

Dubai and Abu Dhabi Industrial Markets Review



Q3 2023

A biannual review of key trends and the performance of
Dubai and Abu Dhabi's industrial markets

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Key takeaways

Demand poised for continued growth

The UAE's industrial and logistics market is flourishing, driven by strong demand from several sectors, including automotive, e-commerce (logistics), 'click and mortar' retailers, manufacturing, and technology.

Industrial and logistics sector unfazed by corporate tax

Demand and overall activity in the industrial and logistics sector appears to have been unimpacted by the introduction of Corporation Tax in June 2023.

Interest rate threat

Interest rate hikes could dampen demand for industrial assets. This could slow, or even reverse the yield compression currently underway.

Best-in class warehousing premiums

Tenants remain laser-focussed on securing best-in-class, internationally specified warehousing and are willing to pay a premium to occupy such space. This is likely to continue contributing to the widening gap between primary and secondary rents.

UAE-India CEPA has boosted cross-border trade and investment

The Comprehensive Economic Partnership Agreement (CEPA) has boosted trade and investment between the UAE and India, making it cheaper for UAE-based industrial companies to import and export goods, and easier for them to invest in India. Between May 2022 and March 2023, cross-border trade and investment climbed to US\$ 76.9bn from US\$ 67.5bn a year earlier.

BRICS+ membership may drive greater activity

The UAE's invitation to join BRICS+ may help to drive increased activity and investment in the industrial and logistics sector through expanded market access and a reduction in trade barriers.

Warehouse rents plateau in Dubai

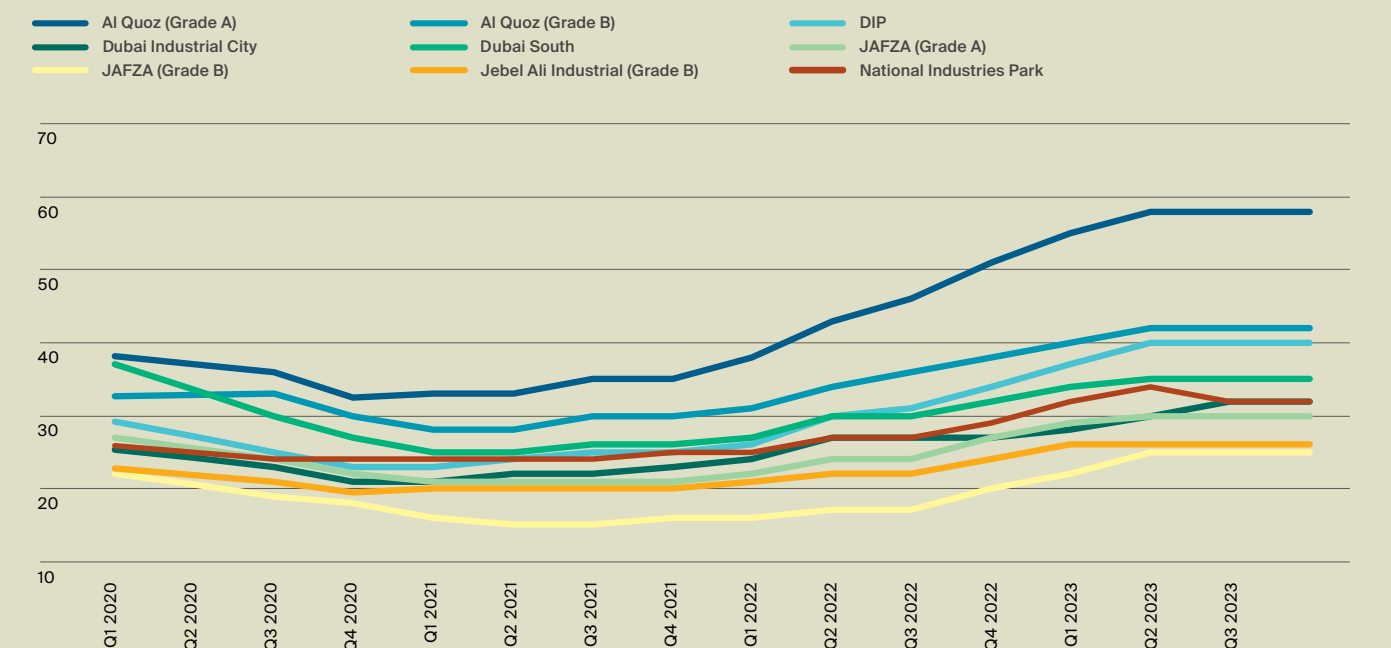
While warehouse lease rates in Dubai have remained stable during Q1-Q3 2023, Grade B rents in JAFZA (AED 25 per square foot) and Dubai Industrial City (AED 32 per square foot) have risen by 25% and 19%, when compared to Q3 last year.

