(Y)OUR SPACE
Middle East Focus

November 2023 | Investigating the future of work, workplaces and corporate real estate | knightfrank.ae/research

Foreword

Welcome to (Y)OUR SPACE – Middle East Focus, Knight Frank's flagship research report investigating the global future of work, workplace and corporate real estate.

This latest edition arrives following a period of great reflection and evaluation for the occupiers of commercial real estate. The Covid-19 pandemic upended workstyles and brought a seemingly existential crisis to the idea of the office as a place of work. The ensuing debate - too often centering around sensationalist headlines and those with vested interests - had a revolutionary tone.

Yet, within global markets, the reality was often very different. Occupiers have not, in the main, rushed to revolution. There was limited knee-jerking. Instead, there was widespread recognition that the pandemic took businesses and those working for them into uncharted waters. Such waters require careful navigation. Consequently, what we have seen on the ground has been a deliberate process of experimentation, followed by evaluation and, subsequently, the informed evolution of workstyles, workplaces and corporate real estate strategy.

This process is ongoing.

Here in the Middle East, the tone has been very different to many other major global centres, with cities such as Riyadh and Dubai experiencing near 100% occupancy across the best office buildings as workers return in their droves. The difference, of course, between cities in the Gulf and those elsewhere in the world is the inextricable link between the workplace and people's personal lives: expats in the Gulf often build their social circles at work and do not necessarily face the long and expensive commutes that characterise many European and North American cities.

While positive for landlords, businesses looking to expand or enter markets in the Gulf are often faced with a dearth of options, which is bringing its own challenges.

Given this complex backdrop of additional influences, we have surveyed 640 corporate global real estate leaders. In the Middle East, we sought the views of 46 commercial real estate leaders from organisations based in the UAE and Saudi Arabia who collectively have a global headcount of c. 350,000.

Our first (Y)OUR SPACE – Middle East Focus report examines the attitudes towards workplace strategies amongst our Middle East respondents, bringing real-world perspectives into the debate about the future of work, workplace and corporate real estate.

We hope you enjoy our unique insights and look forward to discussing our findings with you in more detail.

JAMES HODGETTS
Partner - Occupier Strategy and Solutions, MEA

Real estate: a strategic device

The post-pandemic demand for commercial property in the Middle East illustrates the role played by real estate as a strategic device as well as for businesses, including helping to advance sustainability goals and win new business, plus attracting and retaining talent.

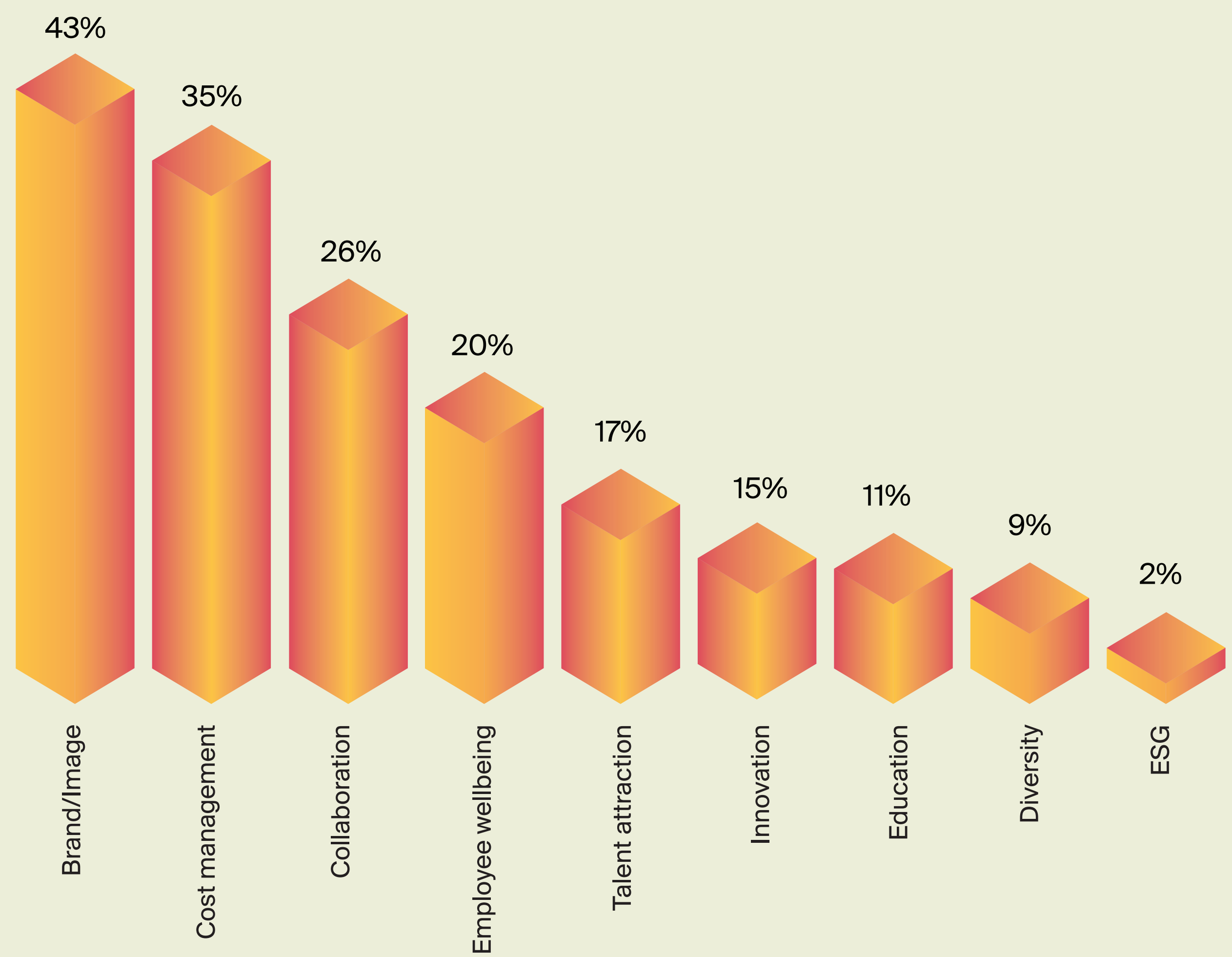
Brand image is everything
Indeed, 84% of the companies we surveyed in the Middle East state that real estate is regarded as a strategic device within their business. Brand image is the top business strategy that real estate supports, noted by 43% of all respondents, followed by cost management (35%) and offering a platform for collaboration (26%).

"Almost irrespective of business size, brand image tops the list of considerations for occupiers."

Almost irrespective of business size, brand image tops the list of considerations for organisations with under 1,000 employees (43%) as well as those 1,000-10,000 staff (43%).

Overall, 63% of those we canvassed expect to occupy higher quality space within the next three years.

Aspects of a business strategy that real estate best supports



*percentages indicate number of times each option was selected

Source: Knight Frank

Real estate decision making set to take centre stage
Our survey also investigated attitudes towards the complexity of real estate decision making. 52% of Middle East businesses believe that real estate decision-making will become increasingly more complex over the next three years.

