

Abu Dhabi Office Market Review



Summer 2023

A biannual review of key trends and the performance of
Abu Dhabi's office market

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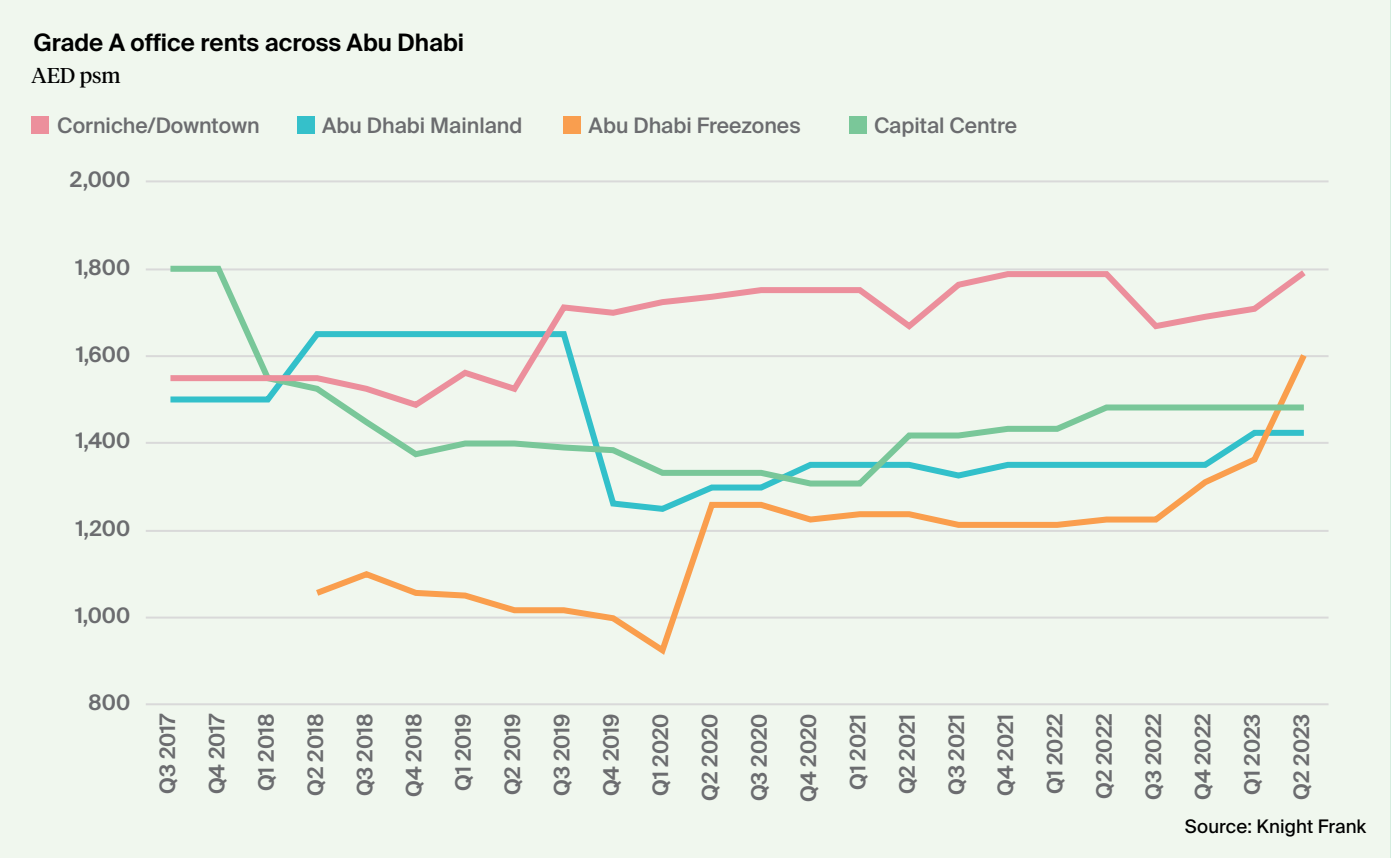
Abu Dhabi's office market performance

In the first half of 2023, the office rental market in Abu Dhabi has remained steady, fuelled by a lack of new supply and rising occupier demand.

At a submarket level, Grade A office rents in Corniche/ Downtown (AED 1,800 psm) have remained virtually unchanged over the same period, however, have risen by 4% since January 2020.