Similarly, Al Quoz (Grade A), has seen rents climb to 52% above January 2020 levels, marking it as the most expensive warehouse leasing location in Dubai.

Notably, lease rates in Dubai Industrial City (AED 32 psf), National Industries Park (AED 32 psf), and Jebel Ali Industrial (Grade B) (AED 26 psf), have all exceeded January 2020 levels.

“Warehouse lease rates have plateaued across Dubai.”

Performance of industrial rents in Dubai



Source: Knight Frank

Abu Dhabi's warehouse lease rates

In Abu Dhabi, across the six main industrial submarkets we track, a marginal increase in lease rates has been registered during H1 2023.

High occupancy levels in KEZAD and Masdar have helped to sustain rents. Meanwhile, rising demand in ADAFZ, where rents stand at AED 600 psm, has prompted the development of a new masterplan.

ADAFZ new masterplan, Al Falah Free Zone, has been designed to meet the growing demand for industrial and logistics space and to provide more options for businesses. This new masterplan, covering an area of over 6km² will include bonded and non-bonded zones.

The first development to get underway here is a 30,000 sqm plot, where a 16,000 sqm temperature-controlled Grade A warehouse is to be built and delivered by 2025. Knight Frank acted for the occupier.

Elsewhere, warehouses within the KEZAD area are also experiencing high occupancy levels. In response to the heightened demand, KEZAD has introduced a series of new Grade A warehouses in addition to standard warehouses and light industrial units (LIU). The new Grade A warehouses are built to higher specifications than existing stock, with eaves height, for instance, in excess of 14 metres, while loading bays are fitted with hydraulic dock levellers. This new stock, which is available from 526-15,000 sqm, is also temperature controlled and boasts a column-less design.

High demand for Grade A warehousing in KEZAD has helped to lift rents to as much as AED 500 psm. Grade A warehouses typically offer superior infrastructure, security features, and modern amenities, making them highly sought after by tenants who prioritise quality and efficiency in their logistics and storage operations. As the UAE strengthens its prowess as a global trading hub, we continue to see occupiers willing to pay premia for better quality assets.

Abu Dhabi's Industrial Zones	Q3 2023 (psm)
Abu Dhabi Airport Free Zone	600
Al Markaz	330
ICAD	350
KEZAD Al Ma'moura (Grade A)	450*
KEZAD Al Ma'moura (Grade B)	400
Mussafah	330
*Fully temperature-controlled warehouses Source: Knight Frank	



Logistics: the backbone of demand in both emirates

In Dubai, we recorded 9.9 million sqft of new requirements between Q1-Q3 2023.

Excluding confidential requirements, the biggest contributor to the demand is the logistics sector (44%), followed by the manufacturing & industry sector (16%) and the technology sector (13%), which together account for 7.3 million sqft of demand.

In Abu Dhabi, new industrial space requirements rose to 350,000 sqm in Q1-Q3 2023, up 94% from Q1-Q3 2022 requirements.