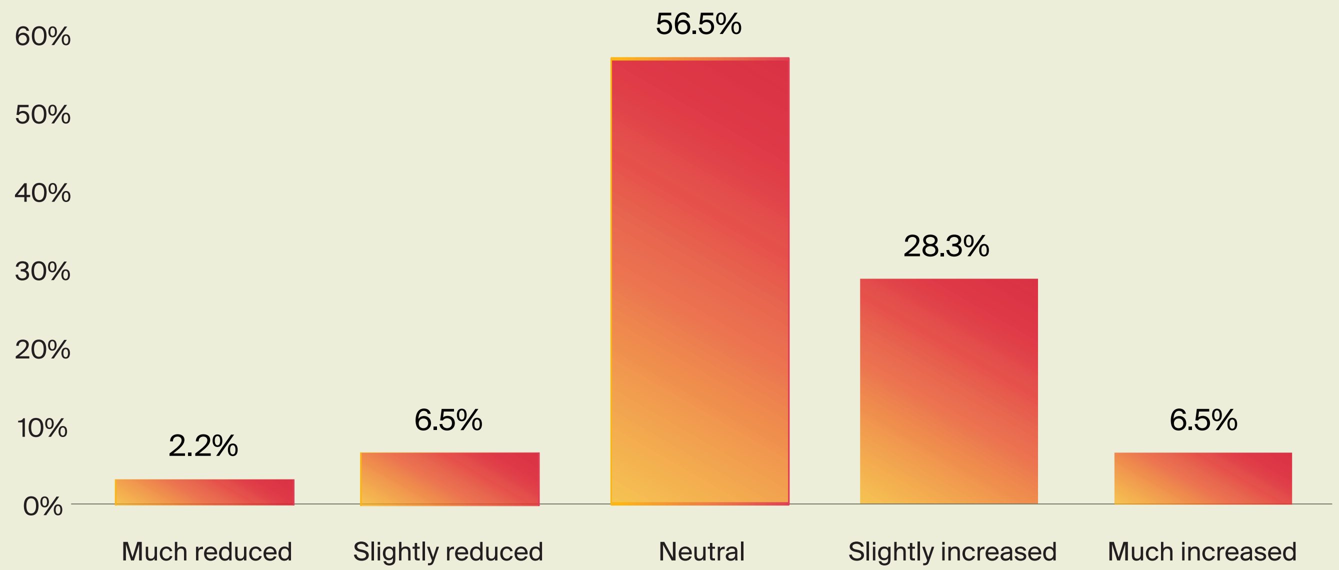
Unsurprisingly, for smaller companies (< 1,000 employees), 48% are neutral on how complex the business of real estate selection will be over the next three years, whereas 64% of medium-sized businesses (1,000-10,000 staff) claim selecting commercial space is set to become more challenging in the future. Indeed, 35% of the organisations we spoke to say there will be a visible increase in stakeholder scrutiny of the function and use of real estate being considered for occupation.

"46% of Middle East office occupiers say their use of data to make real estate decisions will increase."

Separately, large global multinationals have, in the wake of the pandemic, consolidated operations, either by right-sizing, and/or by permanently adopting hybrid working models, thereby reducing their total office occupation. Big tech businesses, for instance, which drove the last global office demand cycle in many gateway cities have now downsized or right sized their portfolios given that the headcount growth they anticipated has not emerged and also that they are to some extent embracing new workstyles.

A data-driven future
Interestingly, 46% of Middle East office occupiers say their use of data to make real estate decisions will increase over the next three years. This mirrors trends seen elsewhere in the world, where occupational data is being used to enhance the workplace experience, more efficiently and sensitively manage the workplace environment and ultimately improve commercial real estate decision making.

Stakeholder scrutiny of real estate decisions over the next three years



Source: Knight Frank

Flex and flexibility

Occupiers across the Middle East have undertaken consolidation activity, with international banks and professional services businesses leading the charge immediately in the aftermath of the pandemic. This trend, however, has largely subsided, but the demand for flexible office space remains strong.

Hybrid working is the new norm
Only 29% of the regional businesses we surveyed believe that their real estate portfolios will become more complex over the next three years, in stark contrast to the majority of global businesses (58%).

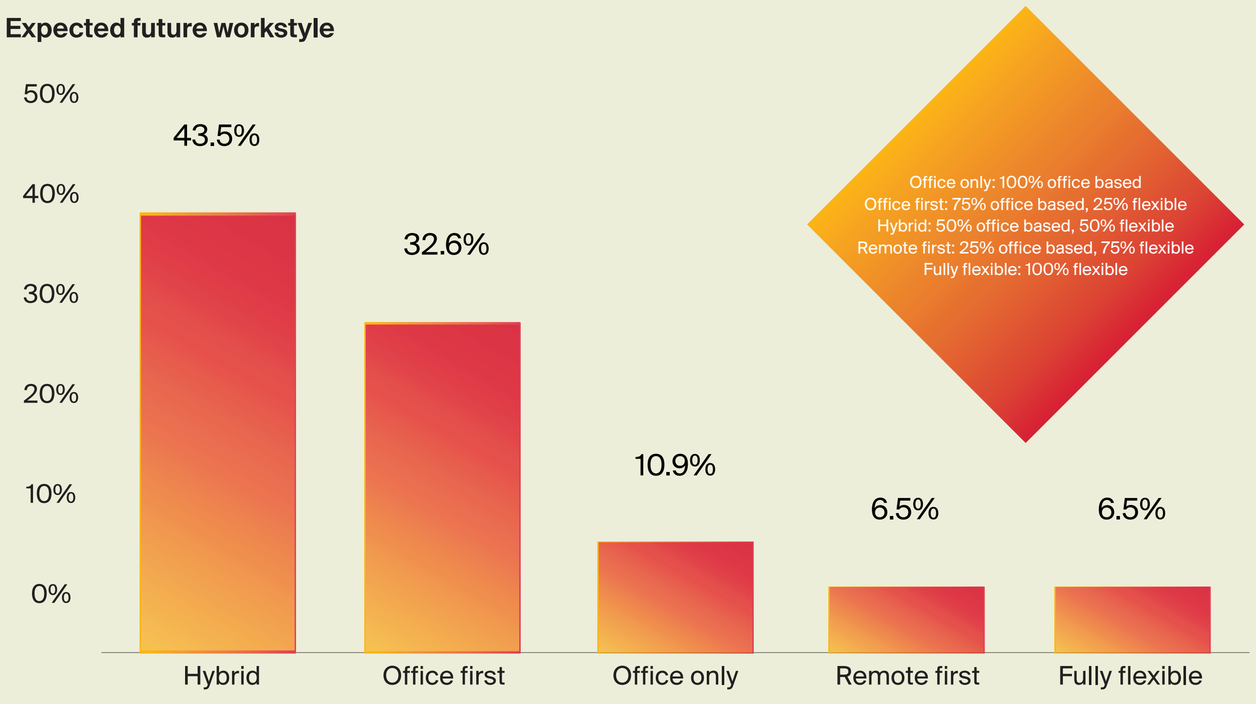
Similarly, most large businesses (83%) – many of whom have already made hybrid working (two to three days per week in the office) a key part of their occupational and talent attraction and retention strategies – do not believe their working styles will change over the next three years, whereas 53% and 50% of small and medium-sized businesses, respectively, believe the opposite will be true for them.

