



CUSHMAN &
WAKEFIELD

CORE

DUBAI OFFICE & INDUSTRIAL MARKET UPDATE

H2 2017

CONTENTS

Dubai Office market

- Overview
- Market performance
- Supply
- Demand
- Emerging trends
- Office leasing dynamics

Dubai Industrial market

- Overview
- Outlook

Dubai office leasing guide

This publication

This document was published in November 2017. The data used in the charts and tables is the latest available at the time of going to press. Sources are included for all the charts. We have used a standard set of notes and abbreviations throughout the document.

Overview

Dubai's office leasing market saw slow but steady growth as UAE economic indicators witnessed stabilisation over 2017. Grade A offices saw a welcome increase in supply, which is expected to relieve the upward pressure on rents in central prime areas. The commercial market will continue adjusting rapidly in the run up to the Dubai Expo, as demand requirements for prime office space are finally being

met by expected supply. By contrast, rents in the Grade B & C office segment have continued to soften due to persistent issues faced by strata office stock, evidenced by lower occupancy and sluggish demand. The lagging impact of office consolidation in the public and private sectors has kept enquiry levels relatively constant, restricting lease activity mostly to relocations.

Market performance

Core buildings within the DIFC district continued to outperform the market with near full occupancies. The upcoming stock in DIFC, Gate Village 11, is nearly pre-leased, underpinned by demand from occupiers for a presence in this financial hub. However, polarisation in rents continues as buildings located in the periphery struggle with ongoing vacancy levels and are now resorting to lucrative lease terms, multiple cheque payments and longer rent-free periods coupled with significantly lower headline rents.

Downtown is anticipated to see higher internal tenant movement within the district due to consolidation and relocation and the rents in the district are expected to hold steady. Boulevard Plaza witnessed higher enquiry levels for boutique offices due to its flexible layout and smaller letting spaces.

Sheikh Zayed Road (Trade Centre to first interchange) office performance picked up with a number of large transactions, particularly in the H Hotel Tower and Conrad Towers, while the first to third interchange saw steady retail and office take-up for its low-rise commercial units.

Business Bay witnessed an uptick in occupancy levels due to an increase in demand from SMEs and start-ups coupled with relocations from the old town districts such as Garhoud, Bur Dubai and Deira. Nevertheless, the district continues to see lower rental levels as its predominantly strata-owned stock faces fierce competition from landlords undercutting each other to avoid prolonged periods of vacancy, particularly in towers situated further away from the metro station.

Dubai Internet City (DIC) and Dubai Media City(DMC) maintain



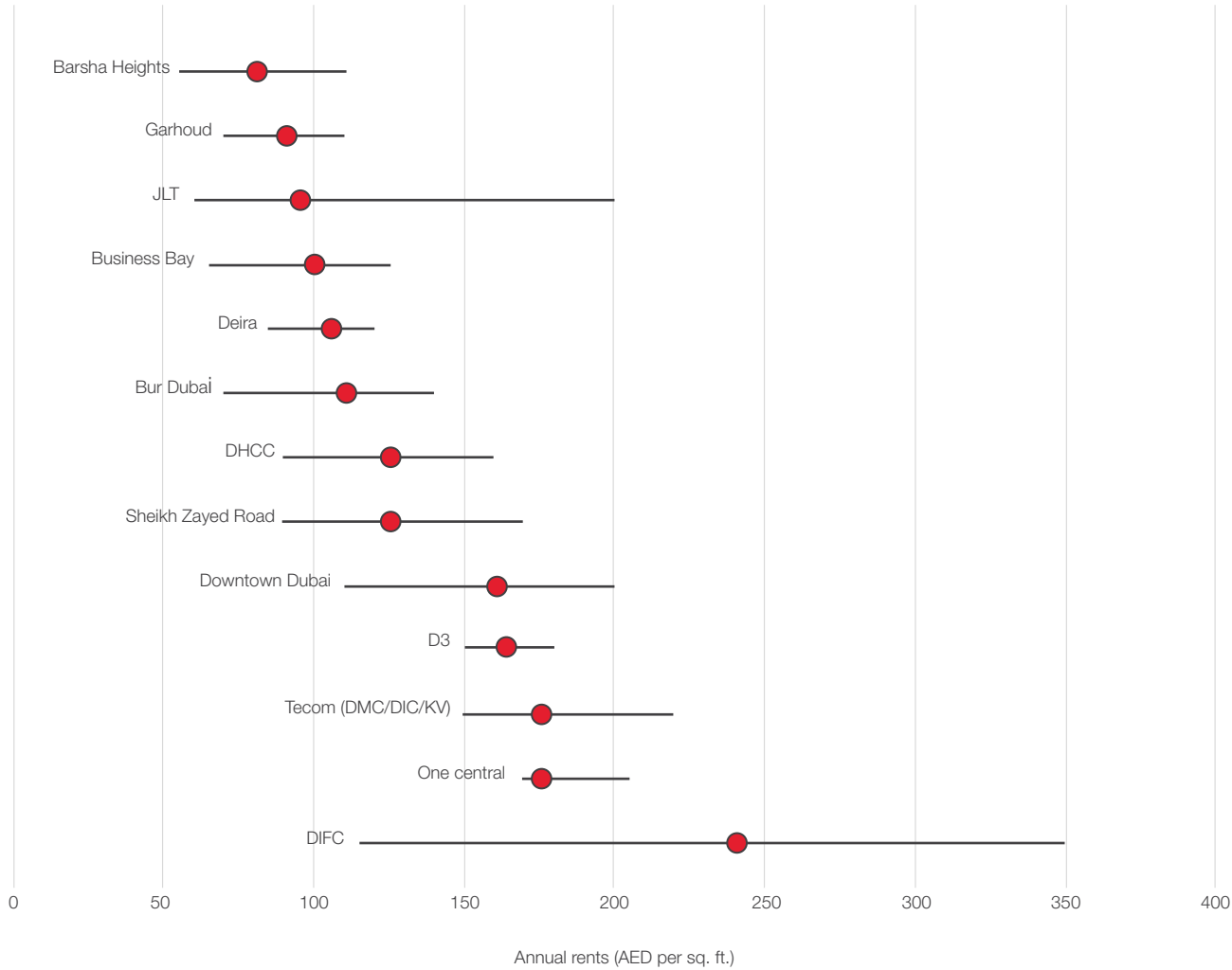
their strong performance as demand continues to outstrip supply. We expect some occupiers who are nearing the end of their lease terms and looking to expand to do so with other Tecom entities and freezones or potentially resort to purpose-built-solutions. This location also remains a top preference for institutional investments. ENBD REIT currently holds Al Thuraya Tower 1 and has recently expanded its office portfolio by acquiring The Edge in DIC from the developer Sweid & Sweid for Dh280 million. The 92,000-sq. ft. building is currently tenanted by Oracle, Snapchat and McGraw Hill. Emirates REIT also has a strong presence in this location and holds Office Park and Building 24 in DIC and Loft Offices in DMC.