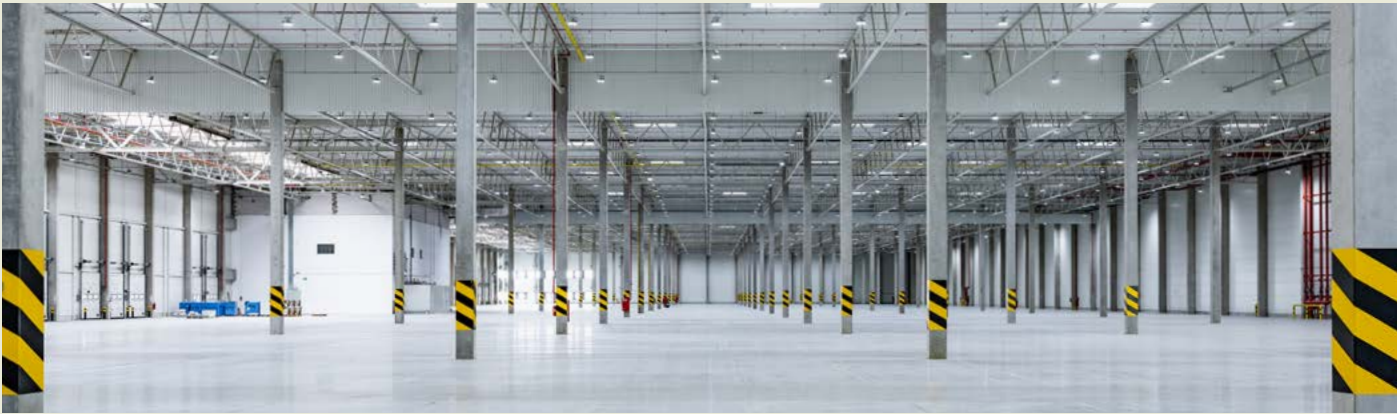
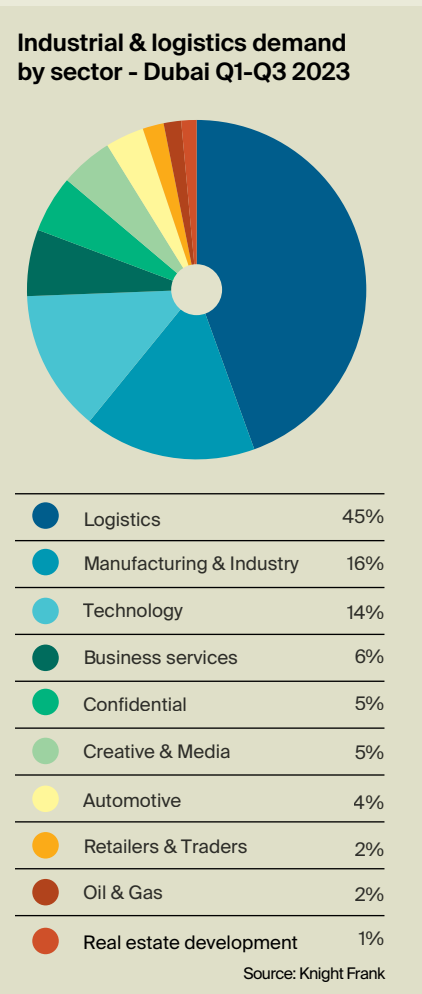
EXPERT INSIGHT

Demand has been strong this year and we have worked with several new market entrants from Asia Pacific, CIS countries, Turkey, and India. Additionally, existing industrial occupiers have also been busy expanding their footprints in Dubai.

This growing pool of demand has prompted both local and international developers to explore opportunities to enter the market with Grade A logistics build-to-rent products. We expect approximately 9-10 million square feet of Grade A logistics warehousing to be delivered in the next 10 years.

Maxim Talmatchi, MRICS

Associate Partner, Co-Head of Industrial and Logistics UAE



Factors contributing to demand

Abu Dhabi’s industrial ambitions

Within a year of initiating the AED 10 bn Abu Dhabi Industrial Strategy, which aims to double the size of the industrial sector to AED 172 bn, create 13,600 skilled jobs, and increase the emirate’s non-oil exports to AED 178.8 bn by 2031, Abu Dhabi has issued a 16.6% more new industrial licenses. 283 new industrial licences were issued in the 12-months to the end of June 2023.

