

RESEARCH



UAE INDUSTRIAL & LOGISTICS

RESEARCH REPORT
Q3 2015

MODEST INCREASES IN INDUSTRIAL RENTS OVER THE LAST 6 MONTHS ACROSS DUBAI.
RENTS IN ABU DHABI REMAIN STABLE DESPITE THE FALL IN OIL PRICES.



The UAE continues to further strengthen its position as a global logistics hub, helped by its geographical positioning and world-class transport infrastructure.

WILLIAM NEILL
Partner, Knight Frank UAE

UAE COMMENTARY

The industrial property sector has seen modest growth over the last 6 months with rental increases recorded across the majority of industrial zones. Despite the recorded rental growth, according to Capital Economics, the Purchasing Managers' Index (PMI) - which covers the entire non-oil private sector - dropped from 56.4 in May to 54.7 in June, its lowest level in almost two years.

Abu Dhabi's industrial sector remains heavily centred towards oil and gas. Despite the fall in oil prices, rents have remained stable across the Emirate. The number of enquiries has declined slightly but has not affected the rentals as there is limited quality industrial accommodation and no additional supply is expected in the near term.

DUBAI MARKET INSIGHT

Dubai's economy continues to be driven by trade, tourism and transport. According to the World Trade Organization, global trade will grow at 3.3 per cent this year, down slightly from its previous forecast of 4 per cent. While Dubai's fortunes are interlinked with global trade, the overall drop in trade however would not diminish Dubai's prospect. Its standing as a logistics hub is stronger with its ability to secure business over competing hubs and increased trade with Africa and Iran. Cargo and passenger traffic at Dubai's airport both grew at their fastest pace in May since 2013.

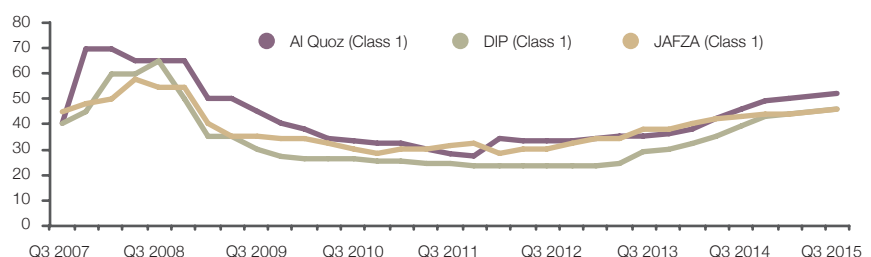
Dubai's position as a logistics hub receives another boost with plans to further integrate the Dubai South (formerly DWC) and JAFZA free zones, in order to provide seamless movement of goods and services along the bonded transport and logistics corridor from Jebel Ali Free port to Dubai South Airport. Dubai continues

to invest substantially in infrastructure and free zones that will provide an impetus to improving its standing as a trading hub.

Over 4 billion people live within 8 hours flight from Dubai covering major markets in Africa and Asia. Dubai's geographical location, supply chain (ports and airports), legislation and infrastructure make it an ideal supply and re-distribution gateway. Its status as a regional safe haven helps remain the preferred destination for global businesses entering the Middle East, Iran and Africa with access to high quality education, healthcare and importantly a willingness for talent/senior management to relocate to Dubai.

General market sentiment has been cautiously optimistic, in certain cases with occupiers postponing requirements by 6 month. On the whole there was appetite for industrial accommodation in prime industrial districts and free zones.

FIGURE 1
Class 1 industrial rents Q3 2007 - Q3 2015



Source: Knight Frank Research

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

Market Highlights

On average, there has been approximately 4% growth in rentals (over the last 6 months) across the industrial districts being tracked in Dubai.

In the first half of 2015, the levels of enquiries for industrial property were lower compared to six months earlier. However, due to a lack in availability of quality warehousing units, there has been no reduction of rentals – hence the fairly muted rental value growth of 1% quarter on-quarter between April and June 2015.

There has been a slight decrease in the larger enquiries as well with occupiers postponing new purchases and requirements for new facilities that require substantial investment.

In few cases, to spurn interest from occupiers landlords have been offering incentives mostly in the form of higher rent free periods.

The general shortage of supply is the main reason for the increase in rental rates; demand continues to outstrip quality supply.

JAFZA class 1 rents witnessed an increase of 2% over the last 6 months and continue to be the favoured location for global occupiers and capital values have remained flat to approximately AED 250-300 /sq ft (AED 2,691 – 3,229/ sq m).

More than 50% of the enquiries were for free zone facilities in JAFZA.