DMCC saw leasing activity gaining momentum after a slower Q2. Although smaller spatial requirements below 1,000 sq. ft. have been more prevalent in the recent past, Q3 saw some large leases concluded such as a logistics firm taking 1.5 floors in One JLT, while steady movement was seen in the above 2,000 sq. ft. range. Upper lease rents stayed steady for

top performing office towers such as the Almas Tower, while lower level rents are finally bottoming out as existing service charges make it unviable for landlords to exercise any further significant rental reductions. Tenant demand in the district was led by consulting, trading and technology clients, while the commodities sector continued to display contraction.

Across the city, strong growth in upcoming supply, particularly in the prime office segment, is expected to put downward pressure on grade A rents in the mid-term. Conversely, rents in the grade B & C segment are likely to remain under pressure in the near term as most existing stock struggles with low absorption levels. Given that supply in this segment is not expected to increase notably in the medium term, we expect to see Grade B and C rents gradually stabilise as the existing vacant stock is slowly absorbed over the next few years.

Dubai office rental range - H2 2017



Source: Cushman & Wakefield Core Research

— Range ● Average

Supply

Office market supply grew by nearly 2.3 million sq. ft. over YTD 2017 including over 740,000 sq. ft. which is currently being handed over in One Central (Offices 2 and 3). This supply increase is indicative of Dubai's office market adjusting to the dominant need for single-owned prime stock – a segment where demand has consistently outstripped supply. Prime offices are now forecast to account for a substantial 71% of the total stock expected from 2017 to 2019, finally overtaking Grade B and C deliveries. This supply should see sustained absorption and relieve rental pressure from the high performing districts such as DIFC, DIC and DMC. Some deliveries that were anticipated to be completed in Q3 in Business Bay, such as The Opus, however, are delayed to Q4 or 2018. The recent slew of handovers in this district may add further pressure to high vacancy levels, and will make leasing units in many of the buildings that are 'strata' owned more challenging.

In the coming few months, the existing stock in prime locations will also see a significant amount of office space become available for lease due to consolidation activity and relocations within Dubai. In particular, over 28,000 sq. ft. of space is expected to become available in Emaar Square following the merger of NBAD and FGB. HSBC's move to its purpose-built facility in Downtown Dubai is also anticipated to free space within its current office at Emaar Square. This building, which is currently under construction, is owned by HSBC and expected to also offer an additional 60,000 sq. ft. of stock for corporate lease.

Following the robust delivery pipeline of 2017, more than 2.2 million sq. ft. of office supply is predicted for 2018. Prominent deliveries include the remaining stock of One Central (Offices 4 and 5), Amesco Tower in JLT, Phase 1 of Innovation Hub and the almost entirely pre-leased Gate Village 11 in DIFC. Furthermore, in 2019 ICD Brookfield Place and phase 2 of D3 are expected to be brought to market. Several other projects have also been launched, particularly in the owner-occupied segment. Mashreq Bank's recent

announcement that it is moving its headquarters from Deira to a built-to-suit office tower in Downtown Dubai by 2019, closely follows other occupiers such as HSBC, MasterCard and Huawei, which are opting for purpose-built premises. These announcements are indicative of the unmet demand from blue chip corporations for prime single-owned buildings, preferably on whole or contiguous floors with higher floor efficiency. As single-owned stock allows companies to negotiate lease terms with one entity instead of multiple landlords, they can streamline operations and lease terms.

