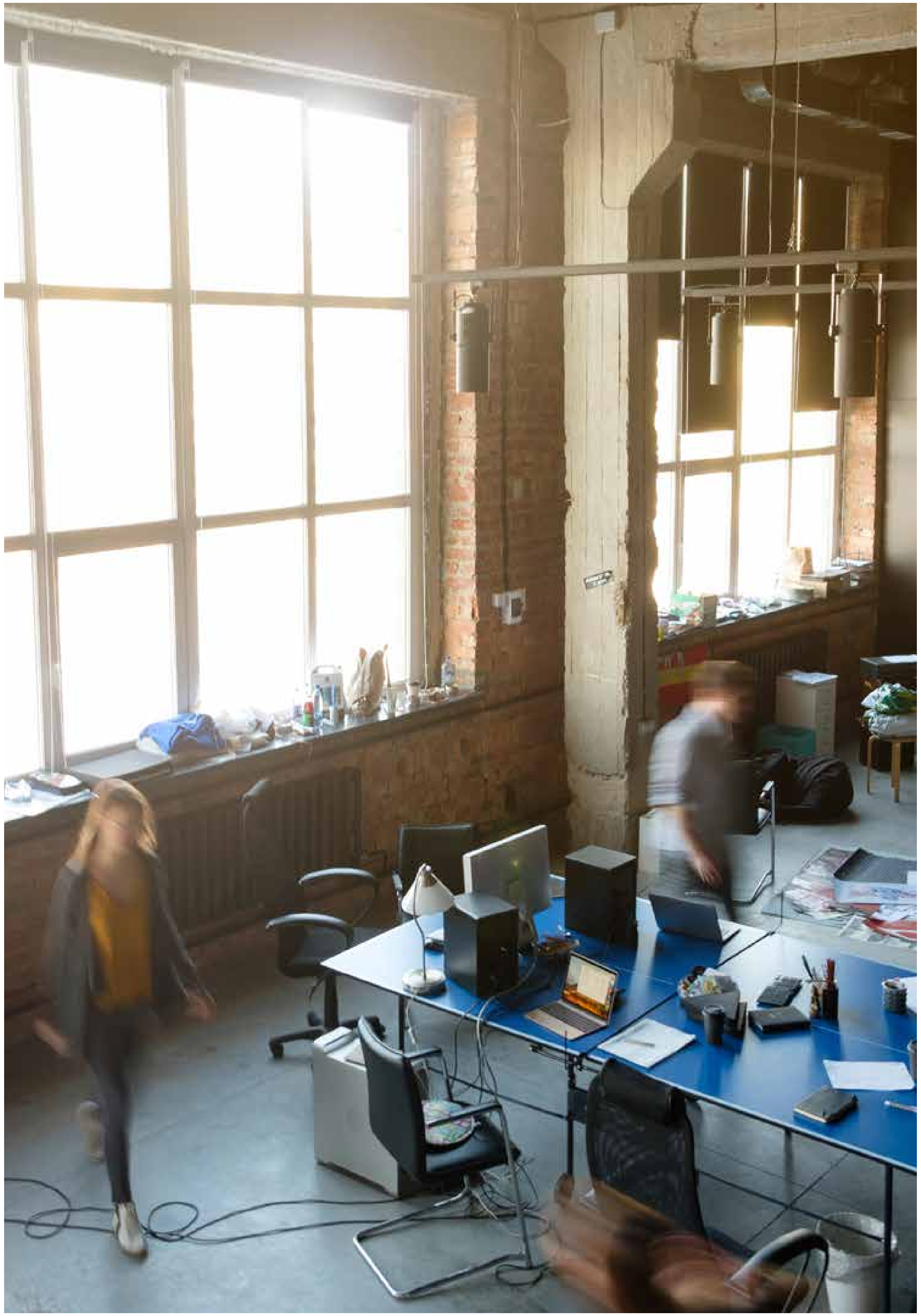
Research

EVOLVING TRENDS IN WORKPLACES

Flexible workspace in the UAE



THEMES SHAPING FUTURE OCCUPATIONAL DEMAND: GLOBAL OVERVIEW

Globally we are seeing a seismic shift in the way that global occupiers are using real estate as a core tool to achieve business objectives. The flexible working trend has been one of the main facilitators of this change. In the UAE, we are now seeing similar trends come to fruition. The supply and take up of flexible space is slowly filtering into the UAE, a market that is almost by design perfectly suited for this purpose.

For occupiers, real estate is now a strategic priority in their business and the workplace represents a further strategic lever available to business leaders in their pursuit of competitive advantage. Therefore, real estate decisions influence and reinforce an array of business priorities - from talent management, corporate and social responsibility, inclusion and diversity, to the transformation of corporate culture and brand or the restructuring of business models in light of rapid technological advances. Therefore, occupiers failing to put their space at the heart of their strategic agenda is, simply put, detrimental to their business.

As corporate occupiers continue to make real estate a core part of their strategic agenda, landlords in turn must now understand how demand is changing and rethink their own proposition to the market. With business planning horizons shortening and new working practices evolving, landlords will be required to provide greater levels of occupational flexibility. As a result, landlords will no longer only be able to provide just a physical container for workers, they must provide this space as a service. If landlords fail to do this, they are placing returns and asset performance at risk.