Dubai Investment Park (DIP) which registered the largest H1 growth (5%) in rentals and Dubai Industrial City (DIC) are witnessing substantial interests from occupiers with the ability to secure larger and better quality facilities.

FIGURE 2

Key market indicators

Class 1 Rents JAFZA	484 /sq m	▲
Class 1 Rents DIP	474 /sq m	▲
Average Size Requirement	5,100 /sq m	▼
Most Enquired Size	4,645 /sq m	▼

Source: Knight Frank Research

Industrial Property Demand

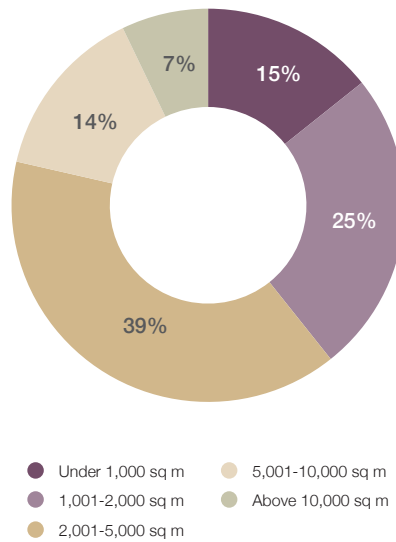
Demand for warehousing from food and beverage companies and food retailers continue to increase. There was significant interest from occupiers wishing to setup central kitchens.

Enquires from fashion and home improvement retailers have also seen an increase. Most of these requests were for short-term requirements. Occupiers in this sector typically have numerous facilities spread over multiple districts and consolidation into larger units is eminent.

Demand from third party logistics operators has also seen a steady increase with maximum enquiries from global and regional third party logistics providers (32%) both in JAFZA and DIP.

FIGURE 3

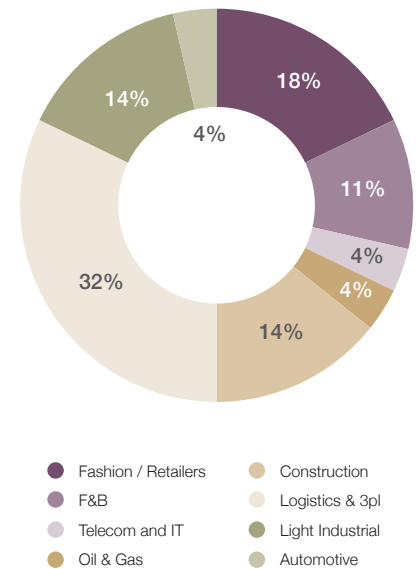
Size Requirements (sq m), H2 2015



Source: Knight Frank Research

FIGURE 4

Enquiries by sector, H2 2015



Source: Knight Frank Research

Key Findings

There has been an increase in enquiries for both free zone and non-free zone accommodation on a shorter tenures (1-3 years) from third party logistics operators over the last 6 months.

There has been an increase in enquiries from food & beverage occupiers with a number of enquiries for creating central kitchens.

There has been capacity reduction and economising of real estate facilities among oil & gas players with occupiers evaluating sub-leasing excess space.

There has been an increase in the use of third party logistics operation, with occupiers reluctant to invest in built to suit facilities due to current economic condition.

There continues a flight to quality from traditional industrial areas (Al Quoz and Ras Al Khor) with occupiers relocating to newer locations such DIP or DIC which are seeing better infrastructure, connectivity, with better security of tenure (longer leasehold tenures) and services. Constant news of mishaps/ fires, accidents and concerns of safety and security are driving major occupiers to better locations.

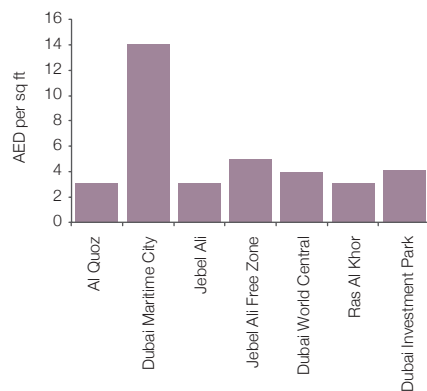
There is ongoing construction at Dubai Investment Park (DIP) and Dubai Industrial City (DIC) with building of flyovers and road widening on the back off Expo 2020. The access into DIP has improved with widening of internal roads reducing bottle necks at key entry and exit points; this was completed during the first quarter 2015.

