RESEARCH

UAE INDUSTRIAL & LOGISTICS

INSIGHT REPORT **2017**

INVESTMENT IN INDUSTRIAL INFRASTRUCTURE CONTINUES AMIDST WEAK DEMAND

UAE 2016 INDUSTRIAL MARKET

Government and government related entities (GREs) continued to invest heavily in industrial infrastructure and facilities throughout the UAE in 2016. Key industrial projects and growth areas include Khalifa Industrial Zone Abu Dhabi (KIZAD), Dubai Industrial City, Dubai South and an expansion of Dubai Airport Freezone Authority (DAFZA) and in the northern emirates, the government of Sharjah recently launched Al Saja'a Industrial Oasis.

These continued investments underline the UAE's ambition to become a more diversified economy and elevate the country into a global hub for sustainable and innovation focused businesses.

Demand for industrial warehousing saw a modest decline in 2016, as a result of economic headwinds such as a low oil price, a strong US dollar and global instability. While rents for 'Grade A' specification warehousing have remained flat in 2016 due to a lack of supply, rents for lesser quality warehousing in secondary areas have experienced further declines.

In 2016, demand for large scale (100,000 sq ft+ BUA) Grade A specification warehousing, was from the general trading and logistics sectors, as well as numerous examples of multinational companies establishing manufacturing warehouses within the UAE. Knight Frank also witnessed demand for warehousing from the small and medium enterprises (SME) sector, however a slowdown in the number of transactions for medium sized (circa 50,000 sq ft BUA) warehouses.

"On-going global political uncertainties are likely to impact the performance of financial markets, which in turn will dent investor sentiment and appetite."

CHARLES SWANSON
Surveyor, UAE Industrial Leasing

UAE 2017 Outlook

Knight Frank's outlook for the UAE remains positive for 2017 as oil prices have regained some of the losses recorded in 2016. This is expected to boost government revenue and increase spending, particularly on infrastructure and development projects. In light of this, preparations for the Expo 2020 will go ahead, with investments focused on the expansion of the metro, airport and roads network along with tourism facilities and real estate within Dubai. Investments in these sectors are expected to support the overall growth of the economy.

However given the UAE's position as a regional hub, we remain cautious of external challenges which may hinder economic growth. Any decision by the US Federal Reserve to further increase the interest rates will strengthen the USD and consequently the UAE Dirham. This will likely put pressure on the cost of living and challenge the competitiveness of the UAE.

In addition, on-going global political uncertainties are likely to impact the performance of financial markets, which in turn will dent investor sentiment and appetite. Amongst these are; the new US administration and potential protectionist measures; Brexit and the trigger of article 50; and a stream of elections across many EU countries (France in May, Germany in September).

DUBAI MARKET

At 4.1 percent GDP growth in 2015—according to Dubai Statistics Centre (DSC), Dubai's economy slightly outpaced the rate of increase estimated for the UAE overall (3.9 percent). This is partially attributed to the fact that Dubai's economy is more diversified than other emirates, which helped to mitigate some of the effects of falling oil prices.

Between September 2015 and February 2016, the rate of inflation eased from 3.9 percent to 1.4 percent, respectively (DSC). That said, it picked up again in the subsequent two months to reach 1.9 percent in April 2016 due to higher food, beverage, tobacco and education costs, as well as less negative growth in transport prices.

In the short to medium term, the expectation is that Dubai will be less affected by future economic headwinds – partly due to investment expected to be injected into projects in anticipation of Expo 2020. Broadly, this suggests that the real estate sector, which accounts for a notable portion of overall economic activity, is less likely to be impacted in the same way that it was following the 2008-09 global financial crises.

Moreover, by 2020, Dubai's population is anticipated to grow to 3.1 million, which is equivalent to a compound annual growth rate (CAGR) of 4.9 percent over the coming years. This further supports our view that demand for real estate will remain robust.

The International Monetary Fund's (IMF) inflation forecasts for the UAE as a whole show average growth of 3.5 and 3.1 percent in 2016 and 2017 respectively and as seen historically, Dubai is expected to broadly perform similarly.

