

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

Dubai Office Market Review

Autumn 2022



FLIGHT TO QUALITY PERSISTS

Average office lease rates across all the 27 submarkets we track have held steady over the last six-months, however, there have been exceptions to this, with prime buildings in the city's premiere locations, such as Business Bay and the DIFC, continuing to see rents and occupancy levels edge upwards.

Overall, Business Bay (35%), Dubai Hills (25%) and D3 (23%) have experienced the strongest uplift in office rents over the last 12 months. While this growth may appear substantial, average rents in Business Bay stand at about AED 105 psf, making it one of Dubai's most affordable office submarkets. Indeed, lease rates in Business Bay are around 49% cheaper than nearby Downtown.

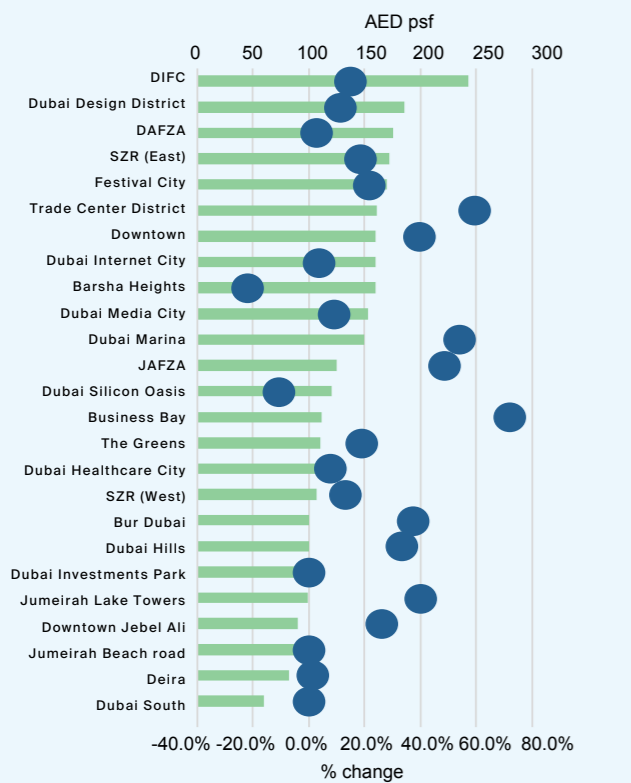
Elsewhere, in the DIFC, where rents on average are 1.1% up q/q, prime buildings are achieving rental premiums of c.40-50% above DIFC managed stock, according to anecdotal evidence, underpinned by occupiers' desire to secure best in class work environments that also conform to green mandates set by their global HQ's.

In general, a distinct trend of a flight to quality persists, with occupiers migrating away from older buildings into more modern builds that are well managed and maintained and preferably buildings with ESG credentials such as LEED, WELL or WiredScore accreditations.

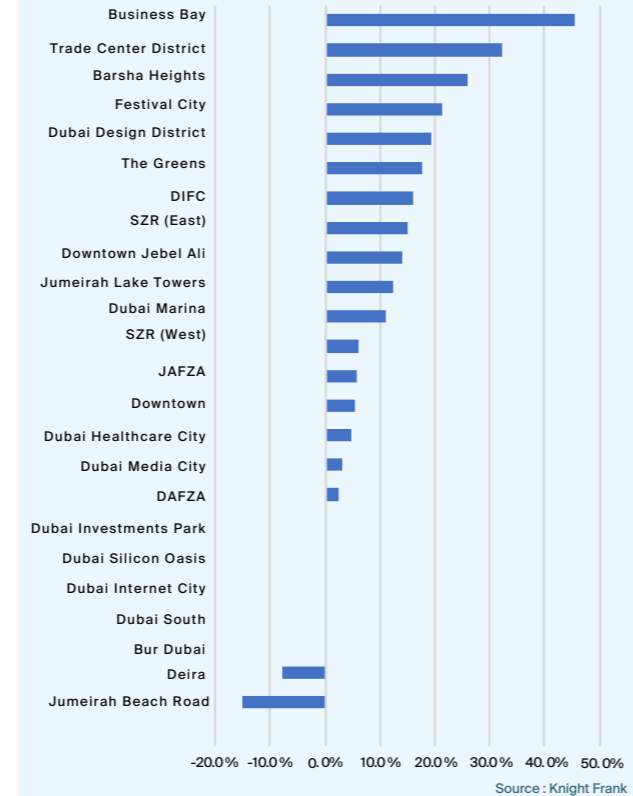
Such buildings are more likely to be found in newer parts of the city, and so it is perhaps unsurprising that submarkets with higher concentrations of new, or relatively modern, stock have seen rents sail past pre-pandemic levels. In contrast, lease rates in older parts of the city where there is a higher concentration of more secondary stock, rents are still struggling to return pre-COVID rates. This is not necessarily due to a lack of demand in the market, but a lack of demand for older offices.