Beyond 2020

Beyond 2020, a number of large projects are in the early stages of development. Emirates Towers Business Park is likely to be one of the most critical developments to the commercial market as it will add over 6 million sq. ft. of mixed use space to the total stock. The AED 5 billion district will allow companies based in the Business Park to benefit from DIFC's legal and regulatory framework, which is expected to further strengthen the area as a global financial hub and absorb some of the underlying demand for the core DIFC district. Although this development is planned to integrate the area, future construction activity is likely to have implications for accessibility by increasing traffic congestion within the district.

Recently, District 2020 and the legacy plans for the Expo site were unveiled. The development will include academic institutions, galleries and museums, and is expected to bring a substantial 14.5 million sq. ft. of commercial space onto the market. Notable initial partners include Siemens, proposing the location for its global logistics headquarters, and Accenture which is looking to build its digital hub. This list is expected to grow in the run up to Expo 2020. DMCC also unveiled plans for Uptown Dubai, a mixed-use development in JLT.

Demand

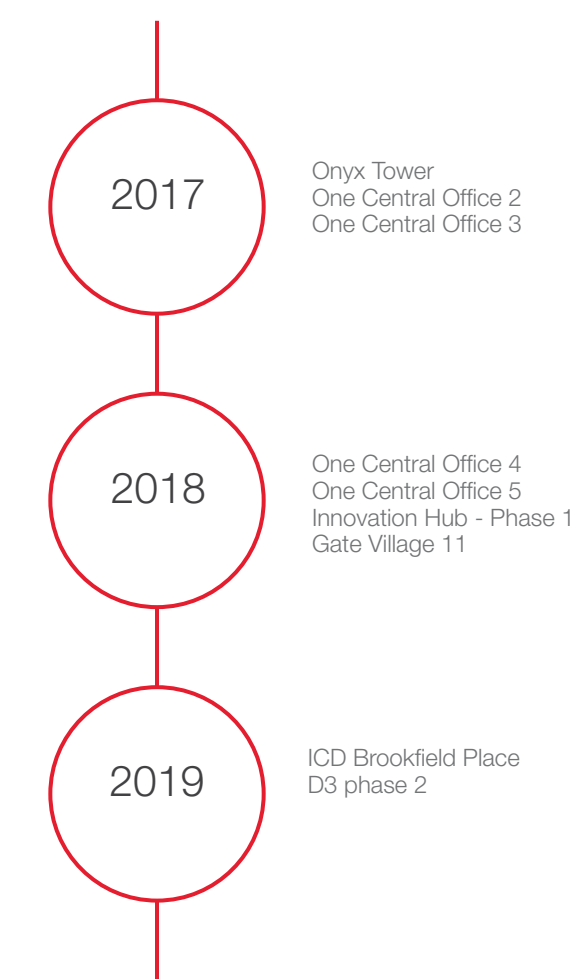
A number of positive demand drivers for the commercial real estate emerged over the course of 2017. The Emirates NBD Dubai Economy Tracker Index (DETI) indicates the non-oil private sector saw solid expansion over the last few quarters, with a sharp rise in business activity and new work. Employment figures have been flat, possibly as most firms have optimised resources and aim to continue working on lean structures. This quarter also saw the business expectations index rising to from 67.7 in July to 68.5 in September. Strong demand, new order growth and promotional activities were cited as the key reasons for optimism in the coming year.

However, the same optimism is yet to be reflected in enquiry levels, which have been constant over the past year. Most enquiries have been related to relocations and consolidations, and average transaction size is now 4,000 to 5,000 sq. ft., notably smaller than in previous years. Furthermore, demand for business centres and micro offices continues to be buoyant as occupiers with smaller spatial requirements, and new entrants in particular, prefer plug-and-play facilities eliminating occupation timelines.

The level of international enquiries remained constant as a number of global companies, especially in the legal and BFSI sectors, seek to establish their presence in the region. However, first phase expansions have seen smaller requirements and been slower to conclude as occupiers remain hesitant. The number of enquiries from Chinese companies was notably strong, particularly in freezone areas such as JLT. Office demand from local occupiers within Dubai largely originated from the technology sector.

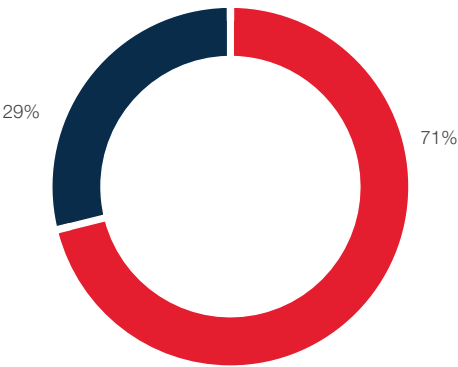
Although the number of local SMEs has grown, with a rising number of tech start-ups scaling up operations, overall office absorption volumes from these occupiers remains weak. Given that the consistency in demand for large office space principally stems from multinationals, which tend to opt for grade A offices, the gap between occupancy levels within grade A and grade B & C stock persists.