Supply

In Dubai, whilst falling oil prices weakened investor and consumer confidence, Grade A industrial rents have remained flat on an annual basis. The resilience of Grade A rents across Dubai is partly due to a lack of supply of quality warehousing in the emirate, particularly in on-shore locations.

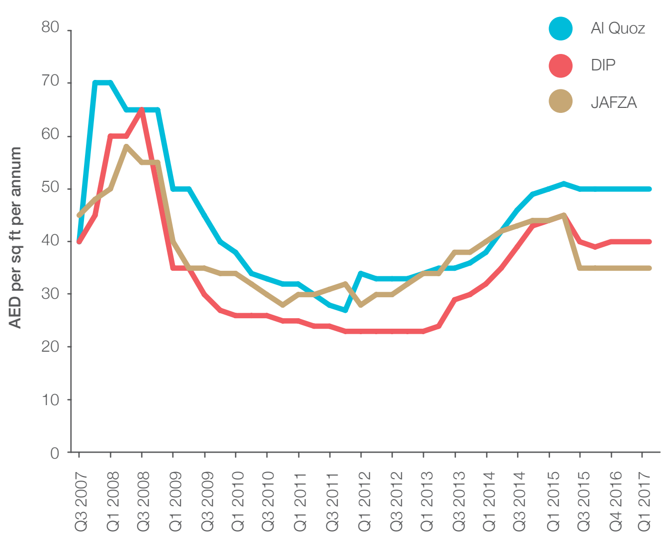
Grade B industrial rents have witnessed year-on-year declines of approximately 13% on average across the various submarkets within the Emirate. On the whole, these declines are commensurate with the often poor and outdated quality of stock on offer in the market. Changes in Dubai Civil Defence code and fire fighting standards mean that many older warehouses are now unsuitable for the demands of businesses/tenants, which places further downward pressure on industrial rents and increases vacancies.

In the Jebel Ali Free Zone (JAFZA), supply far outweighs demand at present, which has resulted in a decline in rents and capital values, (approximately 20% for Grade A stock) since the peak of the market in 2014.

There are few warehouses in Dubai South available on the secondary market to provide a rental tone for the area. However the below quoted rents in *Figure 2* have remained flat for Dubai South built stock.

Grade A warehouse features: sprinkler system, eaves height above 10m, 1 docked loading bay per 10,000 sq ft BUA, sandwich panel insulation

FIGURE 1
Class A industrial rents, Q3 2007 - Q1 2017



Source: Knight Frank Research

FIGURE 2
Dubai industrial rents

Location	Q4 2014 (rent per sq ft)	Q4 2015 (rent per sq ft)	Q4 2016 (rent per sq ft)	% change Q4 2014 to Q4 2016	YOY % change
Al Quoz	49	50	50	2%	0%
DIP	43	39	40	-7%	3%
JAFZA	44	35	35	-20%	0%
Dubai South	50	50	50	0%	0%
Al Quoz (Class 2)	42	44	38	-10%	-14%
DIP (Class 2)	33	34	30	-9%	-12%
JAFZA (Class 2)	38	25	25	-34%	0%
Jebel Ali Industrial (Class 2)	35	30	30	-14%	0%

Source: Knight Frank Research

KEY THEMES

There is a lack of European quality specification warehousing across the Dubai industrial submarkets across all size ranges. Demand from FMCG, logistics, e-commerce and general trading sectors, for such property, keeps grade A rents flat in an otherwise challenging market.

The lack of quality warehousing supply may prove to be a constraint for growth in the short to medium term. Businesses looking for such premises today are faced with the option of building their own facility, (entering into a build-to-suit with a master developer) or seeking options on the secondary market.

Despite challenging market conditions there are still high levels of investment from government and GREs in the industrial sector, which is a key pillar of growth for the Dubai economy.

