

A biannual review of the industrial markets in Dubai and Abu Dhabi

Dubai and Abu Dhabi Industrial Markets Review

2022/2023



DUBAI RENTAL RATES ON THE RISE

On average, warehouse lease rates continue to escalate across Dubai, specifically Grade A rents in Al Quoz experiencing the sharpest increase both on a quarterly and annual basis. Al Quoz (Grade A) warehouse rents experienced a 19.6% increase between Q3 2022 and Q4 2022, pushing rents to AED 55 psf.

The latest gain marks the seventh consecutive annual increase in average lease rates and makes Al Quoz (Grade A) the most expensive location to lease a warehouse in Dubai.

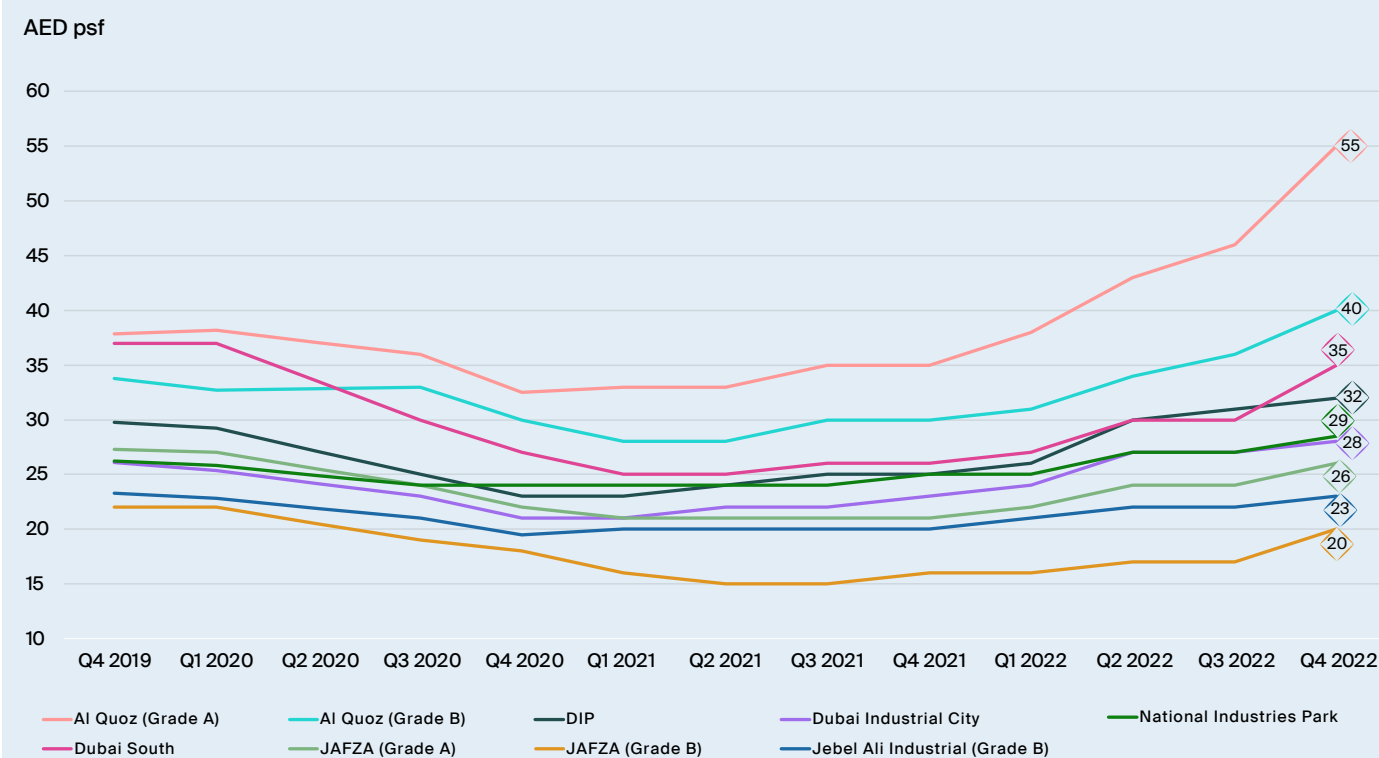
All the nine industrial submarkets we track in Dubai have experienced rental increases in 2022. Al Quoz (Grade B) (33%) followed by Dubai South (35%), DIP (28%), JAFZA (Grade B) (25%), JAFZA (Grade A) (24%), DIC (22%), Dubai South (15%), and finally NIP (14%).

Remarkably, rates in Al Quoz (Grade A) are now 44.2% above pre-pandemic levels, echoing a similar trend across other submarkets. Lease rates on built up area in Dubai Investment Park are AED 32 psf where in Dubai Industrial City lease rates are AED 28 psf, in Jebel Ali Industrial (Grade B) (AED 23 psf), and National Industrial Park (AED 29 psf) have all exceeded pre-covid lease rates.

The picture in Abu Dhabi is more stable, with rents in the six main markets we monitor remain fairly unchanged during 2022. Rates in Abu Dhabi Airport Free Zone (AED 550 psm) are still the most expensive in the city. Even though ADAFZ leased more space in 2022 then it did in 2021, rents remain stable, primarily because vacancy levels remain stubbornly high.

Other industrial areas in Abu Dhabi such as KEZAD did not experience any changes in rents as demand remains steady.

