

DUBAI OFFICE MARKET UPDATE.

Ql 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 supports 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.

FIGURE 1 Dubai GDP, Y-O-Y % CHANGE

 $\mathbf{\nabla}$

~

in 2020 before recovering in 2021.



FIGURE 2 Dubai CONSUMER PRICE INDEX, Y-O-Y % CHANGE



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.



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 low er 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.



Employment in Dubai is expected to have fallen in 2019 by 0.4% With the COVID-19 outbreak leading to over a third of the world's according to Oxford Economics. Whilst initial forecasts indicated that population to go into lockdown and a cessation of almost all employment was set to increase by 1.0%% in 2020, given the current international travel, oil demand has fallen sharply. This coupled with a economic backdrop, we now expect that employment is likely decline price war has led to prices falling to \$21.6 pb as at April 23rd, 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 lockdow n restrictions are eased and demand normalises.





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 lockdow n 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 it's policy rate from 2.0% to 1.5% in March 2020. As a result, as at April 23rd 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 guarter 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 witnesses 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 witnesses 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.

FIGURE 7 Dubai OFFICE RENTS, AED/SQ.FT.

Composite

(AED/sq. ft../p.a.)

rents at AED 105/sq.ft..

Q1 2020



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

Grade A

133

Grade A

Prime

209



Prime

Dubai OFFICE RENTS, YEAR-ON-YEAR % CHANGE

Citywide

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

FIGURE 8

Composite

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.

FIGURE 9 Dubai OFFICE SUPPLY MAP - STUDY, DESIGN AND EXECUTION



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.

 \mathbf{T} FIGURE 10 Dubai, OFFICE SUPPLY, TOTAL, SQUARE METRES Forecast Existing



Total stock (Million square 10.28 10.56 10.57 10.67 metres)

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.



Market wide vacancy in Dubai's office market registered at 21% as at H2 2020, down from 22% a guarter 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 witnesses 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 witnesses 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.

Naom i Martin. Commercial Agent – Occupier Services & Commercial Agency +971 50 8189 846| naomi.martin@me.knightfrank.com

Document sources: Knight Frank Research: Macrobond/ Oxford Economics/ MEED Projects and REIDIN Important Notice - © Knight Frank LLP 2020

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 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 Kright 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 Kright 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 Kright Frank LLP for any loss or damage resultant from any use of, reliance on or reference to the contents of this document. not allowed without prior written approval of Knight Frank LLP to the form and content within which it appears. Knight Frank Mddle East Limited (Dubai Branch): Prime Star International Real Estate Brokers (PSIREB RERA ORN: 11964 trading as Knight Frank with registration number 663414. Our registered office is: 5th Floor, Building 2, Emaar Business Park, PO Box 487207, Dubai, UAE

Um berto Bevilacqua. Commercial Agent – Occupier Services & Commercial Agency +971 56 4542 976 umberto.bevilacgua@me.knightfrank.com

Taim ur Khan. Associate Partner – Strategic Consultancy & Research +971 4 4267 660 | taimur.khan@me.knightfrank.com

nnosite