“58% of global businesses believe their real estate portfolios will become more complex over the next three years.”

Overall, 89% of organisations we spoke to around the Middle East expect some degree of flexibility when describing their future workstyle, with 43% expecting a hybrid environment, and 14% predicting mostly remote working environments. Just 7% expect to be fully flexible in three years’ time, compared to 10% of small businesses.

47% of respondents with a city or country remit expect an “office first” workstyle to prevail over the next three years, leaning towards more traditional working styles, clearly hinting at the strong appetite and backing for the office as the main place to conduct business – rather than hybrid working styles. In contrast, 42% of businesses with a global reach expect hybrid working to dominate in three years’ time.

Expected future workstyle



Source: Knight Frank

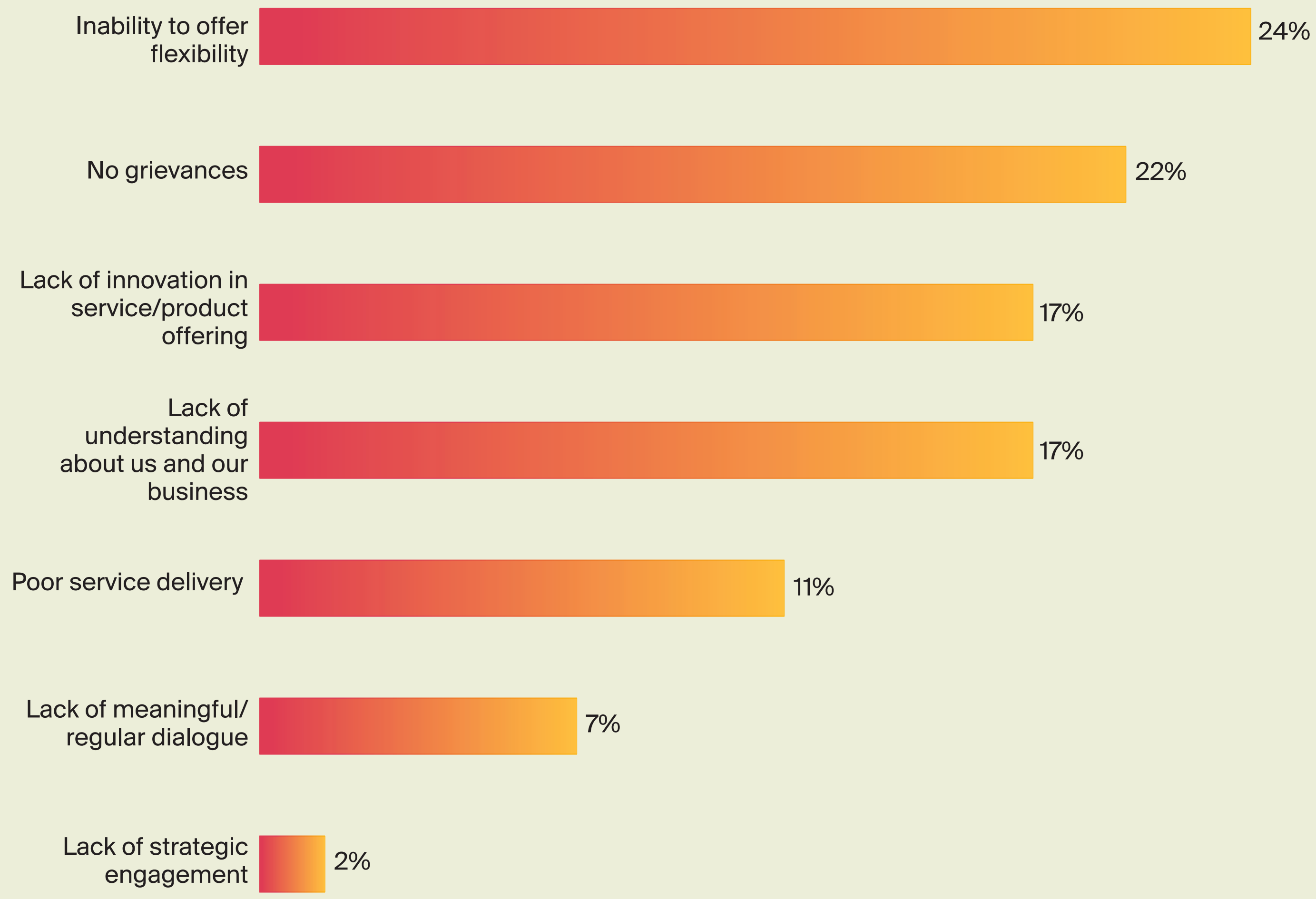
Flexible and co-working demand to grow
Smaller companies are more likely to have lower amounts of flexible space in their portfolios, with 52% saying they would dedicate under 5% of their current office footprints to co-working space. 57% of medium sized businesses are likely to dedicate 5-20% of their current portfolios to co-working space.

An outlier to this trend is those businesses with a smaller geographic reach, i.e., those that only operate in one city, for instance. Such organisations are less likely to embrace flexible space, with 59% planning to have under 5% of their portfolios in co-working environments in the future.

“The lack of innovation by landlords tops the list of grievances for regional businesses.”

Interestingly, the lack of flexibility by landlords (24%) tops the list of grievances for regional businesses, closely followed by a lack of innovation (17%).

Top occupier grievances



*percentages indicate number of times each option was selected

Source: Knight Frank

Post-covid occupational stability

Unlike many other global financial centres, Middle East gateway cities such as Dubai are experiencing surging office demand. New requirements during H1 totalled 580,000 sqft, representing a 23% rise on H1 2022, with a laser-like focus on best-in-class buildings. Unsurprisingly, occupancy levels for most Grade A buildings in the city are at or near 100%.

Future demand
With both the UAE and Saudi Arabia enjoying non-oil PMI sector readings that have been firmly stationed in expansionary territory for over two years, the businesses we surveyed predictably have a distinctly upbeat outlook on their future office occupational levels.

Overall, 52% of the companies we surveyed believe their occupational levels will hold steady for the next three years, while 41% believe they will increase.