PERFORMANCE OF INDUSTRIAL RENTS IN DUBAI



“ Lease rates in Al Quoz (Grade A) are now 44.2% above pre-pandemic levels, echoing a similar trend across other submarkets. ”

PERFORMANCE OF INDUSTRIAL RENTS IN ABU DHABI - 2022

AED psm



DEMAND FOR INDUSTRIAL AND LOGISTICS ON THE RISE

The industrial market in Dubai is a thriving sector that plays a key role in the emirate's economy, accounting for c. 60% of GDP. In Dubai, the average warehouse lease rates have shown a remarkable improvement in the last 12 months. This can largely be attributed to the government's decisive response to the pandemic, which has underpinned business confidence. This positivity has in turn fuelled an increase in the number of new industrial market entrants. Furthermore, much of the demand we have seen in the market has been driven by new entrants from areas such as Eastern Europe and Asia.

Looking more closely at the structure of demand shows that Dubai recorded an increase in space requirements in the final three months of 2022 to almost 9.5 million sq ft, taking the total for the year to 12.2 million sq ft. This being 17.7% increase in requirements from 2021 over the same period.

Excluding confidential requirements, the biggest contributor to the surging level of demand was the manufacturing sector (36%), followed by the logistics sector (16%) and the business services sector (14%).

In Abu Dhabi too, of the 178,000 sq m of requirements in 2022, just under 50% was linked to demand from the manufacturing sector.

The industrial sector is rapidly emerging as a core pillar in Abu Dhabi's economic diversification strategy and the last 18-24 months has seen a raft of new occupiers establishing large-scale facilities at KEZAD, while existing occupiers are expanding their footprint.

Various authorities' initiatives, such as Smart Manufacturing Index, help the industrial occupiers close their operational and efficiency gaps in addition to placing Abu Dhabi as a key industrial and manufacturing hub in the region.

FACTORS CONTRIBUTING TO SURGE IN DEMAND

UAE's strategic location, world-class infrastructure, and pro-business policies have made it a popular destination for industrial and manufacturing companies. We have identified the two factors below that contribute to the increased demand in the industrial and logistics sector.

ECONOMIC STIMULUS

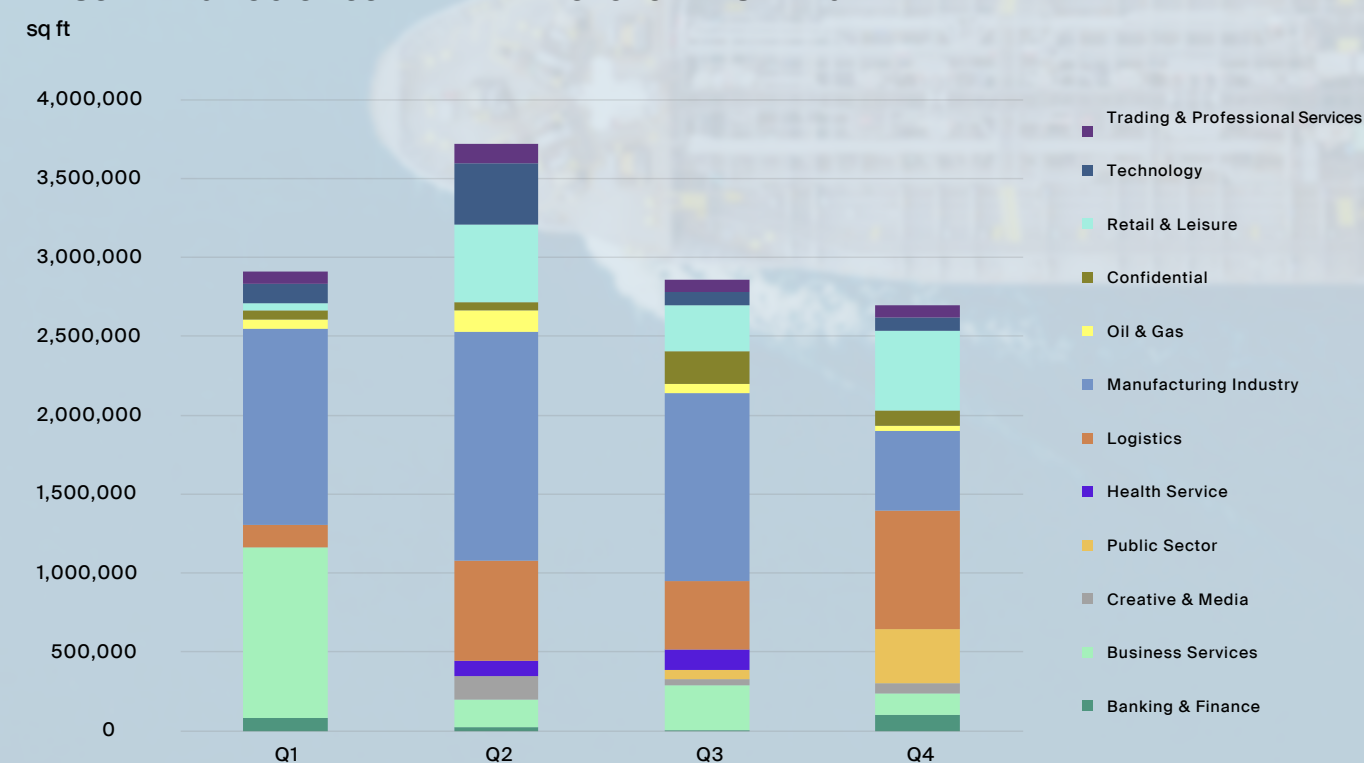
Business confidence, activity, and demand have increased because of changes to ownership laws announced amid several economic stimulus measures since the pandemic began, including new visas designed to attract and retain talent.