In contrast, average rents within Abu Dhabi Freezones (which now includes Al Reem Island) have risen by 31% over the past 12 months, reaching AED 1,600 psm, driven by a combination of increased demand from businesses expanding their operations and a limited supply of available commercial space.

Al Reem Island, which now falls under the jurisdiction of Abu Dhabi Global Market (ADGM) now provides occupiers with access to both a wider range of options as well as more competitive rents, which we feel will help to boost the appeal of ADGM to a wider range of potential occupiers.



ADGM expands into Al Reem Island

As of April 2023, the jurisdiction of the ADGM financial free zone has expanded to Al Reem Island, adjacent to its current home of Al Maryah Island, making it one of the largest financial districts in the world, with a total land area of 14.4 million sqm – 10 times greater than its current footprint.

Increasing demand from businesses to relocate here or establish a presence has helped to keep rents relatively unchanged until late last year when demand began to exceed supply, resulting in a 31% year-on-year increase in rents as outlined previously. Al Maryah Island's occupancy levels are at an all-time high of c.95%, according to our estimates.

Businesses, especially those seeking financial service licenses, have been affected by the scarcity of office space. Having office space is a requirement for obtaining final approval from ADGM's Financial Services Regulatory Authority (FSRA) for their Financial Services Permission (FSP). This expansion is expected to help simplify the FSP application process.

The expansion of ADGM's jurisdiction has also been spurred by international companies choosing Abu Dhabi as a preferred destination to expand and grow their businesses globally. This underlines ADGM's Growth Strategy 2023-2027, which aims to grow the financial sector in the emirate, positioning it as a leading global city, with the sector expected to become a key contributor to GDP. The financial sector currently accounts for 6.3% of GDP (Q1 2023, SCAD).