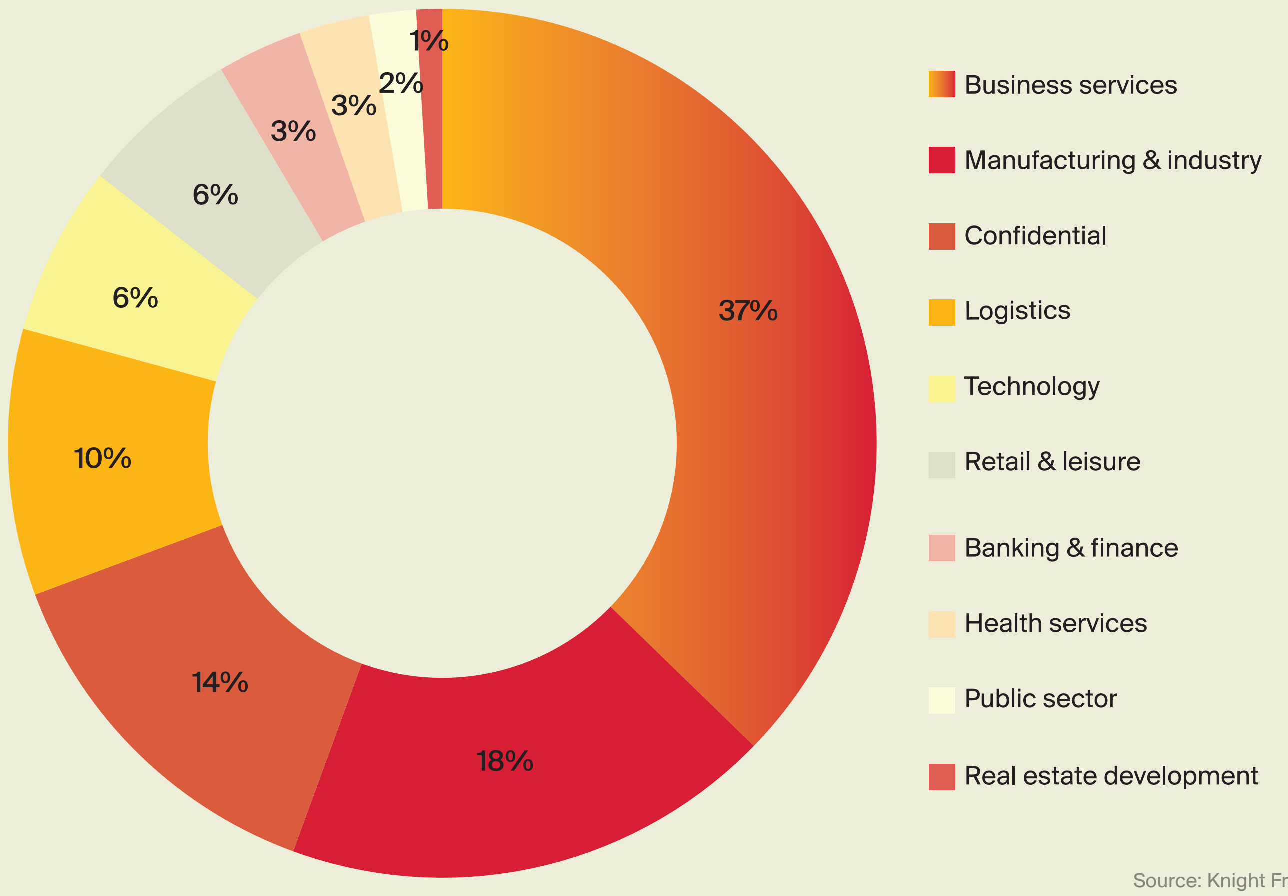
Expansion plans are also high on the agenda. 50% of companies plan to grow the number of offices they occupy within the next three years, rising to 64% for mid-sized businesses. 57% forecast the need for more physical space over the same time frame, with 41% forecasting an increase in floor space by over 20%.

"Expansion plans are high on the agenda for half the businesses we surveyed."

When it comes to the density of their occupation, 50% believe it will remain unchanged, while 37% expect their workplaces to become more densely occupied.

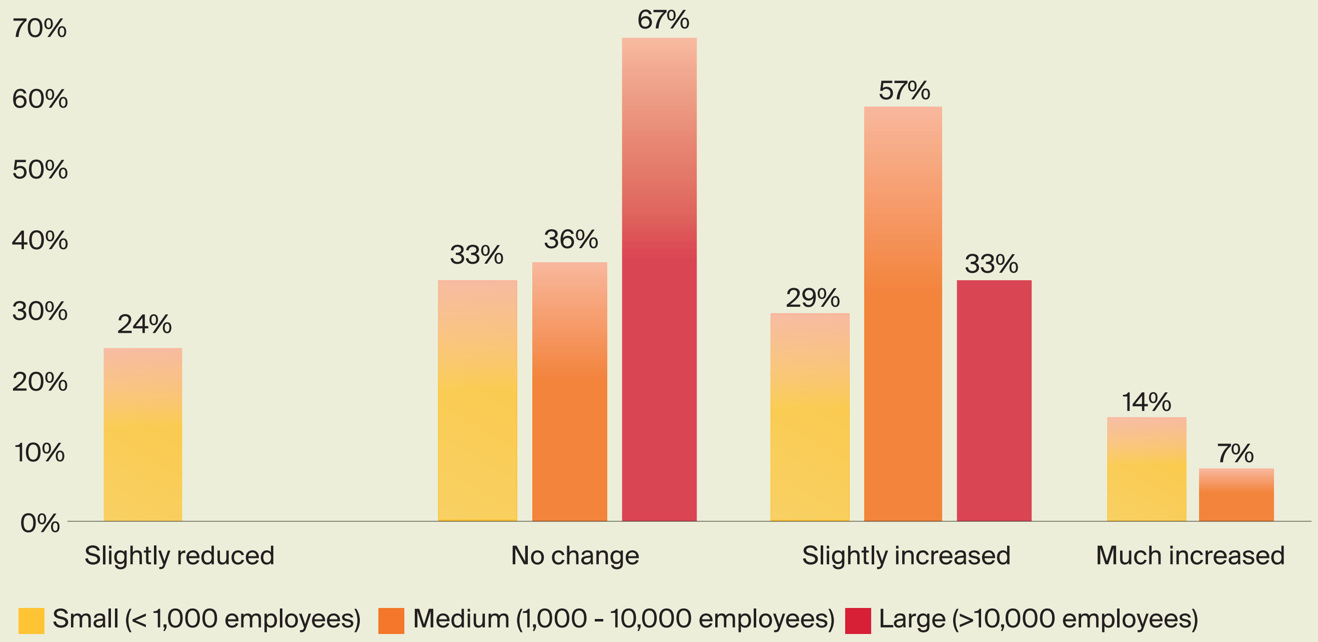
Most respondents (63%) expect no change in their desk to person ratio over the next three years, however 24% of small businesses intend to increase their desk-sharing ratios in the next three years, compared to only 7% of mid-sized companies.