Grade A occupancy levels are hovering in the high 80's to low 90's.

PRIME OFFICE RENTS (Q4 | 22)



CHANGE IN OFFICE RENTS SINCE THE START OF THE PANDEMIC (Q1 | 20 V Q4 | 22)



SERVICE INDUSTRY AND BUSINESS SERVICES UNDERPIN REQUIREMENTS

Excluding confidential requirements, business services and banking tenants are responsible for the bulk of new demand we are recording in the emirate, together accounting for 474,000 sqft of space requirements during Q4.

Overall, however, total demand has surged in the fourth quarter, with close to 291,000 sqft of demand being registered. This takes office requirements for the twelve months of 2022 to 1.03 million sqft, putting 2022 slightly behind last year's registered demand of 1.1 million sqft.

Barsha Heights (161,000 sqft), Business Bay (46,000 sqft), JLT (94,000 sqft) and Sheikh Zayed Road (103,000 sqft) lead area specific office demand.

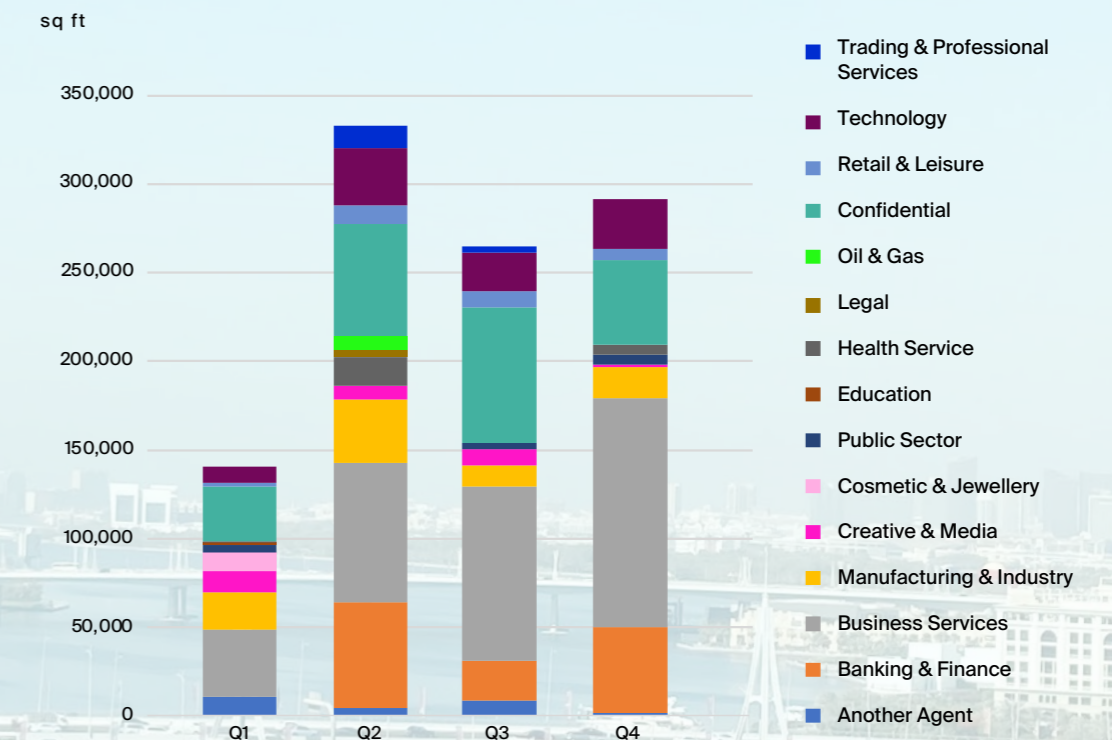
Notable lease deals during Q3 and Q4 took place in Thuraya Communications Tower, Media One Tower and EIB at Dubai Internet City with a total of approximately 62,000 sqft of rented in both buildings.

