

Dubai Office Market Review



Summer 2023

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

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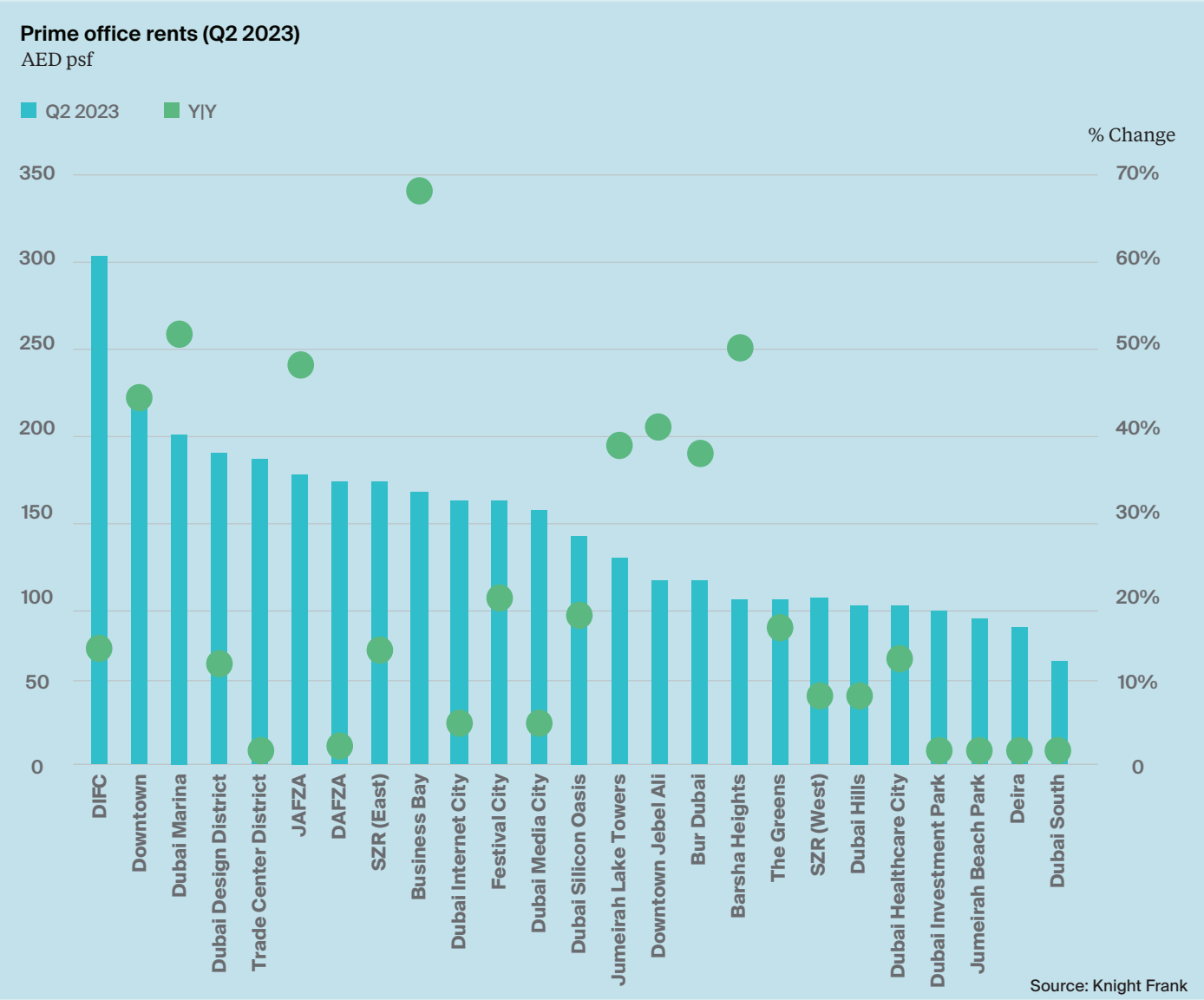
Dubai's office market performance

During the first half of 2023, average office lease rates within the 25 submarkets we monitor have demonstrated strong performance. The DIFC remains the city’s most expensive location to rent offices, driven by market-leading Brookfield Place, where rents are well above the wider DIFC average of around AED 302 psf, representing a 15% year-on-year increase.

Within the DIFC, the LEED Platinum certified and WiredScore Platinum certified, ICD Brookfield Place maintains its position as the leading performer among Grade A offices in the city which is currently fully occupied.

This is driven by occupiers’ desire to secure best-in-class work environments that also conform to green mandates set by their global HQ’s. Elsewhere, Business Bay, Trade Center District, and Dubai Marina have seen the strongest uplift in office rents over the past 12 months, with growth rates of 69%, 54%, and 54%, respectively.

Despite the significant growth, average office lease rates in Business Bay currently hover around AED 176 psf, making it approximately 22% more affordable compared to the adjacent Downtown area (AED 225 psf). Rents in the Trade Centre District and Dubai Marina stand at an average of AED 193 psf and AED 200 psf.