Share of new office requirements by sector in Dubai (H1 2023)



Source: Knight Frank

Expected future number of office locations (by company size)



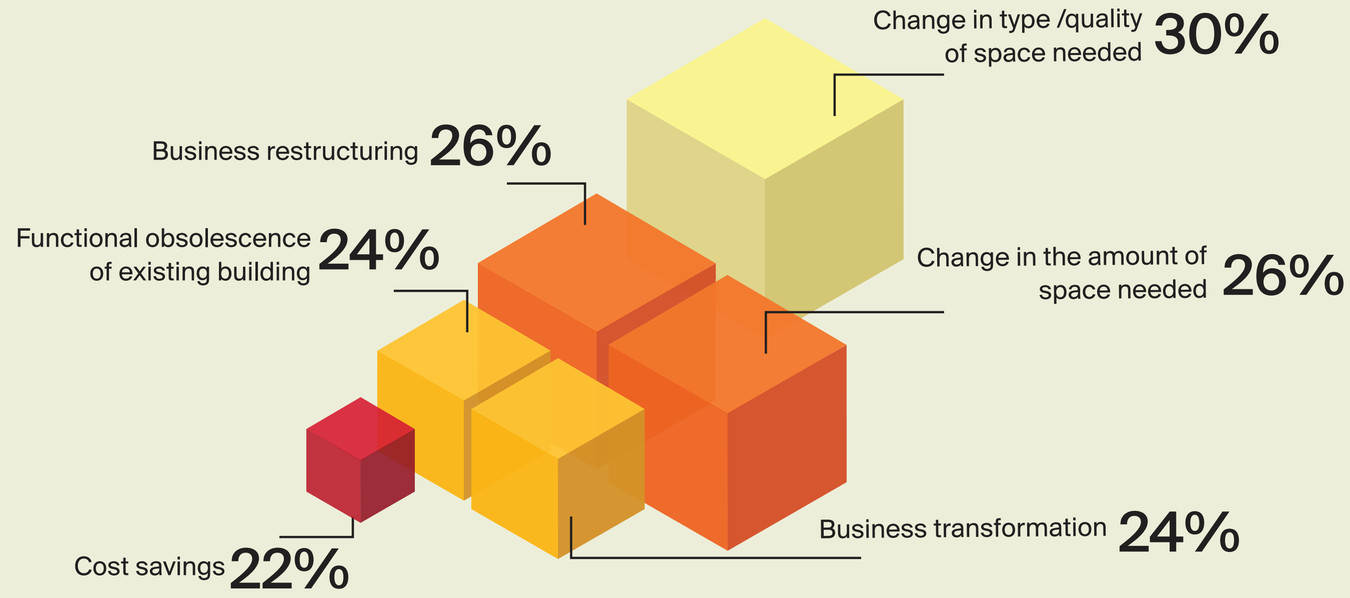
Source: Knight Frank

Relocation bonanza
With high levels of business expansion and recruitment being predicted by national non-oil sector PMI readings in the UAE and Saudi Arabia, it is predictable that 67% of all respondents believe they will need to relocate their headquarters / core premises within the next three years.

71% with a regional scope are likely to relocate, while 71% of mid-sized companies are also expecting the need to relocate in three years' time and the key reason? 50% of mid-sized companies believe functional obsolescence will underpin their future move. By this we mean that there are many occupiers who will require their future office space to be more fit for purpose than their present demise.

"High levels of business expansion are being predicted in the UAE and Saudi Arabia."

Businesses with a global scope feel business restructuring (58%) will be the main reason for any future HQ / core premises relocation, while the main driver for those with a regional remit expect cost savings (35%) to be the main motivator.



*percentages indicate number of times each option was selected

Source: Knight Frank

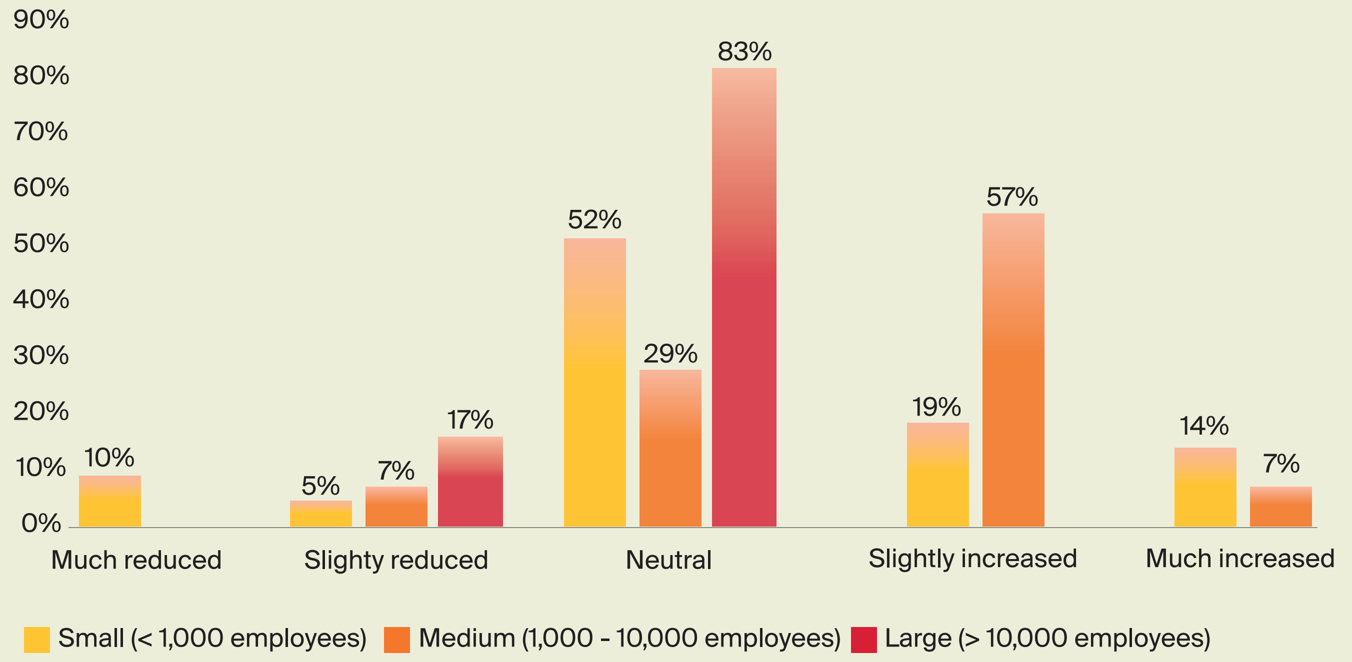
Mismatch between expectations and reality?
Curiously, while 67% of respondents expect to relocate their HQ / core premises within the next three years, only 39% believe they will need higher occupational budgets.

Only one-third of small businesses expect their real estate spending to increase over the next three years, with 15% expecting a decrease in spend. 64% of mid-sized companies expect their real estate outgoings to rise.

"Two-thirds of respondents believe they will need to relocate in the next three years."

Overall, 78% have no specified cost-saving target, but 43% of mid-sized companies do have a predetermined target.

Expected future number of office locations (by company size)



Source: Knight Frank

The ESG awakening

Although ESG considerations are still a relatively nascent concept across the Middle East, there are indications that the market is responding to the global green agenda. These indications are evident through a growing emphasis on occupying sustainable buildings, greater scrutiny around energy efficiency, and environmentally responsible practices in the construction, operation, and managementof properties.