Looking ahead, the NextGenFDI initiative which has attracted almost 400 businesses to the UAE so far, is expected to see another 40 enter the market before the end of 2022.

This includes robotic and AI businesses, as well as food-tech startups and technology businesses such as Krush Brands which plans to create 700 jobs in the UAE by 2025 as well as UK software developer, Godel, which will create 250 jobs at the DIFC over the same time period.

In addition, the announcement of the New Tech District for the Creekside of Al Jaddaf area in Dubai is expected to generate 4,000 jobs in urban technologies, education, and training, while providing facilities for research, conferences, training, business incubation, shared-desk spaces, and dedicated offices.

OFFICE DEMAND BY SECTOR - 2022



Source: Knight Frank

RESTRICTED SUPPLY

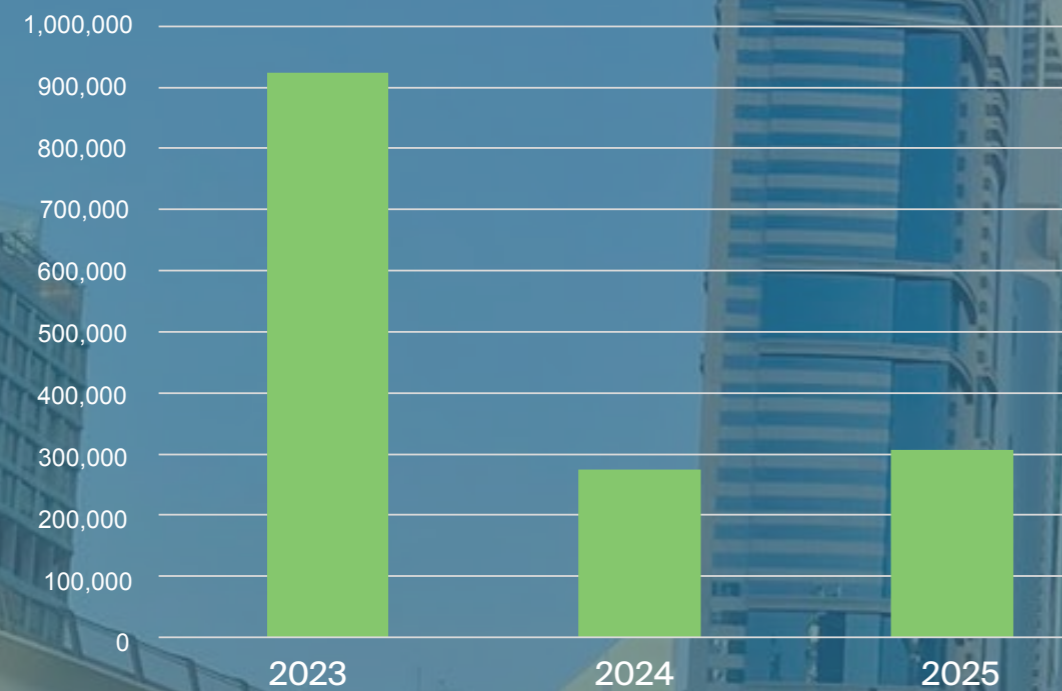
Despite rising demand, the volume of new supply remains limited. Our forecasts are for 2.9 million sqft to be delivered by the end of 2025, with District 2020 and Uptown Tower T2 accounting for the bulk of new space. District 2020 (formerly Expo 2020 site) in Dubai South, being developed by Dubai Holding is the largest single development of commercial office space planned for the city and is expected to be completed in 2023.

The severity of the shortage of new office space, combined with rising demand, particularly for high-quality offices suggests that office rents will continue to experience upward pressure, although rents in most submarkets are on average 20% below their 2016 peak.

“Dubai is home to about one-third of investors and the highest number of venture capital funds in the Middle East and North Africa (MENA) region.”

OFFICE SUPPLY BY SUBMARKET (2022-2025)

sq ft



Source: Knight Frank, REIDIN



EXPERT VIEW: DUBAI'S GLOBAL APPEAL

As a hub for worldwide commercial and technological activity, Dubai has become an important destination for global firms. A rise in the number of new license registrations over renewals indicates a high number of new market entrants are eager to enter Dubai.

The latest figures released by the Business Registration and Licensing (BRL) and Department of Economy and Tourism (DET) indicates that Dubai issued over 45,000 new business licenses in the first half of 2022, an annual increase of almost 25%, reflecting strong business sentiment and robust growth in the post-COVID era. Dubai has also recently seen an influx of hedge funds either relocating their global HQ's to Dubai, or setting up branches in the city.