100% foreign ownership law continue to make it possible for international businesses to own and operate in over 1,000 sectors outside of the city's well-established free zones without an Emirati partner. This has begun to attract international manufacturers not previously present in Dubai.

E-COMMERCE

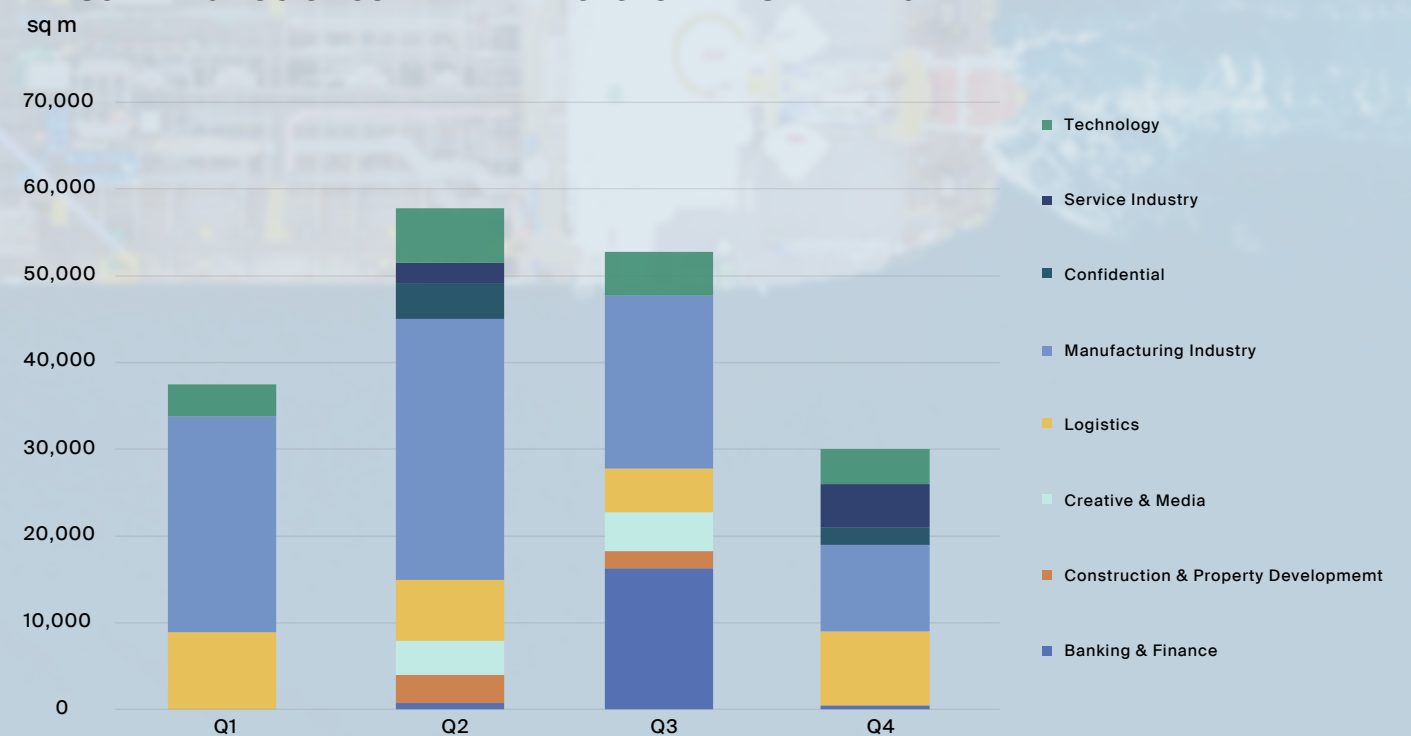
Increased online shopping has also put upward pressure on warehouse rents in Dubai, with demand for well-located, internationally specified warehouses experiencing sharp rental uplifts amid a dearth of high-quality stock in the emirate.

INDUSTRIAL & LOGISTICS DEMAND BY SECTOR - DUBAI 2022



Source: Knight Frank

INDUSTRIAL & LOGISTICS DEMAND BY SECTOR - ABU DHABI 2022



Source: Knight Frank

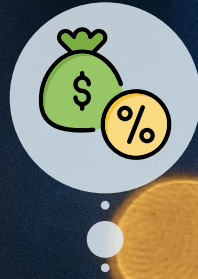
THE ELEPHANT IN THE ROOM

INTEREST RATES

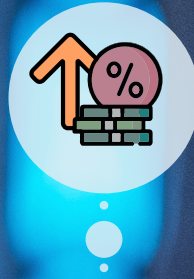
The risk-free rate is a key determining factor of real estate yields. Any changes in the US Federal Reserve interest rates would eventually be matched by a similar change of the UAE Central Bank interest rates. This has a significant impact on real estate yields, given that the USD is pegged to the UAE currency.

The increase in interest rates directly affects the cost of borrowing and in return impacts the demand and supply dynamics of real estate.

“Despite capital values and rents increasing in the industrial and logistics sector, it remains unclear what the effect of increasing interest rates will be.”



The majority of sale and purchase activities that took place in the last 12 months involved limited mortgage transactions. Increased interest rates have played a role in this trend which we foresee to continue.

