
ABU DHABI
OFFICE MARKET
UPDATE.

Q3 2020

Economic Update.

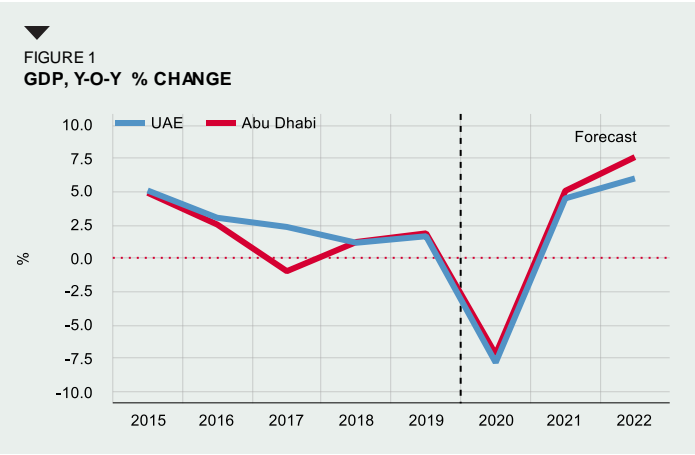
KEY HEADLINES

Initial estimates show that Abu Dhabi's GDP grew by 1.9% in 2019, up from 1.2% in 2018. Given the economic fallout caused by the COVID-19 pandemic, particularly to the capital's hydrocarbon sector, Abu Dhabi's GDP is expected to fall by 7.2% in 2020. Whilst economic growth is expected to return in 2021, where GDP is forecast to register a growth rate of 5.1%, Abu Dhabi's economy will only return to its 2019 GDP level by 2022.

The UAE's Purchasing Managers' Index (PMI), which tracks the country's private non-oil economy, recorded a reading of 51.0 in September 2020, its highest reading in 11 months. For the ninth month straight employment continued to contract, although September's employment index reading of 47.7 is a marked improvement on August's reading of 41.5.

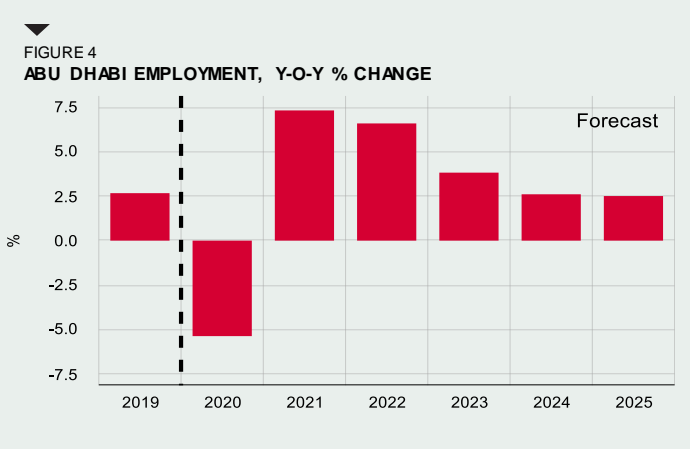
Employment in Abu Dhabi is estimated to have increased by 2.7% in 2019. As economic activity contracts so will employment, where in 2020 total employment is expected to decline by 5.4%. Despite the economic headwinds the capital faces, the Abu Dhabi government and its related entities are set to push ahead with approved projects, and even fast-track certain expenditures as part of the Ghadan 21 stimulus package. As a result, employment is expected to return to its 2019 level by 2021.

With a second wave of the pandemic underway across the globe, oil demand is likely to be impacted once again, therefore any planned hikes in output from OPEC+ are likely to be pushed to late Q1 2021. The EIA expects Brent Crude to average \$41 pb in the second half of 2020 and \$47 pb in 2021.



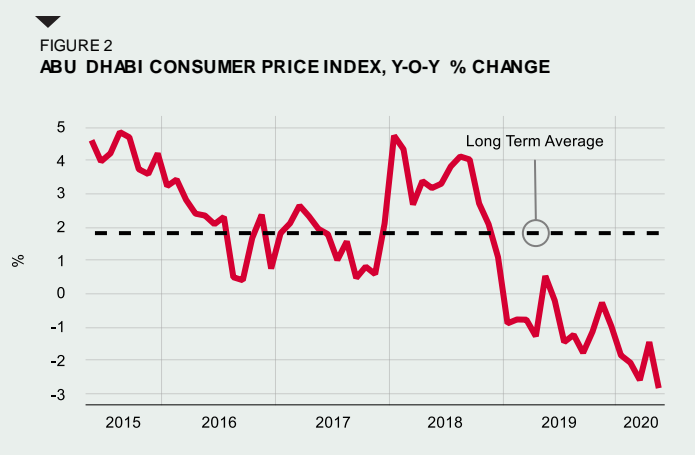
	2019	2020	2021
Abu Dhabi GDP, % Change	1.9	-7.2	5.1