A (false) green dawn?
Developers integrating ESG practices appear to be benefiting financially from the growing demand for ESG-rated office buildings. Global blue-chip businesses, with green mandates, are the principal driver behind this and are willing to pay premiums to occupy such office buildings.

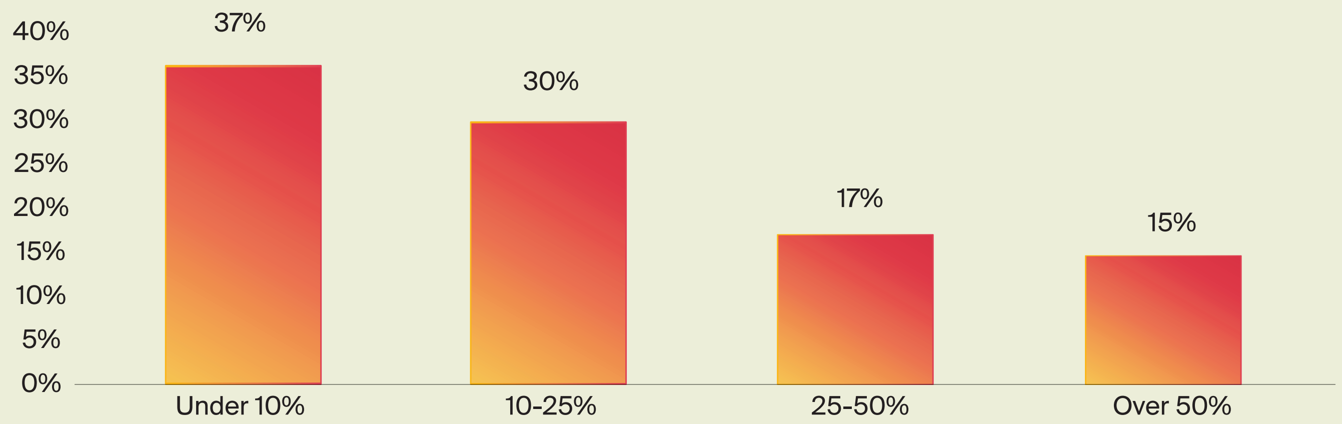
The market trend of occupiers gravitating towards new Grade A developments has continued to intensify throughout the first half of the year. Domestic and international occupiers are actively seeking efficiently managed, ESG accredited, and well-maintained offices, as evidenced by Dubai's now fully committed 1 million sqft ICD Brookfield Place for instance, which is the region's first LEED Platinum and WiredScore Platinum rated building.

Older, more secondary office stock in the Middle East however, almost irrespective of location, continues to face challenges with lease rates still trailing pre-Covid levels. International occupiers are clear on the link between high-quality offices and staff attraction and retention, which is likely to continue hampering the prospect of strong performance for older office buildings in the region. The bigger question lies in how landlords of these older buildings respond to the unwavering occupier focus on well-managed, modern office buildings.

"Global blue-chip businesses are the principal driver of the growing demand for ESG-rated offices."

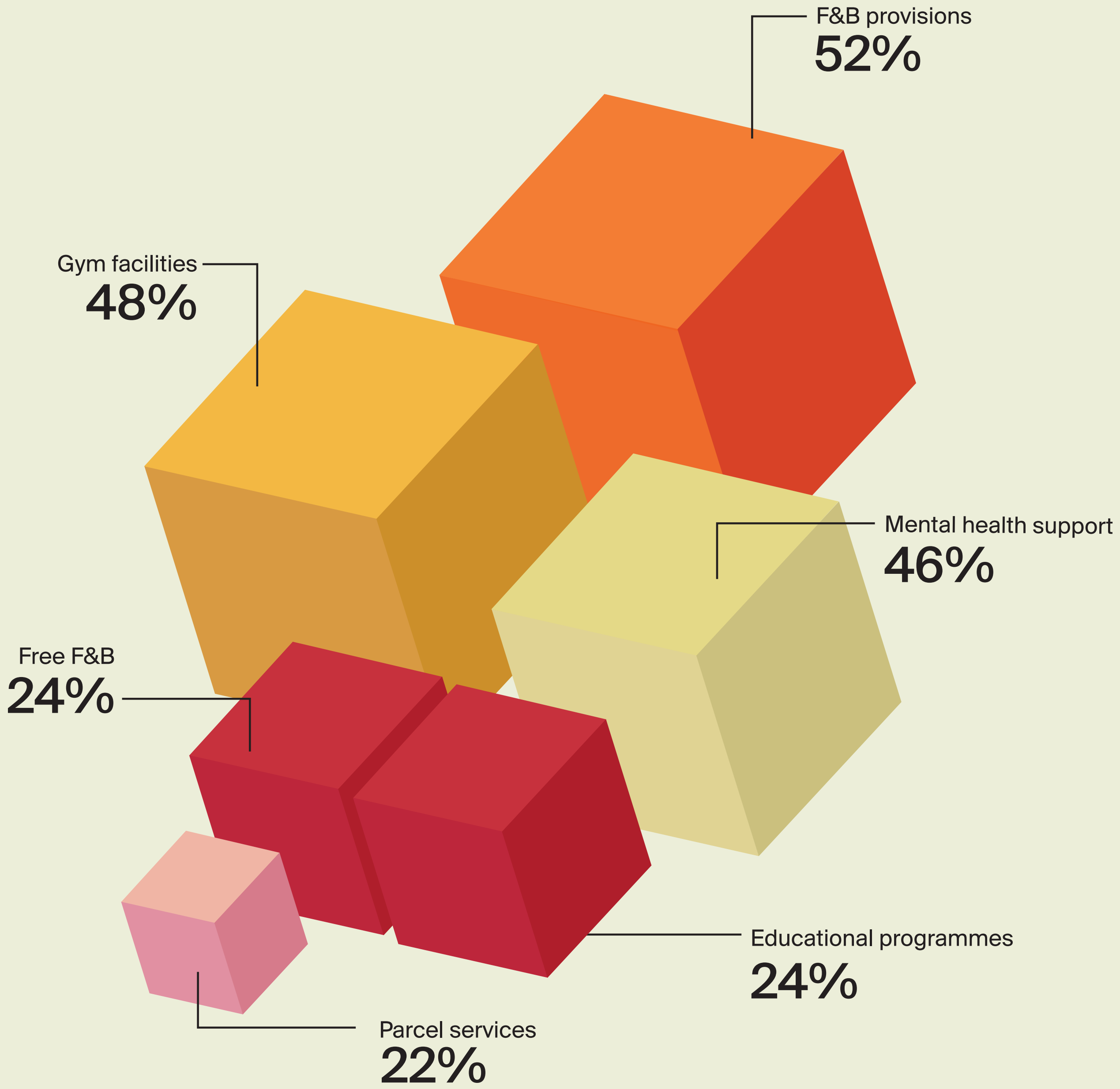
In our survey, 95% of organisations have declared that their business ESG strategies are likely to influence their real estate choices – a stark reminder to landlords of the growing importance of sustainability to businesses and their employees. The figure remains equally high at 76% for companies classed as local businesses. Despite this however, there is appears to be a disconnect between expectations and reality, with most (37%) claiming less than half of their current commercial premises carry a green accreditation. 67% of large organisations claim under 25% of their current portfolio of commercial space is green-rated, suggesting progress towards being truly sustainable has some way to go for most businesses.