There has been significant investment from the private sector for large-scale industrial premises in new industrial zones such as Dubai Industrial Park, Dubai South, JAFZA and National Industries Park (south of Dubai). For example, retailer Majid Al Futtaim has recently announced their plans to build an 800,000 sq ft warehouse for Carrefour in National Industries Park, their largest in the region.

Demand

The greatest demand in 2016 was from the general trading; industrial manufacturing; logistics and SME sectors.

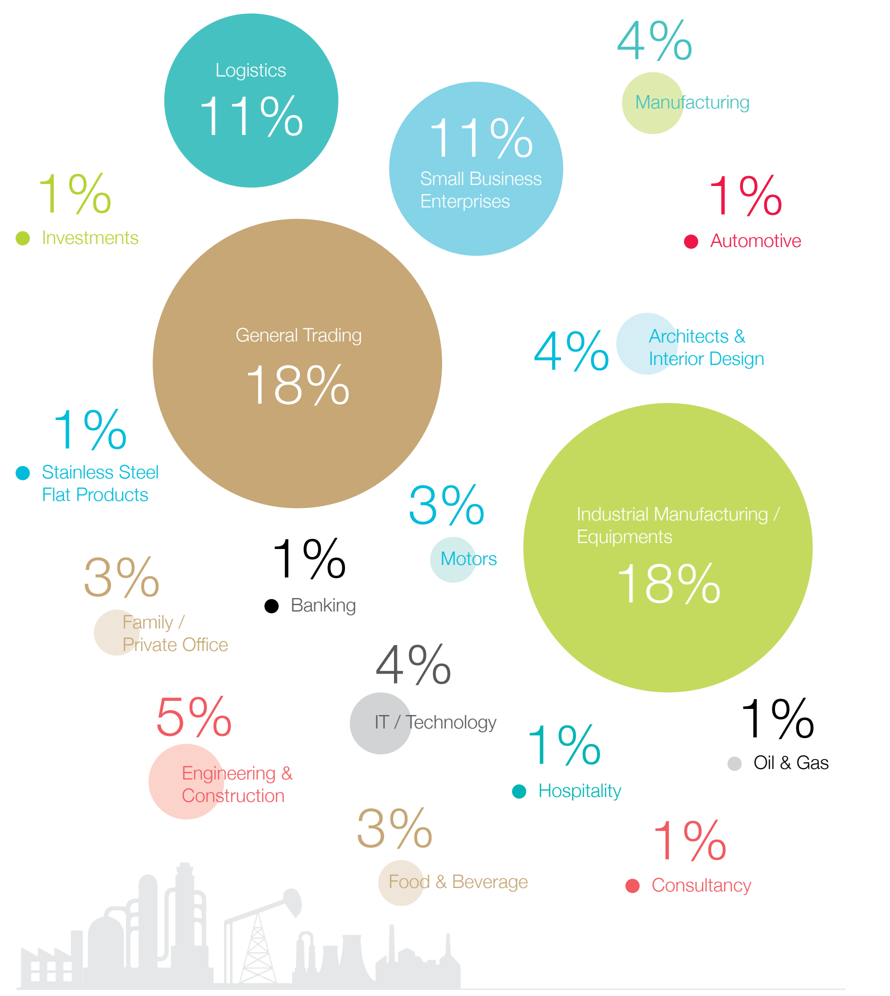
Enquiries from the industrial and manufacturing sector increased to 18%, an indicator that the Dubai government's Industrial Strategy and intent to become more of an industrial manufacturing market is working. An example of this trend is Unilever announcing plans to build an AED 1 billion factory in Dubai Industrial Park, to manufacture goods locally, for export to 80 countries in the Middle East, North Africa and Europe.

There has also been strong demand for warehousing from the Fast Moving Consumer Goods (FMCG) general trading sector, particularly for Grade A specification properties, with built-up areas (BUA) greater than 100,000 sq ft. Enquiries from general trading companies encompass approximately 18% of total interest in 2016.

11% of total enquiries are from companies in the SME sector, predominantly seeking onshore warehousing in the region of less than 5,000 sq ft BUA. It is interesting to note that the majority of these SME's are start-ups, demonstrating the markets underlying optimism.