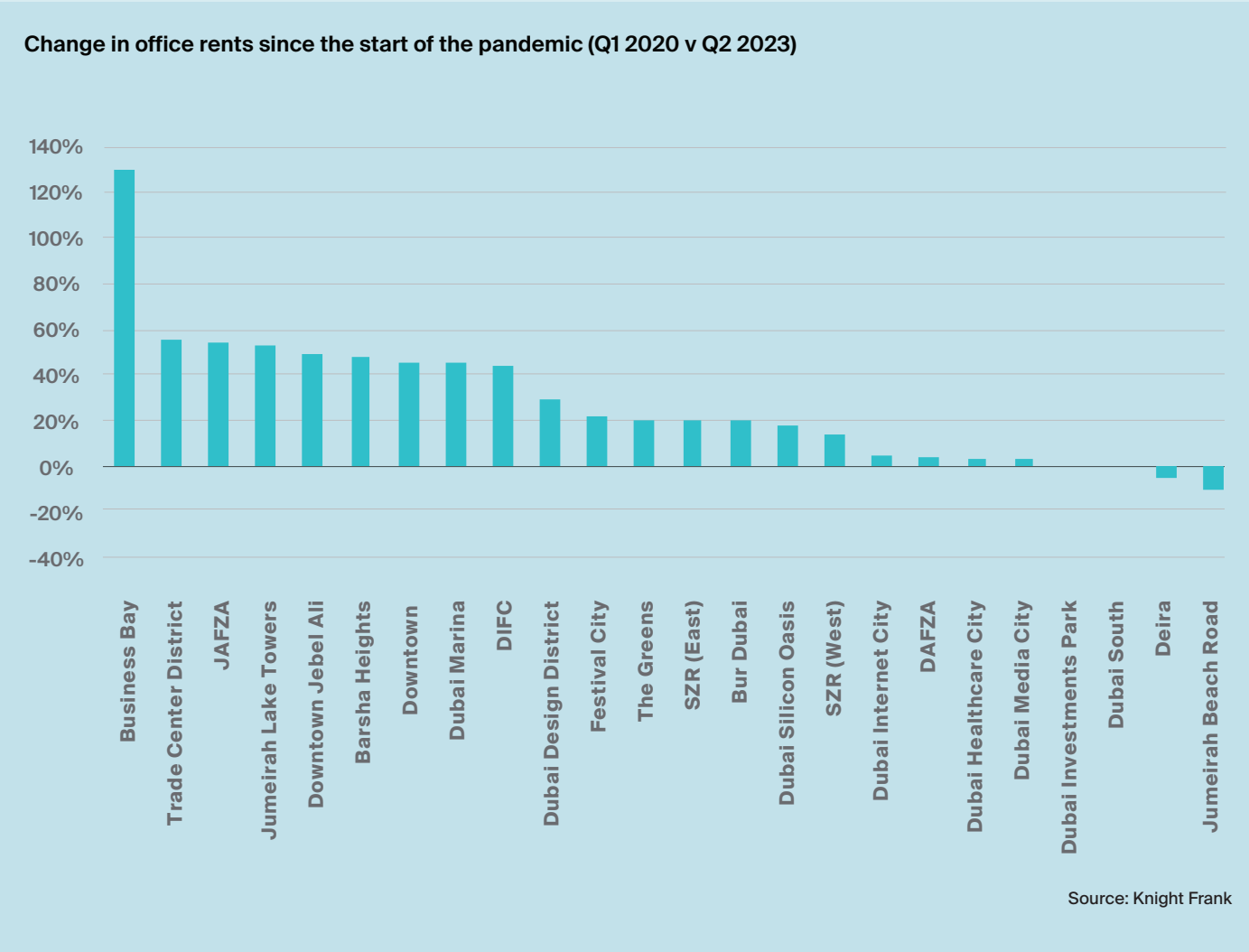
Grade A focus

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.

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 city. The bigger question lies in how landlords respond to the unwavering focus on well-managed, modern office buildings.

ESG accreditations serve as the cherry on top and while there is demonstrable evidence of rental premia for green buildings around the world, the sustainability imperative is manifesting itself in different ways in the Middle East.

Older, more secondary office stock, however, almost irrespective of location is still facing challenges with lease rates in older buildings still trailing pre-Covid levels.





EXPERT INSIGHT

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 sustainability, energy efficiency, and environmentally responsible practices in the construction, operation, and management of properties.

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, as evidenced by ICD Brookfield Place, for instance.

Faisal Durrani
Partner, Head of Middle East Research

Dwindling Grade A supply

The laser-focus on the city’s dwindling Grade A supply is another critical factor in helping to sustain and grow prime office lease rates. The restricted supply pipeline of new office schemes is also helping to sustain the upward trajectory in office rents.

In response to the heightened demand and occupancy levels in the emirate, developers plan to add approximately three million sqft of office space to Dubai’s stock in the next three years.

Noteworthy developments include One Za’abeel Tower, Uptown Tower, Gate Avenue Link Bridge, 6 Falak, TECOM’s Innovation Hub Phase 2, and Al Wasl Tower.

In addition, DP World and Landmark Group are developing a new Headquarters building in Jebel Ali with a total of 410,000 sqft of office space to be completed by the end of Q3 2023.

