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**DUBAI  
OFFICE MARKET  
UPDATE.**

*Q3 2020*

# Economic Update.

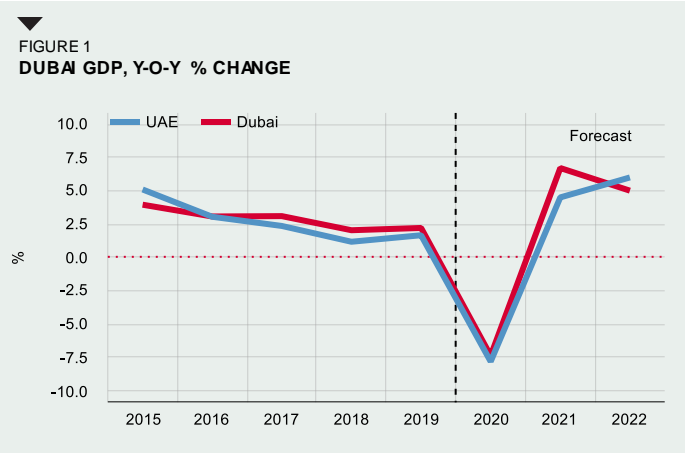
## KEY HEADLINES

Data from the Dubai Statistics Centre shows that Dubai's GDP grew by 2.2% in 2019, up from 2.1% in 2018. As a result of the COVID-19 pandemic and its impacts on global economic activity, Dubai's GDP is expected to contract by 7.4% in 2020. According to forecasts from Oxford Economics, Dubai's GDP is not expected to return to its 2019 level before 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. Dubai's PMI recorded a third consecutive month of improvement in activity with a reading of 51.5 in September.

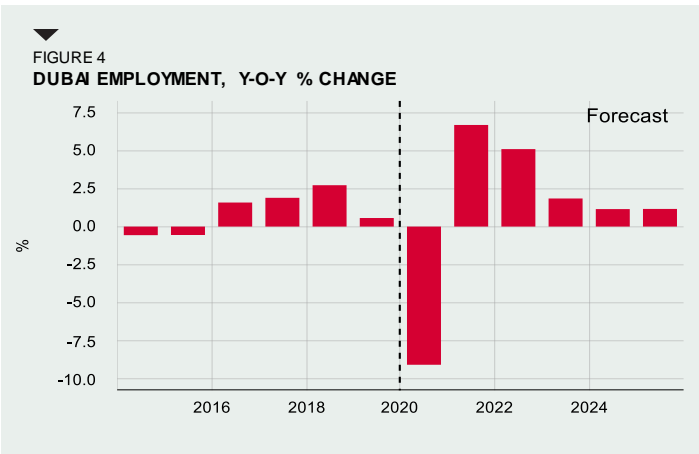
Given the challenging economic backdrop, employment is set to contract by 9.1% in 2020. If Dubai's economy recovers as expected, employment is set to register growth rates of 6.7% and 5.1% in 2021 and 2022 respectively. The transport, storage and IT and the consumer services sectors are expected to see the most significant declines in employment, where in 2020 employment in these two sectors is expected to decrease by 14.0% and 12.0% respectively.

With a second wave of the pandemic underway across the world, 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.



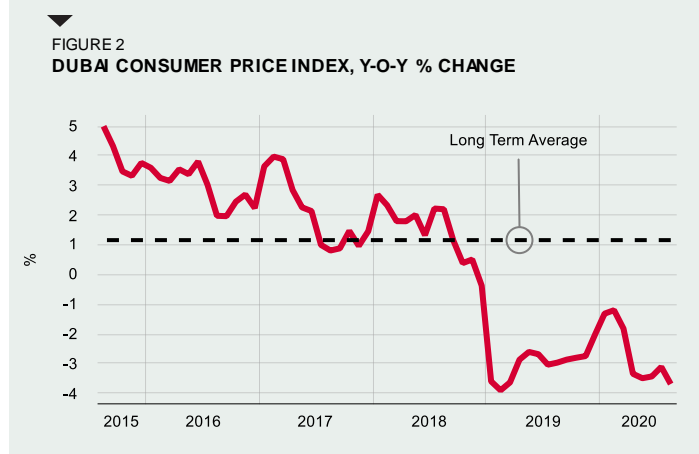
	2019	2020	2021
Dubai GDP, % Change	2.2	-7.4	6.7

Data from the Dubai Statistics Centre shows that Dubai's GDP grew by 2.2% in 2019, up from 2.1% in 2018. As a result of the COVID-19 pandemic and its impacts on global economic activity, Dubai's GDP is expected to contract by 7.4% in 2020. According to forecasts from Oxford Economics, Dubai's GDP is not expected to return to its 2019 level before 2022.