There has been a decrease in medium sized enquiries and transactions for circa 50,000 sq ft BUA warehouses, with occupiers postponing new purchases and requirements for new facilities that require substantial investment.

FIGURE 3
Demand by sector (no. of enquiries in 2016), Dubai



Source: Knight Frank Research

Industrial Investment Market

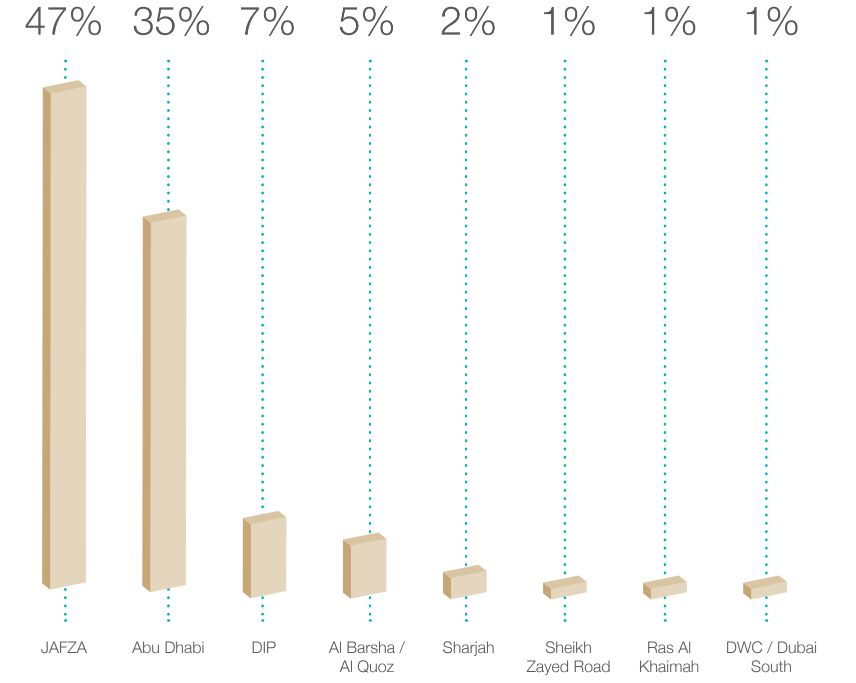
There is a growing appetite for industrial property from investors, as an investment asset, due to the attractive yield profiles and perceived resilience to adverse economic conditions.

Key deals in 2016:

- London listed fund Rasmala acquired 72 tenanted warehouses, covering 600,000 sq ft in Dubai Investment Park (DIP) for AED 300 million.
- Arcapita acquired a freehold industrial park in Al Quoz spread across 630,000 sq ft at a net initial yield thought to be in the region of 8.5%.

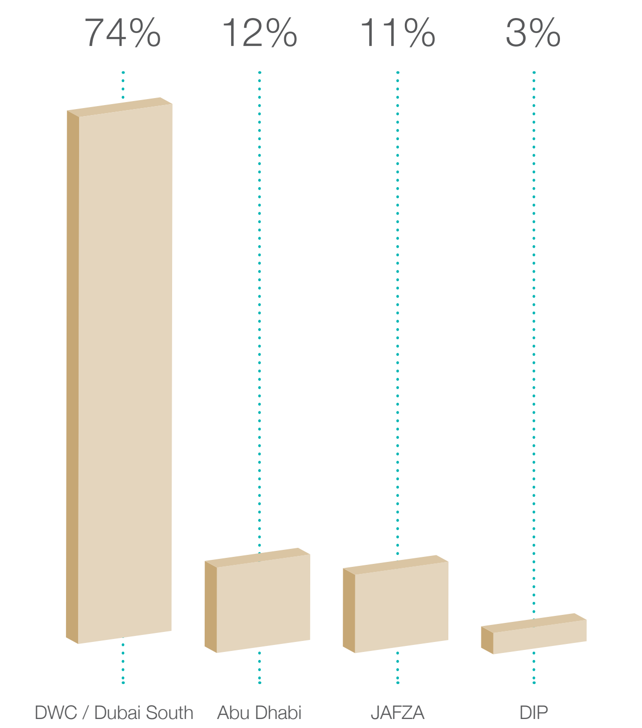
Availability of suitable investment grade stock (warehouses and tenants) remains an issue for investors, with few investment opportunities to be found in the market. The government's involvement in the industrial sector and/or land tenure issues also present challenges to the institutional investor in this sector.