In central Dubai, the DIFC is constructing a 10-storey office building, Gate Avenue Link Bridge, to be completed by Q4 2023 adding a total of 364,000 sqft of space to Dubai’s pipeline office stock.

Dubai Internet City is also expected to welcome 6 Falak by Q1 2024 and TECOM’s Innovation Hub Phase 2 by Q4 2025, each with a total of 195,000 sqft and 344,000 sqft, respectively.

Al Wasl Tower on Sheikh Zayed Road is expected to be completed by Q2 2023, adding almost 190,000 sqft of offices to the city.

Lastly, Expo City Dubai (ECD) is currently being transformed into a sustainable human-centric smart city. The site will reuse at least 80% of the Expo-built infrastructure, including LEED Gold and Platinum-certified buildings.

The transformation presents a strategic opportunity for investors to address the existing shortage of Grade A office stock. Indeed, by September 2023, the site is expected to house approximately 3,000 employees from anchor tenants such as DP World, Emirates Airline, and Siemens.

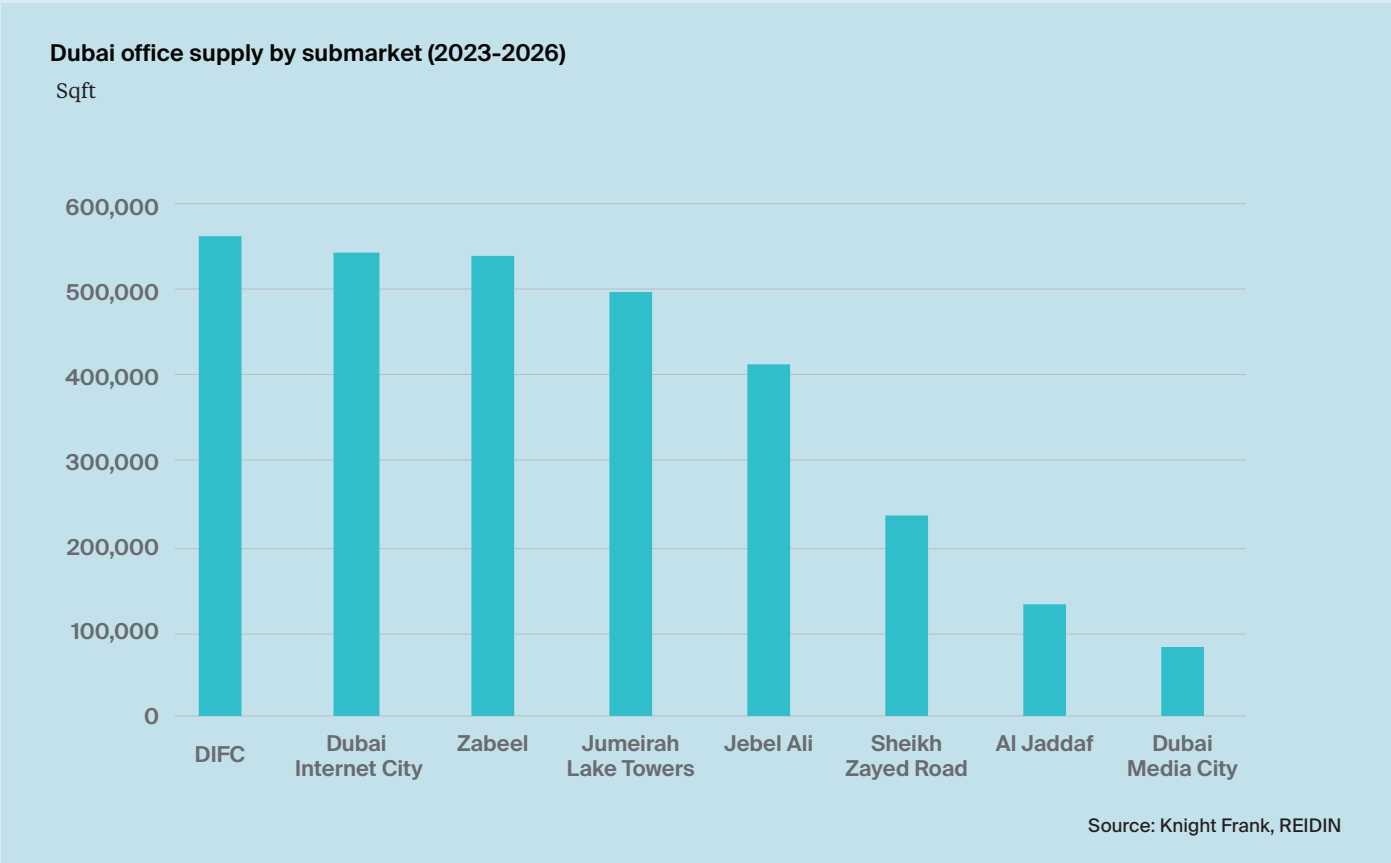
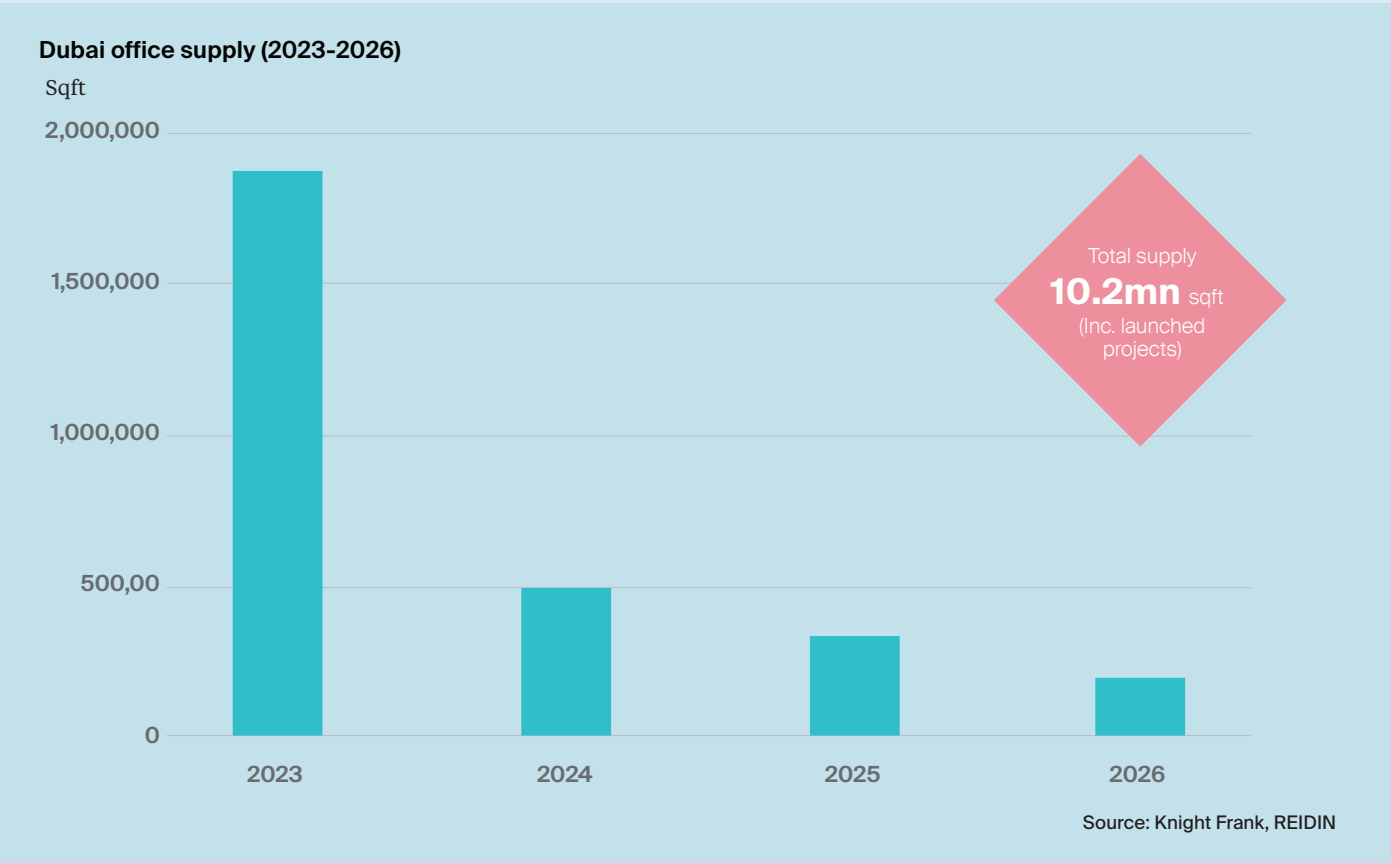
Former country pavilions from Expo 2020 Dubai are also getting a new lease on life, including the University of Wollongong Data Science, Discovery and Innovation Centre in the Australia Pavilion, and the China Pavilion to support China-UAE relations and business development.

