COMMERCIAL RESEARCH

ABU DHABI OFFICE MARKET REVIEW Q3 2017

Average rents in Abu Dhabi's office market continue to decline although recent positive macroeconomic data may mean a more optimistic outlook for the sector in the coming year.

Key findings

Average grade A rents across the city have fallen by 11.5% in the year to Q3 2017

Prime market rents in Q3 2017 on average stood at AED 1,774 (sqm/p.a.), Grade A at AED 1,150 (sqm/p.a.) and Citywide rents at AED 1,167 (sqm/p.a.)

Vacancy as at Q3 2017 remains relatively stable at 23%

Forecasts show that Abu Dhabi's GDP growth is expected to pickup in 2017 to 3.9% and 4.7% in 2018

TAIMUR KHAN
Senior Analyst

"Vacancy as at Q3 2017 remains relatively stable at 23%, given that we forecast supply to increase, we expect the overall vacancy rate to rise slightly."

Macroeconomic Overview

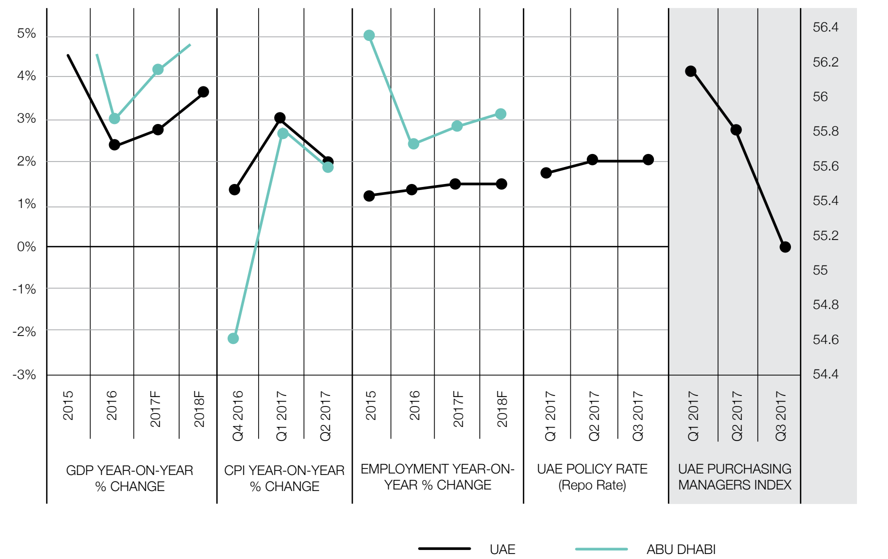
Abu Dhabi's GDP decreased by 6.4% in 2016, up from -8.9% in 2015 (on current price levels), with the crude oil and natural gas sectors' slowdown impacting headline economic growth. Forecasts show that GDP growth is expected to pick-up in 2017 to 3.9% and 4.7% in 2018 – outpacing the overall UAE's GDP growth rates of 2.7% and 3.3% over the same period respectively.

Headlines over the last two years have focused on the decline of the hydrocarbon sector (oil and natural gas). Given its entrenched nature within Abu Dhabi's economy, there were some knock on effects, where capital expenditure was halted as a result of the non-oil sectors performance. However, these sectors have remained relatively resilient despite the scale of declines seen in the hydrocarbon sector, with the latest data showing that most continued to expand, albeit not at the rates observed prior to the oil price collapse.

Future growth rates in the non-oil sectors (except agriculture) in Abu Dhabi are forecast to start registering stronger rates of growth from 2017 onwards. Indeed, business sentiment has registered four continuous months of increases. The Purchasing Managers Index has registered strong readings over the course of 2017 and with the latest registered reading at 55.1 in September 2017, indicating a strong expansion of the non-oil sector.

Finally, it would appear that OPEC's cuts on oil supply seem to be underpinning oil prices, with prices now up, averaging c. US$50 per barrel. Early indicators show that the bloc is slowly clearing the 'global glut' which has dampened prices over the last two years. There is also growing consensus amongst the bloc to extend cuts up to March 2018, where analysts estimate supply will be back at historic supply/demand levels. This is likely to provide further support for oil prices and may lead to government and oil sector firms in Abu Dhabi slowing or even reversing recent cutbacks in employment levels.