FIGURE 5
Key Industrial Districts

Key Industrial Districts	Al Quoz	Al Qusais	Ras Al Khor	Al Rashidiya	JAFZA	Jebel Ali Industrial	DIP	Techno Park	IMPZ	DIC	Dubai South	DMC
Age	1973	1975	1976	1976	1985	1995	1997	2002	2003	2004	2006	2007
Size (sq km)	27	8	12	4	56	22	32	20	4	52	146	2.3
Developed	97%	96%	95%	96%	80%	75%	85%	15%	30%	5%	30%	30%
Status	Onshore	Onshore	Onshore	Onshore	Free zone	Onshore	Onshore	Onshore	Offshore	Onshore	Onshore / Free zone	Free zone

Source: Knight Frank Research

FIGURE 6
Land / Ground Rents in major industrial Districts Q2 2015



Source: Knight Frank Research

There has been a rise in enquiries for facilities with cold storage infrastructure. Occupiers have been keen for landlords to invest in the requisite cold storage infrastructure and rentalize the investment over the course of the lease.

Dubai South continues to attract larger occupiers consolidating their businesses.

Dubai seems to be gearing up to become Africa's staging post with its state of the art and efficient supply chain infrastructure.

On average, the African continent's economies will grow 4.5% in 2015 and 5% in 2016 (with excellent growth prospects over the next 10 years), according to the annual African Economic Outlook report by the Organization for Economic Cooperation and Development, the African Development Bank and the United Nations Development Program. Consequently, the rising incomes of the African consumers are encouraging companies across the UAE to look west,

particularly from the manufacturing / assembly units and warehouses of JAFZA and DWC.

Africa also remains the least integrated region in terms of cross-border trade and lacks infrastructure, Dubai could be a point of entry to the continent's \$3 trillion economy.

Moving and storing goods in inefficient warehouses, across poor roads and closed borders are Africa's problem areas. It is more cost-effective for fast-moving consumer goods businesses to operate from cities such as Dubai than in Africa itself in the near term.

There has been rapid expansion of airlines such as Emirates, flydubai and Etihad over the last year into African destinations. Africa has become a strategic focus for Emirate, additional flights and destinations are expected into the continent.

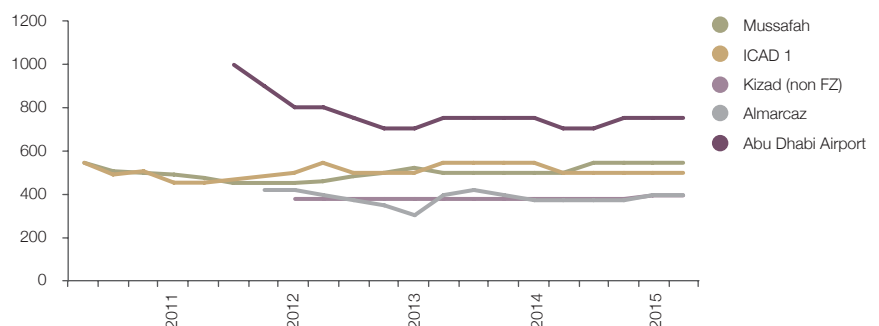
Similarly, Iran would need billions of dollars of investments to develop key infrastructure in an economy that has

shrunk substantially due to the international sanctions. Much of the goods for the infrastructure developments will have to pass through neighbouring centres, such as the UAE's shipping and aviation hubs, before reaching Iran. As it does not have the access to superior infrastructure that the UAE has developed, Chinese and European goods are expected to go via Dubai.

ABU DHABI MARKET INSIGHT

Abu Dhabi's economic growth will slow to below three per cent in 2015 due to lower oil prices, according to a report by Moody's Investors Service. It remains reliant on oil and gas and gas-related industries. Efforts are being made to develop non-oil sectors, which at present account for 10 per cent of government revenues, but diversification has been slow.

FIGURE 7
Industrial Rental Chart



Source: Knight Frank Research

Key Findings

The industrial rental rates in Abu Dhabi have been flat, with only Kizad & Al Markaz registering a 7% increase year-on-year.

Kizad and Al Markaz phase 1, have been leased out and the increase in rentals is a function of a few units that were leased at a premium.

The lack of quality accommodation being in short supply across the industrial market is one of the key reasons for rentals rates holding Q4, 2014 levels.

After the successful leasing of spec built smaller terraced warehouse schemes in Abu Dhabi Business Hub, Al Markaz and KIZAD; has started on the respective second phase of the developments which should be delivered in H2 2016.

Lease renewals for warehouses in Abu Dhabi Business hub were at AED 600/sq m (AED 56/sq ft).

