

*The UAE's industrial and logistics sector continues to mature  
providing new opportunities for occupiers and investors*



# UAE INDUSTRIAL & LOGISTICS MARKET REVIEW

Q1 2020





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“Despite the challenges brought about by the Covid-19 outbreak, the long-term fundamentals underpinning the industrial and logistics sector in the UAE remain steadfast. In the short term, both the Abu Dhabi and Dubai governments have focused their respective stimulus packages to support this sector through the pandemic.”

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

## Macroeconomic and Sector Overview

According to the IMF’s January 2020 update, despite some emerging geopolitical risks, the slowdown in the global manufacturing sector looked to be at least moderating, if not at a turning point. At this point, market sentiment had turned positive, and had indicated that the slump in global manufacturing trade and overall global trade was bottoming-out. This more positive market sentiment was underpinned by an imminent positive conclusion to China-US trade war, an end to Brexit uncertainty and a generally more supportive monetary policy environment.

Prior to this, global economic growth rates continued to moderate over the last year. IMF data showed that the global GDP growth rate is estimated to have slowed from 3.6% in 2018 to 2.9% in 2019. The global goods and services trade volume had seen growth fall from 3.7% in 2018, to 1.0% in 2019, with emerging markets witnessing an even more drastic fall from 4.6% to 0.4% over the same periods.

IMF forecasts over the next two years, indicated that a gradual recovery was set to ensue. However, as a result of the global Covid-19 pandemic, the IMF’s projected global GDP increase of 3.3% in 2020 and 3.4% in 2021, or its projected increase in global trade volumes by 2.9% and 3.7% over the same periods are very unlikely to be realised. Whilst there will be a short to medium term impact on trade volumes globally as a result of Covid-19, the magnitude of which is almost impossible to quantify at this time,

it is likely that the UAE’s industrial and logistics sectors will be materially impacted particularly given its re-export hub status.

Despite this shock, the long-term fundamentals underpinning the industrial and logistics sector in the UAE remain steadfast.

First, its modern transport infrastructure, ranked 8th globally according to the World Economic forum’s Global Competitiveness Report 2019, combined with its central location, which allows access to over five billion people within an eight-hour flight time, means that the UAE is an attractive proposition for global businesses looking to extend their footprint into emerging markets by using the UAE as a regional supply and re-distribution gateway.

More so, we have also seen the UAE’s soft infrastructure continue to improve over the last year to support the wider business environment. Whilst the UAE’s overall Ease of Doing Business rank has fallen from 11th in 2019 to 16th in 2020, components of the index including trading across borders, starting a business and protecting minority interests have improved over the last year. This, alongside the introduction of 100% foreign ownership, dual licencing and reduction in business fees across industrial and logistics Free Zones is likely to continue to attract multi-nationals in setting up operations in the UAE.

In addition to this, in more recent times, we have

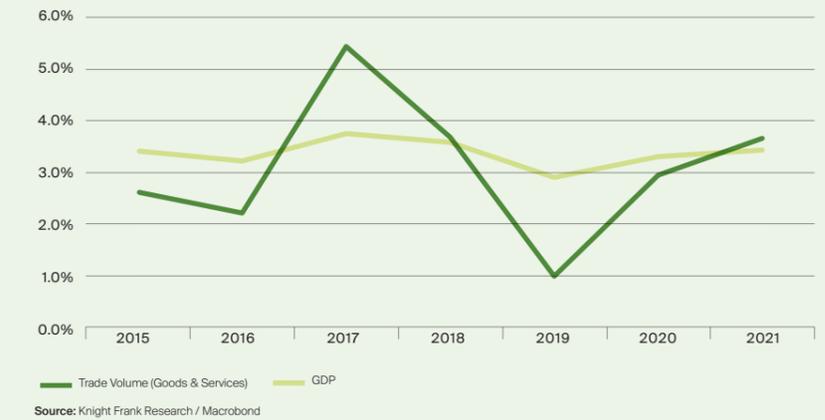
also seen the enactment of stimulus packages by the governments of Abu Dhabi and Dubai alongside a range of measures taken by the UAE central bank to help support the economy through the Covid-19 outbreak by reducing the costs of doing business and easing regulations.