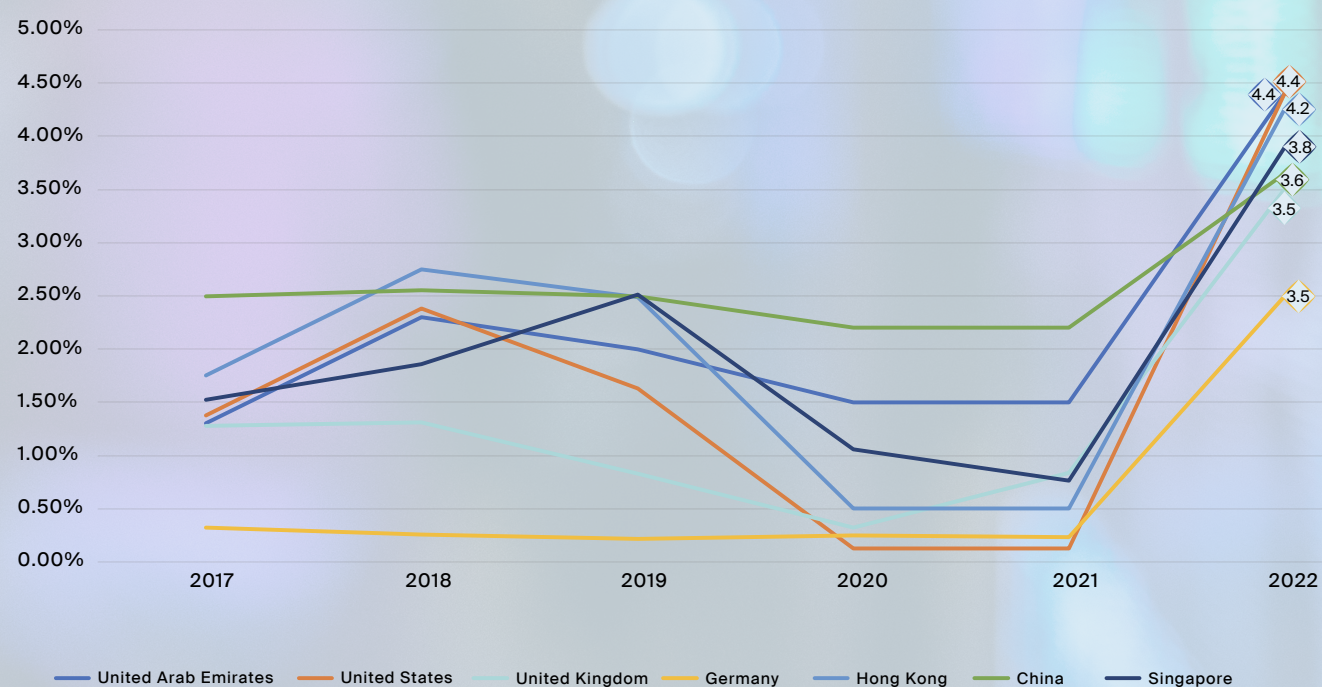


In the past 4-6 months, Knight Frank has been approached by a number of property owners seeking to dispose their mortgaged properties. This may have been caused by the recent surge in interest rates, which have increased the cost of servicing mortgage debt.



Investment committees/investors are reluctant to decide upon major investments involving debt and waiting to see whether the interest rate will continue rising or stabilise in 2023.

GLOBAL ECONOMIES - CENTRAL BANK INTEREST RATES



Source: IMF & various sources

THEMES FOR THOUGHT

1 SURGING DEMAND IN GRADE B INDUSTRIAL LOGISTICS FACILITIES

The severe shortage of Grade A warehouse spaces in Dubai is driving occupiers to settle for warehouses that do not meet all their requirements. In time, this will undoubtedly result in an increase in operational costs and inefficiencies, but with no meaningful supply on the horizon, this scenario may well become a reality for many businesses.

As demand increases in Grade B assets, we are now seeing capital values and rental rates increase in secondary grade properties, a property type which has been steadily declining for the past five years.

For better understanding of what Grade A and Grade B assets represent, we have prepared an industrial and logistics grading system presented on pages 14 and 15.

2 OCCUPIER VS. INVESTOR

Most leases in the industrial and logistics sector are relatively short (one to three years) in comparison to other commercial real estate asset classes. As a result, such assets typically do not match most institutional investors' requirements, who seek a minimum unbreakable lease term of five years.

There are however signs to suggest a shift in lease lengths. The shortage of space means many local and international occupiers are happy to sign longer leases with no breaks, sometimes offset by additional incentives such as rent-free periods. However, these leases are often accompanied by corporate/bank guarantees.

While the market continues to evolve, sale and leasebacks are a potential option for investors looking for longer lease terms, but rents will need to be inflation adjusted in lease contracts to make such deals viable and attractive to international institutional investors.

3 REPURPOSING OF WAREHOUSES IN AL QUOZ CONTINUES

It is common for the use of industrial properties to change over time. This is due to factors such as, a shift in the economic makeup of a city/country, changes in consumer demand, and changing occupier requirements, among other reasons.

A property that was once used for manufacturing purposes may be converted into a storage or logistics facility depending on its location. A notable example would be a recent lease transaction that our industrial logistics team assisted with where, a former manufacturing facility located in Al Quoz 4 was refurbished and converted into a 'state of the art' paddle tennis and fitness centre.








We have witnessed many examples of property conversions in Al Quoz over the past 10-years. This has propelled rents for converted warehouses in the area to as much as AED 60-70 psf rather than AED 25-30 psf which would be achieved if leasing it for storage purposes.