FIGURE 4
Demand by location (no. of enquiries in 2016), United Arab Emirates



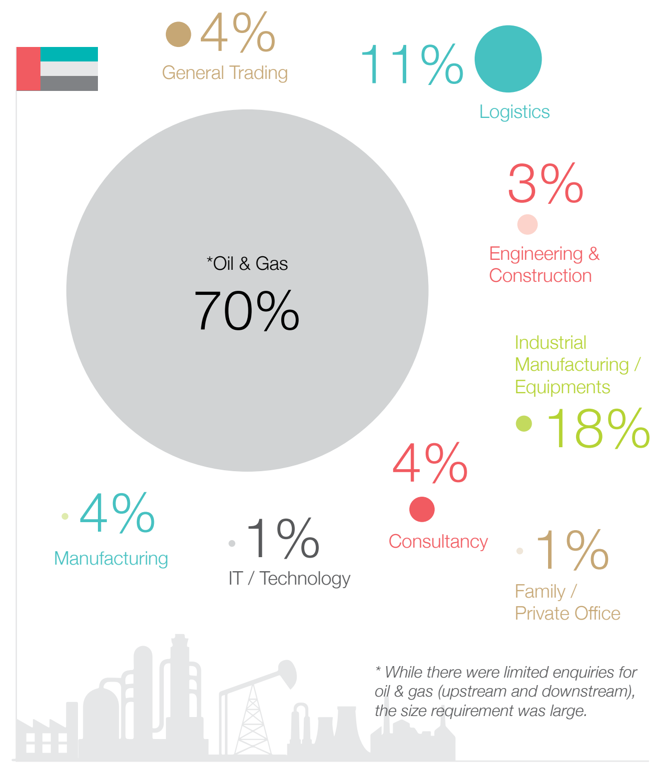
Source: Knight Frank Research

FIGURE 5
Demand by location (sq ft) in 2016, United Arab Emirates



Source: Knight Frank Research

FIGURE 6
Demand by sector (sq ft) in 2016, United Arab Emirates



Source: Knight Frank Research

KEY FINDINGS

Abu Dhabi's industrial market, like Dubai, is characterised by a lack of high quality available warehousing, particularly for large scale logistics/ general trading requirements.

The government of Abu Dhabi and GREs such as KIZAD, continue to heavily invest in excellent infrastructure (roads, port and rail), which in turn is attracting industrial occupiers seeking large parcels of land to develop facilities. Recent examples include Al Futtaim relocating a large amount of their operations from JAFZA to KIZAD and the UAE Siddco Group establishing an engineering facility over a 1.3 million sq ft plot.

Honeywell, global technology manufacturing company, are proceeding with a 75,778 sq ft build to suit light industrial facility in the Eco Logistics Park, Masdar City.

ABU DHABI MARKET

In 2015, the non-hydrocarbon sector contributed 51 percent of Abu Dhabi's GDP, (the first time hydrocarbons have been outpaced—primarily due to lower oil prices).

Between 2007 and 2015, the population of the Abu Dhabi emirate grew by 8.4 percent each year on average – a higher rate than the UAE as a whole, which grew at 5.6 percent per annum on average. By the end of 2016, the emirate's population is estimated to reach over 2.9 million.

GDP growth in Abu Dhabi fell 6% in 2015 to 4% in 2016, with potential to descend further to 1.7%, according to the IMF.

Between 2007 and 2016, real GDP per capita in Abu Dhabi declined by around 21%, although this was primarily driven by population growth outstripping GDP expansion.