The manufacturing and logistics sector has been a particular focus in both stimulus packages. Abu Dhabi’s government either abolished or reduced fees and charges in the commercial and industrial sector for up to a year. This included the removal of Tawtheeq fees, penalty charges, subsidised water and electricity charges and connection fees and a reduction of 25% for industrial land leasing fees on any new contracts. The Dubai government has also introduced a range of measures to support the economy, which initially have been enacted for a three month period and will be reviewed at the end of this period. The initiatives impacting the industrial and logistics sector include a 20% discount on customs fees imposed on imported productions which are locally sold, a freeze on the 2.5% market free levied on all business operating in Dubai, the cancellation of the AED50,000 bank guarantee required to undertake customs clearance, a 90% reduction in fees associated with submitting customs documents and the cancellation of down payment requirements for requesting instalment based payment plans of government fees.

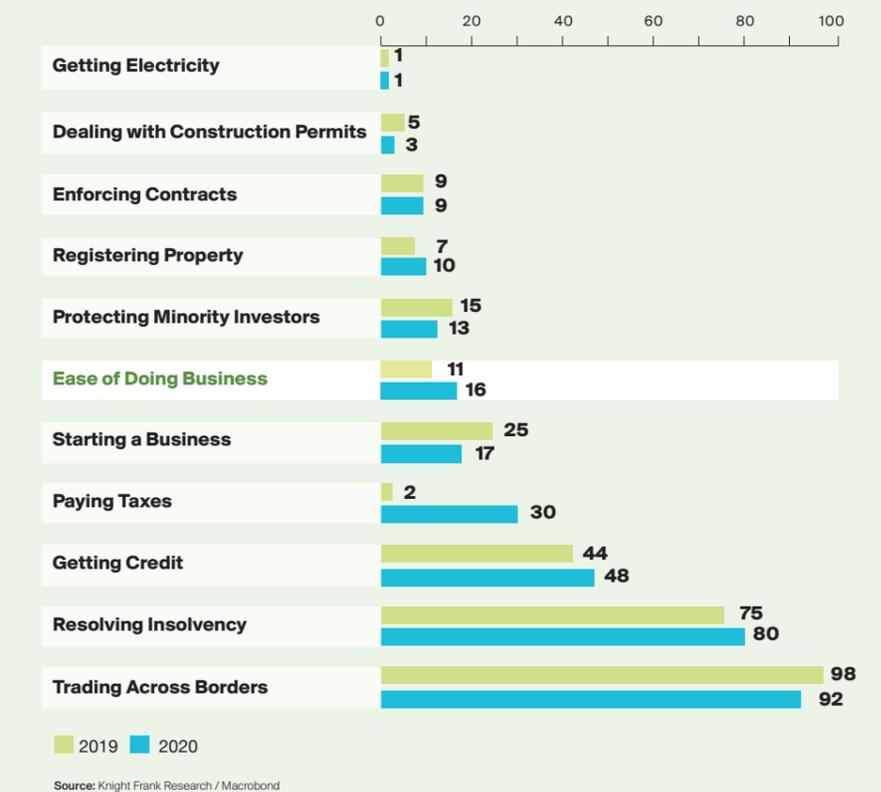
As a result of these physical and soft infrastructure fundamentals, which are being supported by existing and upcoming new modern warehousing and logistics supply, we are expecting to see continued growth in this economic sector. Data from Oxford Economics shows that over the 10 year period to 2030, the UAE’s industry sector is expected to grow by 18.4%, and its transport, storage and IT sector by 32.3%. Over the same period Abu Dhabi and Dubai’s industry and transport, storage and IT sectors are expected to grow by 29.7%, 33.3%, 24.8% and 27.5% respectively.

On the back of the projected economic growth in these sectors, employment is also expected to grow with employment in the UAE’s industry sector expected to increase by almost 256,000 and by almost 96,000 in its transport, storage and IT sector over the 10 year period to 2030. In the industry sector, 47% of new jobs are expected to be created in Abu Dhabi whereas in the transport, storage and IT sector, 53% of new jobs are expected to be created in Dubai over this period.

### World, IMF WEO Updates, Estimate, YoY % Change



### Ease of Doing Business Rankings



## Market Review

The UAE's industrial and logistics sector continues to face challenging trading conditions on the back of lacklustre global economic growth, a more challenging local economic backdrop and due to recent structural regulatory changes in the UAE. Whilst structural regulatory changes in the short term may lead to some form of consolidation, in the long term it is a critical move to support and grow the sector. These challenges, alongside an increasingly competitive market, have caused market performance to continue to soften and fragment further.