Grade A Project Deliveries



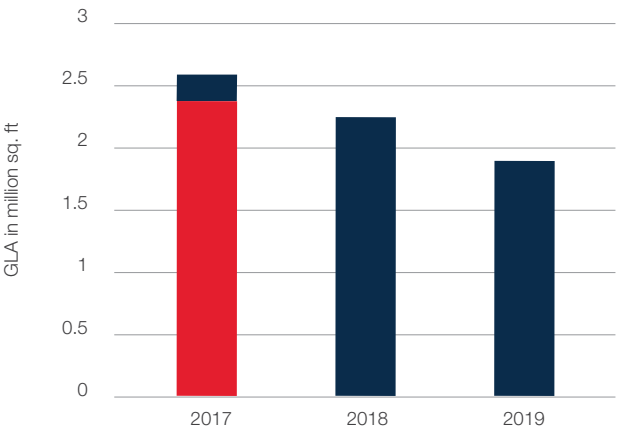
Sources: Cushman & Wakefield Core Research

Grade A vs. grade B & C office stock
2017 - 2019



Sources: Cushman & Wakefield Core Research

Expected office supply
2017 - 2019



Sources: Cushman & Wakefield Core Research



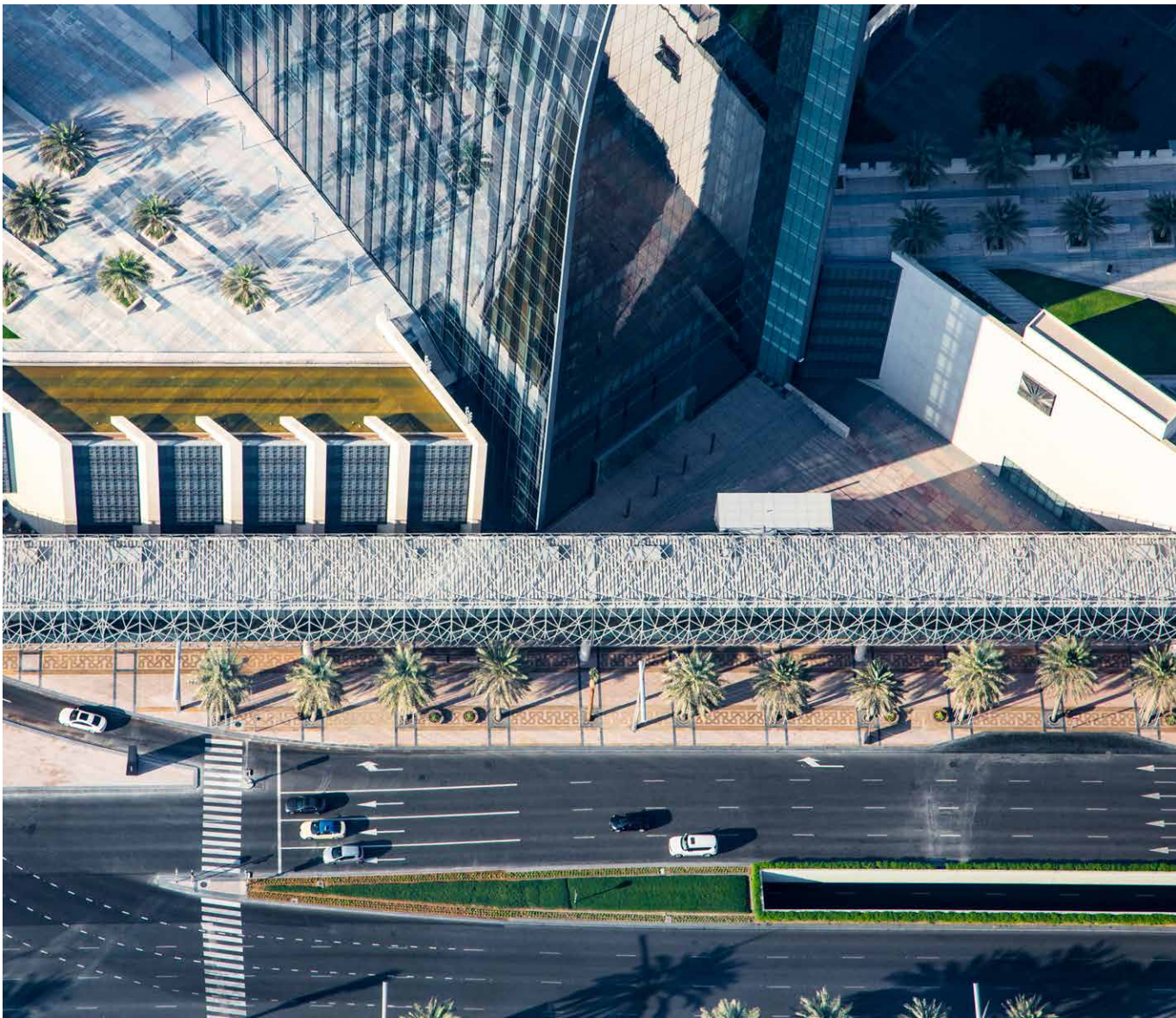
Emerging trends

Various key trends have emerged over the past few months. Several companies have begun relocating to different business districts to take advantage of weakening rents. Business Bay, in particular, has seen an influx of DED-licenced firms from old Dubai due to its central location and lower rents. Further relocation within and across comparable freezones is likely to increase as various long-term leases in prime areas such as DIC/DMC and DIFC near closure.