During the first six months of this year, a total of 116 new industrial permits were granted, an increase of 63.3% from the same period last year. The number of operational manufacturers in the emirate now stands at 966, up from 922 at the end of the first half of 2022.

Abu Dhabi’s industrial sector contributed 16.4% to non-oil GDP in 2022 and represented around half of the UAE’s total industrial sector, highlighting the significance of the sector not just to Abu Dhabi, but to the UAE as a whole.

E-commerce - a continuing trend

Elsewhere, the surge in online shopping, catalysed by the pandemic, has had a noticeable impact on warehouse rental rates in Dubai, driving them upwards.

This trend is primarily attributed to the heightened demand for strategically positioned warehouses built to international standards. The scarcity of top-tier warehouse facilities within the emirate has further accentuated this rental uptick over the last 18-24 months.

As consumers continue to shop online, this in turn means that occupiers require efficient storage and distribution centers situated in central locations.

In 2021 the value of the UAE’s e-commerce sector stood at AED 17.6bn, up on AED 14.3bn in 2020 and AED 14.3bn in 2019. Looking ahead, the UAE’s e-commerce sector is poised for robust expansion, with a projected total revenue of AED 63.2bn anticipated by 2027 (Tradeling). A recent change to customs rules means consumers are exempt from paying import charges on goods worth less than AED 1,000 is expected to further boost activity in the sector.

Supply absorption

Throughout Q1-Q3 2023, a consistent trend of rapid supply absorption has been observed across all grades and types of industrial and logistics properties in Dubai. For example, a large development completed in JAFZA Logistics Park early this year, covering 50,000 sqm, was fully pre-leased even before the developer received the Building Completion Certificate (BCC).

High occupancy rates of over 98% in most Light Industrial Units (LIUs) in Dubai and growing waitlists highlights the strong demand for industrial space. Indeed, Knight Frank recently leased a warehouse that had been vacant for three-years within two months after it was refurbished.

The logistics sector in particular, as noted above, is responsible for a significant amount of demand in the market. The persistent shortage of Grade A supply is driving some occupiers to explore alternatives like built-to-suit solutions, self-development, or even compromising on quality by occupying Grade B, or Grade C properties.

According to Knight Frank’s data, the table on the right reflects upcoming supply greater than 170,000 sqft (15,000 sqm) of high-quality warehouses in Dubai. The limited development pipeline underscores the low quantity of speculative developments and the challenges faced by large occupiers.

“Abu Dhabi’s industrial sector contributed 16.4% to non-oil GDP in 2022.”

EXPERT INSIGHT

KEZAD Group plans to complete and add several new parks to its portfolio over the next two years. KEZAD LIU Phase 2 (extension of phase 1), for instance, with a total leasable area exceeding 20,000 sqm (215,000 sqft) is expected to enter the market by 2024.

KEZAD leverages the strategic locations of its parks, mainly Al Ma’moura between Abu Dhabi and Dubai, as well as its proximity to Khalifa Port and ICAD, to attract occupiers; a strategy that has thus far been exceptionally successful. Notably, it draws businesses due to special industrial initiatives offered by the Industrial Development Bureau, including incentive programs, including, but not limited to favourable energy traffis and land rents.

Mikhail Vereshchagin

Senior Manager, Industrial & Logisticsf UAE

Dubai’s Industrial and Logistics supply (2024-2026)

	2024	2025		2026
Location	JAFZA	DIP, DWC, NIP	DIP, DWC, NIP, JAFZA and DIC	DIP, DWC, NIP, JAFZA and DIC
Developer	JAFZA	Confidential	Confidential	Confidential
Status	Confirmed*	Confirmed*	Potential additional**	Potential
Total area	360,000 sqft	1.2 million sqft	Approximately 1 million sqft	Approximately 2.1 million sqft