As a result of this more sluggish backdrop, average headline industrial and logistics rents in Abu Dhabi and Dubai fell by 11.9% and 3.2% respectively in the year to Q1 2020.

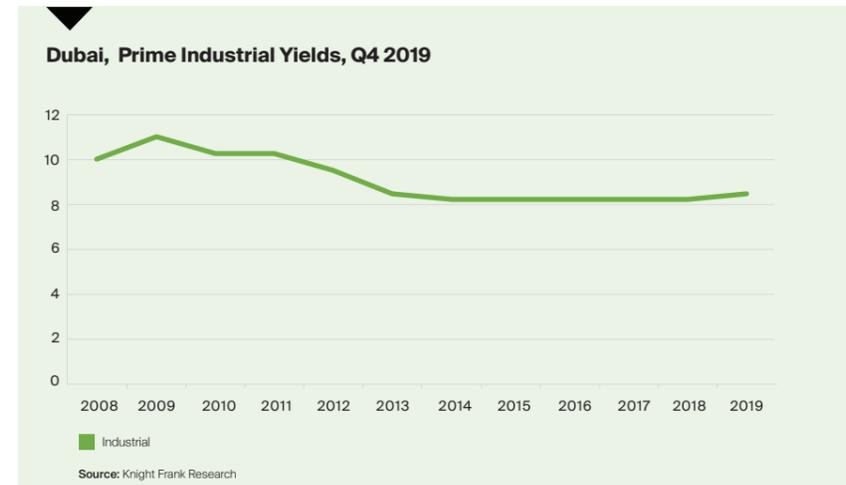
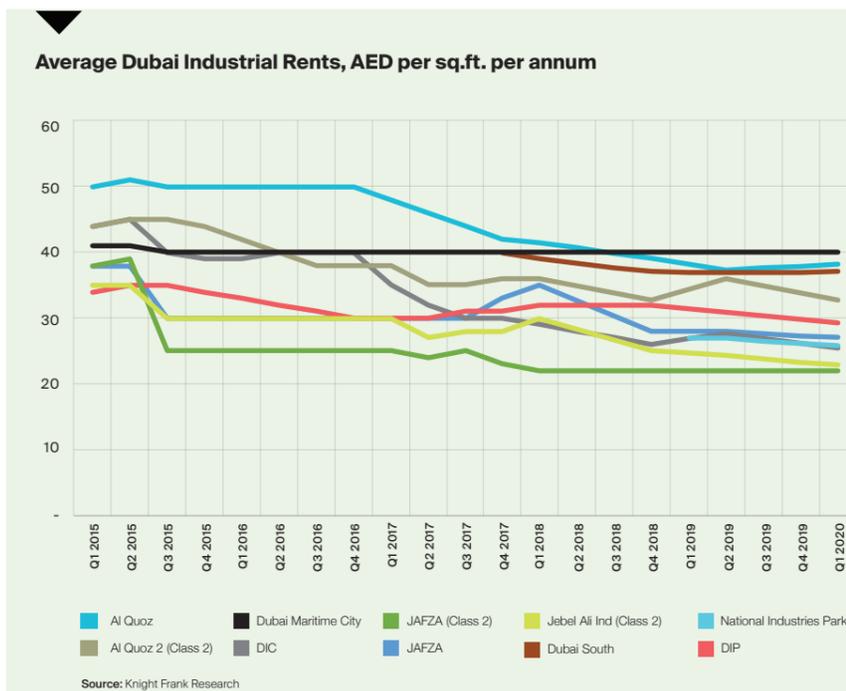
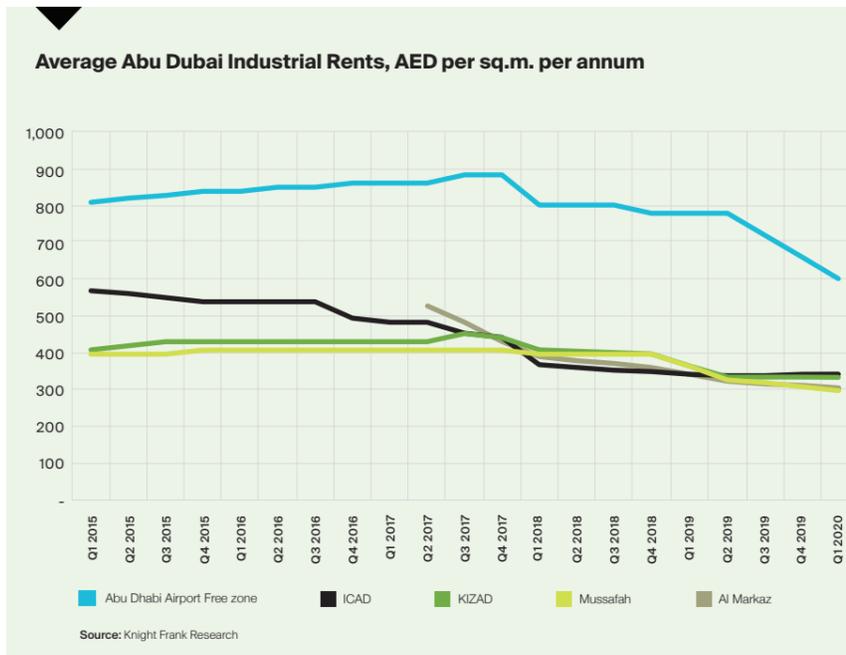
Prime and Grade A stock, which is limited in supply, has witnessed sustained levels of demand both for existing stock and upcoming stock where such stock is priced at competitive levels. This has been the case for the vast majority of zones where such stock exists as can be seen in the key markets event segment of this report.