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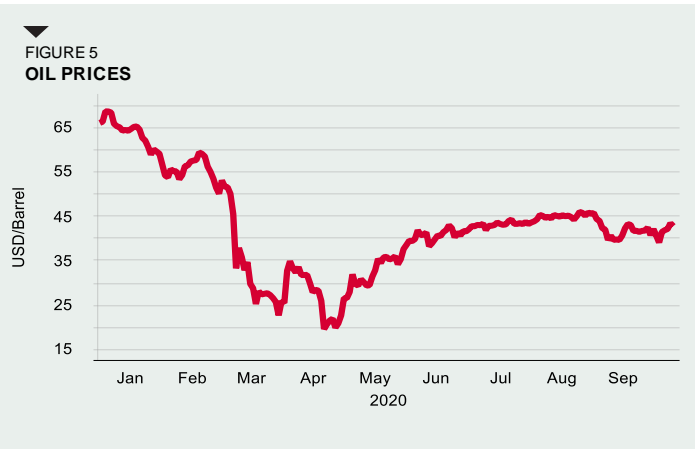
	2019	2020	2021
Abu Dhabi Employment, % Change	2.7	-5.4	7.3

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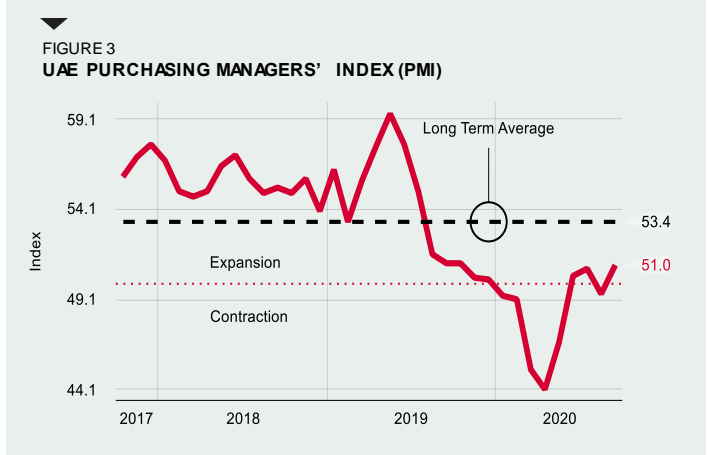
	1 Year ago	6 months ago	Latest
Abu Dhabi CPI, YOY % Change	0.5	-0.3	-2.8

Abu Dhabi has witnessed deflation since the start of 2019, a trend which has only intensified since, with prices falling by 2.8% in the year to May 2020. This trend has been driven by lower housing and transport, and recreational activities costs. Over the same period, food and beverage costs, which carry a 12.3% weighting in Abu Dhabi's CPI basket, increased by 9.8%.



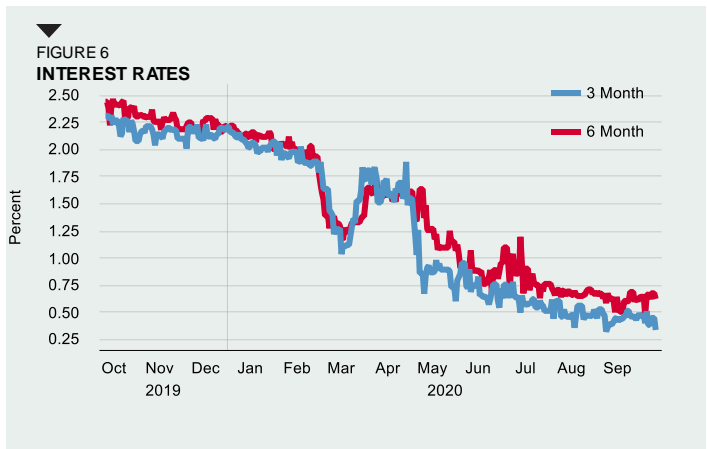
	Latest	3 months ago	12 months ago
Oil Prices– Brent Crude (\$)	42.8	41.9	58.3

As global lockdown measures eased in late Q2 and Q3 2020, the price of Brent Crude rose from lows of \$20.0 pb in April 2020, to \$42.8 pb as at 9th October 2020. However, with a second wave of the pandemic underway globally, oil demand is likely to be impacted once again, therefore any planned hikes in output from OPEC+ are likely to be pushed to late Q1 2021. The EIA expects Brent Crude to average \$41 pb in the second half of 2020 and \$47 pb in 2021.