The continuous decrease in Abu Dhabi's fortunes is expected to lead to shifts in policy that affects both the public and private sector.

The merger of NBAD and FGB in 2016 (creating the Middle East's largest bank), and the proposed merger of Mubadala and IPIC (to create a $135 billion sovereign wealth fund), is yet another effort by government entities to stimulate the economy.

Supply

The lack of sufficient high quality warehousing space constrained occupier movement and kept rents flat throughout the year in the majority of industrial areas.

Occupancy rates in well-established industrial zones such as Abu Dhabi Airport Free Zone continue to be strong.

Areas with poorer quality warehousing and infrastructure such as Musaffah, have seen declines in rent in the region of 9% in 2016. As new industrial areas such as KIZAD continue to gain traction it is expected that it will trigger a flight to quality as has been seen in Dubai.

KIZAD continues to invest heavily in world class infrastructure and terminal capacity, which will likely be a draw for companies and investors in 2017. Phase one of their light industrial park has been leased out and phase two has recently launched, providing high quality terraced warehouse units from 12,000 sq ft BUA.

2016 saw further development in Masdar City with the launch of the Eco Logistics Park. The Eco Logistics park offers customised build to suit opportunities and will also hand over a number of speculatively built high quality logistics units from 22,550 sq ft in Q4 2017.

FIGURE 7
Abu Dhabi industrial rents

Location	Q4 2014 (rent per sq ft)	Q4 2015 (rent per sq ft)	Q4 2016 (rent per sq ft)	% change Q4 2014 to Q4 2016	YOY % change
Mussafah	49	54	49	0%	-9%
ICAD 1	54	50	50	-7%	0%
KIZAD	38	40	40	5%	0%
Abu Dhabi Airport Free Zone	74	74	80	8%	8%
Al Markaz	37	38	38	3%	0%

Source: Knight Frank Research

Demand

With the decline in hydrocarbon prices the demand for industrial space was impacted.

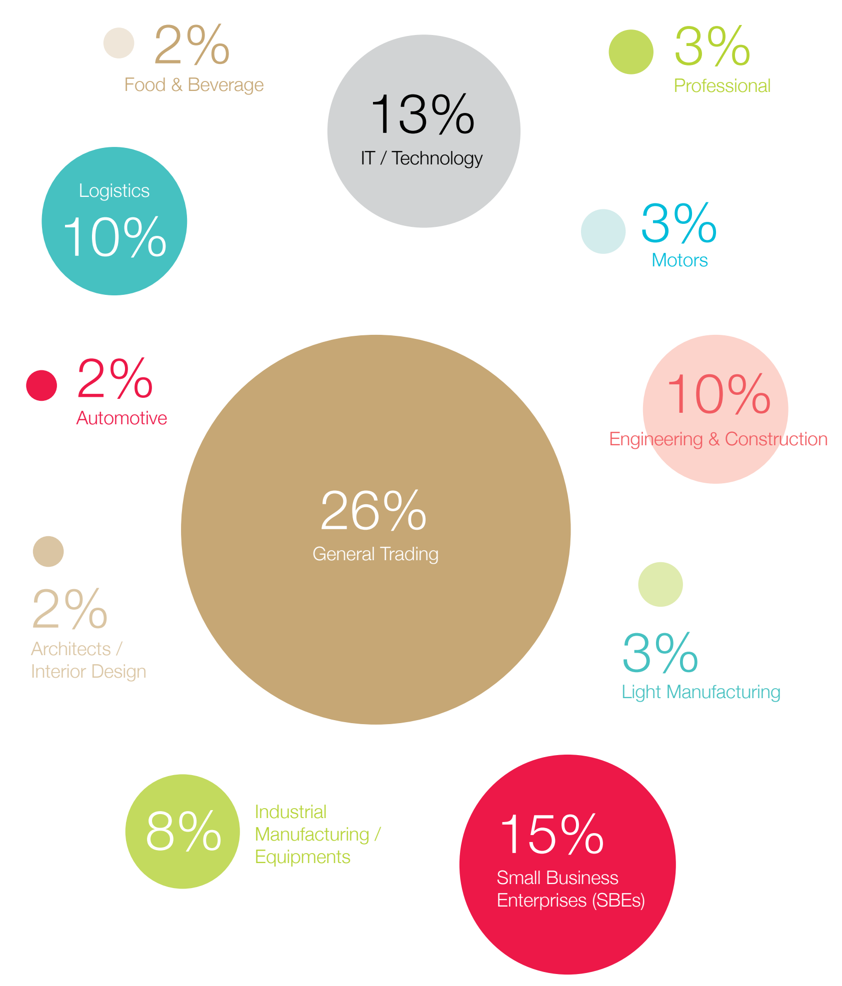
We received the greatest number of enquiries from the general trading sector in 2016, comprising 26% of total interest. 15% and 13% of enquiries came from the SME and IT sectors respectively.