Prime and Grade A stock in the logistics-warehousing segment of the market has, in particular, seen a strong level of take up from both e-commerce firms and from third party logistics operators.

However, due to the dearth of supply in this segment and barriers to entry for developers to additional supply firms, particularly those who are hesitant to commit to significant capital expenditures, have been hesitant to either enter the market or expand existing operations. More so, where there is such space available but subject to sub-leasing fees, such firms are reluctant to lease out such facilities.

Despite the stronger levels of demand in the Prime and Grade A segment, rental rates fell by up to 23% in Abu Dhabi and by up to 6.8% in Dubai in the year to Q1 2020. This has been driven by the increasing willingness of landlords of Prime and Grade A stock to compete purely on price. Given this intensive price competition in some industrial and logistics zones, new Prime and Grade A stock is trading at a discount to existing stock. For the regional and international competitiveness of the UAE's industrial and logistics sector, the softening of rental rates can be seen as a positive, as it is likely to further cement the case for firms choosing to set up operations in the UAE, particularly given its infrastructure advantages, instead of other GCC countries.

In both Abu Dhabi and Dubai we are continuing to see a two-tiered market operate. In comparison to Prime and Grade A stock, Grade B stock continues to



witness limited levels of demand due to the lack of quality stock. Current availability of stock in this segment of the market is of sub-standard quality and as most of this had been speculatively constructed, prices remain considerably above market rents.

Average rents for Grade B stock in Dubai as at Q1 2020 ranged from AED 22 per square foot, per annum, to 33 per square foot, per annum. In Abu Dhabi average Grade B rents ranged from AED 300 per square metre, per annum, to AED 341 per square metre, per annum as at Q1 2020.

Demand in the industrial and logistics sector over the last year has been evenly spread for floor space below and above 5,000 square feet according to Knight Frank data.

Demand in the industrial and logistics sector over the course of 2019 has been driven by the manufacturing, technology, general trading, food and beverage, engineering and construction and oil and gas sectors. On average, these sectors accounted for up to 64% of demand over the course of 2019.

Knight Frank data shows that during 2019, Dubai South, JAFZA, DIC and DAFZA accounted for up to 70% of demand in Dubai.

## Investment Market

Investment appetite for industrial and logistics assets remains strong despite some of the aforementioned challenges which are currently being faced by this market.

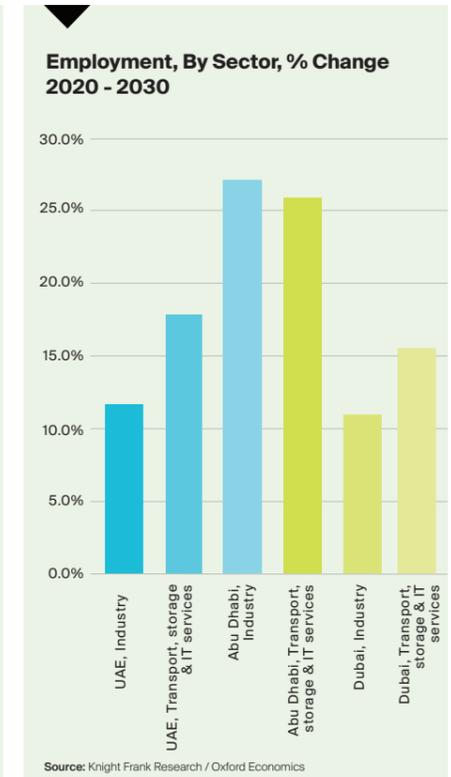
Whilst there is a clear requirement for high quality industrial and logistics centres, most of this requirement is in areas which are in close proximity to airports or ports. However, such locations tend to be in Free Zone ownership therefore those undertaking construction of a speculatively built asset would in most cases be subject to subleasing fees. These subleasing fees can affect the financial