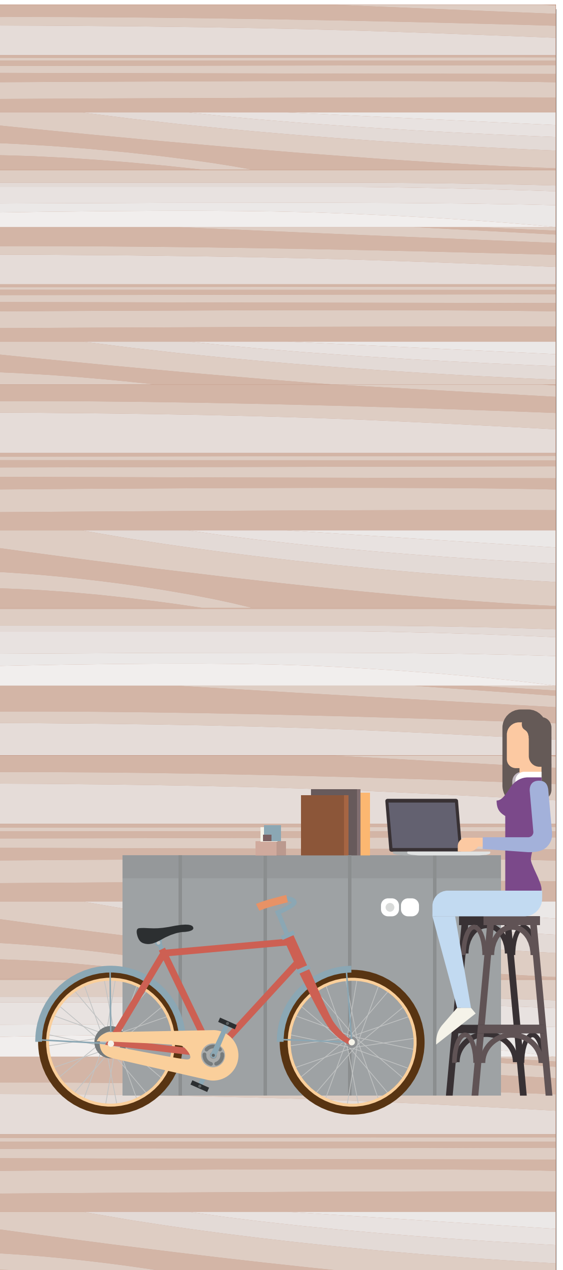
Knight Frank has identified five themes that will shape future occupational demand across global real estate markets. Individually, each of these themes will be highly influential. In combination, they represent nothing short of a new occupational orthodoxy.

In summary, these five trends will determine the future what, where, how and why of the global workplace. They will shape your space.

Knight Frank's (Y)our Space Report covers each of the five themes in depth, in this report we will focus on "space as a service" becoming the new norm and how this trend is developing in the UAE.

FIVE THEMES SHAPING (Y)OUR SPACE

The workplace is becoming a flexible business service that can actively support growth, rather than a fixed and often to the occupier a financially onerous physical product.



1

THE PRODUCTIVITY PUSH

Real estate is a strategic device for business. Attitudes towards real estate costs are changing, as focus shifts towards effective rather than cheap real estate solutions. Real estate has a critical role to play in the push for increased corporate productivity. Yet, this is not about increasing the density of occupation with the ultimate aim of savings at all costs. This approach has ultimately proven counter-productive. Instead, the aim is now to increase productivity by strengthening the interaction between people and property via the creation of, and investment in, a positive, serviced and well-supported workplace experience.

2

NEXT WAVE TECHNOLOGIES = NEW BUSINESS MODELS = NEW OCCUPATIONAL DEMAND

Next wave technologies such as Artificial Intelligence (AI), robotics and automation will create a period of rapid organisational and process re-engineering. This will change the future form, function and location of the workplace. It will reset the quantum and qualities of staff required by a business. It will bring about the closer interaction of humans and machines in support of greater corporate productivity. Critically, it will create new and different forms of occupational demand in global real estate markets.

3

CHANGING CORPORATE CONSTITUTIONS

The seemingly constant revision of business models derives from more frequent technological change. As organisations refocus on their core competencies or seek skills that sit outside of their traditional orbit, corporate supply chains are becoming broader and deeper. At the same time, corporate diversity initiatives and the rise of multi-generational workforces serve to alter the company demographic. These trends have multiple implications for the workplace. For example, they can, strengthen the need for more flexible, collaborative workspace that improves interaction between staff.

4

'SPACE AS A SERVICE' BECOMES THE DEFAULT

The workplace is becoming a flexible business service that can actively support growth, rather than a fixed and often (to the occupier) financially onerous physical product. This repositioning is alluring to the occupier and will become the demand default. Traditional landlords have little choice but to adapt to this new dynamic and adopt the approach taken by the flexible space 'upstarts'. They must extend their innovation beyond the design of the physical product and towards the provision of soft-services, community and well-being.

5

MOBILITY AND MERGER UNDERPIN OCCUPIER ACTIVITY

As we enter a boom period of M&A activity, and as the search for talent intensifies, occupier portfolios will incorporate markets and submarkets that were once terra incognita. There will be a conscious movement towards workspaces close to talent pools, but which also have the amenity, service and infrastructure to assist in the retention of that talent. We are in a new era of occupier mobility. It will not only bring greater complexity to the corporate real estate portfolio, it will also extend the pool of demand emerging within global real estate markets.

A NEW OCCUPATIONAL ORTHODOXY

Globally, in the hunt to solve the productivity puzzle, the attitudes towards real estate are changing; it is no longer a cost simply to be managed down. Instead, real estate is now a strategic device for business, the aim now is to increase productivity by strengthening the interaction between people and property via the creation of, and investment in, a positive, serviced and well-supported workplace experience.

The results from Knight Frank's Global Occupier Survey, back this point of view. These are the views of over 100 global corporate real estate leaders who we estimate have a combined workforce of over 3.5 million people and a combined real estate portfolio estimated to be over 230 million square feet, about the size of the Central London office market or over twice the size of Dubai's office market.

To underscore the point of real estate being more than a container for employees, 87% of those global corporate real estate leaders surveyed by Knight Frank identify real estate as a strategic device for their business. Real estate costs are an important aspect for businesses, however it concerns businesses other strategic elements much more than cost.

