A biannual review of the industrial markets in Dubai and Abu Dhabi

Dubai and Abu Dhabi Industrial Markets Review

Summer|2021

BACKDROP

Rents Stabilse

Since the conclusion of the UAE's one and only lockdown, we have seen activity levels steadily increase. Industrial areas experiencing the most leasing activity include National Industries Park (NIP) and Dubai Investment Park (DIP) in Dubai and KIZAD and Almarkaz in Abu Dhabi. Elsewhere, high occupancy rates and a lack of new development persist in locations such as Al Quoz, Ras Al Khor and Umm Ramool in Dubai and Mussafah and Al Mafraq in Abu Dhabi.

Rents for industrial warehouse space across Dubai and Abu Dhabi remained relatively unchanged during Q2, delivering the greatest stability the market has enjoyed ever since rents began to weaken in 2015.

In Dubai, across the nine main industrial submarkets we track, quarterly rent rises were registered in Dubai Industrial City and DIP, where rents rose by a marginal AED 1 psf to AED 22 psf and AED 24 psf, respectively. Rents in JAFZA (Grade B) were the only ones to decline, ending Q2 AED 1 psf lower than Q1 at AED 15 psf, highlighting that there is still little demand for facilities which are not modern or well maintained.

Meanwhile in Abu Dhabi, rents across the five main submarkets we track have remained unchanged for three consecutive quarters.

THE UAE INDUSTRIAL MARKET IN NUMBERS I Q2

AED 21 PSF
average Grade A rents in JAFZA

AED 300 PSM
average rents in ALMARKAZ

90%
of new requirements in Dubai stem from manufacturers, the logistics sector and 3PL providers

63,000 SQM
of new space requirements in Abu Dhabi

1.22 M SQ FT
new warehouse requirements in Dubai

Source: Knight Frank, [illegible] Resources
Data for H1 2021

67%

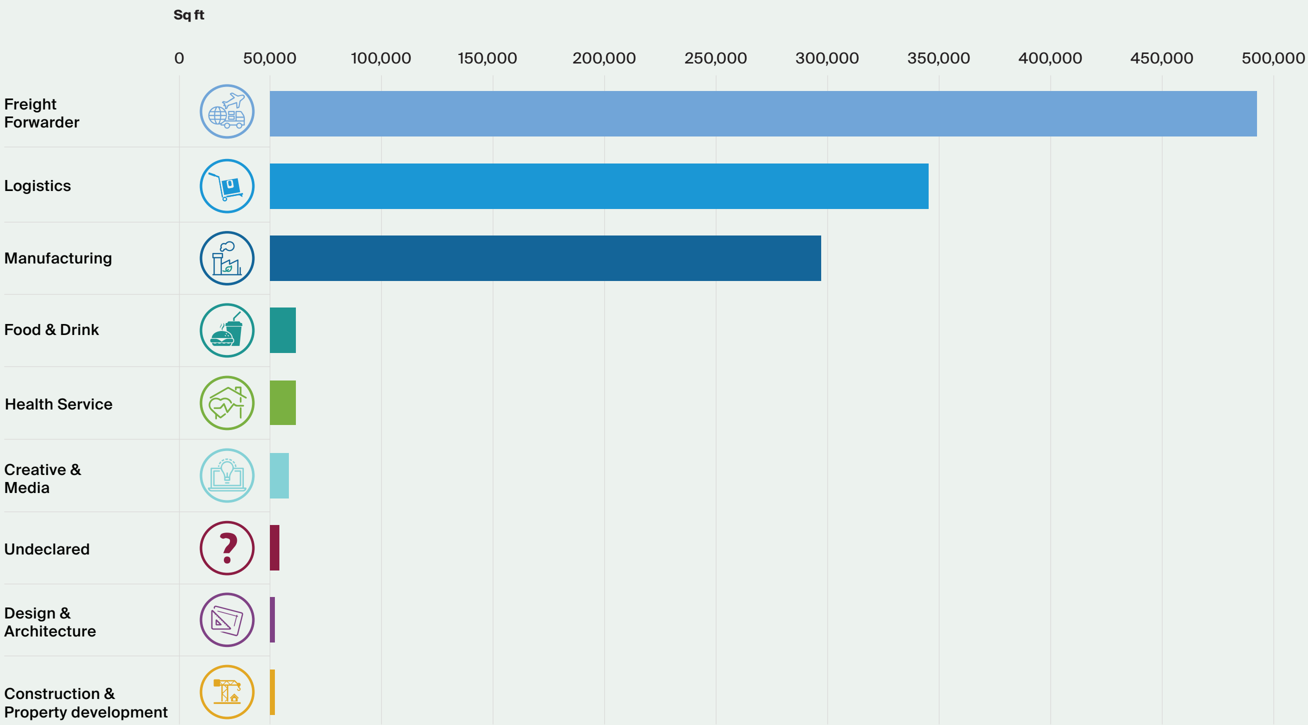
of new demand in Dubai is from the logistics sector and 3PL providers

Despite this emerging stability, rents still remain at, or near record lows, leaving occupiers firmly in the driving seat. Indeed, the low rents mean some occupiers are moving to lock in longer leases. This perhaps suggests that there is a growing sense of the market starting to bottom out, following six consecutive years of rent compressions.

Landlords too are responding to the market's buoyancy, holding rents firm; however, lease incentives continue to persist. We are now even seeing "rent free periods" being offered in the industrial sector, previously only ever a feature in the office and retail sectors.

In Dubai, new space requirements rose to 1.22 million sqft, up 1.4% on Q1. The logistics sector, including 3PL and Freight Forwarding businesses, along with Manufacturing companies dominate the requirements we have recorded, accounting for over 90% of new demand during Q2.