viability of some investments, particularly those looking for medium-term return on investments.

Investors who are willing to undertake projects to supply the undersupplied Prime and Grade A market, with a long term view, are likely to be able to attract new demand at a premium to the market.

Investors who are willing to take a long-term view on investment decisions are willing to undertake such investments despite challenging market conditions.

Finally, due to the scarcity of quality prime assets we are witnessing average prime industrial and logistics yields continue to hold a healthy spread above average global prime industrial and logistics yields.



MIKHAIL VERESHCHAGIN  
Commercial Agent

“Recent market activity shows that there is still demand from occupiers in the industrial and logistics sector to establish and expand operations in the UAE.”

Global Prime Industrial Yields, Q4 2019

City	Prime Rents	Prime Rents (\$/sq.m/yr)	Prime Yields
Abu Dhabi (KIZAD)	AED 333	\$89	9.00%
Amsterdam	€85	\$94	4.10%
Barcelona	€82	\$91	4.75%
Berlin	€96	\$106	4.25%
Brussels	€55	\$61	5.25%
Bucharest	€48	\$53	8.00%
Budapest	€50	\$56	7.00%
Dubai (DIP)	AED 315	\$84	8.25%
Dubai (Dubai Industrial City)	AED 273	\$73	9.00%
Dubai (Dubai South)	AED 398	\$106	8.50%
Dubai (JAFZA)	AED 291	\$77	8.50%
Dubai (The National Industries Park)	AED 278	\$74	9.00%
Dublin	€105	\$116	5.25%
London	€195	\$216	4.00%
Geneva	€184	\$204	4.75%
Madrid	€66	\$73	4.75%
Milan	€55	\$61	5.25%
Moscow	€70	\$78	11.75%
Munich	€84	\$93	3.90%
Paris	€58	\$64	4.25%
Prague	€57	\$63	5.00%
Vienna	€78	\$86	5.15%
Zurich	€230	\$255	5.00%

Note: All yields are in local convention, net yields are in red.

Prime rents in Dubai exclude any sub-lease fees which are to be paid by tenant directly to industrial areas authorities and so do not affect income of landlord. Sub-lease fees vary from area to area.

Source: Knight Frank Research



TAIMUR KHAN  
Associate Partner

“Taking a longer term view on the sector, we note there is a gap for international quality Prime and Grade A stock in a number of industrial and logistics areas in the UAE. We are witnessing growth in the level of demand for modern warehousing and logistics solutions, which are priced at competitive rates, across a range of size requirements.”



Outlook

Looking ahead, the short term outlook for the industrial and logistics sector is expected to be challenging, not in the UAE alone but globally, due to the Covid-19 pandemic and the impact that this continues to have on global supply chains and consumption.

However, due to the rapid response by authorities in the UAE in providing targeted stimulus packages and further easing business regulations, particularly in the industrial and logistics sector, the UAE’s industrial and logistics sector may in relative terms not be as drastically impacted as certain other countries.

Given these challenges and the intrinsic level of competition in the market, we expect that rental

rates will continue to soften over the course of 2020.

Taking a longer term view on the sector, we note there is a gap for international quality Prime and Grade A stock in a number of industrial and logistics areas in the UAE. We are witnessing growth in the level of demand for modern warehousing and logistics solutions, which are priced at competitive rates, across a range of size requirements. However, due to the competitive nature of the market today, investors looking to fill this gap will need to be willing to have a medium to long term investment horizon. The additional risks raised by this longer term horizon are offset by occupiers’ willingness to commit to longer term lease periods for the right solution in this real estate sector.