	2019	2020	2021
Dubai Employment, % Change	0.6	-9.1	6.7

Given the challenging economic backdrop, employment is set to contract by 9.1% in 2020, if Dubai's economy recovers as expected, employment is set to register growth rates of 6.7% and 5.1% in 2021 and 2022 respectively. The transport, storage and IT and the consumer services sectors are expected to see the most significant declines in employment, where in 2020 employment in these two sectors is expected to decrease by 14.0% and 12.0% respectively.



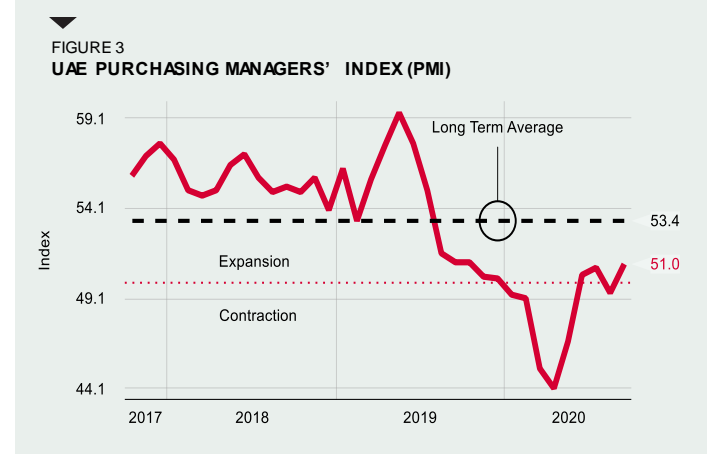
	1 Year ago	6 months ago	Latest
Dubai CPI, YOY % Change	-3.7	-1.2	-3.0

Dubai has witnessed deflation since the start of 2019, a trend which has not reversed since, with prices falling by 3.7% in the year to August 2020. Over this period, this trend has been driven by lower housing, transport, recreational activities and clothing and footwear costs. In the year to August 2020, housing and related costs and transportation, which account 54.2% of Dubai's CPI basket, saw deflation rates of 5.7% and 13.0% respectively.



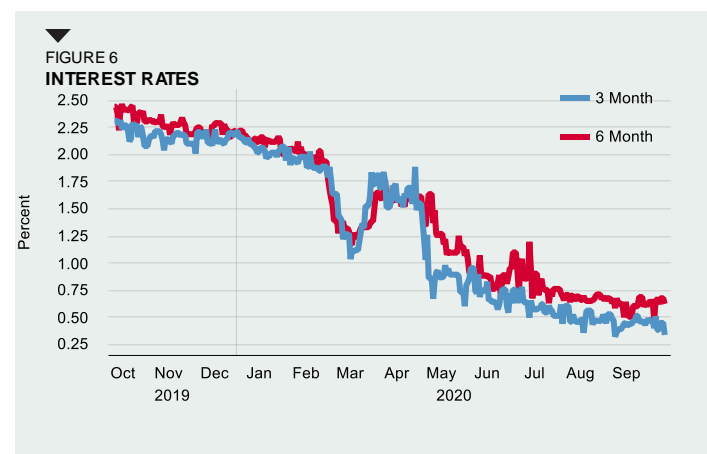
	Latest	3 months ago	12 months ago
Oil Prices - Brent Crude (\$)	42.8	41.9	58.3

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. Dubai's PMI recorded a third consecutive month of improvement in activity with a reading of 51.5 in September.



	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.