The maximum enquiries experienced (50%) were from the construction sector. The average size of requirements for this sector was 1,500 sq m.

There has been a decrease in enquiries from oil & gas occupiers from the corresponding period last year.

Oil and gas companies, however continue to make up 20% of total enquiries. With occupiers seeking more economical facilities.

There has been a steep decrease in enquiries from logistics companies; a function of potential excess capacity in the sector.

The enquiries from the pharmaceuticals industry (18%) has been a result of capacity expansion and occupiers seeking modern facilities.

Heavy industry and manufacturing companies continue to prefer Abu Dhabi, with KIZAD attracting a majority of these requirements. UAE-based Siddco Group will set up an engineering facility over a plot covering 122,000 sq m at KIZAD.

In some Abu Dhabi districts, industrial rents are still well below their peaks of 2009. For example rental values are currently around 15-25% lower in locations such as ICAD1, Mussafah and Abu Dhabi Airport Company (ADAC) Free Zone.

Mussafah has the highest quantum of warehousing units and light industrial units but only a handful of these would qualify



as good quality units. Industrial rents in Mussafah fall within a broad band of AED 350-500 / sq m per annum. This reflects the difference in the quality of industrial units available within that district.

Significant amounts of oil & gas occupiers plus other occupiers who have substantial exposure to the sector are sub-leasing parts of their facility or evaluating to sub-lease excess space.

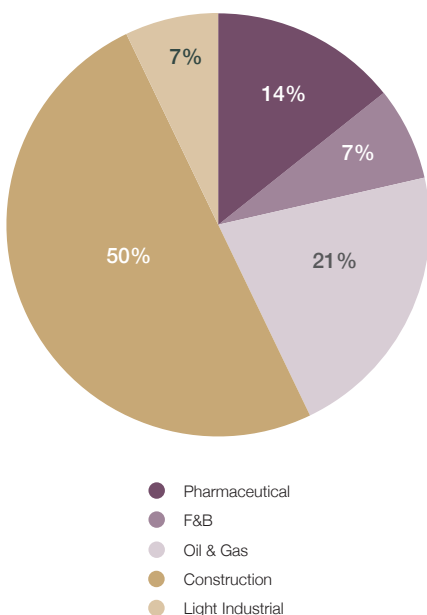
On the supply front, no new industrial units are expected over the next 6 months.

We expect enquiries to pick up during the next 6 months, with occupiers who have postponed their requirements now starting to look for new facilities.

There continues to be a flight to quality from occupiers in older units in Musaffah and Mina Zayed seeking newer and better units.

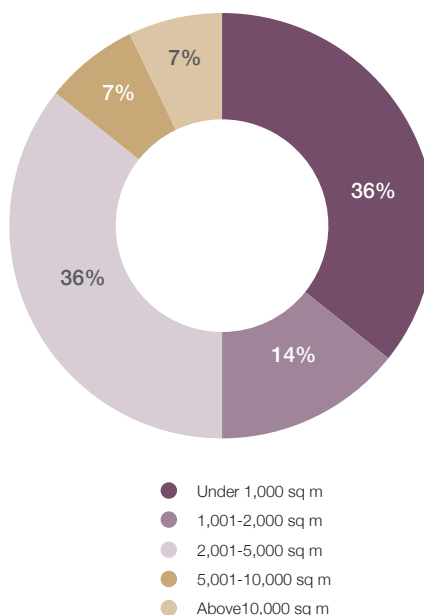
There is considerable occupier demand for new prime industrial locations which continue to attract significant number of enquires.

FIGURE 8
Enquiries by sector, H1 2015



Source: Knight Frank Research

FIGURE 9
Size Requirements (sq m), H1 2015



Source: Knight Frank Research

FIGURE 10
Key Market indicators

Class 1 Abu Dhabi Industrial City (ICAD)	500 /sq m	▶
Class 1 Abu Dhabi Alrport	474 /sq m	▶
Average Size Requirement	5,100 /sq m	▶
Most Enquired Size	4,645 /sq m	▼

Source: Knight Frank Research



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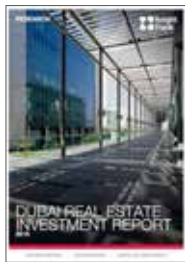
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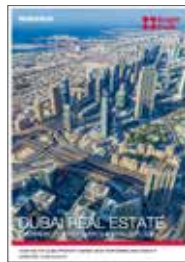
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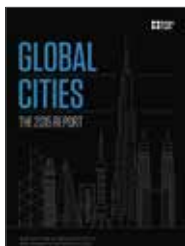
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