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**DUBAI  
OFFICE MARKET  
UPDATE.**

*Q1 2020*

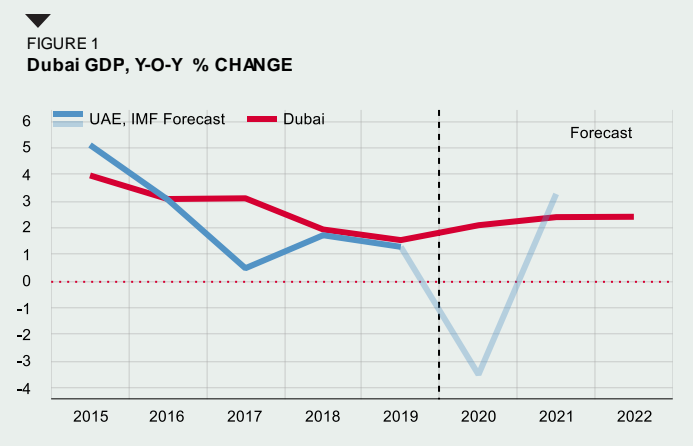
# Economic Update.

## KEY HEADLINES

Initial estimates show that Dubai's GDP grew by 1.5% in 2019, down from 1.9% in 2018. As a result of the COVID-19 pandemic economic activity is likely to contract in the short-run, this is despite the Dubai government launching multiple economic stimulus packages in March 2020 to support its economy. Alongside this government stimulus package, we have seen various initiatives, including but not limited to rent holidays, undertaken by private or semi-private entities to support businesses and residents.

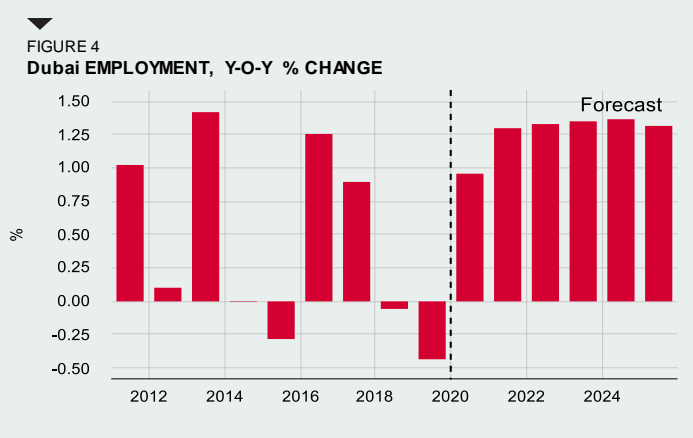
An early indicator which could provide some guidance as to the potential impact of COVID-19 to Dubai's economy is Dubai's PMI, which tracks activity in the non-oil private sector and which decreased to 45.5 as at March 2020, with sub-50 readings indicating a contraction in the non-oil private sector. The survey shows that new orders and output continue to decline and as the survey was conducted before the more stringent lockdown had come into effect, we are likely to see this trend intensify in April. More so, as at March 2020, 14% of surveyed organisations reported lower headcount.

Looking ahead, prior to the COVID-19 pandemic and the likely postponement of Expo 2020, Dubai's GDP was expected to grow 2.1% in 2020. However, with Dubai being subject to the strictest lockdown measures across the UAE and many sectors coming to all but a standstill we are likely to see GDP contract in 2020, the severity of the contraction will be evident in the coming months.



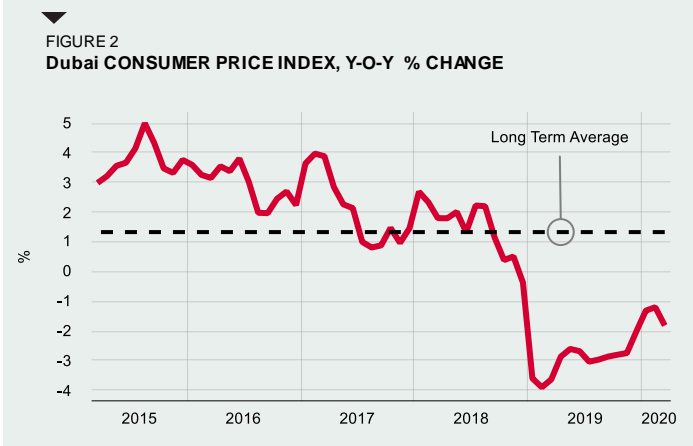
|                     | 2019 | 2020 | 2021 |
|---------------------|------|------|------|
| Dubai GDP, % Change | 1.5  | 2.1  | 2.4  |