Demand for micro and flexible offices continues to grow, indicating a need for further diversification in office space configurations. Several specialised workspaces have opened across the city such as ‘Let’s Work’ and ‘Our Space’, drawing increasing interest from small businesses and entrepreneurs looking for serviced office facilities with flexible leases. Astrolabs, already having an established presence in DMCC is expanding its footprint to cater to this latent demand. Fitness centres and ground floor F&B units within commercial

districts continue to see rising demand. As noted in our previous Office Market Spotlight, boutique workout studios located close to commercial buildings cater to a growing demand for health and wellness centres. Dubai Fitness Challenge, the recent government initiative to encourage residents to undertake at least 30 minutes of exercise daily, signifies the scale of this trend across Dubai and confirms that demand for fitness spaces in general is likely to continue accelerating.

An increasing number of freezones are offering companies the option of dual licensing. D3 and One Central are key developments offering this provision in addition to DAFZA, which also recently announced it will also offer dual licensing options. This trend is expected to attract occupiers and facilitate business operations, thereby supporting long-term demand for commercial space.



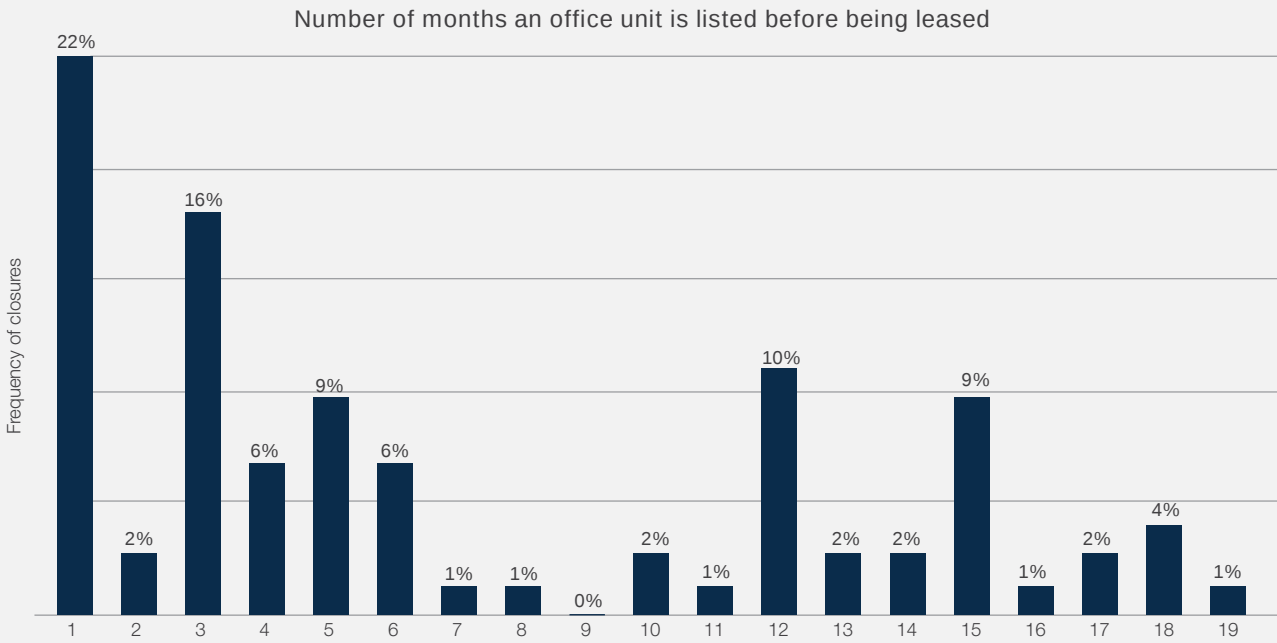
Office Leasing Dynamics

Current market conditions largely favour tenants over landlords, particularly in the Grade B & C segment. The decline in rents across key districts has put pressure on yields, forcing landlords to choose between letting out their units at lower rents or keeping them vacant for extended periods of time.

Although office transactions take longer to execute, over 41% of units are leased within the first three months of being listed. This robust absorption figure represents the pool of landlords who are aligned with the market conditions, thereby witnessing quick lettings. The number significantly decreases

over the subsequent months with 21% units leased in the second quarter, dropping further to just 6% over rest of the year, illustrating the imbalance between landlord expectations and market rents.