In total, ECD is expected to add 1.2 million sqft to the city’s office market.

These projects aim to meet the escalating demand for cutting-edge offices, further solidifying Dubai’s position as a leading global business hub.

Of note also is the fact that a significant proportion of under construction office projects have already been pre-leased, highlighting the depth of demand in the market.

"In response to the heightened demand and occupancy levels in the emirate, developers plan to add approximately three million sqft of office space to Dubai’s stock in the next three years."



Dubai's office pipeline

In addition to the under-construction projects detailed above, we are separately tracking projects at their launch stage. i.e., those that have been announced, but where construction is yet to commence.

During Q2 2023, three significant office projects were launched:

1) The highly anticipated expansion of the DIFC, known as DIFC Expansion 2.0, has been introduced into the city's office market. The project, worth AED 11.8 bn, will consist of approximately 13 million sqft, which will encompass creative spaces, residences, retail units, and leisure spaces. Most importantly, approximately 6.35 million sqft, almost half of the total planned BUA, will be dedicated to

offices. The project is expected to be completed by the end of 2026.

2) In addition, the Dubai AI & Web 3.0 campus in DIFC will cover a total area of approximately 107,600 sqft at Innovation One. The project's objective is to attract over AED 1.1bn in collective funds, over 500 global AI and Web 3.0 start-ups, and generate over 3,000 jobs by 2028. The development will include world-class R&D facilities, and collaborative space, in addition to accelerator programs.

3) In new Dubai, the DMCC recently launched Phase 2 of Uptown Dubai at JLT. The project will consist of two commercial office towers, spread over 726,500 sqft, due to be completed by Q2 2026.



Office demand by sector

Despite the current challenge posed by the lack of Grade A office stock, new requirements continue to grow. In fact, our data shows that total new office demand climbed to 580,000 sqft in the first half of 2023, representing an increase of 23% on H1 2022.

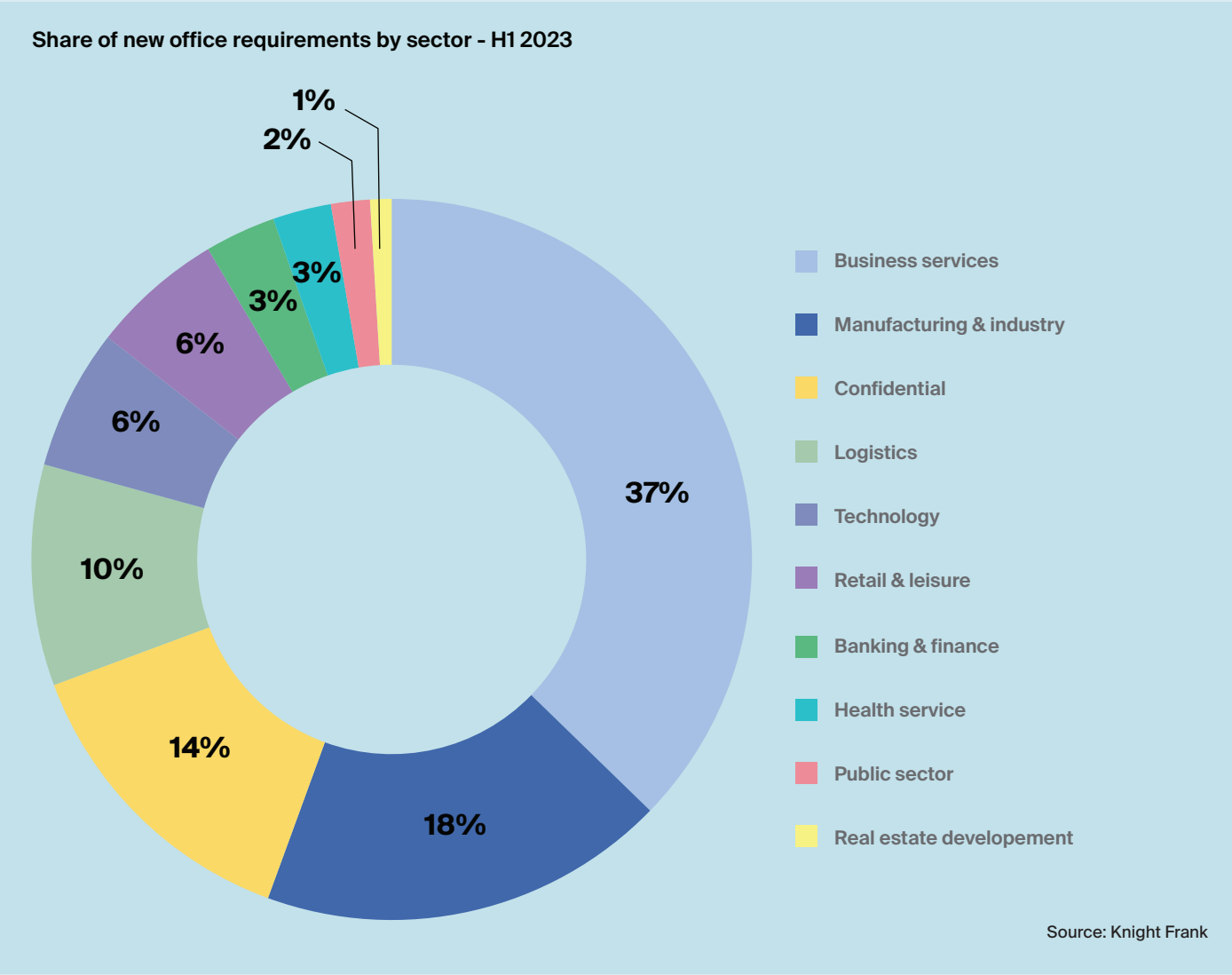
Excluding confidential requirements, the business services (37%) and manufacturing & industry sectors (18%) are together responsible for more than 318,000 sqft of new demand.

Logistics (10%) accounts for the third largest source of requirements, catalysed by the buoyancy in the industrial market, where investors continue to chase high-yielding assets with long-lease commitments.

In terms of location-specific demand, Business Bay (103,000 sqft), Dubai Investment Park (99,000 sqft), and Dubai Internet City (76,000 sqft) are at the league table.