Initial estimates show that Dubai's GDP grew by 1.5% in 2019, down from 1.9% in 2018. Looking ahead, prior to the COVID-19 pandemic and the likely postponement of Expo 2020, Dubai's GDP was expected to grow 2.1% in 2020. However, with Dubai being subject to the strictest lockdown measures across the UAE and many sectors coming to all but a standstill we are likely to see GDP contract in 2020, the severity of the contraction will be evident in the coming months.



|                            | 2019 | 2020 | 2021 |
|----------------------------|------|------|------|
| Dubai Employment, % Change | 0.9  | 2.4  | 3.1  |

Employment in Dubai is expected to have fallen in 2019 by 0.4% according to Oxford Economics. Whilst initial forecasts indicated that employment was set to increase by 1.0% in 2020, given the current economic backdrop, we now expect that employment is likely to decline in 2020 before recovering in 2021.



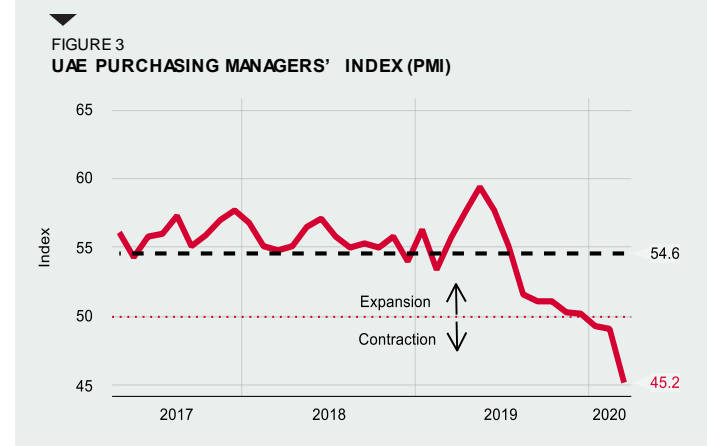
|                         | 1 Year ago | 6 months ago | Latest |
|-------------------------|------------|--------------|--------|
| Dubai CPI, YOY % Change | -3.6       | -2.9         | -1.8   |

Dubai has witnessed deflation since the start of 2019, a trend which has not reversed since with prices falling by 1.8% in the year to March 2020. Over this period, this trend has been driven by lower housing, recreational activities and clothing and footwear costs. In the year to March 2020, food and beverage and transportation, which account 23.7% of Dubai's CPI basket saw inflation rates of 4.6% and 0.7% respectively.



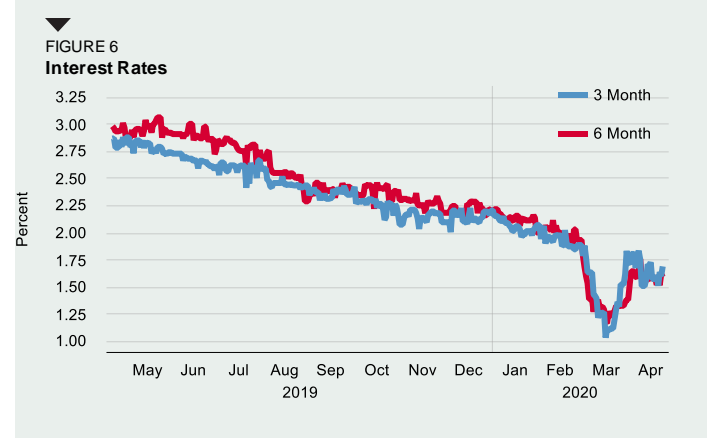
|                               | Latest | 3 months ago | 12 months ago |
|-------------------------------|--------|--------------|---------------|
| Oil Prices - Brent Crude (\$) | 21.6   | 62.0         | 74.3          |

With the COVID-19 outbreak leading to over a third of the world's population to go into lockdown and a cessation of almost all international travel, oil demand has fallen sharply. This coupled with a price war has led to prices falling to \$21.6 pb as at April 23<sup>rd</sup>, down from \$62 pb three months earlier. Despite OPEC+ reaching a historic deal to moderate production, oil prices are likely to remain subdued until global lockdown restrictions are eased and demand normalises.