Proportion of commercial portfolio expected to be ESG accreditted within three years



Source: Knight Frank

Amenities expected to be in most demand by employees in three years time



*percentages indicate number of times each option was selected

Source: Knight Frank

The Opportunity

Through the results of our unique survey of commercial real estate business leaders in the UAE and Saudi Arabia, we have been able to identify three key areas of opportunity for landlords and developers.

1. Room to grow

Undoubtedly the pandemic has upended working styles across the world and while most international businesses in the Middle East appear to have largely completed any occupational downsizing, or right sizing, their views on the future of their office occupation are clear, with 42% of global businesses predicting that hybrid working will dominate their occupational strategies in three years' time.

With cities such as Dubai and now Riyadh positioning themselves as regional hubs for global corporates, such a future may have wide ranging consequences for office demand. While both cities' prime office buildings remain well occupied – indeed, many have waiting lists – this may not always be the case, particularly if hybrid working models become permanently entrenched.

The opportunity then for landlords is to future proof their portfolios by allowing greater occupational flexibility for their tenants (ranked as the number one grievance in our survey) through not only the provision of more flexible lease terms, but also the opportunity for businesses to expand in and out of flexible and co-working space, which could either be provisioned for in the same building and for landlords of scale, within their portfolios.

'Start-up to global multinational', end-to-end service strategies will help landlords retain tenants within their portfolios for longer and also allow businesses the flexibility they crave. This is especially true for mid-sized businesses, 57% of whom are likely to dedicate 5-20% of their current portfolios to co-working space within the next three years.

2. Green considerations

ESG considerations are rising, particularly among international occupiers across the region. As noted above, many have global mandates to occupy nothing less than ESG-accredited space, with many willing to pay a premium for the privilege of doing so.

95% of those we spoke to say their ESG considerations will impact their future real estate choices – a significant concern for markets around the region that remain starved of internationally-accredited green buildings. Buildings that are accredited using local systems such as Abu Dhabi's Estidama, are however accepted by some occupiers.

> **"95% of companies say their ESG considerations will impact future real estate choices."**

The solution may seem obvious, but securing ESG ratings, particularly for older buildings is often a cost prohibitive exercise. The challenge is laid bare when you consider that 51% of office stock in Dubai's DIFC – the emirates premiere office hub – was completed prior to 2010 and across town, the average age of office buildings in the Internet and Media Cities is 16 years. Notwithstanding any refurbishment activity that has taken place, the bulk of office stock in these locations is aging.

A similar problem exists in Riyadh, where for instance 50% of office space on King Fahd Road and 84% of office space on Olaya Road is over 5-10 years old. And with King Abdullah Financial District fully committed, the divergence in rents between Grade A and Grade B space is likely to continue widening as occupiers zero in on the best buildings.

Our estimates suggest that office refurbishment costs in Dubai range from AED 280-580 psf, with a further 40-50% uplift to achieve a LEED Silver certification. While these costs may appear cost prohibitive, the alternatives are limited to a change of use, a gradual decline in occupation and rents, or a 'demolish and rebuild' route.

While the latter may appeal to many, future development financing is likely to include carbon footprint clauses, which may bring further challenges as rebuilding often has a substantially higher carbon footprint than refurbishment.
In some instances, of course, refurbishment may not be possible, not only because of the cost implications, but the building superstructure may not be able to accommodate the retrofit required.

So, what options remain? Less invasive ESG accreditations such as WELL, for instance, could be explored, which place the occupant of the space at the heart of building design – again this is something that international occupiers are actively seeking as part of their talent attraction and retention strategies.

3. Amenities, amenities, amenities
Finally, amenities valued by most occupiers tend to be recreational, including food and beverage offerings (52%), gym facilities (48%), and facilities supporting mental well-being (46%). In the Middle East, parking too is high on the agenda for most occupiers.

Rather than viewing amenity provision as a loss of net leasable area, landlords need to view these facilities through the eyes of occupants. As noted above, placing the occupier at the heart of building design will be key to ensuring the longevity of occupiers' tenures.

> **"Placing the occupier at the heart of building design will be the key to ensuring longevity."**

Staff that are both happy and proud in their work environments are likely to be more productive, delivering greater business productivity in the long-term. This in turn is likely to result in a business renewing its lease, or indeed expanding in situ – a highly desirable scenario in a global environment where businesses will apply greater scrutiny to real estate decision making in the future, as noted above.

LEED

The Leadership in Energy and Environmental Design (LEED) is the world's most well-known green-rating system for buildings. 80,000 buildings globally are LEED certified.

WIREDSCORE

A global digital connectivity rating system that currently covers over 700 million sqft of global real estate.

WELL

A performance-based measure used to assess and promote the health and well-being of a building's occupants.

BREAM

Developed by the Building Research Establishment (BRE) in 1990 inthe UK, BREAAM is the world's oldest green building certification system and is currently used in 50 countries and covers over two million buildings.