Less than 10% of our sample have cost saving targets in excess of 10% per annum. Half of the respondents have either no set cost reduction target or are actively increasing real estate costs to support the growth of their business. Real estate decisions are clearly not driven by an over-arching desire to reduce costs. This is shown in the survey where real estate is clearly used by corporates to support agenda items and cost reduction is only the third item which is best supported by real estate. In the UAE, the focus on cost savings is likely to be higher given the softer economic backdrop, the shifting market fundamentals such as the influx of supply and regulatory changes that the market is currently undergoing. Businesses are taking advantage of these softer conditions and using it as an opportunity to acquire better quality space which will help support them in the long-run.

Talent management (the attraction and retention of key staff) is at the top of the agenda. Property costs are almost four times less than the largest business cost area - staff.

The most graphic illustration of these relativities is that the cost of losing a member of staff to a business is up to ten times greater than the cost of accommodating them. Those who understand this dynamic, appreciate that the true cost of real estate is in its indirect effect upon the attraction and retention of staff. Due to the transient nature of the UAE, employers have long accepted higher turnover costs as standard cost of doing business in the UAE. However, we are seeing the UAE become less transient over time. Therefore, the role of real estate in supporting strategic agenda items such as talent management, amongst others, is only likely to gain in prominence.

While some control of real estate costs will remain a reality, failure to invest adequately in new technologies, capabilities or staff is not a viable option in such a changeable and competitive operating environment. As a result, property spend will increase to support some of these investment priorities.

Corporates will increasingly commit to life-long learning programmes for their staff, recognising the skills of today will not be appropriate for the business of tomorrow.

TOP FIVE STRATEGIC AGENDA ITEMS BEST SUPPORTED BY REAL ESTATE

Source: Knight Frank,Global Occupier Survey

WHAT ARE YOUR ANNUAL REAL ESTATE COST SAVING TARGET?

Source: Knight Frank,Global Occupier Survey

PRODUCTIVITY

In a push for greater levels of staff productivity, the continuing integration of next wave technology, particularly automation and artificial intelligence, we are seeing the constitution of corporations change.

The increased utilisation of technology will not necessarily mean a reduction in occupied space, in fact, over 57% of occupiers believe it will increase the amount of space occupied over the next three years, despite the expectations of lower headcount levels as a result of new technologies. The UAE and Dubai in particular with its Smart Dubai 2021 initiative, which aims to have Dubai recognised as the world's smartest city, is also likely to see headcount reductions, however on a positive note we expect the quality of occupied space demanded to begin to improve.

Due to these transformational pressures, the shape and focus of businesses is undergoing constant revision. As new sources of competitive advantage emerge, companies seek to mobilise and implement them quickly to get ahead of traditional competitors or enter into completely new markets. As organisations change shape, the quantum and qualities of real estate requirements also change. Amenity rich workspaces are now key to attracting and retaining talent and enhancing productivity. As technology develops and the multi-generational workforce gets more diverse, the amenities required will need to be able to change quickly.

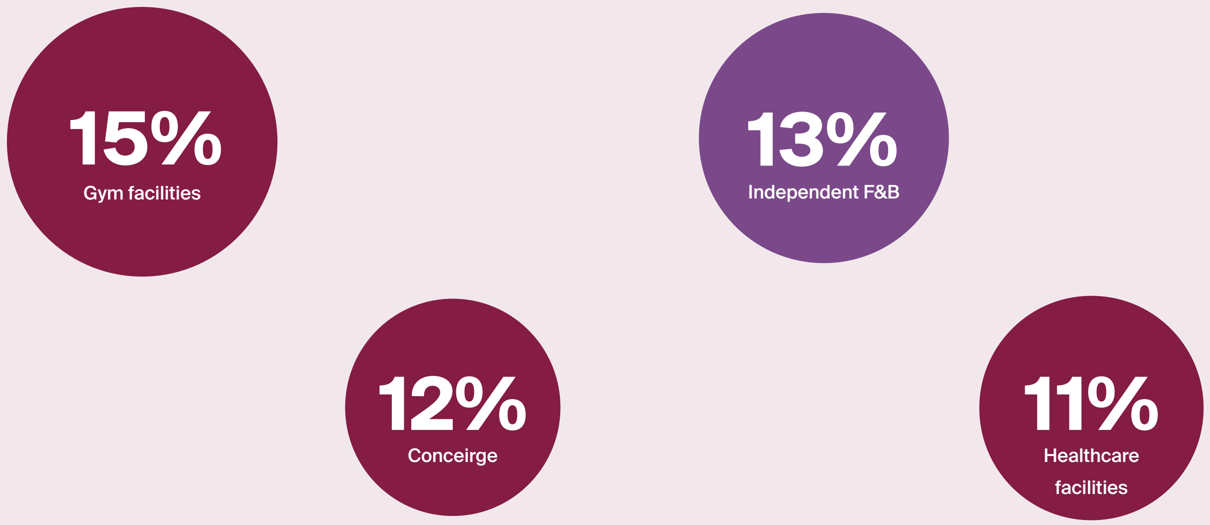
Currently, the vast majority of amenities required according to the occupiers we have surveyed are very much biased towards physical wellness. Looking ahead, given the accelerating pace of change we are witnessing in technology, education amenities which provide short-term, medium-term and life-long learning will be required. Corporates will seek to nurture and develop their own talent. They will increasingly commit to life-long learning programmes for their staff, recognising the skills of today will not be appropriate for the business of tomorrow. More so, with a multi-generation workforce, that will also be a greater requirement for healthcare facilities supporting both physical and mental well-being and facilities such as prayer rooms in the UAE.

At the same time, corporate diversity initiatives and the rise of multi-generational workforces serve to alter the company demographic. These trends have multiple implications for the workplace. For example, they can, strengthen the need for more flexible, collaborative workspace that improves interaction between staff.