Dubai is home to about one-third of investors and the highest number of venture capital funds in the Middle East and North Africa (MENA) region. The emirate offers an environment with a strong financial infrastructure and a supportive government, which is attracting a wide variety of businesses ranging from aspiring entrepreneurs and start-ups to global crypto and technology businesses departing Asian financial hubs in search of more pro-business locations. Indeed, Dubai ranks first in the region in Bloomberg's 2022 Global Financial Centre Index and 17th globally.

- Andrew Love, Partner – Head of Occupier-Landlord Strategy and Solutions and Head of Middle East Capital Markets

INVESTMENT MARKET

In the investment market, deal activity continued to rise during Q3 with a sharp increase in the value and volume of offices sold. In Q3, transaction volumes across Dubai increased by 76% y/y to AED 799 billion. There were 587 deals recorded during the third quarter, a 62% rise on the same time last year.

The top five submarkets for sales during Q3 were Business Bay (AED 347 million), JLT (AED 220 million), Barsha Heights (AED 75 million), Dubai Marina (AED 74 million) and Downtown (AED 30 million).

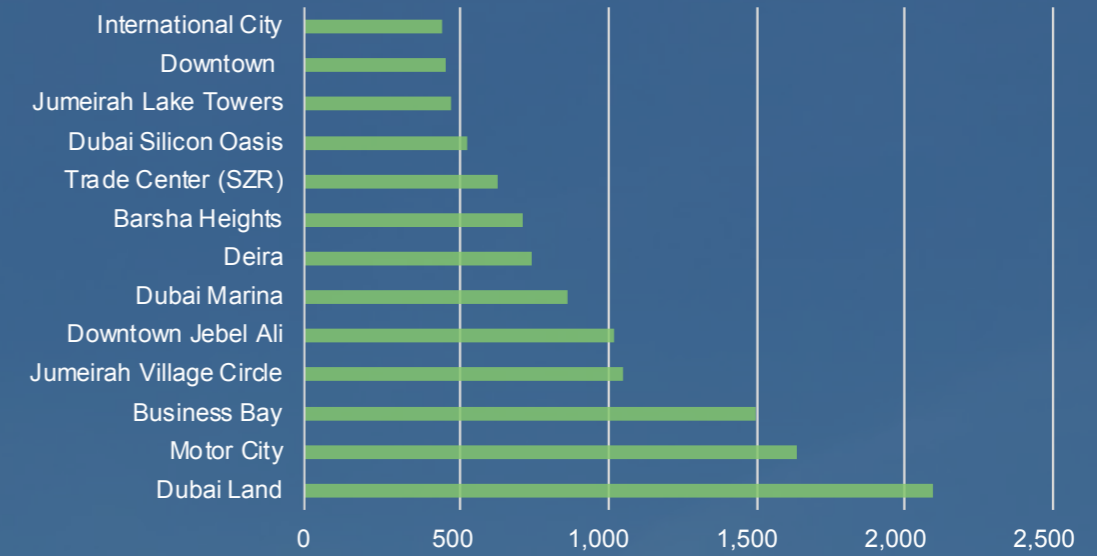
Business Bay (44%) and Jumeirah Lake Towers (28%) accounted for the bulk of office sales during Q3.

Across the whole city, the average transacted price was AED 919 psf during Q3, a 10% increase on last year.

The most expensive sale so far this year has been a 12,700 sqft office in the Burj Khalifa which sold for AED 43 million, or approximately AED 3,200 psf, 27% above the average transacted price so far in 2022 (AED 916 psf).