“As demand increases in Grade B assets, we are now seeing capital values and rental rates increase in secondary grade properties, a property type which has been steadily declining for the past five years.”

SPOTLIGHT ON KEZAD


KIZAD CHANGES TO KEZAD


During the third quarter of 2022, the change follows the integration of Khalifa Industrial Zone Abu Dhabi (KIZAD) and Specialised Economic Zones (ZonesCorp) into the newly formed KEZAD Group (Khalifa Economic Zones Abu Dhabi Group)

-  12 economic zones
-  Total area of 550 sq km
-  100 sq km designated as Free Zones
-  More than 300,000 sq m of prebuilt warehouse facilities
-  More than 40 staff accommodation complexes
-  Capacity 450,000 beds
-  Makes up 55% of the UAE's industrial area

Source: AD Ports Group

UAE DAIRY MAJOR DEAL TO SET UP USD177 m PRODUCTION FACILITY


 Al Rawabi has signed a lease agreement to establish a production facility in KEZAD.


 Al Rawabi will initially develop 2 sq km in KEZAD with an additional 3 sq km slated for the future.

Source: Arabian Business

ONE OF THE REGION'S LARGEST WHOLESALE FOOD TRADING AT KEZAD


ADP has partnered with Ghassan Aboud Group to establish one of the region's largest multi-category wholesale food trading and logistics hub in KEZAD in collaboration with Rungis.


 Will facilitate trade across proteins, seafood, pulses and rice, fruits, vegetables, dairy products, dry foods and fresh flowers.


 Land area of 3.3 sq km.

Source: PE News

ABU DHABI'S FIRST ELECTRIC VEHICLES ASSEMBLY FACILITY


 NWTN plans to initially operate a 25,000 sq m manufacturing, research and development, vehicle testing, and logistics facility constructed by KEZAD.


 Annual capacity of 5,000-10,000 units of Electric Vehicles.


 In phase two, expanding capacity to 50,000 units annually.

Source: Abu Dhabi Media Office

NOON.COM & ADIO PARTNER ON UAE'S LARGEST E-COMMERCE FULFILMENT CENTRE


 Will add more than 6,000 jobs.


 Bringing total support for ICT sector to AED 2 bn.

 252,000 sq m mega facility (equivalent to 35 football pitches).

Source: Abu Dhabi Media Office

ABU DHABI AIMS TO REVOLUTIONIZE STEEL INDUSTRY

 ADP has signed an agreement with Metal Park Investment Middle East to establish an integrated metal hub in KEZAD.


 The new zone will cater to all industry verticals.


 ADQ aims to raise USD1.1 bn in ADP share sale.


Source: Arabian Business


ADP ADVANCED LOGISTICS HUB TO BRING 80,000 sq m OF STORAGE CAPACITY

Located strategically as a gateway to Asia, Africa and the MENA region.

 Combined marketplace of over 4.5 bn consumers.


 Comprising four warehouses with over 80,000 sq m of capacity.


 Will accommodate over 100,000 pallets.


 Warehouse temperature between -26°C to 25°C.

Source: AD Ports Group

KEZAD BREAKS GROUND ON INTEGRATED METAL PARK


 450,000 sq m facility


 Metal park facility will help the company to adapt to market demand without infrastructure constraints.

 Location proximity to Khalifa Port.

Source: Construction Week Middle East

AJ STEEL SIGN AGREEMENT WITH KEZAD GROUP

 Expanding from c. 96,000 sq m to 200,000 sq m of leased industrial.

 Increasing production capacity from 0.5 to 1.25 million tons.

Source: Hellenic Shipping News

OUTLOOK

RENTS TO CONTINUE RISING

A combination of the impact of high oil prices on regional liquidity, the restoration of international travel and initiatives aimed at bolstering the private sector and promoting foreign investment will continue to support strong economic growth in the UAE.

As such, we expect the industrial and logistics market to benefit from the UAE's continued economic growth in 2023. Indeed, with 6.5% GDP growth, the country is expected to be amongst the top two fastest growing economies in the world during 2022.

Aiding continued rent rises will be the shortage of industrial and logistics property supply. Well-maintained or newly developed properties that benefit from higher specifications are expected to continue experiencing increases in achievable rents and capital values. On the contrary, more dated properties in poorer condition are likely to see rents remain stable, or at best, record marginal rent rises.

YIELD COMPRESSION ON THE HORIZON?

We continue to see demand for well-let logistics units from investors and real estate funds looking to diversify their portfolios. Where a developer has built a Grade A facility, we may also continue to see a trend where local and international occupiers are willing to sign longer leases with no breaks, along with higher market rents. If this trend persists throughout 2023, taking a more forward approach and given the weight of capital chasing this sector, we can expect a compression of yields in the industrial and logistics sector to c.8-8.25%, from 8.50-8.75% today.

LAND USES

Changes to land use are further eroding industrial stock in central industrial districts in Dubai and Abu Dhabi. Indeed, we are already seeing districts such as Al Quoz in Dubai and Mussaffah in Abu Dhabi undergo significant changes in land uses, moving away from the industrial sector to more commercial/retail warehousing.

This redevelopment in central industrial areas is also in part being driven by the unprecedented demand from occupiers with new business models such as dark kitchens, entertainment and sports facilities, and fulfilment centers.

NEW LAWS TO DRIVE TWO - TIERED MARKET

Another factor that we believe will contribute to the seemingly persistent increase in Grade A warehouse rents is linked to new quality and standards. These standards are being specified by authorities for new warehouses. Strict requirements with respect to development quality of the newly developed warehouses will likely widen the gap in rents between new and older supply.

