reassessing their regional presence and searching for safer opportunities such as the UAE. Although few occupier changes have been witnessed to date, Dubai is expected to benefit to a greater degree than Abu Dhabi.



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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.

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