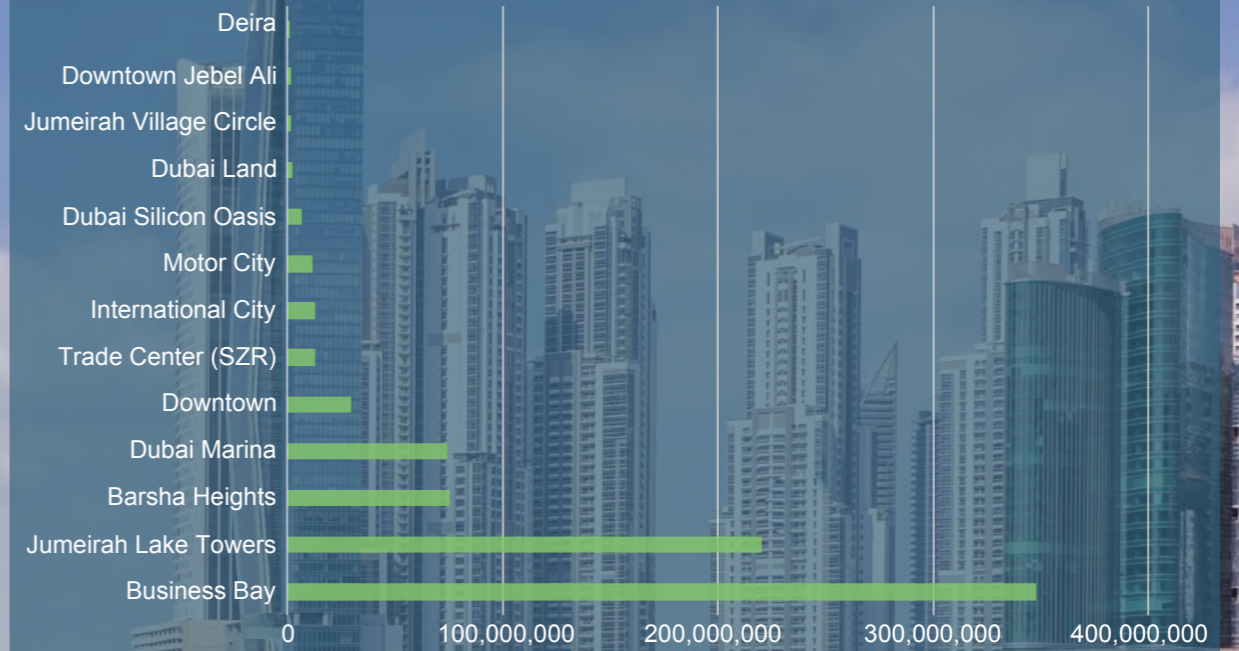
AVERAGE PRICE/SQFT BY SUBMARKET (Q3|22)

AED psf



Source: Knight Frank, REIDIN

TOTAL TRANSACTION VOLUMES



Source: Knight Frank, REIDIN

IN FOCUS: DUBAI'S GREEN AWAKENING

While the ESG agenda remains a relatively nascent concept across the Middle East, there is evidence to suggest that the market is already responding to the global green reawakening. Most businesses, particularly those of an international variety are actively seeking prime Grade A space, with a strong preference for green rated buildings.

ESG rated commercial office space is increasingly being sought after, especially by international blue-chip businesses.

WINNING THE WAR FOR TALENT

Occupying best-in-class office space is no longer a nice-to-have, but a need-to-have. Businesses are quickly discovering that to win the battle against the global talent shortage, a key tool is occupying world-class office space that effectively doubles as a showroom. This allows a business to showcase itself to potential clients as well as future talent, while offering a workspace that employees are proud to work in. This will be critical as we emerge from the pandemic.

The flight to quality and sharpened focus on Grade A space is reflected in the fact that Grade A buildings in Dubai have occupancy levels in the high 80's to low 90's.

While the DIFC retains its position as Dubai's financial heart and commands the highest office rents in the city, its buildings are rapidly aging. Indeed 53% of the precinct's 6 million square feet of office space (excluding Brookfield Place) was completed before 2010. The same is true for some other popular locations such as Dubai Internet City and Dubai Media City, where the average age of office buildings is 15 years across the 10.3 million sqft of office space in these areas.

ESG-LINKED REFURBISHMENT

Inevitably there will have been some refurbishment activity across these markets, but without extensive upgrades that are also ESG compliant, some buildings may start to see increasing voids and falling rents as occupiers gravitate towards more modern and green buildings.

All is however not lost for older buildings. Grade B buildings they are often situated within completed communities, with supporting infrastructure already in place. Clearly it will not necessarily be financially viable to refurbish all Grade B buildings, but the traditional demolish-and-rebuild approach in the region may soon be difficult to achieve as banks scrutinise the carbon footprint of new schemes before awarding development financing. Indeed, the carbon footprint of a refurbishment is far lower than the demolish-and-rebuild route.

Average renovation or refurbishment costs for office buildings in Dubai currently range from approximately AED 280 psf and can be as high as AED 580 psf.