The growing demand is also reflected in occupancy levels, which reached 85% in the first six months of this year, up from 82% in the same period last year. Certain Grade A buildings are close to, or at 100% occupation.

One particular stand-out subsector driving demand in Dubai has been the crypto industry. With moves by the authorities to create one of the world's first and deepest regulated crypto markets, Dubai has become a magnet for crypto businesses. Recent new entrants include Bitget with Bybit and Canada's 3iQ also searching for new offices.





EXPERT INSIGHT

Business services demand on the rise

We have seen an uplift in the amount of business services setting up in the Emirate. Dubai is perceived as a strategic location – businesses can strengthen their presence in an emerging market, which has a stable economy and affordable office rents (in comparison to other global hubs). It allows their work force to work multiple time zones from one office, enabling access to both Western and Eastern colleagues and clients.

Adam Wynne
Associate Partner, Occupier/Landlord Strategy & Solutions

Investment market

The investment market in Dubai has also experienced significant growth, with a 35% increase in transaction volumes compared to the same period last year, amounting to AED 2.2 billion. There were 695 deals recorded during Q2 2023, a 24% rise on the same time last year.

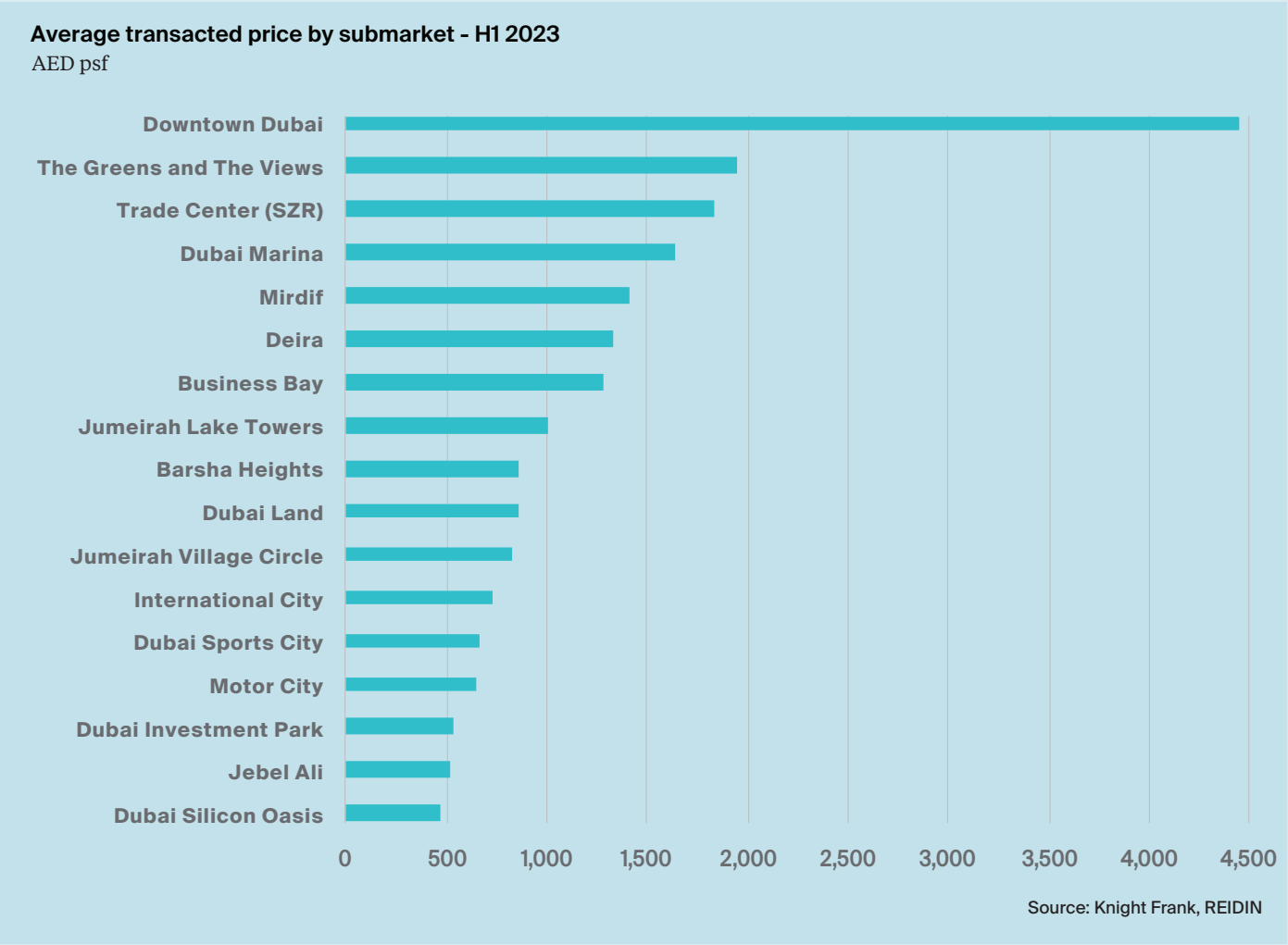
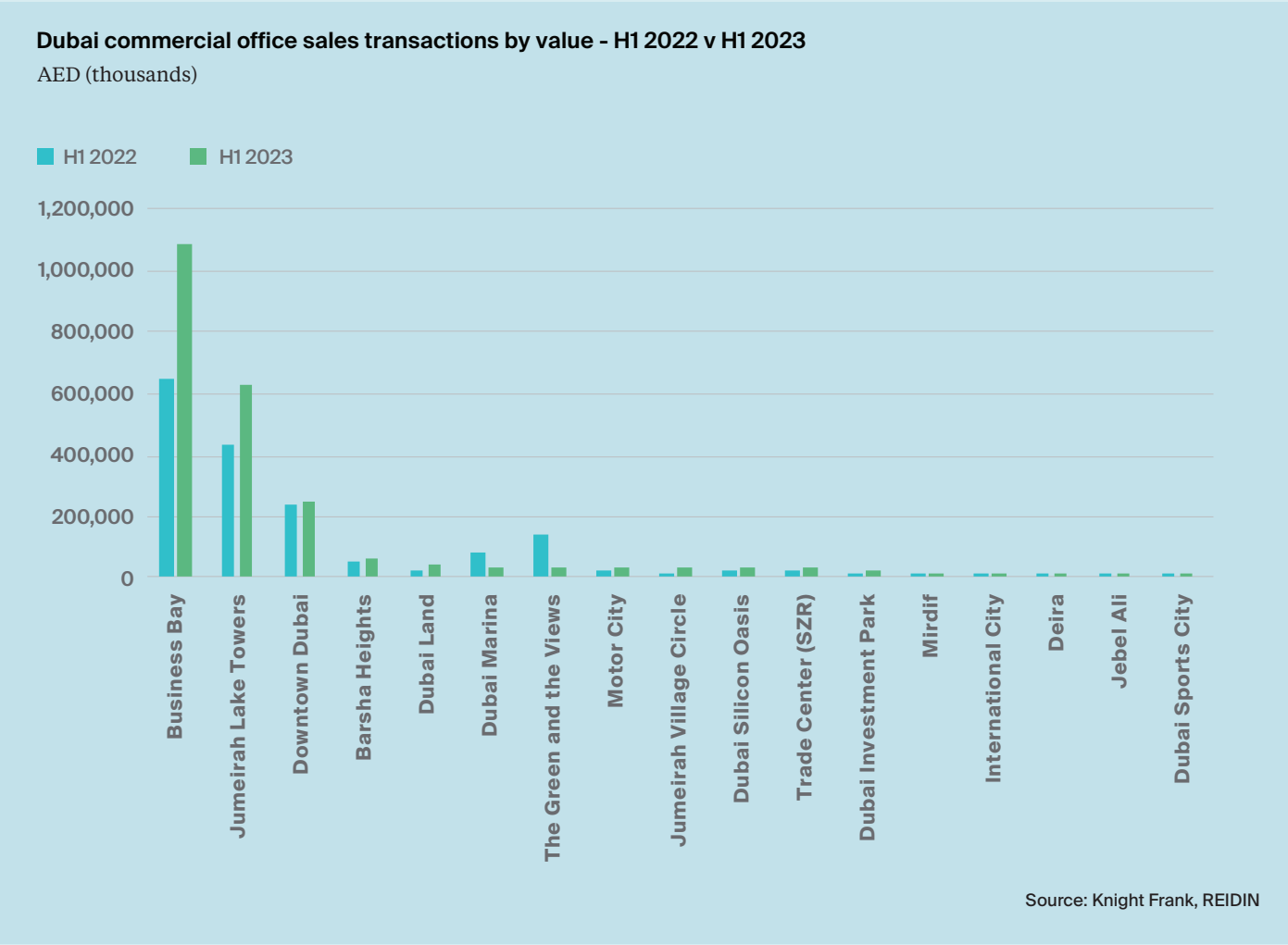
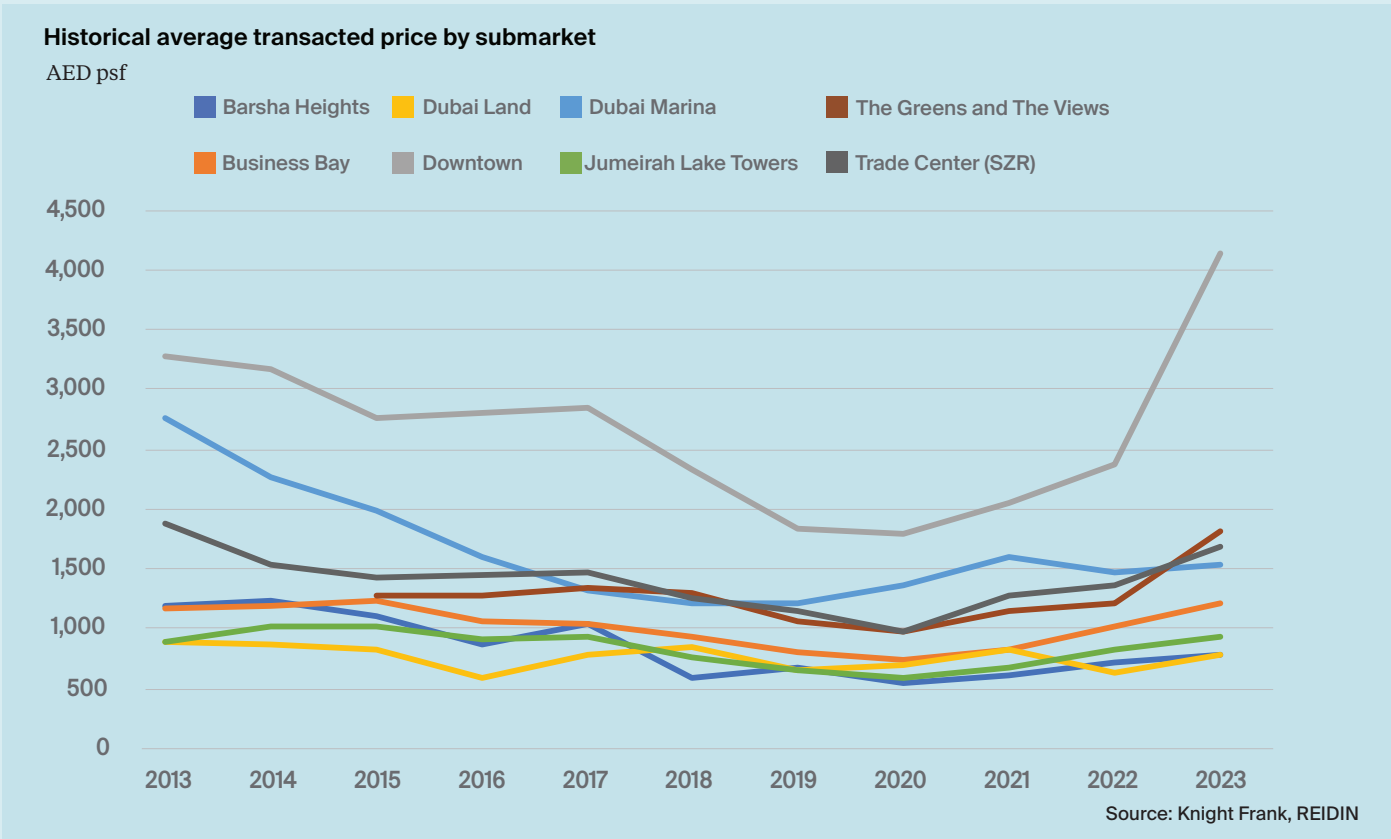
The top five submarkets for sales during the first half of 2023 were Business Bay (AED 1.07 billion), JLT (AED 619 million), Downtown (AED 234 million), Barsha Heights (AED 57 million), and Dubai Land (AED 37 million).