We also expect local authorities to introduce certain restrictions, such as limitations on permitted activities for properties that do not match minimum fire-fighting requirements, or civil defense systems.

Overall, the industrial markets in both Dubai and Abu Dhabi are vibrant and dynamic, with many opportunities for growth and expansion. Our expectation is that most industrial and logistics businesses will be relocating to industrial zones outside of towns. Newly developed stock, built to international specifications, along with strong infrastructure, and supportive government policies will continue to drive more international firms to move to the UAE, further intensifying supply shortages.

SUPPLY

We continue to see demand for Grade A industrial and logistics assets, but in particular properties which are specific in nature, i.e. temperature controlled facilities or those with approvals for storing dangerous/hazardous goods.

“Well-maintained or newly developed properties that benefit from higher specifications are expected to continue experiencing increases in achievable rents.”

2022 INDUSTRY NEWS HIGHLIGHTS



ETIHAD RAIL AND DIC ANNOUNCE 5.5 m sq ft RAIL FREIGHT TERMINAL

The rail freight terminal will be located within Etihad Rail's network which runs from Seih Shuaib to Dubai and Sharjah and also provides direct access to Dubai's main arterial routes: Sheikh Mohammed bin Zayed Road (E311) and Emirates Road (E611). The move is also expected to deliver a major boost to the UAE's Industrial Strategy, also known as Operation (AED) 300 bn.

Source: Railway - News



DIC ANNOUNCES OPENING OF THE AL DAMANI ELECTRIC VEHICLE MANUFACTURING FACTORY BY M GLORY

M Glory Holding Group and DIC announce the opening of Al Damani's new 45,000 sq ft electric car factory. The new plant houses the temporary assembly line, which has a maximum production capacity of 10,000 cars per year.

Source: Construction Business News



ETIHAD RAIL ANNOUNCES CONNECTION OF ICAD FREIGHT TERMINAL

The new 2.7 m sq ft hub will be equipped to handle over 20 m tonnes of bulk, containerised, and general cargo annually.

The new railway freight terminal will process at full capacity more than 15 m tonnes of loose raw materials, 1.5 tonnes of general cargo, and around 116,600 20-foot shipping containers annually.

Source: Zawya



AMAZON OPENS ITS LARGEST DELIVERY STATION IN ABU DHABI

The 4,700 sq m delivery station is the second largest in the country and provides same-day and next-day deliveries to customers.

The new delivery station creates opportunities for hundreds of full and part-time employees.

Source: Gulf Business



DP WORLD'S JEBEL ALI PORT AND FREE ZONE KEY TO BOOSTING INDIA-UAE TRADE TO \$100 bn

The Comprehensive Economic Partnership Agreement (CEPA), which officially came into force on 1 May 2022, includes eliminating tariffs on more than 10,000 products and services over the next 10 years.

Indian companies at JAFZA are the second largest partners in terms of trade volume (4.4 million metric tonnes) and fourth for trade value (USD6.5 bn).

Source: JAFZA Media Centre



PENINSULA REAL ESTATE IN USD151 m WAREHOUSE AND LAND DEAL

The purchased portfolio is spread across more than 3.6 m sq ft, across five plots in Al Markaz.

In addition to the five plots, Peninsula will also acquire an additional 1.4 m sq ft of completed and income-producing industrial properties that are currently being developed by Waha Land. Leasing is expected to commence in Q3 2023.

Source: Arabian Business



EURO AUCTIONS MIDDLE EAST TO EXPAND UAE OPERATIONS WITH REGION'S LARGEST AUCTION HOUSE AT KEZAD

New facility to cover more than 43,000 sq m for 360-degree auction handling from transportation to minor repairs. Site operations scheduled to commence in Q1 2023.

Source: KEZAD Group



ADDED LAUNCHES LAND INCENTIVES PROGRAMME

The programme will bring about extended ripple effects benefitting various aspects of the economy and drive industrial growth.

Land Incentives will be offered with rates of as low as AED 5 psm, with beneficiaries also enjoying long-term contracts.

Source: Abu Dhabi Media Office



GRADING OVERVIEW

WHICH GRADE IS YOUR PROPERTY?

BUILDING CLASSIFICATIONS

Although there are no international standards for classifying industrial buildings, nor is there a definitive grading formula, we have sought to determine the appropriate criteria to be considered that not only reflects the practices observed in regional and international markets but simultaneously embraces local market practices and preferences in addition to investigating the treatment of warehouse grading amongst local practitioners.

Current building classifications in the UAE of Grade I,II,III,IV and V warehouse accommodation operates at a market level and buildings should be viewed in context and relative to other buildings within its respective submarket/community. For example, Grade A industrial buildings in Al Quoz may not incorporate the same features or criteria which are considered when assessing Grade A buildings in JAFZA.

Additionally, with consideration to the range/uses of industrial premises available in the UAE market, the underlying factors for grading a storage facility may differ from a manufacturing building.

The process of performing an accurate grading classification of warehouse accommodation is an important procedure for the reliable assessment of warehouse stock quality across markets, submarkets and various forms of portfolios.

Industrial building ratings are unique in the sense that a high-quality warehouse building is one that provides state of the art functionality for a particular use and/or the flexibility to accommodate a range of uses.

BUILDING DESIGN FEATURES

The architectural aesthetics and design of an industrial building may not be the driving force when assessing a property.