Confirming this trend, we see a spike at the end of the first contract year, as landlords adjust proposed lease terms to reduce vacancy levels and mitigate yield compressions. These landlords are thought to be overcompensating by sharply undercutting headline rents, a move that could have been avoided had they adopted more reasonable initial expectations by adjusting rents faster during the initial months.



Sources: Cushman & Wakefield Core Research

Industrial market overview

The stabilisation of oil prices at around USD 50 per barrel and steady global trade volumes in 2017 are yet to strongly revive demand for industrial and warehousing facilities. Low occupancy levels are particularly marked across the older secondary market stock, as many units have outdated built specifications, do not comply with new fire regulations, and offer lower physical infrastructure (electricity, water and loading requirements). Competitively priced grade A stock has been relatively resilient both in ready-built and purpose-built options, albeit spatial requirements have contracted.

Enquiry levels, which reached their peak in 2014–2015, have remained flat at mid-2016 levels. Average area requirements are now in the range of 4,000 sq. ft., primarily for SMEs and tenants in light manufacturing or food packaging. Large FMCG and online retail occupiers look towards purpose-building their facilities as existing stock fails to meet highly specific demand. This is evidenced by Unilever and Majid Al Futtaim opting for the purpose-built route. Large logistics requirements for distribution hubs have been seen from the likes of Aramex and Mohebi, while many other established players already have a presence within the region and aim to optimise existing units and adopt leaner supply chain solutions. First

phase expansion volumes are relatively steady, although new entrants remain cautious of sluggish market conditions. Initial spatial requirements remain low as businesses retain the option to expand according to changing needs.

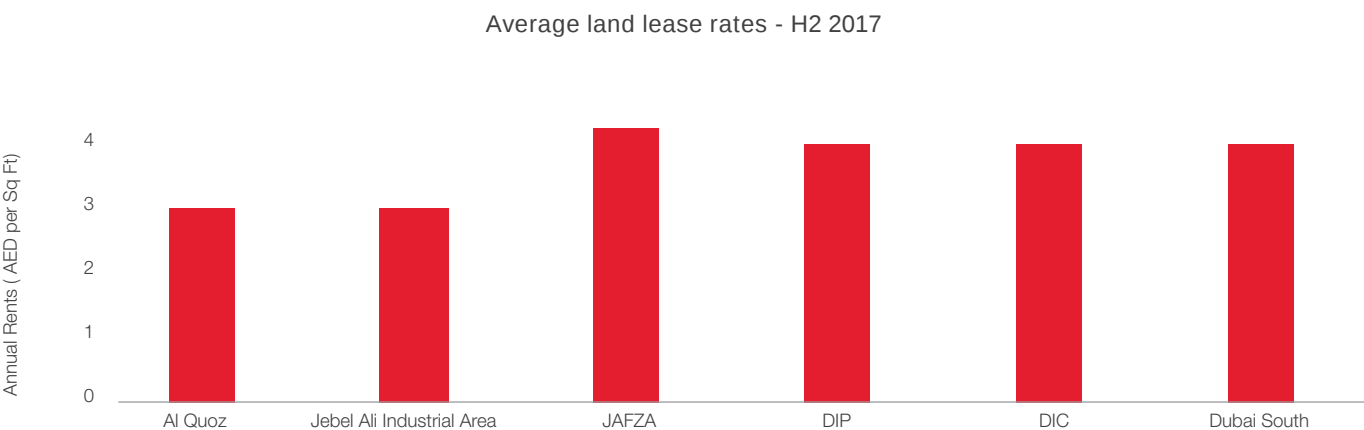
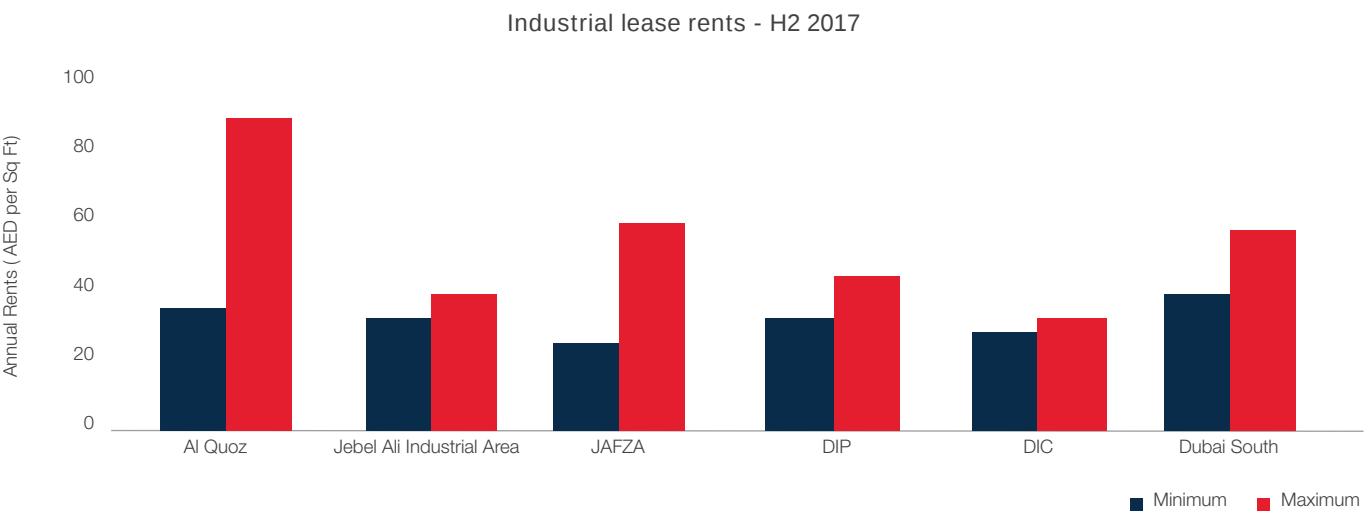
DIP sees the highest levels of demand due to a wide variety of ready stock available and established regulations, in addition to its relative proximity to the Expo site. The differential between DIP's lower and upper rentals is small, as the stock quality is relatively high and does not vary significantly. The quality of industrial units in area's such as Al Quoz and JAFZA, however, varies notably, resulting in further strain on rents in sub-par units. Given that occupiers increasingly prefer to lease high quality units that require low levels of refurbishment and related expenses, the industrial market has seen visible polarisation between high and low-quality units and areas. Nevertheless, Al Quoz continues to maintain occupier interest, particularly from assembly, packaging and smaller logistics players, owing to its central location which allows vendors to maintain "just in time" delivery systems. Dubai South is predominantly a purpose-built location and has only a limited number of ready units available in the secondary market.