It is interesting to note that in 2016 we received no enquiries from the oil and gas services sector, when in previous years this made up at least 25% of total interest. This is of course symptomatic of a lower oil price and challenging market conditions for this particular sector.

Likewise, enquiries from the construction sector were down to 10% in 2016, when in previous years interest from this sector contributed 50% of total enquiries.

We expect this to recover in 2017 on the back of new government strategies to spur growth in the economy through infrastructure, housing and construction projects.

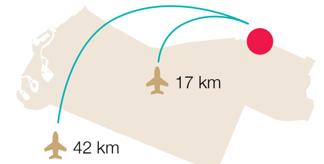
FIGURE 8
Demand by sector (no. of enquiries in 2016), Abu Dhabi



Source: Knight Frank Research

SHARJAH MARKET

The industrial sector in Sharjah contributes approximately 17% of its GDP and around one-third of manufacturing activity in the UAE as a whole.



Al Saja'a Industrial Oasis, a new industrial area of Sharjah is located only 42 km from Dubai International Airport, 17 km from Sharjah International Airport, 40 km from Hamriya Port and 109 km from Furairah Port.

Industrial freehold land (Arab) or 100 leasehold for non-Arab nationals is available.

Industrial rents are 30 - 40% less than the average for grade A warehouses in Dubai.

Demand for modern industrial property continues to grow in Sharjah, particularly driven by the movement of occupiers from older, poorer provisioned industrial parks to newer industrial areas with better infrastructure.

LEASING

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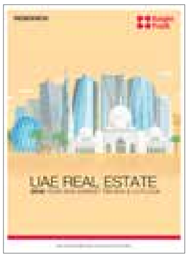

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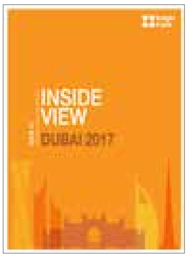
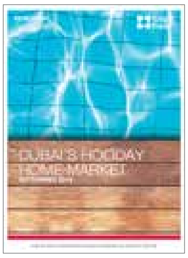
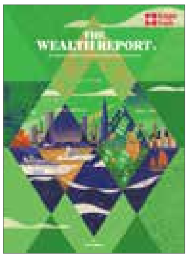


Dubai Inside View 2017

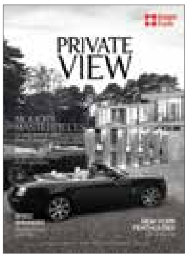


Dubai's Holiday Home Market September 2016

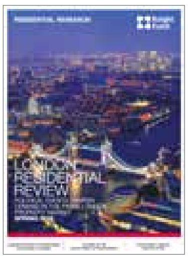

International View 2016



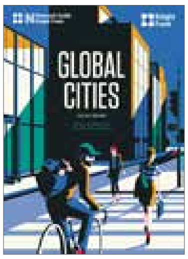
The Wealth Report 2017



Private View 2016



London Residential Review Spring 2016



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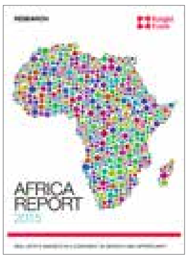

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