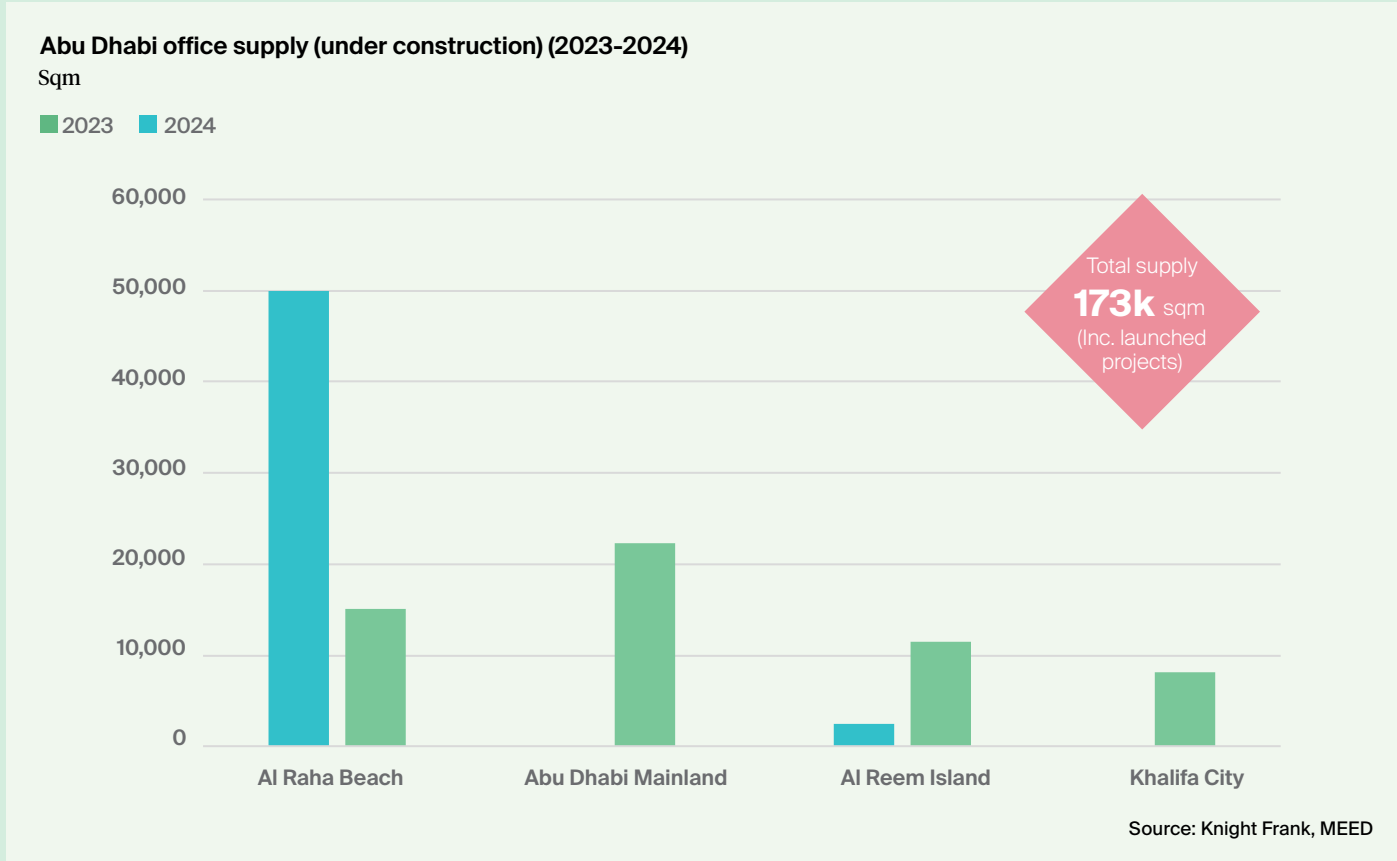
Abu Dhabi office supply

One of the key drivers of the stability of rents in the capital is the shortage of prime Grade A space. In fact, Abu Dhabi’s office market is expected to welcome just 109,500 sqm of office space in the next two years.

This supply is spread across Al Raha Beach (65,060 sqm), Abu Dhabi mainland (22,350 sqm), Al Reem Island (13,960 sqm), and Khalifa City (8,200 sqm).

Separately, Aldar Properties and Mubadala’s recently announced JV at ADGM is expected to add a further 63,000 sqm of office space in a 37-storey tower by 2026. However, the project remains classed as “launched” as construction is yet to commence.

“Abu Dhabi’s office market is expected to welcome just 109,500 sqm of office space in the next two years.”



EXPERT INSIGHTS

Benefits of the expanded jurisdiction

The extension of ADGM’s jurisdiction to Al Reem Island will offer welcome relief to the supply starved market. This expansion also aligns with the Growth Strategy 2023-2027, aimed at positioning Abu Dhabi as a leading global city with a thriving financial sector that significantly contributes to its GDP.

Businesses within the financial-free zone can take advantage of a preferential corporate tax rate of 0% on their qualifying income. This enticing incentive serves to further stimulate growth and investment, amplifying the appeal of Abu Dhabi as a preferred business destination.

David Crook
Partner, Head of Abu Dhabi

Office demand by sector

Demand on the other hand continues to edge upwards against this backdrop of limited supply as local and international businesses move to establish or expand their presence in the capital.