*Developer has already secured land and is seeking internal approvals

**Developer is running active negotiations with landowners

Source: Knight Frank



In focus: KEZAD

Rapid absorption of new supply

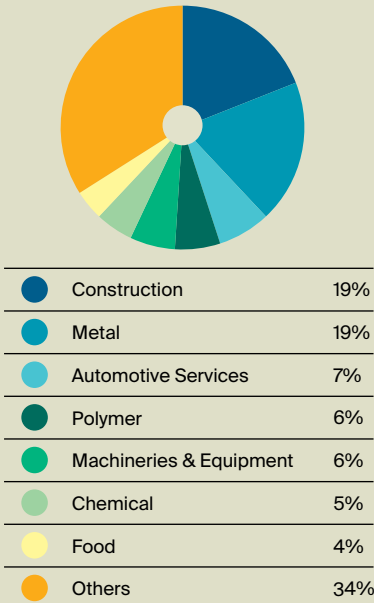
The industrial and logistics market in Abu Dhabi, especially the KEZAD Group's developments near Khalifa Port, have benefitted from spillover demand from Dubai and accelerated the delivery of new space here.

Indeed, KEZAD Group has delivered three new developments, KLP 4, 5, and 21, to the market in late 2022 and early 2023, adding approximately 230,000 sqm (2.5 million sqft) of leasable space.

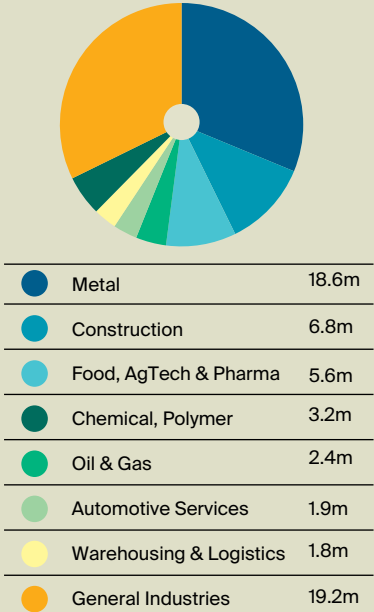
These high-quality properties come in a variety of sizes and specifications, ranging from approximately 520 to 25,000 sqm (5,600 to 270,000 sqft), and include LIUs, warehouses, cold and dry stores, and showrooms. Many of these properties have already been leased, highlighting the strong demand for warehousing space. Thus, KEZAD's has recorded a 66% year-on-year increase in warehouse leasing.

With these new developments, KEZAD's total warehouse portfolio has grown to over 550,000 sqm of space, the vast majority of which is fully occupied. Separately, across KEZAD's 12 industrial zones, the occupancy level across its 99km² of developed land stands at 67%.

% of Industries (by number of land occupiers)



Key sectors by land occupiers (sqm)



Source: KEZAD Group

EXPERT INSIGHT

The third quarter showcased our strong performance with a revenue of AED 442m, marking a 20% year-on-year growth. KEZAD Group's Build-to-Suit agreements with Noon and Emtelle highlight our capacity to deliver customized and practical solutions. Serving over 2,000 customers our occupancy remains high – 67% for leasable land (66.5 km² as of Q3 2023), and 85% for warehouses, which have expanded by 273,000 sqm over the last year with an increase of 87% capacity expansion.

Looking ahead, we have ambitious targets. These include expanding our gas network by 45km and doubling our warehouse capacity to over 1.35 million sqm by the end of 2025. Seeing high demand from clients in the food, metals, and automotive sectors, we are developing specialised industrial clusters - the 450,000 sqm Metal Park, the 3.3 km² Auto Hub and the 3.3 km² Abu Dhabi Food Hub, all are expected to start operations by the end of 2025. These initiatives align with KEZAD's growth strategy and contribute significantly to the UAE's industrial strategy 'Operation 300bn' and the 'National Food Security Strategy 2051', aiming to localise the supply chain.

Mohamed Al Khadar Al Ahmed

CEO of KEZAD Group

Three themes for thought

In the ever-evolving landscape of Dubai's logistics and industrial sector, three pivotal themes have emerged this year, each contributing to the city's growing prominence as a global trade and logistics powerhouse.

Supply squeeze set to persist?

Warehouses are critical infrastructure for the surging demand for storage and distribution services, driven by regional economic growth , international trade flows and the UAE's strategic geographic location.