	Latest	3 months ago	12 months ago
Composite PMI	51.0	50.4	51.1

The UAE's Purchasing Managers' Index (PMI), which tracks the country's private non-oil economy, recorded a reading of 51.0 in September 2020, its highest reading in 11 months. For the ninth straight month employment continued to contract, although September's employment index reading of 47.7 is a marked improvement on August's reading of 41.5.



	Latest	3 months ago	12 months ago
6-Month EIBOR	0.85	1.56	2.83

Due to the projected impact of COVID-19 on the US economy, the US Federal Reserve reduced the Federal Fund Target Rate from 1.75% to 0.25% in March 2020. Given the UAE Dirham's Dollar peg, the UAE Central Bank in turn reduced its policy rate from 2.0% to 1.5% in March 2020. Both benchmark rates have remained unchanged since. As a result, as at October 11th 2020, the EIBOR 6-month fix stood at 0.62%, down from 2.43% 12 months earlier.

Abu Dhabi Office Market Update.

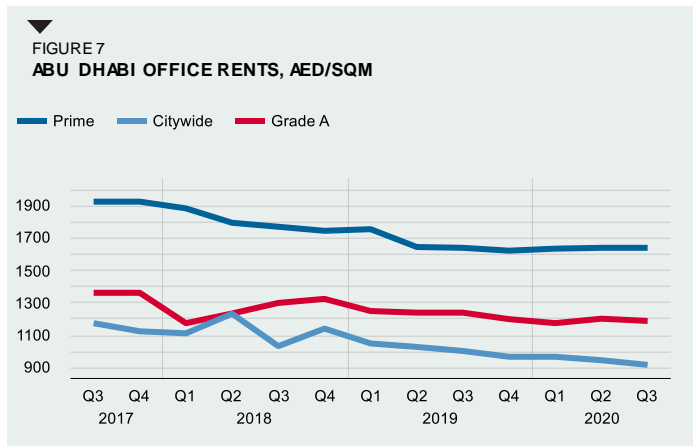
KEY HEADLINES

As at Q3 2020 average Prime rents across Abu Dhabi were recorded at AED 1,640/sqm, average Grade A rents at AED 1,189/sqm and average Citywide rents at AED 918/sqm.

On average, Citywide office rents across Abu Dhabi fell 8.5% in the year to Q3 2020, Grade A rents fell by 4.1%, whilst average Prime rents remained flat over the same period.

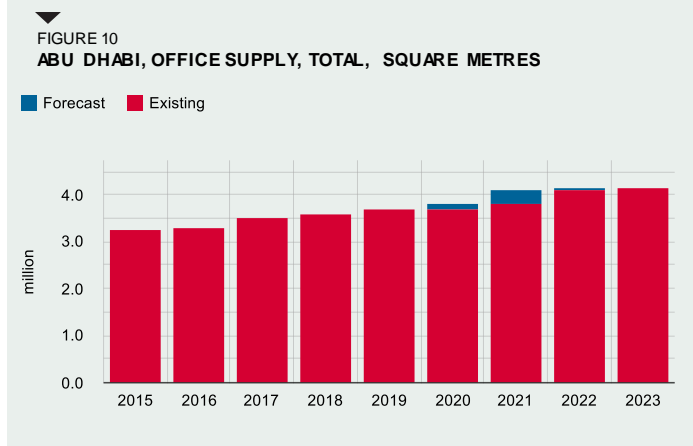
Market wide vacancy in Abu Dhabi's office market registered at 22.8% as at Q3 2020, up from 22.2% a quarter earlier. Over a 12 month period to Q3 2020, vacancy in Grade A and Citywide stock has increased by 3.7 and 5.5 percentage points respectively, whereas Prime vacancy has fallen by 6.8 percentage points over the same period.

Activity in Abu Dhabi's occupier market is expected to remain subdued with new take-up likely to originate from government related entities or as a result of investment deals by the Abu Dhabi government where private sector entities will be required to have office space in the emirate. However, these requirements will be for a limited quantum of space. Where feasible for occupiers to do so, we have also started to see a flight to quality as occupiers take advantage of softer market conditions, which is a trend we expect to continue going forward.