FIVE NEW AMENITY TYPES THAT WILL BE KEY TO GLOBAL OCCUPIERS

Source: Knight Frank,Global Occupier Survey

TOP FOUR EXISTING NEEDS FOR GLOBAL OCCUPIERS



Source: Knight Frank,Global Occupier Survey

SPACE AS A SERVICE

As a result of these developments, across a range of industries the needs of customers are both varied and changeable. Commercial real estate is not immune to these changes, consequently, the emergence of the space-as-a-service model is rapidly becoming the new reality, as best exemplified by the recent explosion in flexible working spaces.

Although, serviced and flexible office space has featured in global office markets since the early 1990's, 2017 was the year in which space-as-a-service really started to capture both headlines and attention within global property. Recent estimates suggest that there are now almost 18,000 flexible working spaces around the world, accommodating almost 1.7 million workers – representing growth of 3,500% and 8,000%, respectively, since the start of this decade. Indeed, the growth has been so startling that leases to flexible working operators have become the mainstay of many global leasing markets. As if to underline the point, perhaps the most widely known flexible working operator, WeWork, has become, within just eight years of its formation, the largest private occupier of office space in both London and Manhattan. Despite this astonishing growth, flexible working space still represents less than 10% of office stock in all major global markets. More so, even with the well-publicised challenges that WeWork has faced over recent months, the underlying trend of 'space as a service' is clearly becoming the default demand by occupiers. The focus in this space should not necessarily be the operator, but the concept of space as a service itself.

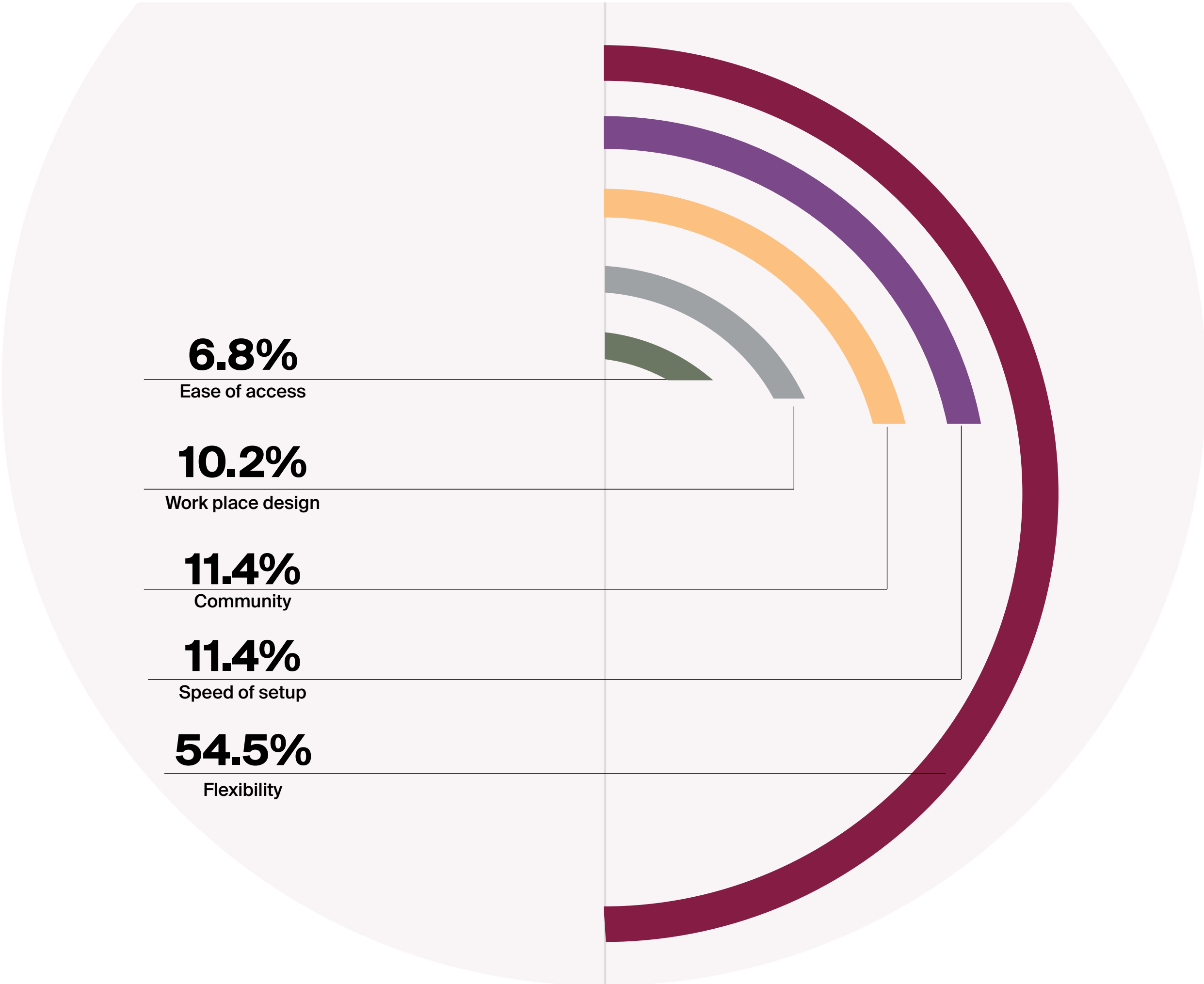
As the workplace becomes a more flexible business service, it will actively support growth and match business cycles, rather than being a fixed and often, to occupiers, a financially onerous physical product. Two-thirds of those we have surveyed indicate that we will see between 5% to 50% of their global portfolio being provided on a flexible basis going forward, up from a third currently. The flexibility element of flexible space is the key driver with almost 55% of those surveyed choosing this as the key driver towards the practice. However, these drivers are not mutually exclusive, the sense of community, the speed of set-up, the workplace design and ease of access elements of working are also important factors to this flight to flexibility.