These factors continue to attract investors and developers to the sector. Developers are increasingly interested in investing in modern, technologically advanced logistics facilities, including Grade A warehouses, to meet the evolving needs of businesses and e-commerce platforms. While interest has been high, the rate at which new stock is likely to enter the market remains low. As noted above, Dubai currently has just 170,000 sqft of new warehousing supply under construction.

Institutional funds

The logistics sector in the UAE is experiencing a notable influx of institutional funds, specifically from the United States, highlighting the growing interest from investors. This surge in investment is driven by several factors, including the UAE's strategic geographical location as a global trade hub, the boom in e-commerce activity, and linked to this, the increasing demand for efficient supply chain solutions. Institutional investors are drawn to the potential for steady returns, relative economic and political stability, and long-term growth prospects, particularly in a supply- starved market such as Dubai. As a result, the sector is continuing to attract capital into logistics infrastructure, warehousing, and distribution centers, which itself is contributing to the sector's expansion and the UAE's positioning as a global logistics powerhouse

Shortage of land in prime locations

Dubai is in the midst of a notable shortage of industrial and logistics land in its prime locations. This scarcity stems from the city's rapid growth, which has driven a surge in demand for strategically located industrial assets.

The availability of land in most central locations is limited and many vacant sites have already been pre-zoned for other uses or are already committed.

There is a clear and pressing demand in the market for authorities like DIP and JAFZA to drive forward with expansion plans to meet the growing needs of industrial businesses.



Outlook

Supply scarcity to underpin rental growth

We expect Dubai’s industrial rents to retain their upward growth trajectory for several reasons, but primarily due to the severe shortage of supply as outlined above. This, combined with the city’s ambitious expansion plans as set out in the new D33 Economic Agenda and Vision 2040 Strategy, which aim to see a doubling in Dubai’s foreign trade, grow the emirates population to 7.8 million by 2040, and position the emirate as the fourth most prominent financial centre behind New York, London and Singapore are set to underpin and catalyse further demand and growth in the industrial and logistics sector.

Dubai’s status as a major global trade hub, with world-class infrastructure and a thriving e-commerce and logistics sector, further supports our outlook. Unless significant new supply enters the market over the next 12 months, rents and capital values will likely continue to strengthen

Yield compression on the horizon, but interest rate hikes could dampen demand

There are also potential risks to the market. Dubai’s status as a global hub leaves it exposed to global events. That said, investors and real estate funds are and always will be keen to secure good-quality logistics units, especially those that are income-producing.

International funds and investors are increasingly drawn to Dubai’s industrial sector, particularly as the proportion of internationally specified warehousing stock rises. Higher-quality warehousing attracts longer lease commitments, creating institutional-grade assets.

However, this trend also has a downside. Heightened investor demand is boosting capital values faster than lease rates, which is compressing yields. We forecast yields to have slipped from about 8.50-8.75% in H1 to around 8.0-8.25% by the end of 2023.

In addition, interest rate hikes could dampen demand for industrial assets, due to the increased cost of debt. This could slow, or even reverse yield compression.

Corporate Tax

While the UAE’s tax rates are relatively low compared to many global counterparts, businesses now need to navigate a more complex tax regime. This could influence location decisions, investment strategies, and overall competitiveness.

Countering this of course is the UAE’s world-class logistics, transport, connectivity, and port facilities, which remain a key draw for businesses, and the country’s status as one of the world’s key logistics nodes is unlikely to be eroded.

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Over the next 12-16 months as the market continues to evolve, we predict that the gap between primary and secondary rents in the industrial and logistics sector will widen. Tenants remain laser-focused on securing best-in-class, internationally specified warehousing and are now willing to pay a premium to occupy such space, which historically was not the case.

Given the restricted supply entering the market, landlords who are willing to invest capital expenditure to modify or retrofit their aging assets will be able to command a rental premium. In contrast, landlords of secondary assets may be able to maintain occupancies in the short term; however, when the new stock does eventually materialise, older assets will experience falling rents and increased voids.