FIGURE 1
Economic indicators



Source: Knight Frank Research, Oxford Economics

Note: Purchasing Managers Index: A reading of 50 equates to no change, above or below representing growth or decline respectively

Please refer to the important notice at the end of this report.

Market Review

On the back of continued sluggish economic performance, Abu Dhabi's occupier rental rates continued to trend down across all segments of the market. With weaker demand from the public sector and oil sector firms being the most significant factor underpinning the trend.

Activity in the market continues regardless of these major cutbacks, however the vast majority of space requirements are in the 100 sqm to 500 sqm range with general trading and professional trading firms making up the majority of demand.

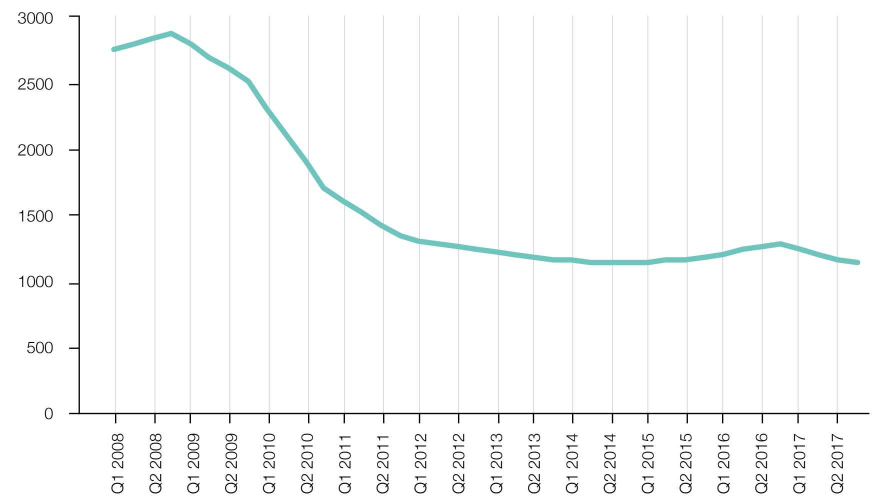
In the year to Q3 2017, average grade A rents across the city have fallen by 11.5%.

Prime market rents in Q3 2017 on average stood at AED 1,774 (sqm/p.a.), Grade A at AED 1,150 (sqm/p.a.) and Citywide rents at AED 1,167 (sqm/p.a.).

Vacancy as at Q3 2017 remains relatively stable at 23%, given that supply is forecast to increase by up to an additional 80,000 square metres in 2018, in comparison to 2017, we expect the overall vacancy rate to increase slightly.

FIGURE 2

Rental rates for Grade A shell & core office space in Abu Dhabi (AED/sq m/p.a.)



Source: Knight Frank Research

FIGURE 3

Average rents by market segment

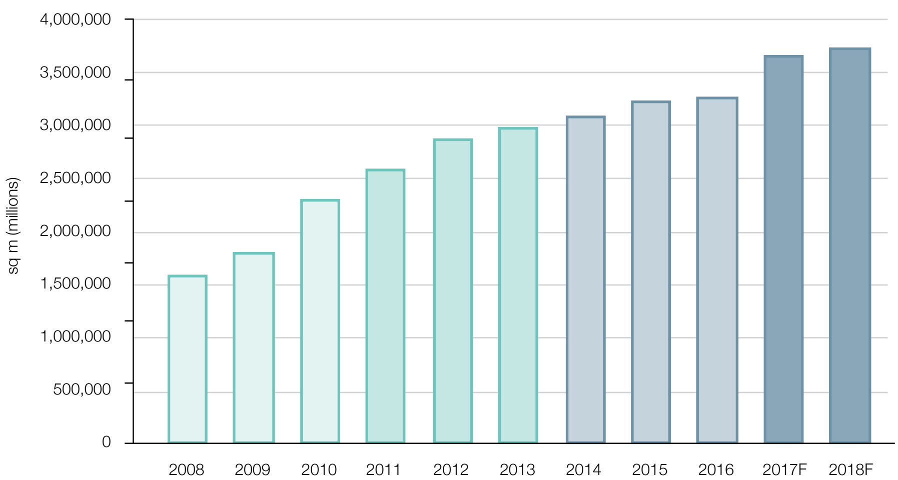
Type	AED/sq m/p.a.
Prime	1,774
A	1,150
Citywide	1,167