Examples of criteria which qualify for Grade A classification include:

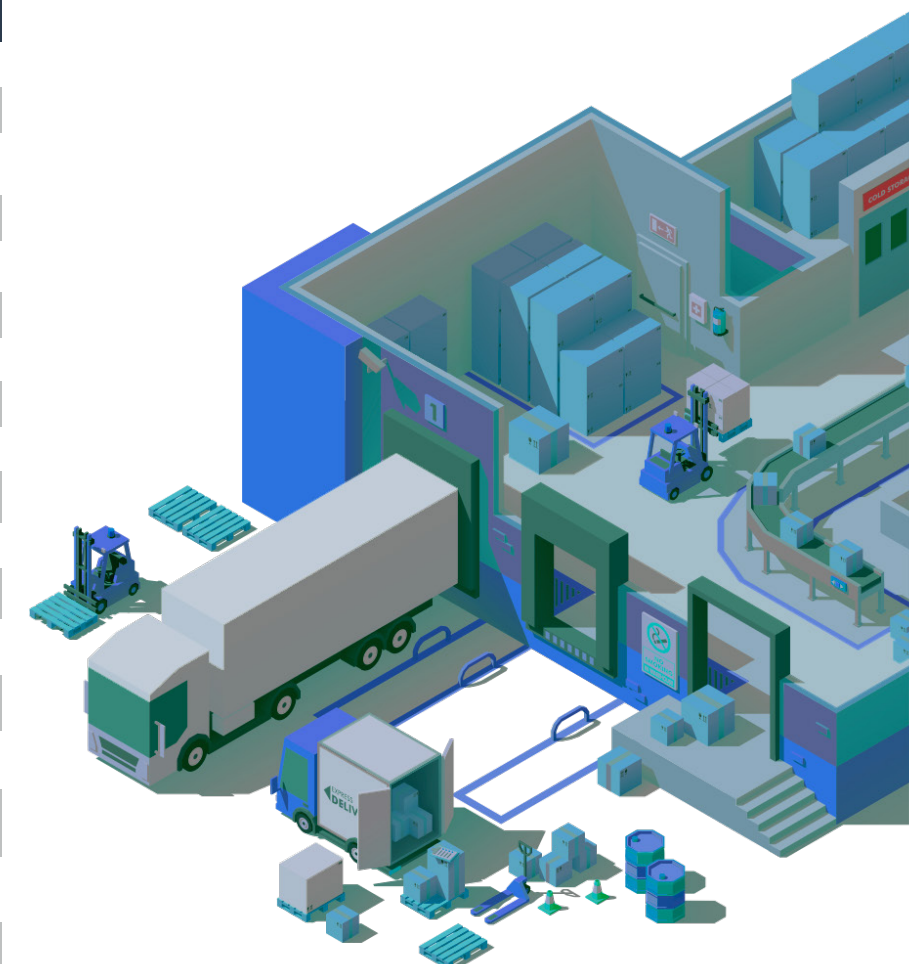
- Sufficient power and electrical load
- Sufficient height for the desired use
- Temperature controlled
- Sufficient circulation area for heavy goods vehicles
- Loading provisions
- Sustainable building practices
- Insulated walls and roofs
- Skylights for reduced lighting expenses

- Representing current trends and standards in design
- Convenient access for trucks with clear and visible signage from a distance
- Visibility from major access routes
- Distance between the span of pillars or supporting columns
- Good parking ratios
- Site coverage of c. 40%