Traditional landlords have little choice but to adapt to this new dynamic and adopt the approach taken by the flexible working 'upstarts'. They must extend their innovation beyond the design of the physical product and towards the provision of soft-services, community and well-being.

More so, co-working as a term is likely to be redundant, it will be more difficult to distinguish between conventional and co-working spaces, landlords will have flexible pricing based on the level of flexibility that an occupier wants and provide that from top to bottom across their portfolio.

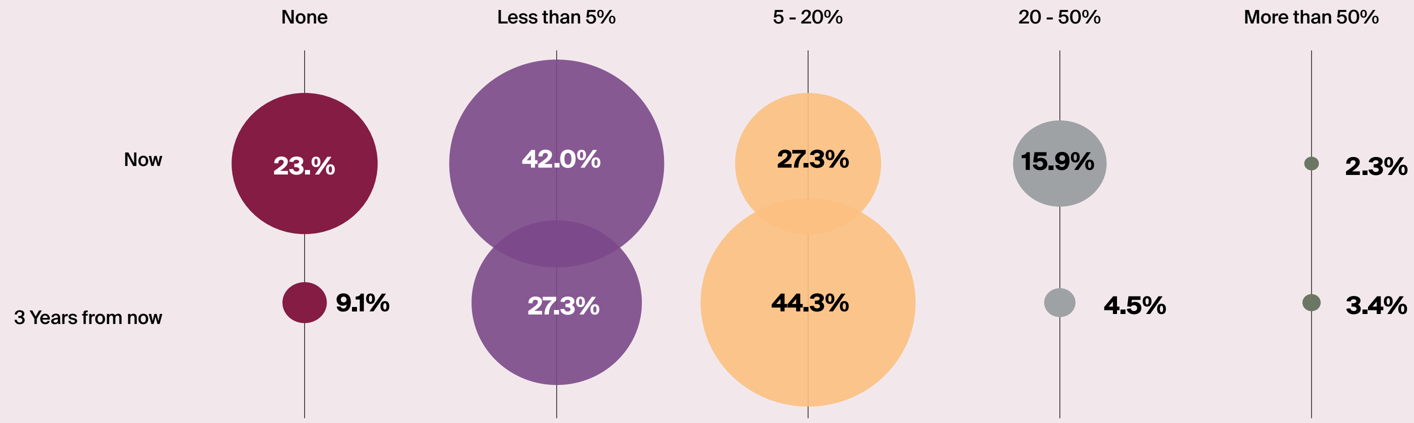
Recent estimates suggest that there are now almost 18,000 flexible working spaces around the world, accommodating almost 1.7 million workers

THE APPEAL OF CO-WORKING



Source: Knight Frank,Global Occupier Survey

WHAT PROPORTION OF YOUR PORTFOLIO IS SERVICED/FLEXIBLE/CO-WORKING NOW AND THREE YEARS FROM NOW?



Source: Knight Frank,Global Occupier Survey

THE CHANGING NATURE OF OCCUPATIONAL DEMAND IN THE UAE

A total of 13 sectors, comprising of 122 economic activities, were approved for 100% foreign ownership. Although, it is important to note that local governments will have the ability to determine the cap on the percentage of foreign ownership for these activities.

Fundamental difference exist in the UAE's institutional occupier market in comparison to other leading financial centres. The onshore (Non-Free Zone) and offshore (Free Zone) structure has meant that firms historically have had limited occupational options. Traditionally, for many global firms the entry point to the market has been through the various Free Zones, which have been set up across the UAE. These Free Zones have allowed firms to keep 100% ownership alongside other benefits such as tax advantages and exemptions from customs and excise duties. However, there are some limitations of operating purely in a Free Zone namely that offshore firms are limited to operate only within the Free Zone boundaries - that is they are not able to trade with mainland UAE firms or bid for government contracts. The alternative is to set up an onshore business, however this may require an Emirati partner to hold majority ownership within this business, something which most global firms are still not comfortable with. In an effort to increase the ease of doing business and improve the competitiveness of the UAE, in mid-2019 the UAE cabinet announced a list of list of eligible sectors and activities; which are permitted for 100% foreign ownership within the UAE. This followed the initial legislation announcement in late May 2018 and the publication in the Official Gazette in late 2018 of the list of sectors not eligible for 100% foreign ownership.

To further increase competitiveness and remove barriers, in 2018 we have also seen the introduction of dual licencing in Free Zones, which allows offshore firms to operate onshore whilst only having real estate provisions in a Free Zone.

UAE 100 % FOREIGN OWNERSHIP

Non-exhaustive list of eligible and ineligible sectors

LEGIBLE ACTIVITIES/ SECTORS	ILLEGIBLE ACTIVITIES/ SECTORS
Administrative Services	Banking and Finance Activities
Agriculture	Blood Banks, Quarantines and Venom/ Poison Banks
Art	Commercial Agency
Construction	Fishing and related services
Educational Activities	Insurance Activities
Healthcare	Investigation
Entertainment	Medical Retail
Hospital and Food Services	Military
Information and Communications	Oil Exploration and Production
Manufacturing Industry	Other Audio Visual Services
Renewable Energy	Pilgrimage and Umrah Services
Scientific Activities	Postal Services
Space	Printing and Publishing
Support Services	Road and Air Transport
Technical Activities	Security
Transport and Storage	Telecommunications
	Water and Electricity Provisions

Source: Knight Frank Research

In a market where consolidation has been evident over the last two years, these regulatory changes will further drive consolidation in the UAE's occupier market as firms look to further optimise their real estate portfolios.