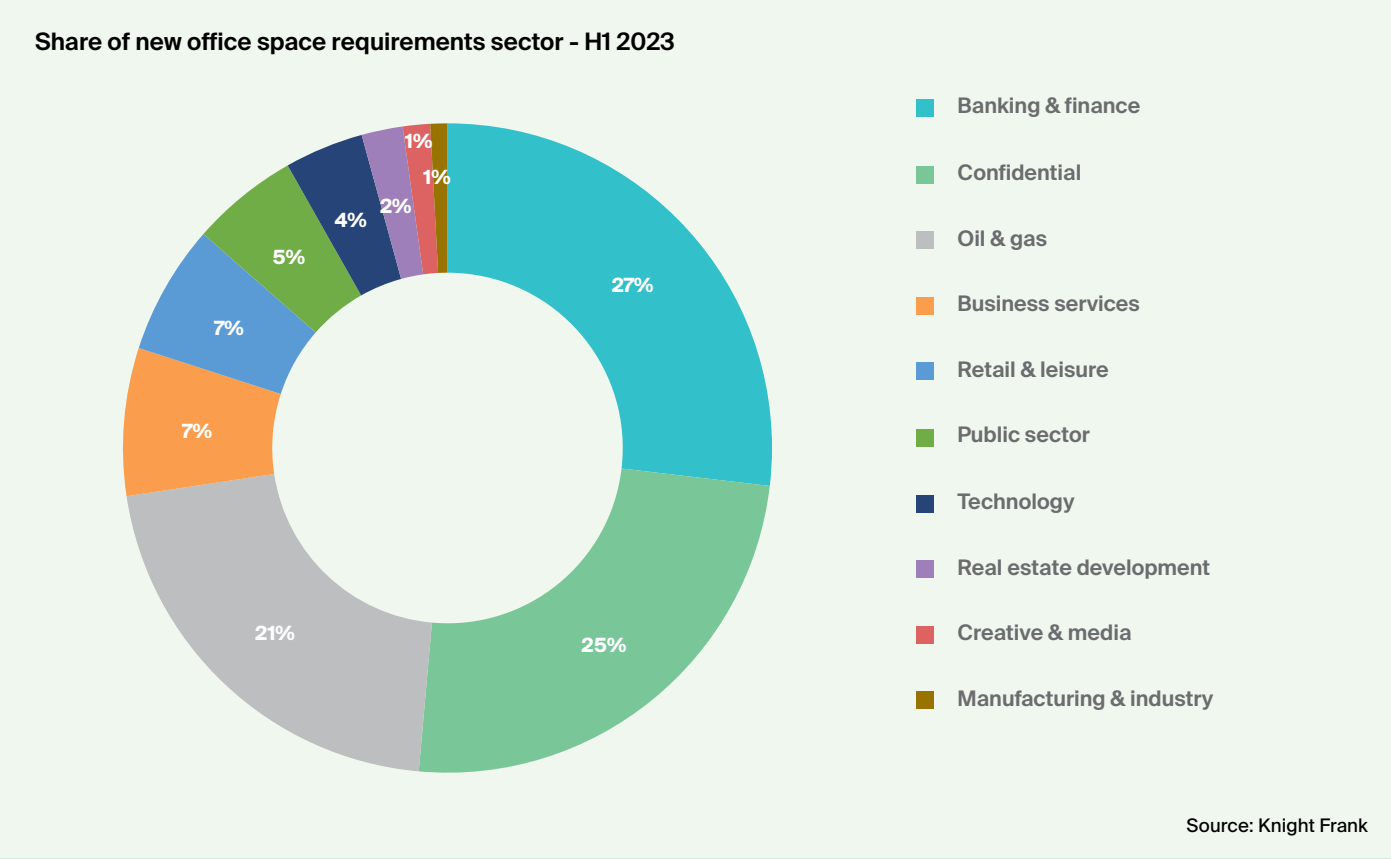
For now, occupiers driving the 79,000 sqm of new demand that we have recorded in the first half of 2023 are starved of options.

Unsurprisingly, this is further exacerbated by the fact that Grade A occupancy levels have edged up to 92%, from 88% at the end of last year, highlighting the growing supply-demand imbalance.

Interestingly, zooming into existing requirements during H1 reveals that excluding confidential requirements, the banking and finance (27%) and oil and gas sectors (21%) are together responsible for 48% of demand (or 38,000 sqm) of new demand. Business services (7%) account for the third largest source of requirements.

Abu Dhabi is establishing itself as a prominent financial hub within the region, drawing attention from financial services companies due to its advantageous combination of strategic location, stable economy, and favourable business environment.

Furthermore, aligning with past demand patterns, the banking and finance, oil and gas, and business services sectors have consistently emerged as the leading industries within Abu Dhabi’s office market.