# Dubai Office Market Update.

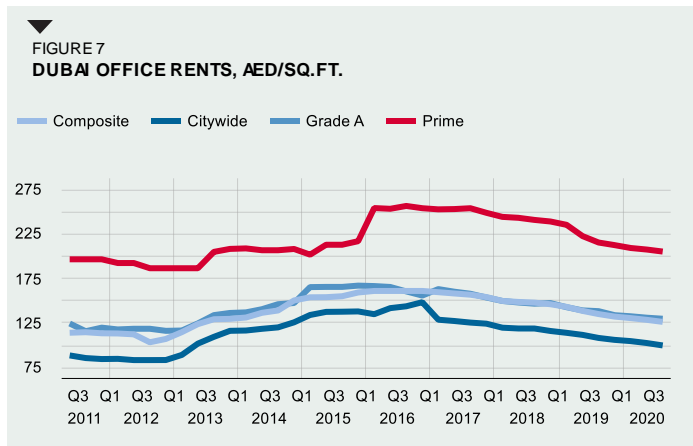
## KEY HEADLINES

As at Q3 2020 average Prime rents across Dubai were recorded at AED 205/sq.ft., average Grade A rents at AED 130/sq.ft. and average citywide rents at AED 100/sq.ft.

In the year to Q3 2020, average rents in Dubai fell by 6.5%. Prime office rents in Dubai fell 4.7% in the year to Q3 2020, whilst Grade A and Citywide rents fell by 6.1% and 7.7% respectively over the same period.

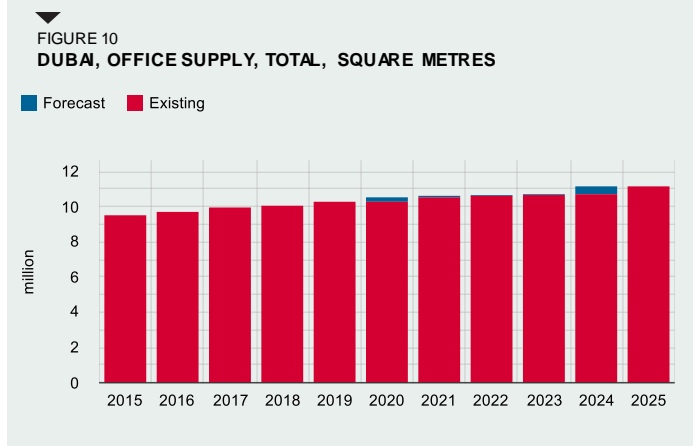
Looking ahead, the trends of consolidation of space and flight to quality are likely to continue. Occupiers are, where possible, looking to take advantage of weaker market conditions to upgrade occupational space whilst being mindful of increasing total spend. Finally, landlords are expected to remain flexible in order to retain and attract occupiers. Incentives to achieve this include but are not limited to flexible payment terms, CAPEX contributions and rent free periods.

Finally, whilst currently, vacancy in most Prime projects remains relatively low, over the course of the year with the delivery of additional supply we are likely to witness the Prime vacancy increase. The Grade A vacancy rate is also expected to see a marked increase over the coming year as the vast majority of supply scheduled to be delivered in 2021 is of Grade A quality.



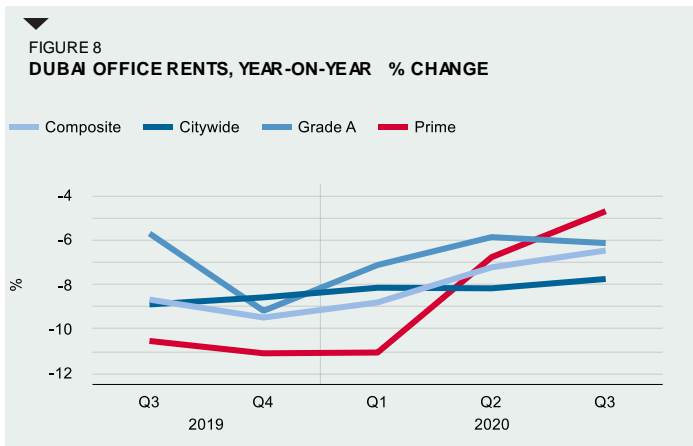
(AED/sq. ft./p.a.)	Prime	Grade A	Citywide
Q3 2020	205	130	100

As at Q3 2020 average Prime rents across Dubai were recorded at AED 205/sq.ft., average Grade A rents at AED 130/sq.ft. and average citywide rents at AED 100/sq.ft.



