

# ABU DHABI OFFICE MARKET REVIEW Q3 2019

## Key findings

Abu Dhabi's economy continues to strengthen with GDP growing by 5.7% in the year to Q1 2019, the strongest rate of growth registered since Q4 2015.

In the year to Q3 2019, average rents in Abu Dhabi have seen declines of 9.1%.

The Grade A office market saw rents decline by 4.4% on average in the year to Q3 2019, Grade A average rents in Q3 2019 were recorded at AED 1,290 (sqm/p.a.).

Prime rents registered at AED 1,535 (sqm/p.a.), an 11.0% decline when compared to the same quarter a year earlier.

Take up remains subdued across the market, however Abu Dhabi Global Market remains the location of choice in attracting new global corporate occupiers.

Even with economic growth strengthening in Abu Dhabi, office rents continue to decline across most segments of the market.

## Macroeconomic overview

Abu Dhabi's economy continues to strengthen with GDP growing by 5.7% in the year to Q1 2019, the strongest rate of growth registered since Q4 2015. However, headline growth has been driven only by the oil sector, which grew by 12.8% in the year to Q1 2019, whereas the non-oil sector has witnessed a 0.9% contraction over the same period.

Despite the relatively positive headline numbers stated above, Abu Dhabi's economy, and indeed the wider UAE and global economy, are facing strengthening economic headwinds. On a global level, economic sentiment is slowly deteriorating. Global manufacturing and services Purchasing Managers' Indices (PMIs) – which measure private sector activity – recorded negative or anaemic levels of growth respectively. The UAE's PMI, which recorded a reading of 51.1 in September 2019, is at its lowest level seen since May 2010. A slowdown in new work has caused the index to slip

from highs of 59.4 witnessed only four months earlier. Firms in general are less optimistic, with more than half of firms surveyed expecting their output to remain unchanged over the next 12 months.

In spite of the tougher economic backdrop the easing of a range of regulations, and the implementation of the three year 'Ghadan 21' AED 50 billion (USD\$ 13bn) stimulus package seem to be providing support for the economy. Data from the Ministry of Human Resources and Emiratization shows that in the year to June 2019, Abu Dhabi saw 26,034 net new jobs added compared to 4,911 net job losses in the same period a year earlier. However, Abu Dhabi's private sector employment saw a quarter-on-quarter percentage decline of 0.2% in Q2 2019.

The impact of these aforementioned easing of regulations and stimulus packages is still filtering through the

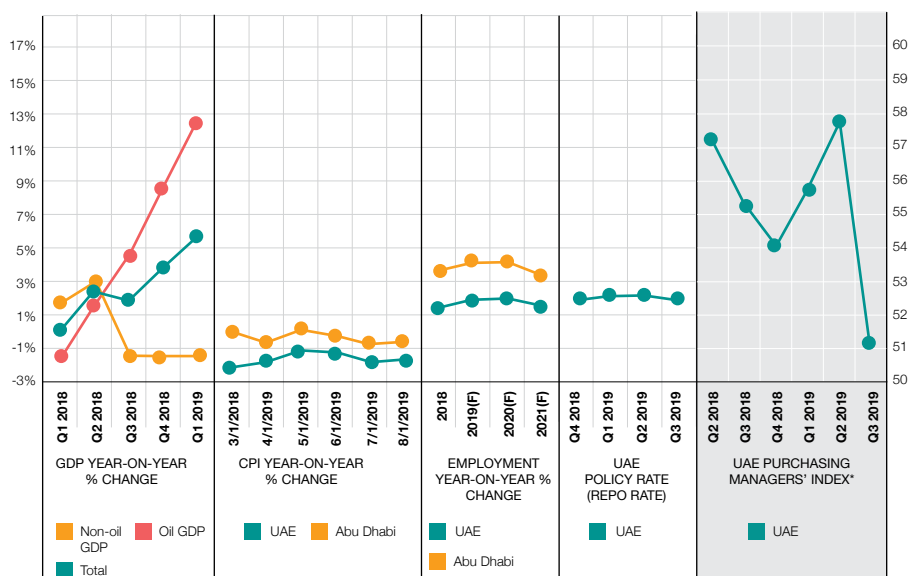


**MATTHEW DADD**  
Partner, Occupier Services and Commercial Agency

“Given a weak market backdrop, Abu Dubai's office market is balanced in the favour of occupiers. As a result, landlords are willing to remain flexible in order to retain occupiers, alongside other incentives in the case of attracting new occupiers.”