New industrial requiements by sector - Dubai Q2 2021



Source: Knight Frank

E-COMMERCE ENERGISING DEMAND

There is a growing sense of the market starting to bottom out, following six consecutive years of rent compression

Our data shows that occupiers' logistics space requirements for inventory management and product fulfilment have grown substantially, driving up demand for new facilities developed to European specifications.

Two subsectors worth highlighting are e-commerce linked businesses and dark kitchens. Like elsewhere in the world, the pandemic has catalysed a shift in consumer shopping habits, with many making a swap to online purchasing. Indeed, the UAE e-commerce retail market was estimated to be worth a record USD 3.9 billion in 2020; a 53% increase in value on 2019.

The Dubai Chamber of Commerce and Industry estimates that this figure will expand to USD 8 billion by 2025, hinting at a prolonged period of strong demand for warehouse space from the country's retailers. And it's not just retail giants like Amazon and Noon underpinning requirements, as we are also recording a sharp increase in new e-commerce players entering the market. This covers sectors ranging from food products to furniture and pharmaceuticals.

In a related trend, the pandemic has also fuelled a boom in demand for satellite kitchens to satisfy rising demand for online food orders. Through the course of the pandemic, we have seen restaurants upgrade from 3,000 sq ft, or 8,000 sq ft facilities to 5,000 sq ft, or 10,000 sq ft premises, respectively, and demand from this subsector is intensifying.

Home delivery restaurants in Dubai are seeking central community locations of between 5,000-10,000 sq ft, risingto between 30,000-80,000 sq ft for central kitchens.

In Abu Dhabi, the Creative and Media sector dominates space requirements, accounting for 14% of the 63,000 sqm of new demand we recorded during Q2. Manufacturing and Industry came in second place, with requirements totalling just over 7,000 sqm.

The defence and security sector has also been notably active in Abu Dhabi since the start of Q3, with security products and service providers for governments, institutions and business customers seeking space in the emirate.

“In Abu Dhabi, the Creative and Media sector dominates space requirements”

FOOD FOR THOUGHT

Focus on high quality warehousing

The lack of high-quality stock remains the most prevalent challenge facing occupiers across the UAE. Those seeking facilities which are of a high specification (i.e., with good height and access for loading / un-loading) are not readily available, and if they are, the rents are often out of kilter with the rest of the market.

The focus on high-quality warehousing is also emerging in the form of growing sustainability considerations. Companies are becoming increasingly more conscious of their carbon footprint and are seeking ways to minimise their impact on the environment. As such, we expect demand for green, or energy efficient warehouses to increase substantially. Factors such as solar panels, energy efficient lighting and better-quality warehouse insulation are all expected to feature heavily on occupier wish-lists.

As side from sustainability, occupiers are continuing to seek facilities which offer efficient configuration and are rectangular in shape, with heights in excess of 12 meters and easy access for heavy goods vehicles. Facilities which are constructed to European specifications still present the best opportunity in the market as this is where demand remains centred.

Market on the cusp of rental growth?

Looking ahead, we expect warehouse rents in both Abu Dhabi and Dubai to remain unchanged this year; however, there is growing evidence of a shortage of space in some segments of the market, such as high-quality, wellmaintained and stand-alone 20,000-40,000 sq ft units in Dubai. Warehouses in this size bracket are in high demand and with supply being limited, upward pressure on rents is inevitable. Separately, there is also a big shortage of 80,000 – 100,000 sq ft Grade-A logistics space.

Overall, however, the recovery in demand in both Dubai and Abu Dhabi suggests that the market is on the cusp of a return to rental growth, particularly as much of the previous speculatively built stock is absorbed and older, tired space falls out of favour, especially amongst international businesses.

This suggests that the delta between grade A and more secondary stock will continue to widen, especially as an oversupply of older, tired and poorly constructed and poorly maintained facilities persists. At the other end of the spectrum, supply is limited and we continue to see significant demand from global entities who are setting up, or relocating in the region and require modern Grade A facilities.

ICAD, Abu Dhabi

HEADLINE WAREHOUSE RENTS ACROSS DUBAI AND ABU DHABI

	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021	3-month change	12-month change
DUBAI (AED PSF)							
AL QUOZ	37	36	33	33	33	0.0%	-11.0%
DUBAI INDUSTRIAL CITY	24	23	21	21	22	4.8%	-9.0%
JAFZA (GRADE A)	26	24	22	22	21	0.0%	-17.6%
AL QUOZ (GRADE B)	33	33	30	30	28	0.0%	-14.7%
DIP	27	25	23	23	24	4.3%	-11.5%
JAFZA (GRADE B)	21	19	18	18	15	-6.3%	-26.8%
JEBEL ALI INDSTRIAL (GRADE B)	22	21	20	20	20	0.0%	-8.7%
DUBAI SOUTH	34	30	27	27	25	0.0%	-25.4%
NATIONAL INDUSTRIES PARK	25	24	24	24	24	0.0%	-3.6%
ABU DHABI (AED PSM)							
MUSSAFAH	291	280	250	250	250	0.0%	-14.2%
ICAD	331	320	310	300	300	0.0%	-9.2%
KIZAD	333	333	333	333	333	0.0%	0.0%
ABU DHABI AIRPORT FREE ZONE	575	550	550	550	550	0.0%	-14.7%
ALMARKAZ	300	300	300	300	300	0.0%	0.0%

These are generic market rents and are not connected to any specific property. Rental variations within each submarket are driven by factors such as quality and specification. Please contact our team for more information.

Source: Knight Frank

> The recovery in demand in both Dubai and Abu Dhabi suggeststhat the market is on the cusp of a return to rental growth

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