Investment market

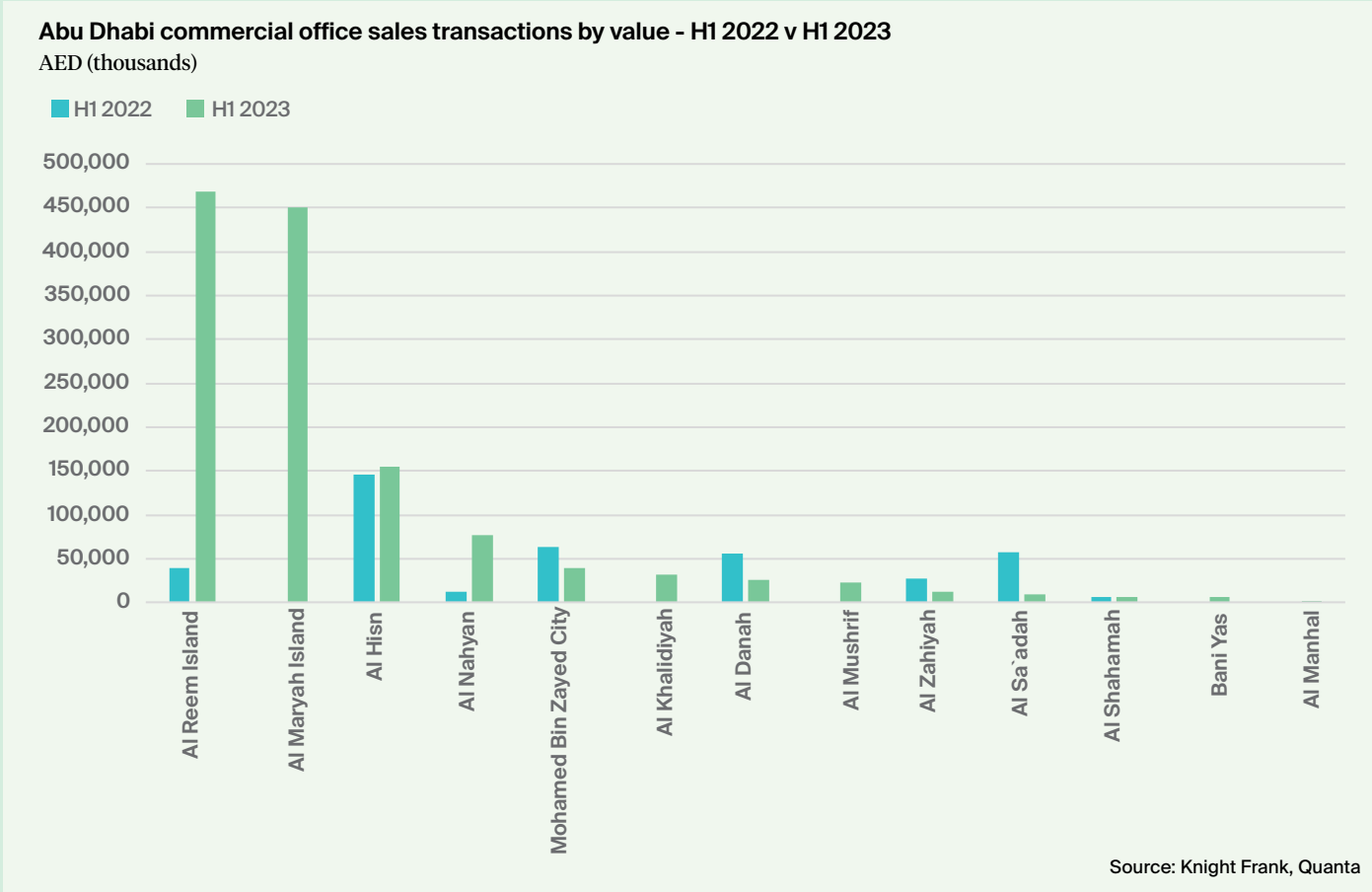
In the first six months of this year alone, commercial office sales transactions rose to AED 1.3 billion, representing a 220% increase in sales transactions compared to the same period last year.

Notably, almost 70% of these transactions in 2023 took place on Al Reem Island and Al Maryah Island, amounting to a combined total of AED 919 million.

This is driven by the availability of Grade A supply in these areas, which remains highly sought after, but in very short supply across the city and by the recent announcement of ADGM’s expansion.

Investors have tuned into the rising tide of demand for best-in-class space and are moving to capitalise on this demand from occupiers.