Key Market Events

**Abu Dhabi Airports and Etihad Cargo** launch new cargo terminal at **Abu Dhabi International Airport**. As part of this project we are expecting to witness circa 3,500 square metres of temperature controlled pharmaceutical logistics space to become available by the end of 2020.

**Airbus** opened its first service centre in the Middle East and Africa for cabin electronics, repairs and spare part servicing in Dubai Airport Free Zone.

**Badia Farms** to construct a state of the art vertical farm in **Dubai Industrial City** over an area of over 4,600m2.

**Bollere Logistics**, in partnership with **dnata**, is looking to build a new facility in **Dubai World Central (DWC)** in order to provide long-term regional logistics support. The facility is expected to be ready by late 2020.

**Corys Plastic Industries**, a part of Hepworth PME, has signed an agreement with **ZonesCorp** to expand their existing facility in **ICAD III** to cover a total area of approximately 53,000 m2.

**Daikin**, the provider of conditioning, heating, ventilation and refrigeration products have relocated to a new facility in **JAFZA**. Its new 7,500m2 manufacturing and office facility will feature a training academy, fully air-conditioned AHU factory and the flagship experience centre.

**DB Schenker** has opened its first solar-powered logistics centre in **Dubai South**. The 33,000m2 is its second facility located in **Dubai South** and by 2021, DB Schenker is expected to operate around 80,000m2 of logistics space in Dubai.

**DHL Express** has opened its 4,820m2 facility in **Dubai South**

**DHL Express** is to occupy a facility with a total area of 30,000m2 in **Abu Dhabi Airports Free Zone**, the project is set to be completed by Q4 2021.

**Dubai Airport Free Zone Authority** and **Wasl** have undertaken a joint venture to develop Dubai CommerCity in the Umm Ramoul area of Dubai. The development, set to span a total area of over 195,000m2, will be divided in three sectors, a business cluster, a logistics cluster and a social cluster.

**Dubai Multi Commodities Centre (DMCC)** and **Jebel Ali Free Zone (JAFZA)** have signed an agreement where DMCC members will have access to JAFZA’s warehousing and logistics facilities ranging from 300m2 to 700m2.

**Dubai South** has continued the development of an E-commerce zone, named **EZDubai**, as part of Dubai South’s Logistics District. The area will be home to a range of warehouse and logistics products including facilities that offer in-facility customs clearing. One notable facility is Dubai South’s E-Fulfilment Centre, which will provide a 32,600m2 temperature controlled facility and is expected to be completed by Q3 2020.

**Expo 2020**, supported by **UPS**, has opened the first of three warehouses in **Dubai South**. The warehouse is over 10,000m2 in total area with an additional 10,000m2 of land for breakbulk cargo.

In late 2019 there were a host of changes to employment laws in **JAFZA**, these include the replacement of bank guarantees with workplace protection insurance, reducing costs associated with new hires. Secondly, historically only limited term contracts have been available for employees in **JAFZA**, this restriction has now been removed and unlimited contracts are now available. This move aligns employment contracts in JAFZA in line with UAE federal regulations as well as other Free Zones in the UAE.

In March 2020 **Jaguar Land Rover** began construction on a 19,000m2 parts distribution centre in **Jebel Ali Free Zone**, with an option to expand to 30,000m2 in the future.

In March 2020, **JAFZA** announced up to a 70% reduction in licence registration and administration costs, this move is expected to assist more than 7,500 existing firms which operate in **JAFZA** as well as attract new firms to the Free Zone.

**Kerry Logistics** Network has expanded its operations in Dubai with a new bonded facility in **Dubai South**. This new facility, with an area of over 6,500m<sup>2</sup>, offers solutions to electronics and technology customers alongside e-commerce fulfilment services.

**KIZAD** continues the construction of Phase 3 in its Logistics Park which is set to deliver an additional 44,000m<sup>2</sup> of warehousing space.

**Landmark Group** opened its Mega Distribution Centre in **JAFZA** in order to further strengthen its supply chain and serve as its distribution hub for the region. The fully-automated high bay warehouse will feature 36 docks and the warehouse bays stand at 43 metres high, making it the tallest facility in the region.

**Michelin** has opened its new regional headquarters for Africa, India and the Middle East in **Dubai Airport Free Zone**.

**Pinar**, a subsidiary of Yassar Group, opens its first international food production factory in **Khalifa Industrial Zone Abu Dhabi (KIZAD)** with an initial investment of \$27m.

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