Adam Wynne, MRICS

Associate Partner, Co-Head of Industrial & Logistics UAE

2023 industrial news highlights

AED 1bn

Dubai Industrial City confirms new investment

Dubai Industrial City attracted approximately AED 1bn in investments from local and global manufacturing companies, including Universal Rubber Belt Manufacturing and Stars Plastics Industries.

Source: Dubai Industrial City media press release

70%

Amazon increases storage capacity in the UAE by 70%

Amazon has inaugurated a new logistics center in Dubai’s Logistics District, expanding its UAE capacity by 70% to address heightened demand.

Source: The National News

42k sqm

The launch of Landmark Group’s Viva Distribution Center (Phase 2) at JAFZA

The project involves the construction of a cold storage and distribution facility for Landmark Group, with a total built-up-area of approximately 42,000 sqm.

Source: BNC Network

AED 500m

Dubai’s JAFZA to get AED 500 million automotive spare parts distribution hub

Neweast General Trading, a Dubai-based automotive spare parts supplier, will build an AED 500 million auto spare parts hub in JAFZA. The facility will be spread over an area of 165,000 sqm and will be the largest in the Middle East and Africa. It is expected to be completed by October 2024.

Source: Gulf News

AED 184m

KEZAD & Emtelle jointly break ground on new regional hub

KEZAD and Emtelle are collaborating on a AED 184 million manufacturing, distribution, and R&D facility for blown fiber units and network solutions in Abu Dhabi.

Source: Emirates News Agency - WAM

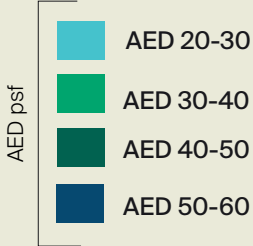
110k sqm

Noon’s state-of-the-art e-fulfillment centre in KEZAD

The construction of Noon’s 110,000 sqm e-fulfillment center in KEZAD broke ground in November of last year. Developed under a build-to-suit model, the facility will employ advanced automation for storage and sorting.