Business Bay (48%) and Jumeirah Lake Towers (28%) accounted for the bulk of office sales during H1.

The city-wide average transacted price was AED 1,060 psf during H1, an 18% increase from last year.

The most expensive sale so far this year has been an 8,807 sqft office in Burj Khalifa which sold for AED 49.4 million, or approximately AED 5,600 psf. This is 67% more expensive than 2022's most expensive sale: 12,706 sqft, which sold for AED 3,353 psf.

Historical office data highlights the dynamic nature of the investment market in Dubai. Notably, certain submarkets, such as Downtown, witness rapid growth, while others experience more stable or fluctuating patterns over time.



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



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

CONTACTS

Andrew Love

Partner, Head of ME Capital Markets
Occupier/Landlord Strategy & Solutions
Andrew.Love@meknightfrank.com
+971 50 777 9595

Adam Wynne, Bsc (Hons) MRICS

Associate Partner
Occupier/Landlord Strategy & Solutions
Adam.Wynne@me.knightfrank.com
+971 56 474 1921

Maria Kim

Associate Partner, Office Leasing
Occupier/Landlord Strategy & Solutions
Maria.Kim@me.knightfrank.com
+971 50 126 0631

Leroy La Grange

Senior Agent, Office Leasing
Occupier/Landlord Strategy & Solutions
Leroy.Lagrange@me.knightfrank.com
+971 56 507 9642

James Hodgetts

Partner, Occupier Strategy & Solutions, MEA
James.Hodgetts@me.knightfrank.com
+971 56 321 7600

Stephen Flanagan, MRICS

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

Shehzad Jamal

Partner, UAE StratCon-Healthcare | Education | Real Estate
Shehzad.Jamal@me.knightfrank.com
+971 56 410 1298

Faisal Durrani

Partner, Head of Middle East Research
Faisal.Durrani@me.knightfrank.com
+447 88 599 7888

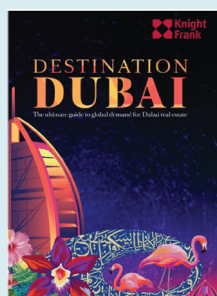
Alaa Aljarousha

Manager, Middle East Research
Alaa.Aljarousha@me.knightfrank.com
+971 56 548 9626

Lubaba Fakeih

Geospatial Analyst, Middle East Research
Lubaba.Fakeih@me.knightfrank.com
+966 55 552 3659

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