|               | Latest | 3 months ago | 12 months ago |
|---------------|--------|--------------|---------------|
| Composite PMI | 45.2   | 50.2         | 55.7          |

The Purchasing Managers' Index (PMI), which tracks non-oil activity in the UAE, registered a reading of 45.2 in March 2020, its lowest reading on record. With a national lockdown in place, both new work (39.4) and employment (44.8) fell at the fastest pace on record. With the survey being carried out in the early stages of the lockdown and with the severity of the lockdown only increasing after this period, we are likely to witness further deterioration in the UAE's PMI in April 2020.



|               | Latest | 3 months ago | 12 months ago |
|---------------|--------|--------------|---------------|
| 6-Month EIBOR | 1.60   | 2.12         | 2.98          |

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. As a result, as at April 23<sup>rd</sup> 2020, the EIBOR 6 month fix stood at 1.60% down from 2.12% three months earlier.

# Dubai Office Market Update.

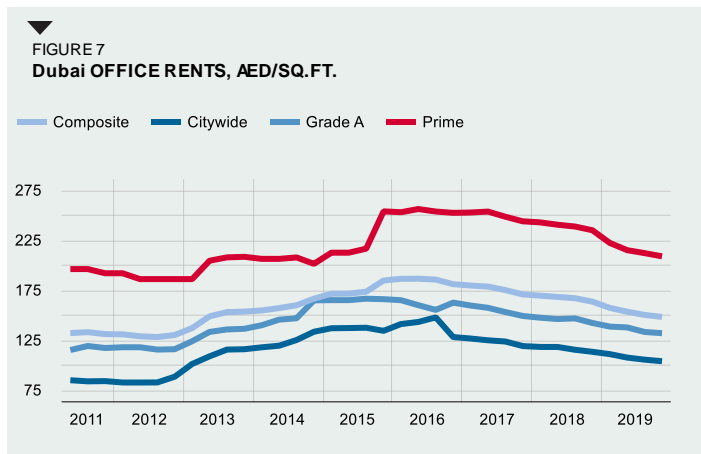
## KEY HEADLINES

As at Q1 2020 average Prime rents across Dubai were recorded at AED 209/sq.ft., average Grade A rents at AED 133/sq.ft. and average citywide rents at AED 105/sq.ft..

In the year to Q1 2020, average rents in Dubai fell by 9.2%. Prime office rents across Dubai fell 11.0% in the year to Q1 2020, whilst Citywide and Grade A rents fell by 8.2% and 7.1% respectively over the same period.

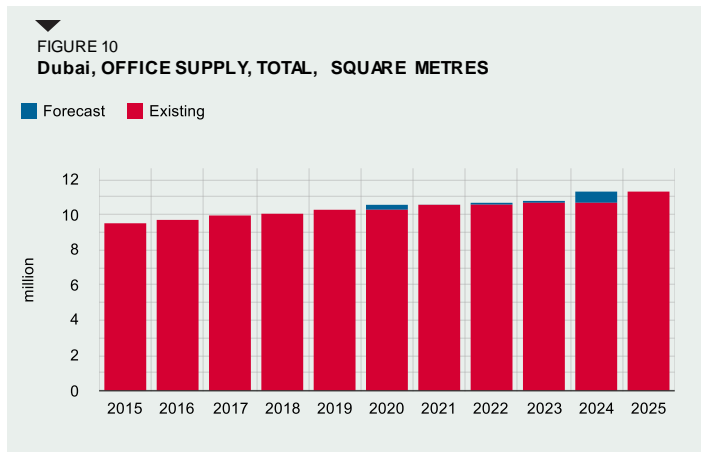
Market wide vacancy in Dubai's office market registered at 21% as at H2 2020, down from 22% a quarter earlier. Whilst currently vacancy in most Prime projects remains relatively low, over the course of the year as additional supply is delivered we are likely to witness the Prime vacancy rate increase.

Given the sluggish economic backdrop which is set to ensue as a result of the COVID-19 pandemic we are likely to witness limited levels of activity in Dubai's occupier market over the course of the 2020. Occupiers are expected to continue consolidation activities and any non-essential capital expenditure projects are likely to be delayed.