Segment outlook

We expect the imbalance between the lower quality and higher quality of supply to create potential investment opportunities. International grade stock witnesses relatively steady absorption, higher levels of occupancy and steady yields above 9%, despite the relatively lower level of risk compared to many other asset classes.

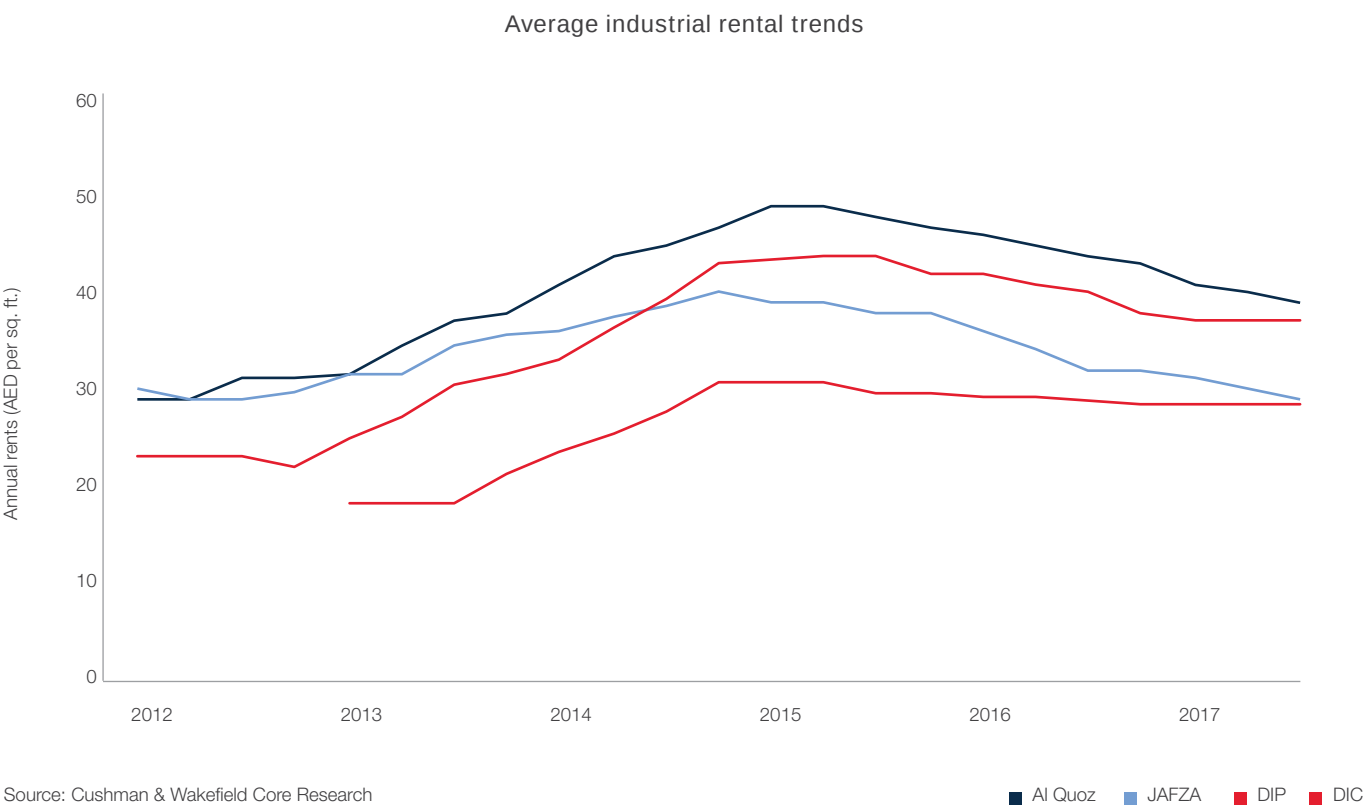
As existing units are increasingly improved and renovated according to occupier requirements, we foresee further segmentation between higher and lower performing assets. Rents and vacancy levels will gradually reflect these preferences, leading to the emergence of a two-tiered market, similar to Dubai's office sector.