Whilst in the short run there are negatives for landlords due to these regulatory changes in terms of total space occupied, in the long run these changes will attract new occupiers and provide a better regulatory platform for existing occupiers to expand from. At the same time, it is important to note that occupiers are not willing to relocate to secondary locations in order to reduce costs, despite economic pressures in the UAE; most decisions are not led by cost reduction.

These regulatory changes will be the catalyst for a fundamental change in the UAE's occupier market.

In fact, we are seeing flight to quality, with occupiers using weaker market conditions as an opportunity to increase the quality and productivity of their real estate portfolio and in-turn corporate productivity. Rather than occupying multiple onshore and offshore sites, firms will now consolidate into one location, thus strengthening interactions. The realisation of a higher quality of occupied space across the board will be slow to come to fruition, due to the structural nature of leases.

GROWING UP

As GCC economies relax regulations and pivot to becoming more open economies, there will be implications for the UAE's economy and occupier sector. Whilst, there will be some challenges due to anticipated consolidation, we expect that space as a service will play a crucial role in the occupier sector.

The UAE has long been used as a regional hub, given its stable business environment, connectivity and the availability of common law jurisdictions, all encompassed within in a luxurious lifestyle destination. As a result, multinationals have historically set up branch offices in the UAE to service clients in then the booming UAE market or more recently in order to service regional economies as a whole. The UAE's fundamentals have allowed these firms to service the region yet still attract the right calibre of international staff due to UAE's allure.

However, as regional economies continue to open up, and due to their growth potential in comparison to the UAE, these multinationals are now pivoting and redirecting resources to focus on these growth markets. Despite this, as the UAE, and Dubai in particular, remains the regional destination of choice, employees may be spending an increasing proportion of their time in the region's emerging markets but will continue to use the UAE as their hub for the foreseeable future.

Consequently, there remains a space requirement for these individuals particularly as visa issuance for employees is dependent on a set office space allocation. However, there is less of a requirement for fixed space for these individuals. Firms will now not require the same quantum or real estate in the UAE, particularly as visa issuance in certain jurisdictions for flexible space allow up to three visas to be issued compared to the one for the same quantum of non-flexible space. However, it is important to note that firms

It is clear that there is a structural change occurring within commercial real estate and to some extent, this has been happening for some time in the UAE.

will require this space to be of a high quality, which embraces technology to drive greater levels of productivity for this ever more mobile workforce.

More so, as the UAE has established itself as a beacon of tolerance, with over 200 nationalities living and working together in the country, the requirement of workspaces, which are more inclusive by design, will be crucial.

One aspect of the workforce, which is set to get more diverse in the UAE, is the demographic makeup. In 2018, 51.5% of the population in the UAE are below the age of 35, 36.1% are between 35 and 54 years old and only 5.6% are above 55 years old. By 2028, this is set to change to 46.6%, 12.7% and 32.0% respectively. These multi-generational work forces will require a range of new amenity types, the inclusion of these will be a key requirement for occupiers. In the UAE, we are already seeing two main types of amenities entering these core office markets.
The first is education and research and development spaces such as Heriot-Watt University Dubai's decision to move to Knowledge village, adjacent to Dubai Internet and Dubai Media City joining existing Universities in this business community such as the University of Wollongong Dubai. Other prominent examples include a FinTech sandbox in Abu Dhabi's Global Market and a FinTech accelerator in the Dubai International Financial Centre.

The second is the inclusion of healthcare for this more diverse and multi-generational workforce. In Dubai, we have already such provisions develop with the introduction of Dubai Healthcare City (DHCC). The Free Zone – which once fully complete will occupy 28 million square feet - is home to leading healthcare and medical education brands alongside a portfolio of over 100 global multinationals from a range of sectors.

It is then clear that there is a structural change occurring within commercial real estate and to some extent, this has been happening for some time in the UAE. Recent regulatory and regional economic developments may now fast-track the development of the flexible working theme noted in Knight Frank's (Y)our space report in the UAE. Furthermore, the easing of foreign business ownership across the UAE, introduction of freehold ownership for foreign buyers in Abu Dhabi, easing of visa regulations and the implementation of freelance visas in Dubai, alongside more regional economic activity which will drive the flexible working sector.

FLEXIBLE WORKING SPACE IN THE UAE

Knight Frank estimates that currently there are 38 institutional flexible working locations in the UAE.

Proportion of institutional flexible working space by Emirate

69%	22%	6%	3%
Dubai	Abu Dhabi	Sharjah	Ajman

The quantum of flexible working space has grown rapidly and looking ahead, we expect this trend to continue, particularly as larger more specialised flexible working operators such as WeWork begin operation in the UAE in Q1 2020. The introduction in the local market of institutional operators such as WeWork is likely to drive demand from corporate occupiers for flexible space, particularly those who may be looking to reduce costs but not quality or those reluctant to undertake the capital expenditures.

However, given the success of existing operators in attracting members in the UAE, it is surprising that we have seen very little activity from many international occupiers in this space. Particularly given that, a material portion of business activity in the UAE is driven by one off project related activities which require flexible space in a range of locations. This lack of take up from international occupiers may be explained by the lack of readily available space and space which is of a suitable size for international occupiers.