Dubai office market in numbers

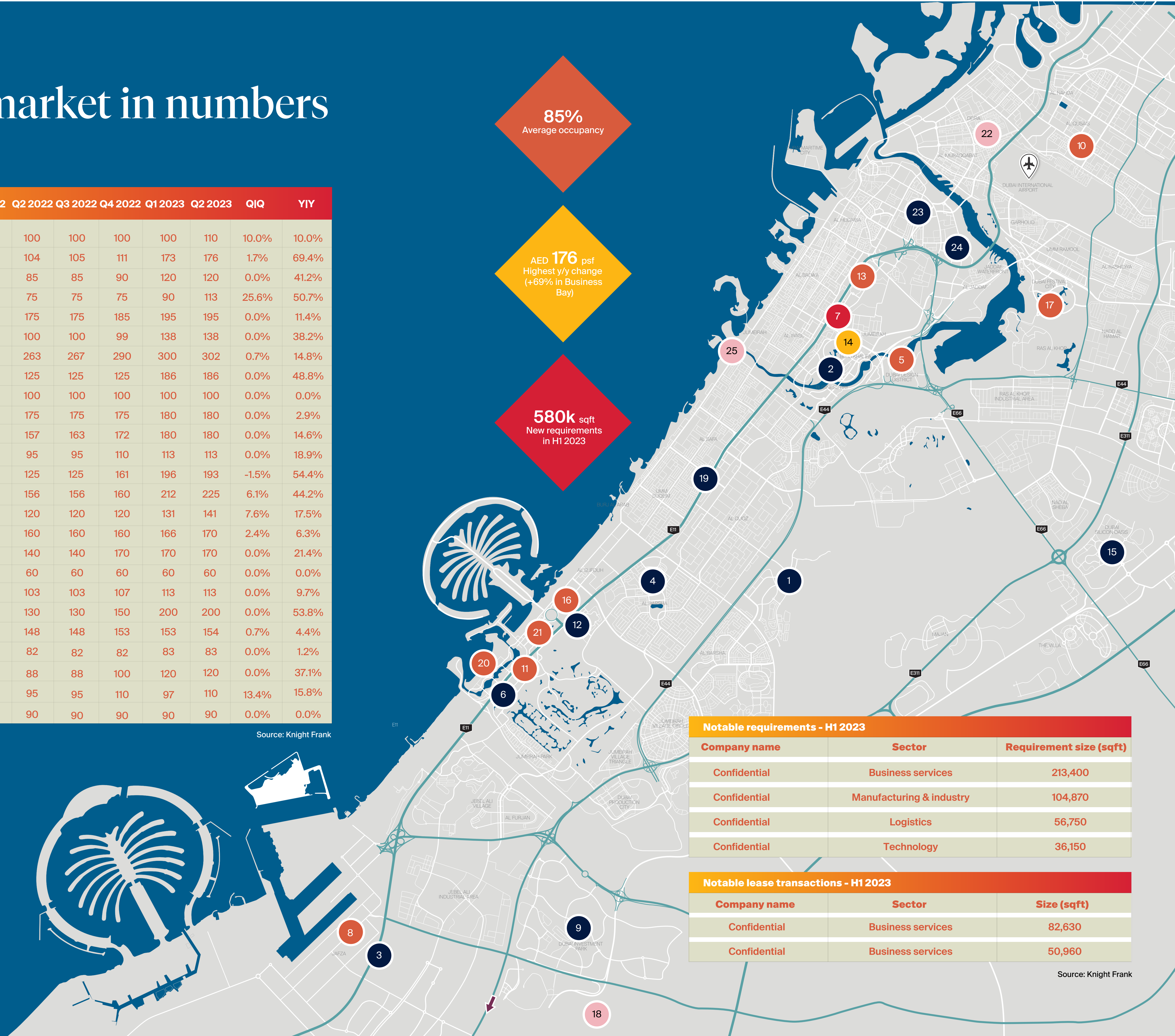
	Location	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q2 2023	Q/Q	Y/Y
1.	Dubai Hills	75	100	100	100	100	110	10.0%	10.0%
2.	Business Bay	101	104	105	111	173	176	1.7%	69.4%
3.	Downtown Jebel Ali	95	85	85	90	120	120	0.0%	41.2%
4.	Barsha Heights	75	75	75	75	90	113	25.6%	50.7%
5.	Dubai Design District	175	175	175	185	195	195	0.0%	11.4%
6.	Jumeirah Lake Towers	98	100	100	99	138	138	0.0%	38.2%
7.	DIFC	256	263	267	290	300	302	0.7%	14.8%
8.	JAFZA	125	125	125	125	186	186	0.0%	48.8%
9.	Dubai Investments Park	100	100	100	100	100	100	0.0%	0.0%
10.	DAFZA	175	175	175	175	180	180	0.0%	2.9%
11.	SZR (East)	152	157	163	172	180	180	0.0%	14.6%
12.	The Greens	95	95	95	110	113	113	0.0%	18.9%
13.	Trade Center District	123	125	125	161	196	193	-1.5%	54.4%
14.	Downtown	152	156	156	160	212	225	6.1%	44.2%
15.	Dubai Silicon Oasis	120	120	120	120	131	141	7.6%	17.5%
16.	Dubai Internet City	160	160	160	160	166	170	2.4%	6.3%
17.	Festival City	140	140	140	170	170	170	0.0%	21.4%
18.	Dubai South	60	60	60	60	60	60	0.0%	0.0%
19.	SZR (West)	100	103	103	107	113	113	0.0%	9.7%
20.	Dubai Marina	130	130	130	150	200	200	0.0%	53.8%
21.	Dubai Media City	140	148	148	153	153	154	0.7%	4.4%
22.	Deira	82	82	82	82	83	83	0.0%	1.2%
23.	Bur Dubai	88	88	88	100	120	120	0.0%	37.1%
24.	Dubai Healthcare City	90	95	95	110	97	110	13.4%	15.8%
25.	Jumeirah Beach Road	90	90	90	90	90	90	0.0%	0.0%

Source: Knight Frank

85%
Average occupancy

AED **176** psf
Highest y/y change (+69% in Business Bay)

580k sqft
New requirements in H1 2023



PRIME RENTS (AED PSF)

- 251 - 600
- 201 - 250
- 151-200
- 101-150
- 50 - 100

Notable requirements - H1 2023

Company name	Sector	Requirement size (sqft)
Confidential	Business services	213,400
Confidential	Manufacturing & industry	104,870
Confidential	Logistics	56,750
Confidential	Technology	36,150

Notable lease transactions - H1 2023

Company name	Sector	Size (sqft)
Confidential	Business services	82,630
Confidential	Business services	50,960

Source: Knight Frank

Knight Frank

CONTACTS

James Hodgetts
Partner - Occupier Strategy and Solutions, MEA
james.hodgetts@me.knightfrank.com
+971 56 321 7600

Mohamed Nabil
Regional Partner - Head of Project & Development Services, MENA
mohamed.nabil@me.knightfrank.com
+20 115 370 0038

Yazeed Hijazi
Associate Partner - Co-Head of Strategy & Consultancy, KSA
yazeed.hijazi@me.knightfrank.com
+966 54 525 4794

Faisal Durrani
Partner - Head of Research, MENA
faisal.durrani@me.knightfrank.com
+971 4 426 7698

Stephen Flanagan
Partner - Head of Valuation & Advisory, MENA
stephen.flanagan@me.knightfrank.com
+971 50 813 3402

Ben Walker
Partner - Head of Building Consultancy, MENA
ben.walker@me.knightfrank.com
+971 50 245 6659

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

Shehzad Jamal
Partner - Strategy & Consultancy, MEA
shehzad.jamal@me.knightfrank.com
+971 56 410 1298

Lee Elliott
Partner - Global Head of Occupier Research
lee.elliott@knightfrank.com
+44 7468 729 187

Adam Wynne
Associate Partner - Occupier/Landlord Strategy and Solutions, UAE
adam.wynne@me.knightfrank.com
+971 56 474 1921

Harmen De Jong
Regional Partner - Head of Consultancy, MENA
harmen.dejong@me.knightfrank.com
+966 56 304 5356

RECENT PUBLICATIONS

Dubai Office Market Review Summer 2023

Abu Dhabi Office Market Review Summer 2023

Saudi Arabia Commercial Review H1-2023

Discover our research:
knightfrank.ae/research

Our registered office address: 39th floor, Media One Office Tower, Al Falak Street, Dubai Media City

@KnightFrankMENA @KnightFrankMENA @KnightFrankMENA
@KnightFrankMENA @MENAKnightFrank