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

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

economy, therefore we expect there is still further upside to be realised.

As a result of these initiatives among other investment programs, which have been announced in early 2019, Abu Dhabi's GDP growth rate over the course of 2019 and 2020 is expected to strengthen with GDP forecast to grow by 3.9% and 4.9% respectively.

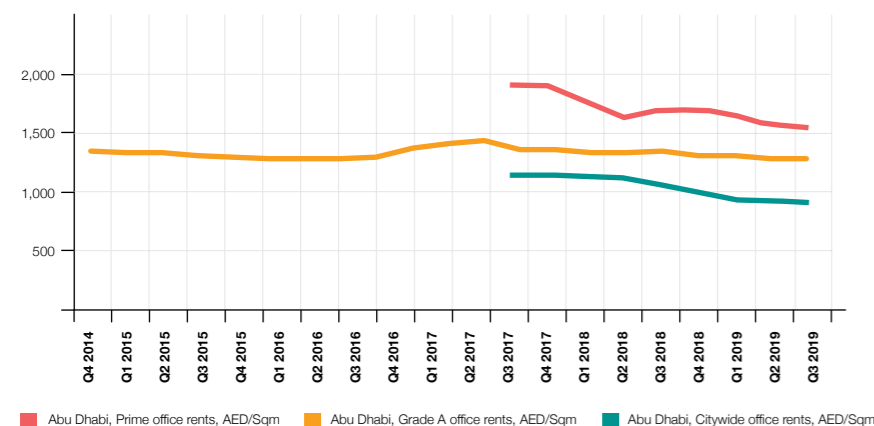
**Market review**

New take-up activity in Abu Dhabi's occupier market continues to be relatively lacklustre. The vast majority of activity

in the market stems from consolidation, as firms look to restructure and optimise operations amid a more uncertain economic backdrop. Abu Dhabi Global Market on Al Maryah Island, is one of the few locations where we have witnessed continued take up by new incoming occupiers.

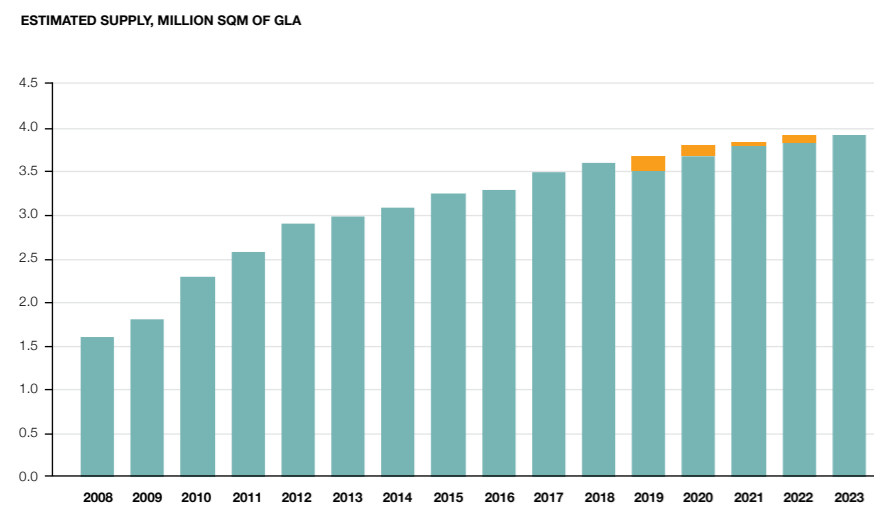
Given this market backdrop, Abu Dhabi's office market is balanced in the favour of occupiers. As a result, landlords are willing to remain flexible in order to retain occupiers, alongside other incentives in the case of attracting new occupiers.

FIGURE 3  
Abu Dhabi average office rents (AED/ sq m/ p.a.)