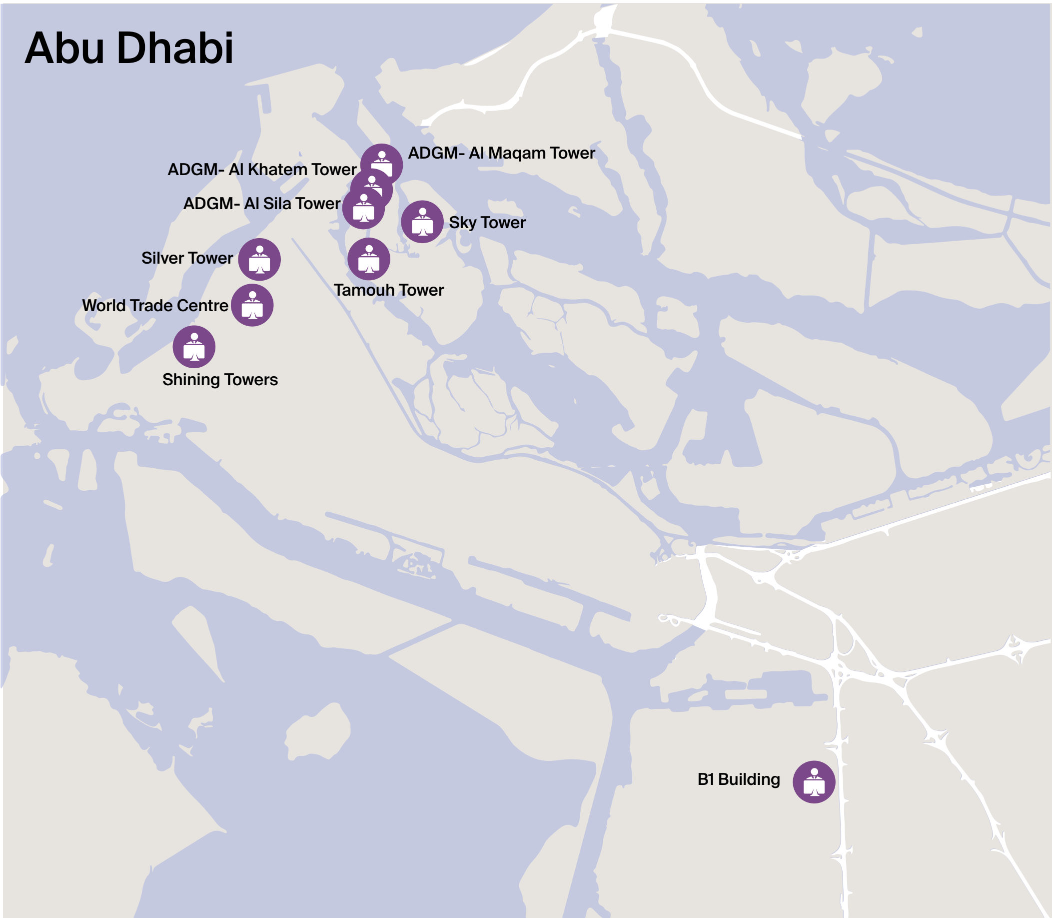
This gap will be addressed by the introduction and expansion of global flexible space operators such as Servcorp, Regus and WeWork. For example, in their first two sites in the UAE, WeWork are expect to introduce 60,000 square feet of flexible space in both Abu Dhabi and Dubai.

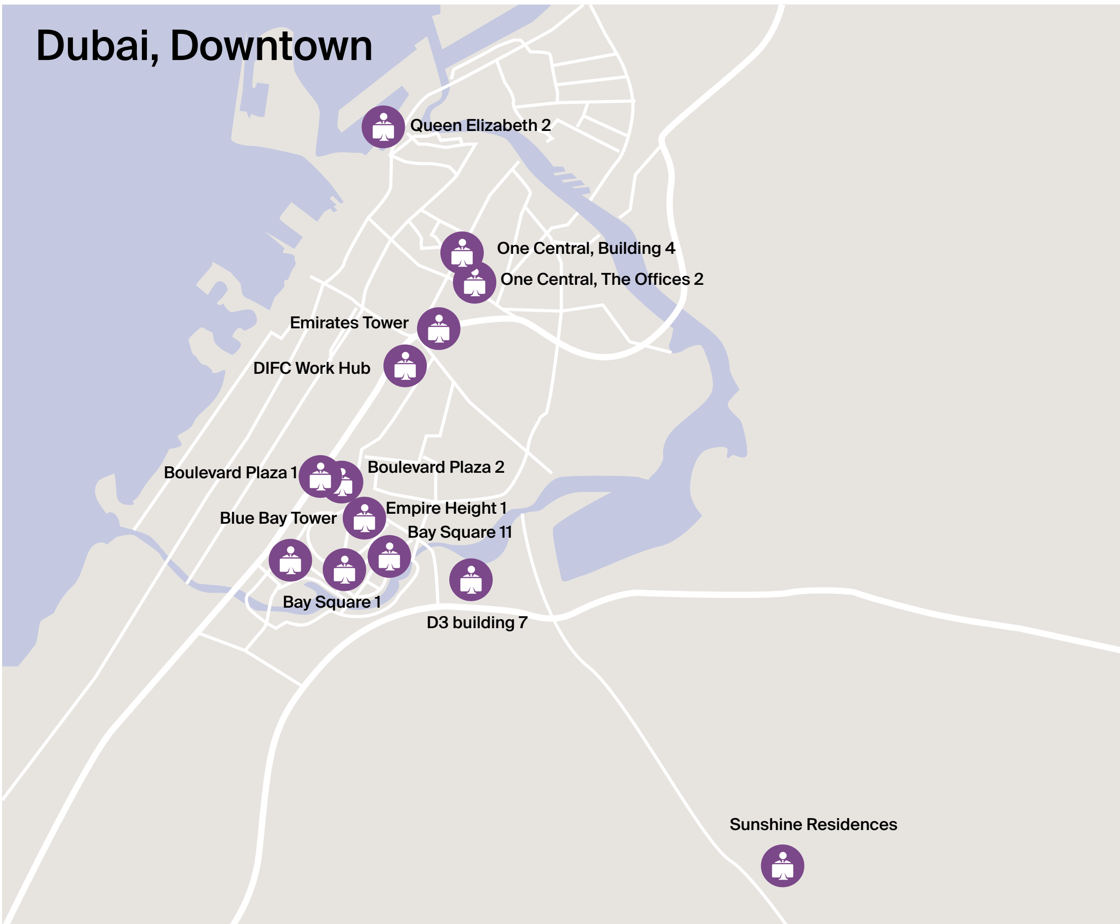
Furthermore, it is also surprising that institutional developers and landlords have been lax in developing flexible space as part of their own portfolios. Currently in the UAE, operators provide 92% of institutional flexible sites, only 8% are provided by developers or landlords directly. Given the rapid expansion we are witnessing in the UAE's flexible office market, there is clearly a level of demand which is currently being fulfilled by institutional operators, at a mark-up.