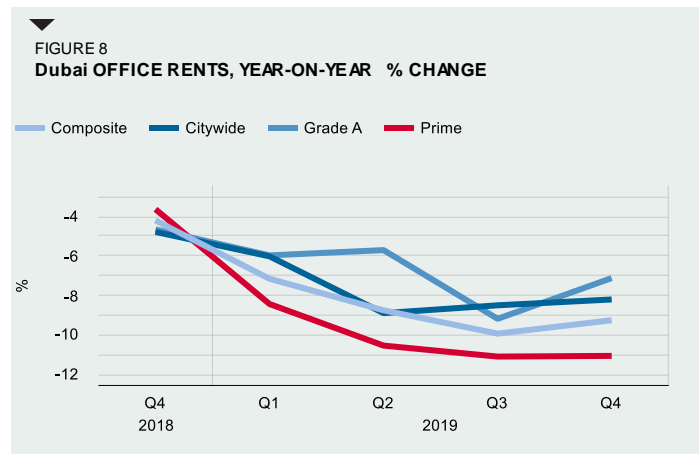
| (AED/sq. ft./p.a.) | Prime | Grade A | Citywide |
|--------------------|-------|---------|----------|
| Q1 2020            | 209   | 133     | 105      |

As at Q1 2020 average Prime rents across Dubai were recorded at AED 209/sq.ft., average Grade A rents at AED 133/sq.ft. and average citywide rents at AED 105/sq.ft..



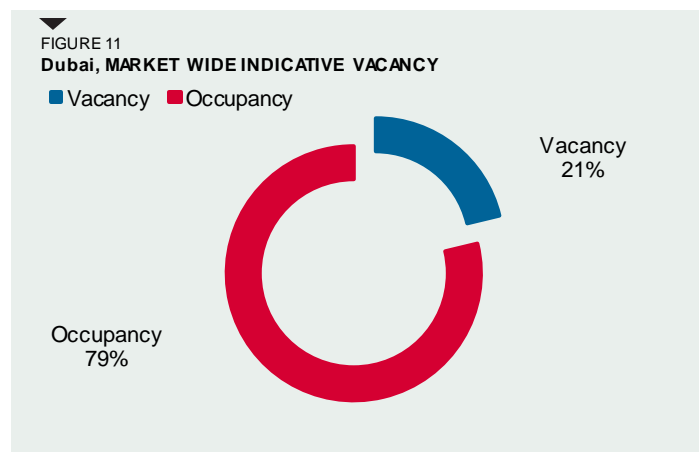
|                                     | 2019  | 2020  | 2021  | 2022  |
|-------------------------------------|-------|-------|-------|-------|
| Total stock (Million square metres) | 10.28 | 10.56 | 10.57 | 10.67 |

Dubai currently has stock of around 10.28 million square metres of commercial office space. By 2022 total supply of commercial offices pace is expected to be around 10.67 million square metres.



|                | Prime | Grade A | Citywide | Composite |
|----------------|-------|---------|----------|-----------|
| Y-o-Y % Change | -11.0 | -7.1    | -8.2     | -9.2%     |

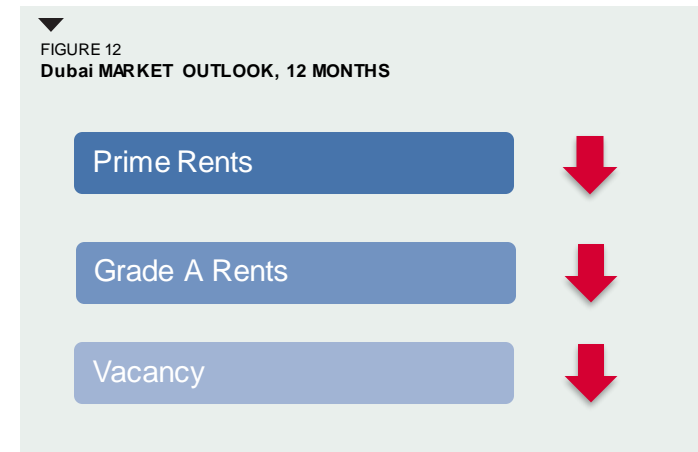
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Currently there are estimated to be 33 active projects within Dubai, with delivery dates up to 2023, which are either being executed or in the study or design phase. The total value of these projects currently is estimated at US\$ 5.2bn.



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