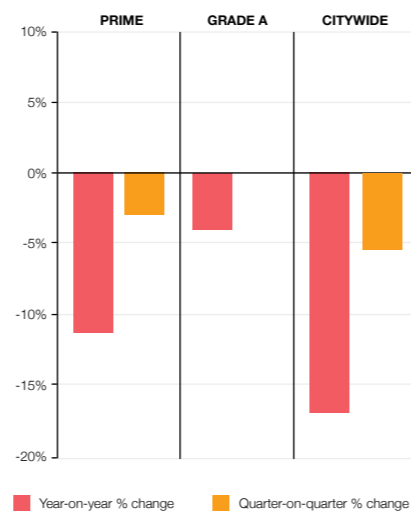
Source: Knight Frank Research

FIGURE 4  
Abu Dhabi office supply



Source: Knight Frank Research

FIGURE 2  
Abu Dhabi office market performance, to Q3 2019



Source: Knight Frank Research

In the year to Q3 2019, average rents in Abu Dhabi have seen declines of 9.8%. The Grade A office market saw rents decline by 4.4% on average in the year to Q3 2019, Grade A average rents in Q3 2019 were recorded at AED 1,290 (sqm/p.a.). The rate of decline in citywide rents continues to increase with rents falling by 16.7% over 12 months to September 2019.

As at Q3 2019, Prime rents registered at AED 1,535 (sqm/p.a.), an 11.0% decline when compared to the same quarter a

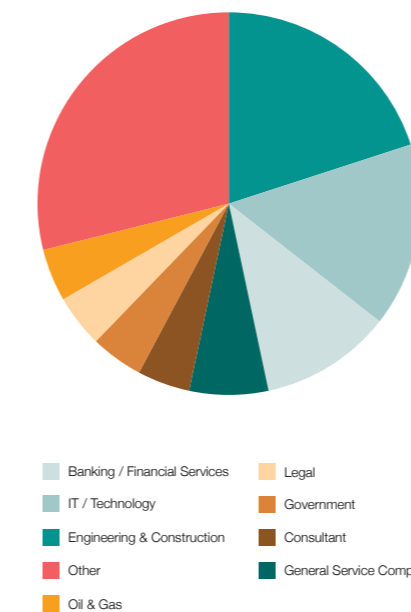
year earlier. On a more positive note, the quarter-on-quarter rate of decline has slowed in Q3 2019 compared to Q2 2019 across all market segments.

According to Knight Frank data, in the year to Q3 2019, demand remains favoured towards floor areas below 500 square metres, with 60.8% of demand being for space in this segment. Only 15.6% of enquiries were for floor space above 1,000 square metres. Central locations in Abu Dhabi garner the majority of demand, where 53% of enquiries were

for such areas in the year-to-date Q3 2019.

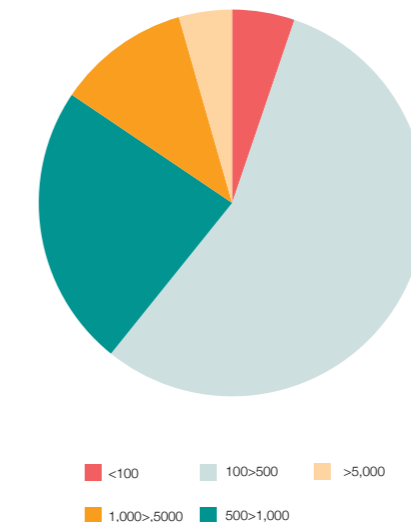
Over the same period, 20% of demand recorded by Knight Frank stemmed from the engineering and construction sectors, which reflects the stimulus packages in the economy. IT and technology firms accounted for the next largest sector of demand with 15.6% of enquiries coming from this sector, which is also a reflection of the diversification being made in Abu Dhabi. Banking and financial services firms accounted for 11.1% of demand over this nine-month period.