Definitions (With guidance from the Best Practice Standards for Office Developments (2015 V2.0) by the Middle East Council for Offices (MECO): **Prime:** The Prime segment represents the average rent of the top 5% of all lettings in the market. **Grade A:** This segment of the market represents offices which are adjacent to the city centre, with rents on average higher than those in the citywide market. **Citywide:** This segment represents the broader city offices market, outside the 'core city', where usually a significant of office buildings are grouped

Source: Knight Frank Research

FIGURE 4

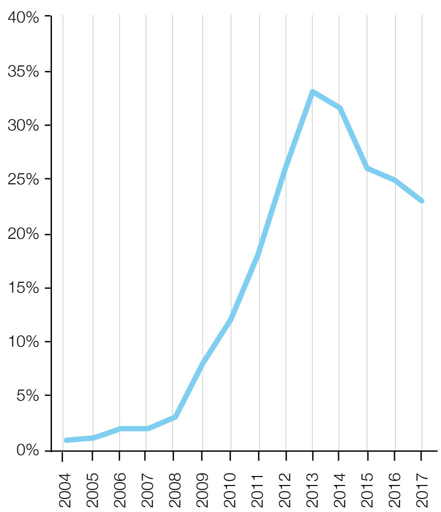
Abu Dhabi, current stock and future supply forecast



Source: Knight Frank Research

FIGURE 5

Abu Dhabi vacancy rate



Source: Knight Frank Research

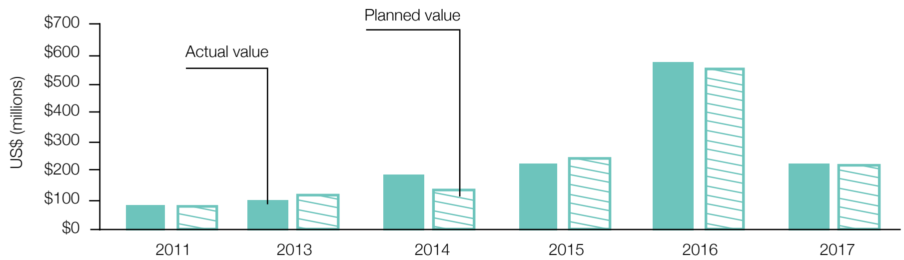
Outlook

The short to medium term outlook for Abu Dhabi's office market remains negative, however we expect that not all of the forecast supply (figure 4) will come to fruition. According to data from MEED Projects, the value of projects awarded in the office sector in 2017 has significantly decreased in comparison to projects awarded in 2016 *(Figure 6)*. More so the majority of planned projects are likely to be owner occupied, therefore new leasable supply to the market will be less than the number quoted in *Figure 4*.

The slowdown in new supply could provide a floor to rental values across the capital in the long run. This is particularly the case in the Prime and Grade A segment, where supply is already somewhat limited. These segments of the market begin to bottom out at a faster rate compared to the mainstream market.

Finally, focusing on one particular area of the market: Abu Dhabi Global Markets (ADGM) recently witnessed a range of new regulations which may lead to the ADGM appealing to a broader range of occupiers. In early 2017, ADGM approved the use of private Real Estate Investment Trusts (REITs) as Qualified Investment Funds. Given the recent increase in appetite in the region for REIT exposure, this may foster an increase in demand for office space within the ADGM. Additional developments include the news that International Swaps and Derivatives Association (ISDA) has recognised that the ADGM's over-the-counter derivatives regulations now meet global standards. In addition to this, the setup of ADGM's Reglab, the MENA region's first fintech regulatory sandbox and framework. These developments will enhance the attractiveness of ADGM as an international financial centre.

FIGURE 6
Projects awarded



Source: MEED Projects

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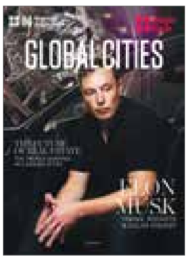

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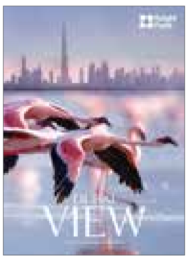

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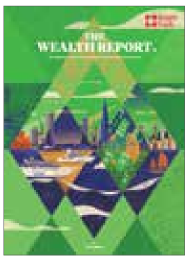

The Wealth Report 2017

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