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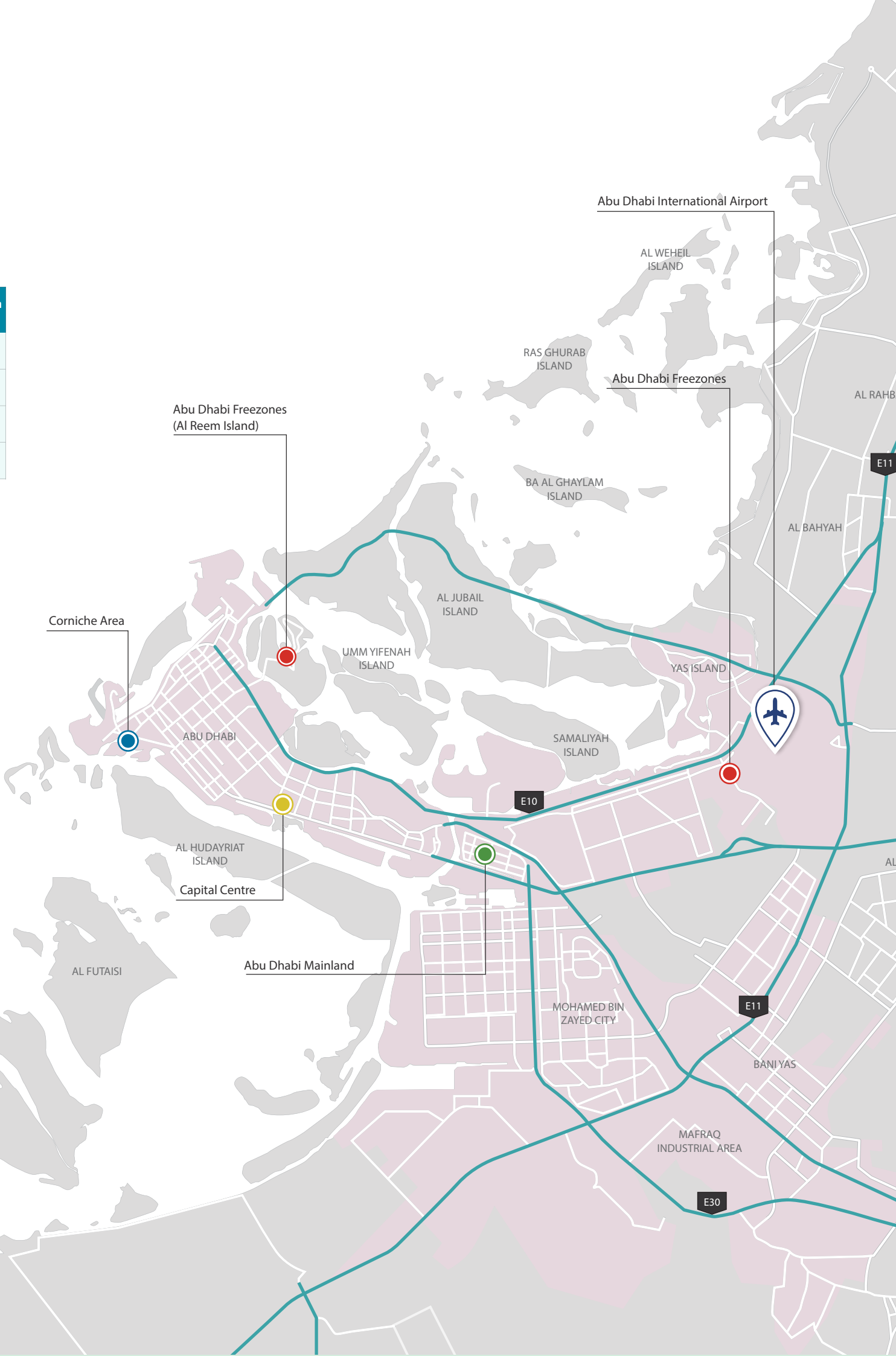
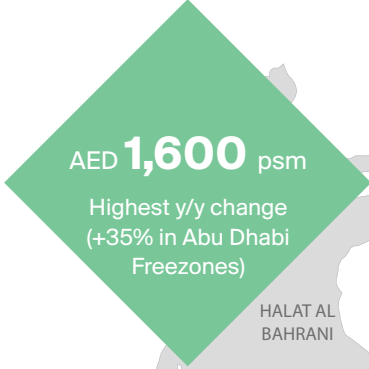
Abu Dhabi office market in numbers

Submarket	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q2 2023	3-month change	12-month change
Grade A average office rents												
Abu Dhabi Mainland	1,350	1,350	1,350	1,350	1,350	1,350	1,350	1,350	1,425	1,425	0.0%	5.6%
Abu Dhabi Freezones	1,238	1,238	1,213	1,213	1,213	1,225	1,225	1,309	1,363	1,600	17.4%	30.6%
Capital Centre	1,308	1,417	1,417	1,433	1,433	1,483	1,483	1,483	1,483	1,483	0.0%	0.0%
Corniche / Downtown	1,750	1,670	1,763	1,788	1,788	1,788	1,670	1,690	1,170	1,792	4.8%	0.2%

Notable requirements - H1 2023		
Company name	Sector	Requirement size (sqm)
Confidential	Banking & finance	21,200
Confidential	Oil & gas	16,700
Confidential	Business services	5,800
Confidential	Retail & leisure	5,100

Notable lease transactions - H1 2023		
Company name	Sector	Size (sqm)
Confidential	Retail & leisure	1,117
Confidential	Business services	837
Confidential	Business services	410
Confidential	Banking & financial	157

Source: Knight Frank



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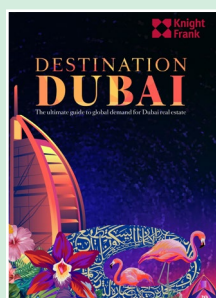
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