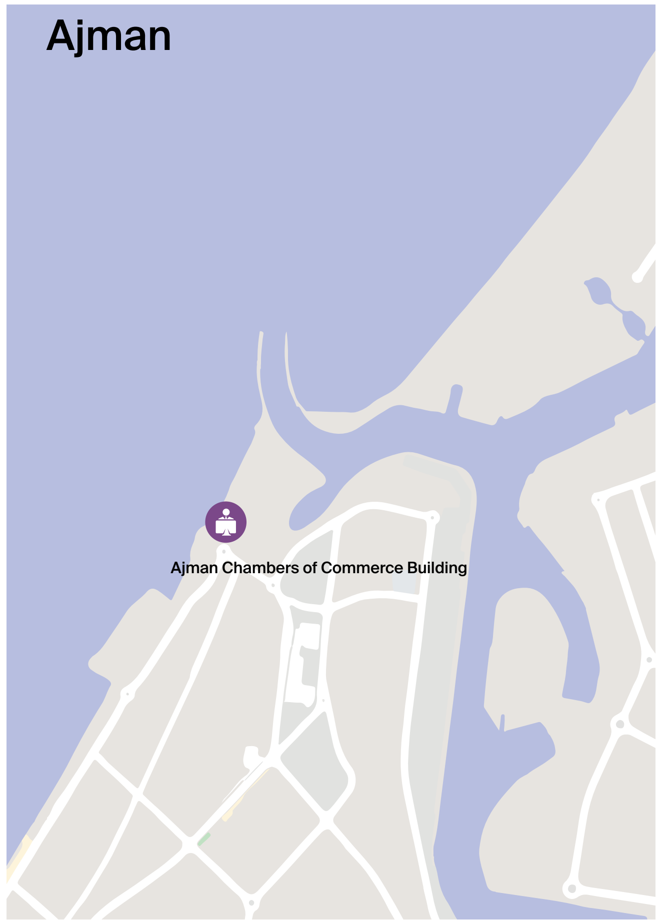
Given that the majority of space, which institutional developers and landlords manage, is in Prime and Grade A locations. These parties can actively support occupiers when they are looking to scale up and down, rather than not providing flexible space and in effect encouraging them to seek alternative solutions.

More so, for these occupiers utilising flexible space, this decision may help them better scale, at a quicker pace, to ride-out the more volatile economic cycles which will in-turn support long-term economic growth. By allowing occupiers to manage costs such as real estate on a reactive basis, rather than be hesitant in upsizing for the fear that in the event that the economic backdrop worsens, landlords may in fact be more effectively managing their assets.

INSTITUTIONAL FLEXIBLE WORKING SPACE IN THE UAE







Source: Knight Frank Research

Note: This map is a representation of best in class institutional flexible / co-working space only.

OUTLOOK

Looking ahead, we expect the provision of flexible working space, from both developers, landlords and operators to continue to increase in the UAE.

Growth will be underpinned by the easing of visa restrictions, which allows easier and lower cost company formation for start-ups. More so, we expect greater demand for flexible space as the regional economies open-up, which will only further entrench project led business practice and thus corporates' desire for more flexible space across the region.

Furthermore, we do not envisage the role of operators to diminish in providing flexible space, in fact on a regional basis with many firms operating across borders and investment zones, these operators will play a very important role in the provision of flexible space across GCC countries. However, in the UAE we expect that developers and landlords will start to include flexible space as a core offering, particularly given that many are developers, landlords and Free Zone operators, therefore for licencing purposes the synergies on offer will ensure this part is best placed to provide such a service.

For occupiers and landlords we expect that the four trends will be key in increasing demand and supply respectively for flexible space going forward.

1

THE PRODUCTIVITY PUSH

There is a concentrated push towards increasing productivity in the UAE. Flexible working space will be a core tool to achieve this. The use of flexible space is not increasing occupational density but by strengthening the interaction between people and property.

2

TALENT MANAGEMENT (ATTRACTION AND RETENTION)

Due to the transient nature of the UAE, employers have long accepted higher turnover costs as standard cost of doing business in the UAE. However, we are seeing the UAE become less transient over time. Therefore, the role of real estate in supporting strategic agenda items such as talent management, amongst others, is only likely to gain in prominence.

3

CHANGES IN REGULATIONS = FUNDAMENTAL CHANGES IN DEMAND IN THE UAE'S OCCUPIER SECTOR

Regulatory changes will drive further consolidation in the UAE's occupier market as firms look to further optimise their real estate portfolios. Whilst in the short run there are negatives for landlords due to these regulatory changes in terms of total space occupied, in the long run these changes will attract new occupiers and provide a better regulatory platform for existing occupiers to expand from. At the same time, it is important to note that occupiers are not willing to relocate to secondary locations in order to reduce costs, despite economic pressures in the UAE; most decisions are not led by cost reduction.

4

FLEXIBLE SPACE AND THE GCC'S ECONOMIC CYCLES

Occupiers utilising flexible space, this decision may help them better scale up, at a quicker pace, to ride-out the more volatile economic cycles, which will in-turn support long-term economic growth. By allowing occupiers to manage costs such as real estate on a proactive and reactive basis, rather than be hesitant in upsizing for the fear that in the event that the economic backdrop worsens, landlords may in fact be more effectively managing their assets.

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