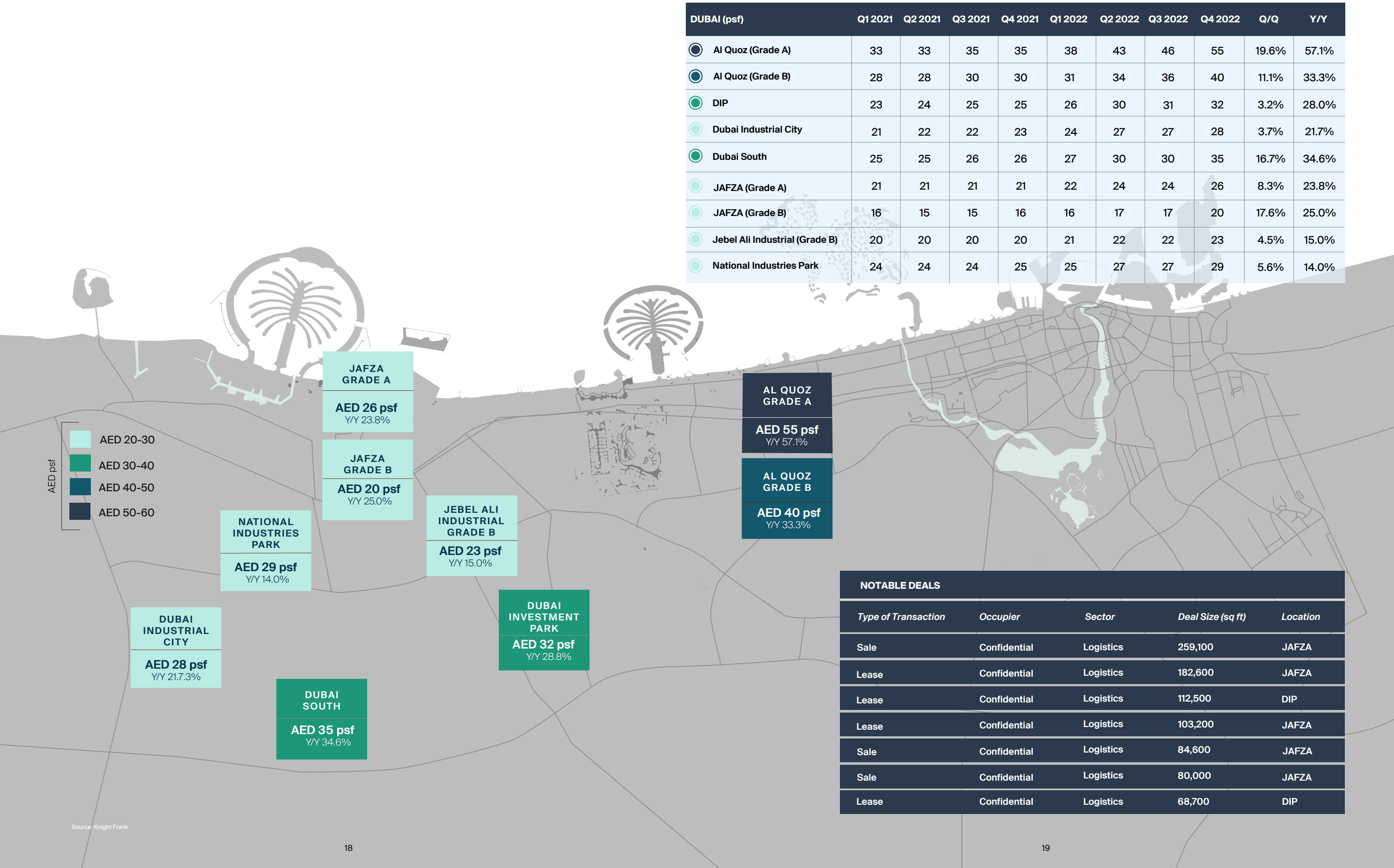
GRADE CLASSIFICATIONS

Based on the available industrial and logistics property supply in Dubai and Abu Dhabi, we have developed a grading system aimed to assist occupiers, property owners, and developers in differentiating between property grades. Having said that a Grade A property in Al Quoz would not benefit from the same features as a Grade A facility in JAFZA, we have further categorised the grading into five (5) classes. The references in this report relate to Grade A, Class III, representing the prevailing Grade A supply in the UAE.

| | GRADE A | | | GRADE B | |
|--|-------------------------------------|-------------------------------------|---------------------|------------------|--------------|
| | CLASS I | CLASS II | CLASS III | CLASS IV | CLASS V |
| EAVES HEIGHT | 15m+ | 12-15m | 10-12m | 8m-10m | 4m-8m |
| LOADING BAYS | 1:500 sq m | 1:1,00 sq m | 1:1,500 sq m | Few/none | None |
| ACCESS | Dock level Cross Docking facilities | Dock level Cross Docking facilities | Dock Level | Ground Level | Ground Level |
| POWER | Triple Phase | Triple Phase | Triple Phase | Single phase/low | Single phase |
| YARD | Circulation Areas | Circulation Area | Limited Circulation | Limited/None | Limited/None |
| OFFICE | 5% - 10% | 5% - 10% | 10% | 10%+ | None/limited |
| FLOOR LOADING | 13 ton psm | 8 ton psm | 8 ton psm | 4 - 8 ton psm | 4 ton> |
| SITE COVERAGE | 40% | 50% | 60%+ | 60%+ | 60%+ |
| CAR PARKING | 1:150 sq m | 1:500 sq m | 1:750 sq m | 0-Few | 0-Few |
| AGE | 0-5 years | 5-10 years | 10-15 years | 15+ years | 15+ years |
| AIR CONDITIONED | ✓ | ✓ | | | |
| FLEXIBILITY FOR AUTOMATION | ✓ | | | | |
| SUPER FLAT FLOORING | ✓ | ✓ | | | |
| MARSHALLING AREAS | ✓ | ✓ | ✓ | | |
| MHE CHARGING FACILITIES | ✓ | ✓ | ✓ | | |
| GOOD QUALITY, FITTED OFFICE SPACE | ✓ | ✓ | ✓ | | |
| SUSTAINABILITY AND INTERNATIONAL ACCREDITATION | ✓ | ✓ | ✓ | | |
| COMPLIANT WITH FIRE FIGHTING REGULATIONS | ✓ | ✓ | ✓ | | |

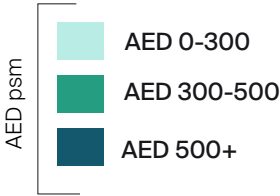


DUBAI INDUSTRIAL MARKET IN NUMBERS



ABU DHABI INDUSTRIAL MARKET IN NUMBERS

| ABU DHABI (psm) | | 2022 |
|---|--|------|
|  Abu Dhabi Airport Free Zone | | 550 |
|  Al Markaz | | 300 |
|  ICAD | | 300 |
|  KEZAD | | 300 |
|  Mussafah | | 280 |



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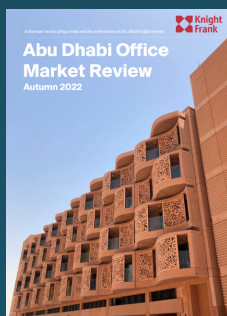
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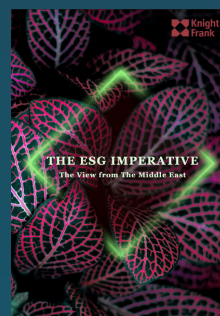
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