FIGURE 5  
Demand by sector (%), Q3 2019



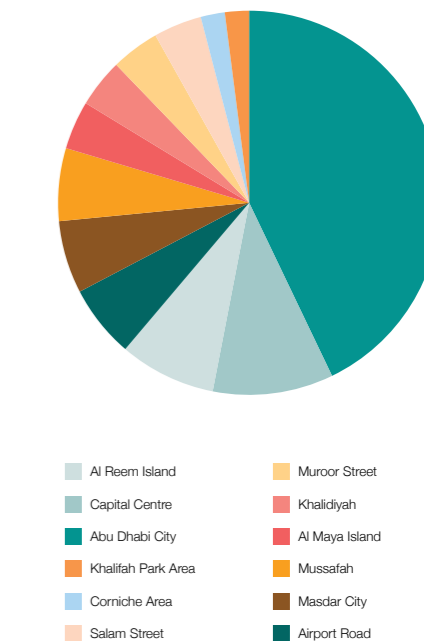
Source: Knight Frank Research

FIGURE 6  
Enquiries by size (SQM) (%), Q3 2019



Source: Knight Frank Research

FIGURE 7  
Demand by Location (%), Q3 2019



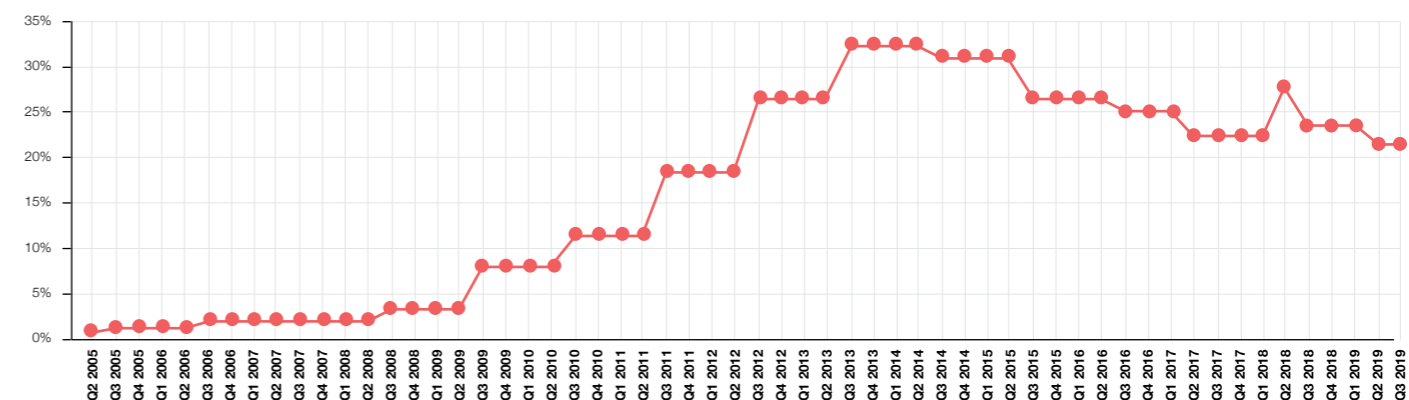
Source: Knight Frank Research



**TAIMUR KHAN**  
Associate Partner

"Looking ahead, we may witness consolidation in the market as a result of the decision by the UAE Cabinet to approve the 100% foreign ownership law. The law permits 122 activities across 13 sectors for 100% foreign ownership. This, alongside increased dual licencing offerings from Free Zones, may mean firms consolidate and optimise their real estate portfolios in the UAE leading to further pressure on market rents."

FIGURE 8  
Abu Dhabi vacancy rate



Source: Knight Frank Research

## Outlook

Looking ahead, we expect the market to remain favoured towards occupiers, where over the short to medium term rents are likely to continue to trend down. Prime and Grade A rents are likely to be less impacted given the scarcity of stock in these segments of the market. However, as expected, if economic activity picks up this may be a hindrance as the scarcity of Prime and Grade A space may mean occupiers are hesitant to increase the size of their operations in Abu Dhabi. This issue currently is not being addressed as potential upcoming developments are mainly in Grade B locations and not of Prime or Grade A quality, which global corporates and government entities prefer.

Finally, we may witness consolidation in the market as a result of the decision by the UAE Cabinet to approve the 100% foreign ownership law. The law permits 122 activities across 13 sectors for 100% foreign ownership. This, alongside increased dual-licencing offerings from Free Zones, may mean firms consolidate and optimise their real estate portfolios in the UAE, leading to further pressure on market rents. However, given Abu Dhabi's general lack of Free Zone offering we believe the impact of these regulatory changes is likely to be limited in Abu Dhabi.

**Definitions** (With guidance from the Best Practice Standards for Office Developments (2015 V2.0) by the Middle East Council for Offices (MECO):

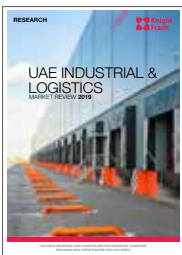
**Prime:** The Prime segment represents the average rent of the top 5% of all lettings in the market

**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 number of office buildings are grouped

**Composite:** The composite data represents is an average of all aforementioned markets

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