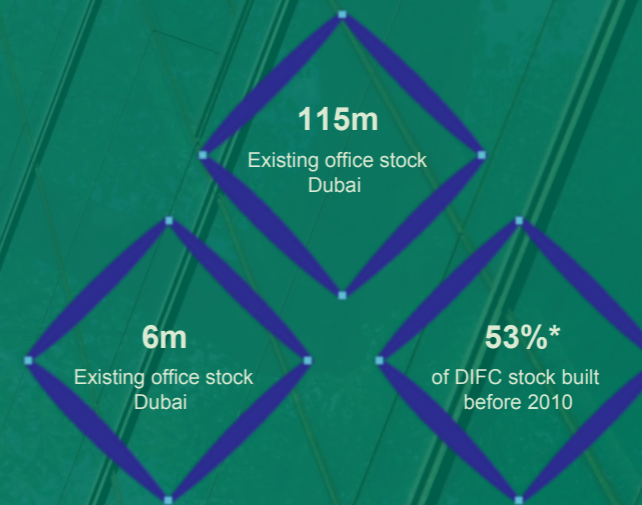
For refurbishment projects, a 40-50% uplift in the cost of the contract is the norm when attempting to achieve a LEED Silver rating. Clearly it may not always be possible to achieve a Platinum LEED rating as the cost may far outweigh any expected benefit and some older buildings may not be suitable to accept the retrofit needed.

ESG CREDENTIALS BECOMING A MUST

Overall, however, the message from businesses is clear: ESG credentials are quickly becoming a must have, especially for international blue-chip businesses. And this is not necessarily just LEED. It also includes WELL certification, which is focussed on the experience of the occupants of a building, but also WiredScore Certification.

Landlords may view this as lost cap-ex, but we have evidence from mature cities such as London where we have evidence to show clear rental premia associated with ESG-badged office buildings. There is no reason why we cannot expect to see the same in Dubai, particularly while internationally accepted, green-rated buildings remain in short supply.

DUBAI'S AGING OFFICE STOCK



* Excluding Brookfield Place

Source: Knight Frank

“Businesses are quickly discovering that to win the battle against the global talent shortage, a key tool is occupying world-class office space that effectively doubles as a showroom.”

DUBAI OFFICE MARKET IN NUMBERS

Location	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q Q	Y Y
1. Dubai Hills	80	75	75	100	100	100	0.0%	25.0%
2. Business Bay	78	100	101	104	105	111	1.1%	34.6%
3. Downtown Jebel Ali	88	95	95	85	85	90	0.0%	-2.9%
4. Barsha Heights	150	160	160	160	160	160	0.0%	6.7%
5. Dubai Design District	143	175	175	175	175	185	0.0%	22.8%
6. JLT	87	93	98	100	100	99	0.0%	14.8%
7. DIFC	132	134	138	138	138	243	0.0%	4.4%
8. JAFZA	118	125	125	125	125	125	0.0%	1.11%
9. Dubai Investments Park	63	70	70	70	70	100	0.0%	2.9%
10. DAFZA	170	175	175	175	175	175	3.8%	14.0%
11. SZR (East)	143	151	152	157	163	172	0.0%	0.0%
12. The Greens	95	95	95	95	95	110	0.0%	7.8%
13. Trade Center District	116	123	123	125	125	161	0.0%	13.0%
14. Downtown Burj Khalifa	138	152	152	156	156	160	0.0%	20.0%
15. Dubai Silicon Oasis	100	120	120	120	120	120	0.0%	0.0%
16. Dubai Internet City	160	160	160	160	160	160	0.0%	3.7%
17. Festival City	135	140	140	140	140	170	0.0%	0.0%
18. Dubai South	60	60	60	60	60	60	0.0%	2.0%
19. SZR (West)	101	100	100	103	103	107	0.0%	8.3%
20. Dubai Marina	120	130	130	130	130	150	0.0%	-3.6%
21. Dubai Media City	153	140	140	148	148	153	0.0%	-2.4%
22. Deira	84	82	82	82	82	82	0.0%	9.4%
23. Bur Dubai	80	88	88	88	88	100	0.0%	-9.5%
24. Dubai Healthcare City	105	90	90	95	95	110	0.0%	0.0%
25. Jumeirah Beach Road	90	90	90	90	90	90	0.0%	0.0%

Source: Knight Frank

90% Average occupancy (2022)

AED 111 psf Highest y/y change (35%) (Business Bay)

