

RESEARCH



DUBAI OFFICES MARKET UPDATE

Q3 2014

BRIGHT SPOTS FOR THE DUBAI OFFICE SECTOR

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How did prime office rents perform across individual districts?

In annual terms, six out of the 13 districts that we track in Dubai saw double-digit growth in rents in Q3 2014. These include:

- Business Bay (35%)
- TECOM C (31%)
- Festival City (26%)
- Emaar Square/Downtown (23%)
- Bur Dubai (13%)
- JLT (10%)

On the same basis, prime rental values in DIFC, Media City, Internet City, Knowledge Village and Deira saw no change.

After the traditional summer lull, although new office enquiries picked up, these did not translate into a significant rise in actual demand. However, with the supply of new prime office space remaining constrained, it was enough to exert upward pressure on rents. Indeed, in the third quarter of this year, prime rental values rose by 2% quarter-on-quarter and were up 23% on a year earlier.

Moreover, the prime office vacancy rate fell to 18% in Q3 2014, from 20% a year earlier, as increasing take-up reduced availability in Dubai. That's not surprising given that activity in the UAE's non-oil private sector continues to grow robustly. According to Markit, the HSBC Purchasing Managers Index reached 57.6 in September – down slightly from the previous month's 58.4 outturn, but well above the long-run series average (54.0). This pointed to a marked improvement in business conditions, which in turn looks to be providing companies the impetus to expand.

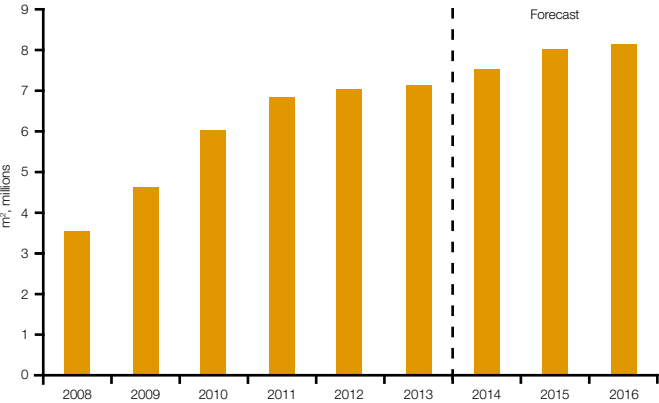
By the end of Q3 2014, total office stock reached 7.5 million m² in Dubai. Our analysis of schemes currently under

construction shows that, by 2015, the level of stock will rise to 8 million m², and then to 8.2 million m² in 2016.

Between July and September 2014, the general trading, "other" and real estate sectors accounted for 59%, 13% and 10% of total enquiries, respectively. Meanwhile, the engineering & construction (8%), professional (5%), technology (3%) and oil and gas (3%) sectors were less active. In addition, half of enquiries were for space sized between 100m² and 499m², while another 26% were for units sized 99m² or less. The remaining (24%) were for offices sized 500m² or above.

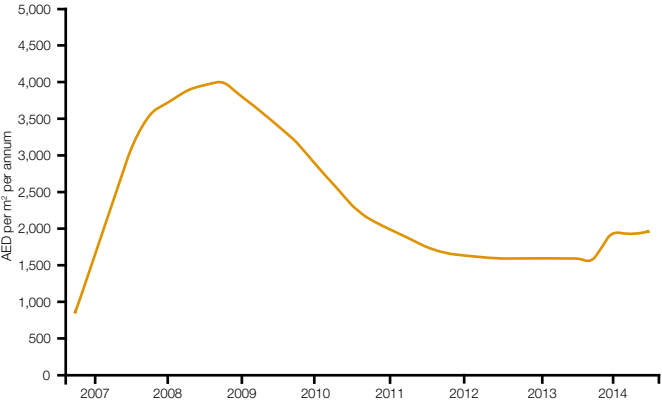
Anecdotal evidence suggests that some large occupiers are postponing their re-location plans, with a view to move into newly completed accommodation next year. Notable schemes due to be delivered include the C1 building (part of phase one of the Dubai Trade Centre District and expected to be completed in Q1 2015), as well as the completion of phase one of Dubai Design District in the early part of next year.

FIGURE 1
Dubai office stock, 2008-2016



Source: REIDIN, Knight Frank

FIGURE 2
Prime Office Rents (excluding DIFC)



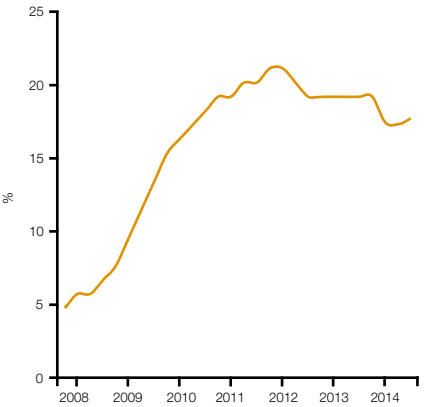
Source: Knight Frank

FIGURE 3
Key market indicators

Prime rents (AED per m²)	1,991	▲
Grade A (AED per m²)	1,669	▲
Grade B (AED per m²)	1,130	▲
Prime vacancy rate	18%	◀▶
Average rent free of a typical lease term	6%	▼