Source: Zawya

Dubai's industrial market in numbers

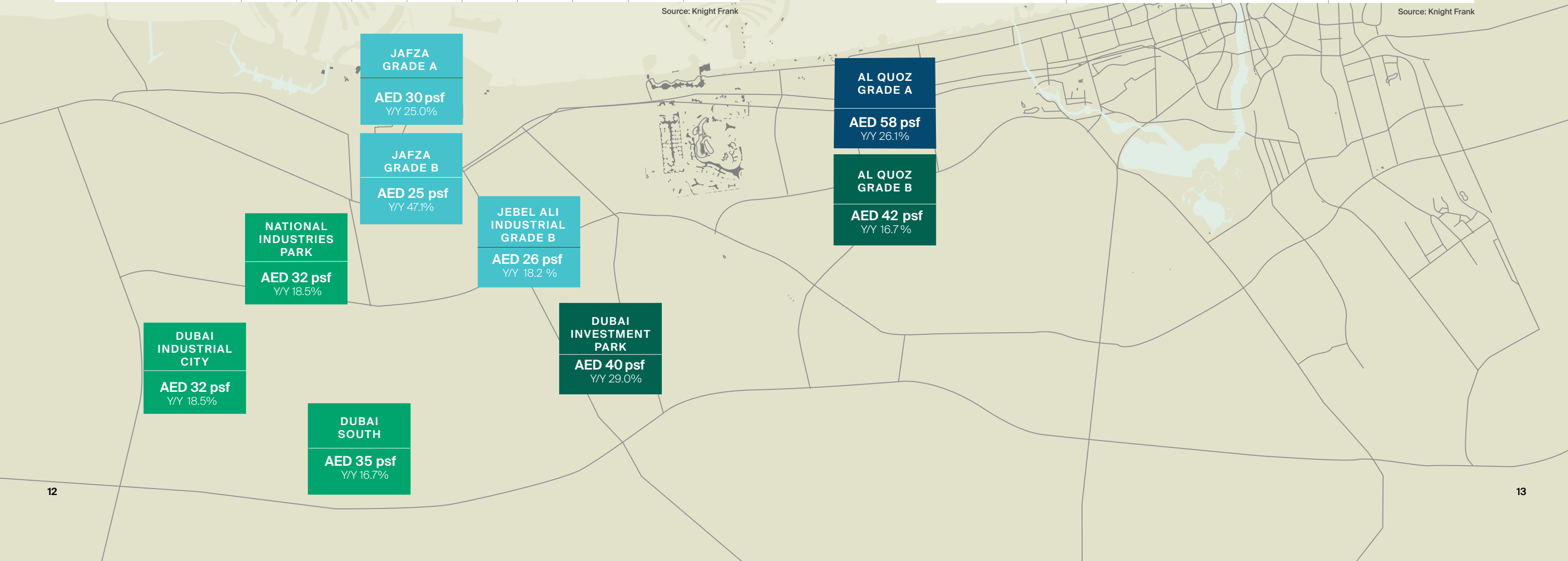


DUBAI (psf)	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023	Q/Q	Y/Y
AI Quoz (Grade A)	38	43	46	51	55	58	58	0.0%	26.1%
AI Quoz (Grade B)	31	34	36	38	40	42	42	0.0%	16.7%
DIP	26	30	31	34	37	40	40	0.0%	29.0%
Dubai Industrial City	24	27	27	27	28	30	32	0.0%	18.5%
Dubai South	27	30	30	32	34	35	35	0.0%	16.7%
JAFZA (Grade A)	22	24	24	27	29	30	30	0.0%	25.0%
JAFZA (Grade B)	16	17	17	20	22	25	25	0.0%	47.1%
Jebel Ali Industrial (Grade B)	21	22	22	24	26	26	26	0.0%	18.2%
National Industries Park	25	27	27	29	32	34	32	0.0%	18.5%

Source: Knight Frank

Notable deals			
Type of transaction	Sector	Deal size (sqft)	Location
Lease	Logistics	308,100	Al Falah Free Zone
Sale	Manufacturing & Industry	272,100	KEZAD
Sale	Consumer goods	250,00	NIP
Sale	Logistics	199,150	DIC
Lease	Logistics	183,800	JAFZA
Sale	Manufacturing & Industry	130,790	Umm Al Thoob, Umm Al Quwain
Sale	Business services	96,110	JAFZA
Lease	Landlord/Developer	66,500	NIP

Source: Knight Frank

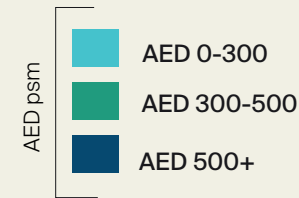


Abu Dhabi's industrial market in numbers

Abu Dhabi (psm)	Q3 2023
<div></div> Abu Dhabi Airport Free Zone	600
<div></div> Al Markaz	330
<div></div> ICAD	350
<div></div> KEZAD Al Ma'moura (Grade A)	450*
<div></div> KEZAD Al Ma'moura (Grade B)	400
<div></div> Mussafah	330

*Fully temperature-controlled warehouses

Source: Knight Frank



We like questions. If you've got one about our research, or would like some property advice, we would love to hear from you.

Andrew Love

Partner - Head of Capital Markets & Occupier/
Landlord Strategy and Solutions, MENA
andrew.love@me.knightfrank.com
+971 50 777 9595

Adam Wynne, BSc (Hons) MRICS

Associate Partner - Co-Head of Industrial &
Logistics, UAE
adam.wynne@me.knightfrank.com
+971 56 474 1921

Maxim Talmatchi, MSc (Hons) MRICS

Associate Partner - Co-Head of Industrial &
Logistics, UAE
maxim.talmatchi@me.knightfrank.com
+971 50 516 9965

Mikhail Vereshchagin

Senior Manager, Industrial & Logistics UAE
mikhail.vereshchagin@me.knightfrank.com
+971 56 454 2987

Faisal Durrani

Partner - Head of Research, MENA
faisal.durrani@me.knightfrank.com
+44 7885 997888

Alaa Aljarousha

alaa.aljarousha@me.knightfrank.com
Manager - Research, UAE
+971 56 548 9626

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