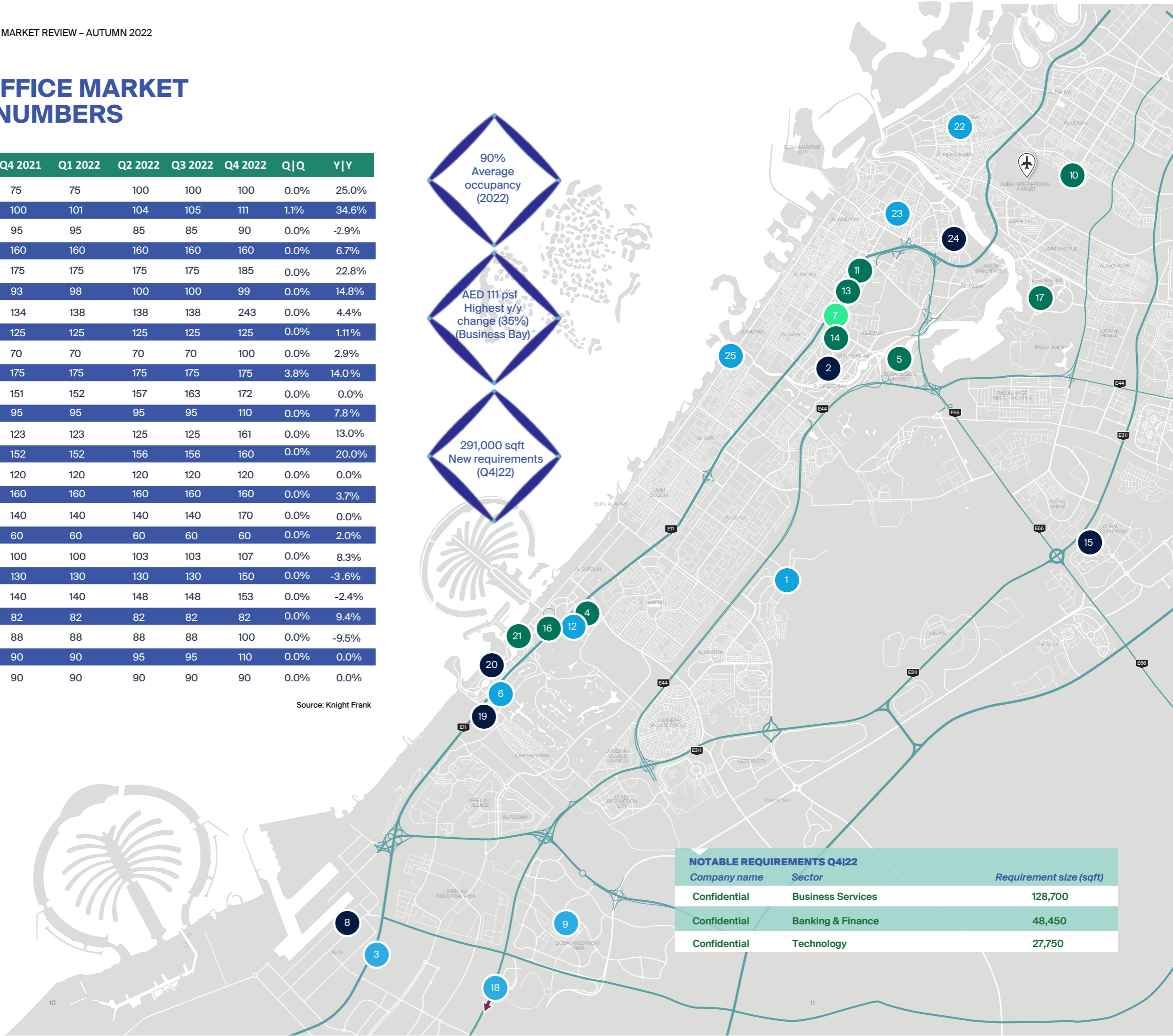
291,000 sqft New requirements (Q4|22)

PRIME RENTS (AED PSF)

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

NOTABLE REQUIREMENTS Q4|22

Company name	Sector	Requirement size (sqft)
Confidential	Business Services	128,700
Confidential	Banking & Finance	48,450
Confidential	Technology	27,750



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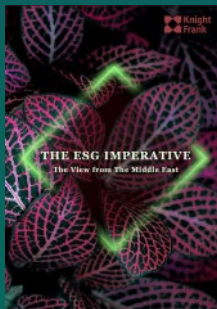
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