Source: Knight Frank

FIGURE 4
Prime vacancy rate



Source: Knight Frank, REIDIN

FIGURE 5
Indicative rents by district (AED per m²), Q3 2014

	Indicative for fitted accommodation	Trending
DIFC	2,530	◀▶
Emaar Square / Downtown	1,991	▲
Media City	1,615	◀▶
Internet City	1,615	◀▶
Knowledge Village	1,615	◀▶
Sheikh Zayed Road	1,510	◀▶
Business Bay	1,453	▲
Emaar Business Park	1,399	▲
Festival City	1,355	▲
JLT	1,130	▲
Deira	1,075	◀▶
Bur Dubai	969	▲
TECOM C	915	▲

Source: Knight Frank

DUBAI DESIGN DISTRICT (D3) INSIGHT

Comprising residential, education, office, retail, leisure and hospitality space, the Dubai Design District (d3) has set its sights on becoming a home for the Middle East's design community. Phase one of the scheme is projected to have a total capacity for 10,000 workers and will include a total of 11 buildings - with the North and Core blocks due to be completed in Q1 2015.

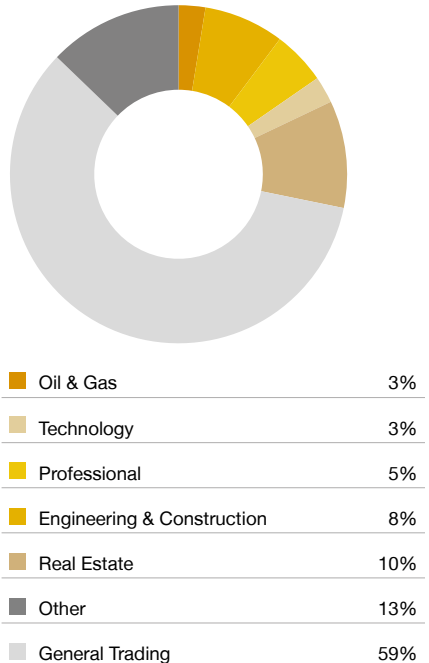
Office suites are expected to vary in size from between 70m² to approximately 3,000m² (whole floor) in order to accommodate both small & medium enterprises (SME), and large corporates. Also, d3 will offer licenses to both free zone and Dubai Economic Development (DED) registered companies.

According to TECOM Investments, key features of the scheme will include a

1.8km waterfront comprising hotels & furnished apartments (offering over 4,000 rooms), approximately 230,000m² of retail space and low-rise residential apartments. At the beginning of October, Parsons – a US-based construction & engineering firm – was appointed to deliver infrastructure works across the 200 hectare site.

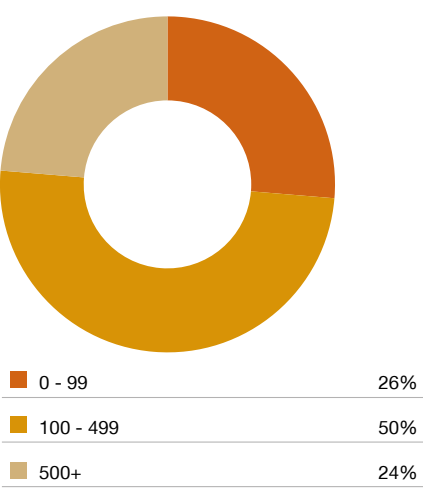


FIGURE 6
Enquiries by Sector, Q3 2014



Source: Knight Frank

FIGURE 7
Enquiries - Requirement by Size (m²), Q3 2014



Source: Knight Frank



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Technical Note

Floorspace has been sub-divided into Prime, A & B grade accommodation, reflecting high and low quality respectively. Whilst subjective, this categorisation is based on an assessment of each property's age, car parking ratio, specification, quality of finish, location, situation and overall attractiveness.

Category A works comprise services, lift safety elements and basic fittings and finishes for the operation of lettable work space, including but not limited to suspended ceilings; raised floors and skirting; cooling and heating services.

A Tenant Inducement % is the proportion of rent free period over the term certain. The U.A.E Dirham is pegged to the US Dollar at a rate of USD 1 : AED 3.673.

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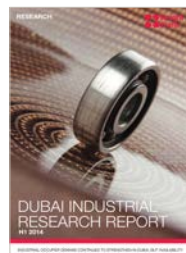
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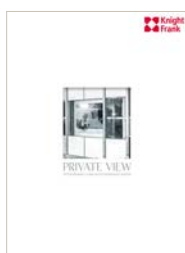
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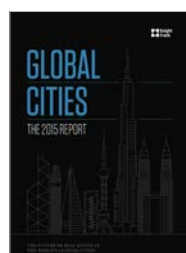
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