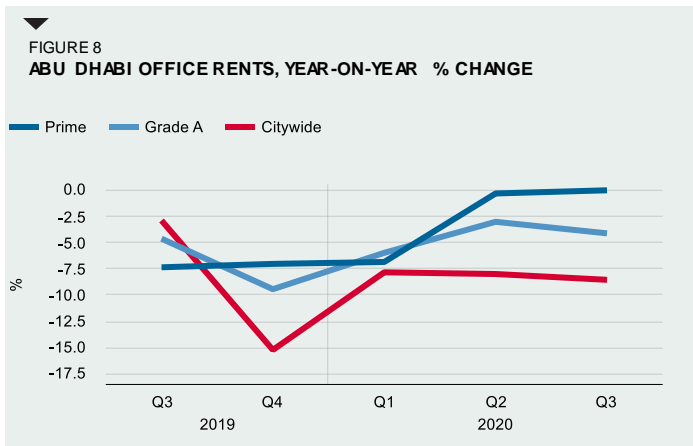
(AED/sq. m./p.a.)	Prime	Grade A	Citywide
Q3 2020	1,640	1,189	918

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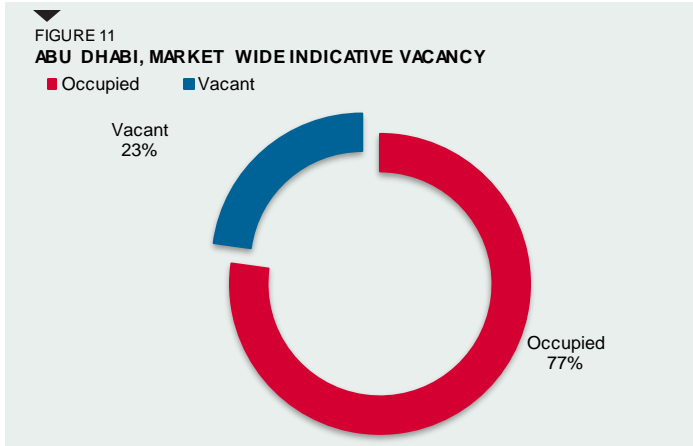
	2019	2020	2021	2022
Total stock (Million square metres)	3.69	3.81	4.10	4.14

As at Q3 2020, Abu Dhabi has stock of around 3.77 million square metres of commercial office space. By 2022 total supply of commercial office space is expected to be around 4.14 million square metres.



	Prime	Grade A	Citywide
Y-o-Y % Change	0.0	-4.1	-5.8

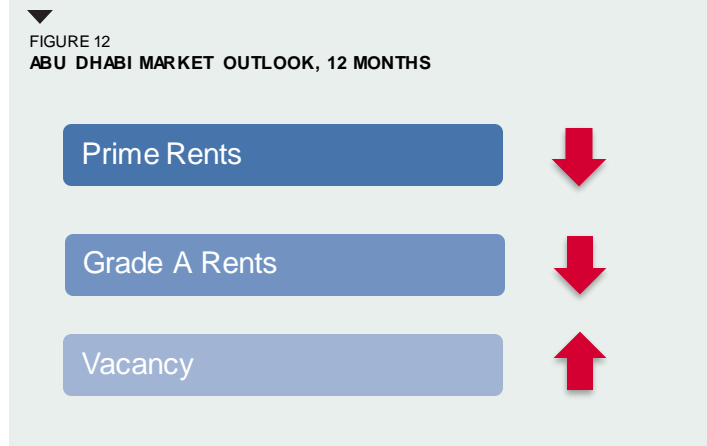
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Currently there are estimated to be 43 active office projects within Abu Dhabi, with delivery dates up to 2024 which are either being executed or in the study or design phase. The total value of these projects currently is estimated at US\$ 1,494m.



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Document sources: Knight Frank Research/ Macrobond/ Oxford Economics/ MEED Projects and REIDIN
 Note: * The Property Monitor Index methodology is based on a basket of properties where the property value is estimated using a range of sources compared to the price changes for apartments and townhouses/villas which is based on DLD transfers (or asking prices for Abu Dhabi) which may result in the average price changes not tallying with one another. This report is published for general information only and not to be relied upon in any way. Although high standards have been used in the preparation of the information, analysis, views and projections presented in this report, no responsibility or liability whatsoever can be accepted by Knight Frank LLP for any loss or damage resultant from any use of, reliance on or reference to the contents of this document. As a general report, this material does not necessarily represent the view of Knight Frank LLP in relation to particular properties or projects. Reproduction of this report in whole or part is not allowed without prior written approval of Knight Frank LLP to the form and content within which it appears. Knight Frank Middle East Limited (Dubai Branch): Prime Star International Real Estate Brokers (PSIREB RERA ORN: 11964 trading as Knight Frank with registration number 653414. Our registered office is: 5th Floor, Building 2, Emaar Business Park, PO Box 487207, Dubai, UAE.