Average levels of grade A rents are anticipated to be stable despite weak current demand. As forecast in previous reports, weaker performing grade B and C assets are likely to witness a cascading effect of rising vacancy levels caused by occupiers upgrading to grade A stock. This is expected to eventually push operators/landlords to revamp existing stock, thus elevating the overall quality of supply on offer.



Source: Cushman & Wakefield Core Research

As existing units are increasingly improved and renovated according to occupier requirements, we foresee further segmentation between higher and lower performing assets. Rents and vacancy levels will gradually reflect these preferences, leading to the emergence of a two-tiered market, similar to Dubai's office sector.



■ Al Quoz ■ JAFZA ■ DIP ■ DIC



LEASE TERM

Typical lease length

- Space under 1,500 sq. ft. – 1 to 3 year term plus an option to renew for a term equal or more than the original term
- Space over 1,500 sq. ft. – 3 to 5 year term plus an option to renew for a term equal or more than the original term

Rents quoted in

AED/sq. ft./annum on net lettable area.

May include service charges.

Break options

Landlords will usually require a break clause to be supported by a 3 to 6 months notice accompanied by a period 3 to 6 month penalty.



LETTABLE AREA
REPAIR RESPONSIBILITY

Internal

Tenant, in case of minor repairs ranging between AED 500-2,000. Usually a predetermined amount mentioned in the contract. In case of major repairs such as structural or MEP, it comes under the landlord.

Common areas

Landlord. Service charge usually included in rent.

External/Structural

Landlord/Owners Association pays for the repairs to the structure, roof etc. and does not pass the charges onto the tenant.



OPERATING EXPENSES

Service charges typically cover

- Service charges in a Class A building range from AED 25-30 AED/sq. ft./annum
- In the case of a strata title office, the service charges are usually paid by the landlord while in the case of a single landlord office, the rent and service charges are segregated and the tenant pays both

Additional costs that the tenant pays

- The tenant may choose a legal consultant.
- Utility connection and consumption/services, for example IT.

Transaction costs

New lease: Whoever hires the agent generally pays their fees. The landlord typically pays 7.5% of the first year's rent. The tenant typically pays a standard fee of 7.5% of an annual rent

Lease renewal: An administrative fees of around AED 1,000. In case of an expansion, 7.5% of the first year's rent on the additional space.

Sublease: An administrative fees of around AED 1,000

Purchase: Whoever hires the agent generally pays the agent 2% up to AED 100m, over AED 100m usually 1%



RENTAL PAYMENTS

Frequency of rent payable

Usually annual but can vary from 1-4 payments over the year.

Security deposit

- 5% of annual rent in case of shell and core office
- 10% for fitted office

Basis of rent

Rent normally escalates annually in line with CPI. In case of a renewal, rent is escalated in line with the governing authorities rental index regulations.

Frequency of rent review

Usually at the end of contract term.



DISPOSAL OF LEASE

Sub-letting

Subleasing is rare due to short lease terms (except for companies belonging to the group).

Reinstatement responsibility for leased area

Tenant's responsibility. Although removal of tenant-installed fit-out is subject to a mutual agreement between the tenant and the landlord as the fit-out may add value to the landlord.



SPACE MEASUREMENT

Standard

The area quoted is known as net lettable area. This comprises net area excluding walls, structural columns and common areas.

Efficiency

Usually above 75%.



TENANT'S FIT-OUT

Construction

The tenant usually undertakes the fit-out with their contractors and construction workers supervised by the tenant's architect and approved by the local regulatory body.

Fit-out allowances

Some landlords provide fit-out allowances or rent free periods and they range anywhere between 2-6 months depending upon the term of the lease.

HEAD OFFICE

Ground Floor, Building 6,
Emaar Square, Downtown Dubai,
Dubai, UAE

+971 4 245 2100

DMCC OFFICE

Ground Floor, Indigo Tower
Jumeirah Lakes Towers,
Dubai, UAE

+971 4 245 2100

ABU DHABI OFFICE

Office No. RU 04, Abu Dhabi National
Exhibition Centre (ADNEC), Al Khaleej
Al Arabi Street, Abu Dhabi, UAE

+971 2 556 7778

Disclaimer:

This report is for general informative purposes only. It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent. Whilst every effort has been made to ensure its accuracy, Cushman & Wakefield Core accepts no liability whatsoever for any direct or consequential loss arising from its use. The content is strictly copyright and reproduction of the whole or part of it in any form is prohibited without written permission from Cushman & Wakefield Core's research team. © Cushman & Wakefield Core.