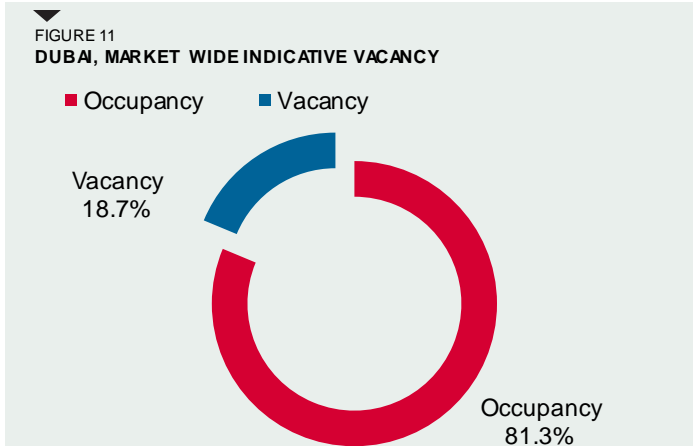
	2019	2020	2021	2022
Total stock (Million square metres)	10.28	10.53	10.61	10.66

As at Q3 2020 Dubai currently has stock of around 10.37 million square metres of commercial office space. By 2022 total supply of commercial office space is expected to be around 10.66 million square metres.

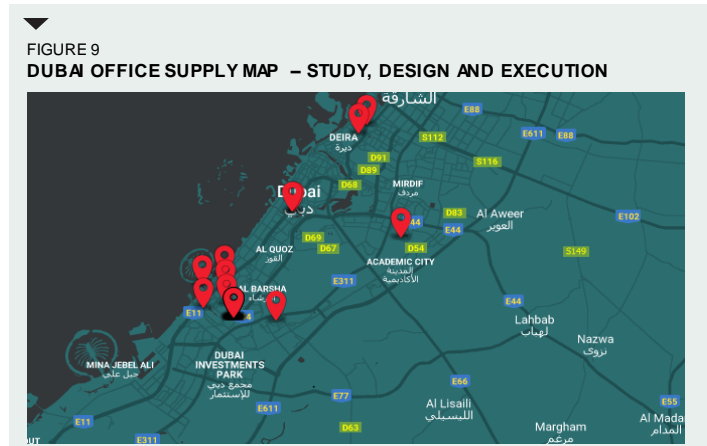


	Prime	Grade A	Citywide	Composite
Y-o-Y % Change	-4.7	-6.1	-7.7	-6.5

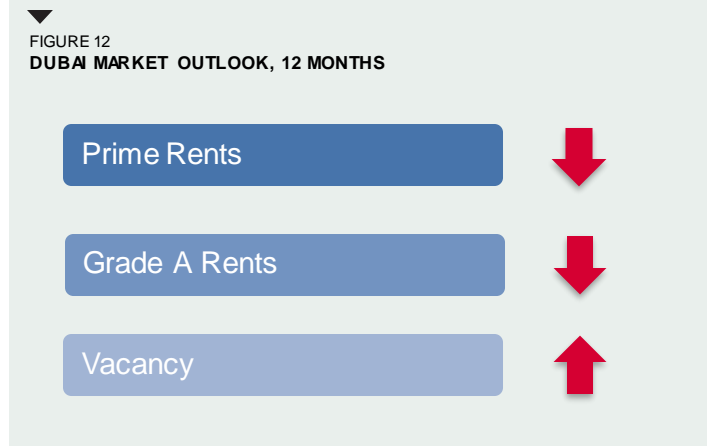
In the year to Q3 2020, average rents in Dubai fell by 6.5%. Prime office rents in Dubai fell 4.7% in the year to Q3 2020, whilst Grade A and Citywide rents fell by 6.1% and 7.7% respectively over the same period.



Market wide vacancy in Dubai's office market registered at 18.7% as at Q2 2020, down marginally from 18.8% in Q4 2019. Whilst currently, vacancy in most Prime projects remains relatively low, over the course of the year with the delivery of additional supply we are likely to witness the Prime vacancy increase. The Grade A vacancy rate is also expected to see a marked increase over the coming year as the vast majority of supply scheduled to be delivered in 2021 is of Grade A quality.



Currently there are estimated to be 25 active projects within Dubai, 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\$ 7,618m.



Looking ahead, the trends of consolidation of space and flight to quality are likely to continue. Occupiers are, where possible, looking to take advantage of weaker market conditions to upgrade occupational space whilst being mindful of increasing total spend. Finally, landlords are expected to remain flexible in order to retain and attract occupiers. Incentives to achieve this include but are not limited to flexible payment terms, CAPEX contributions and rent free periods.

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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 Dubai) 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 in 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.