

Commercial Real Estate

UAE Office, Retail & Industrial Market Review Q3 2023

VIEWPOINT

Activity levels within the UAE's commercial market remained solid over the third quarter of the year, and this continues to drive performance.

CBRE RESEARCH
NOVEMBER 2023



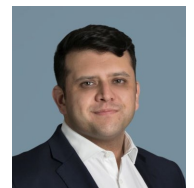
Key Takeaways

- Robust levels of demand continue to be seen in Dubai’s occupier market in the third quarter of 2023, where data published by the Dubai Land Department show that a total of 35,822 rental contracts were recorded, registering a rise of 40.7% from the year prior.
- The lack of availability of quality stock, paired with the elevated levels of demand, continues to drive rental growth in Dubai’s office segment of the market, where in the year to the third quarter of 2023, average Prime, Grade A, Grade B, and Grade C rents increased by 10.7%, 14.4%, 20.1% and 30.0%, respectively.
- Rental performance has improved further in Abu Dhabi’s occupier market on the back of the rising levels of demand, where in the year to the third quarter of 2023, average Prime, Grade A, and Grade B rents increased by 7.0%, 8.6%, and 13.0%, respectively.
- In the retail segment of the market, in the year to the third quarter of 2023, significant growth in lease rates has been witnessed in both Abu Dhabi and Dubai, with average rents rising by 16.9% and 36.8%, respectively.
- The market fundamentals within the industrial and logistics sector continued to drive higher leasing rates in Abu Dhabi and Dubai, where rental rates grew by 7.5% and 17.7%, respectively, in the year to the third quarter of 2023.

“

Activity levels within the UAE’s commercial market remained solid over the third quarter of the year, and this continues to drive performance.

”



Taimur Khan
Head of Research



Abu Dhabi Office Market

Leasing activity in Abu Dhabi's occupier market remained relatively solid over the third quarter of 2023, where the total number of rental registrations reached 8,814, recording a year-on-year increase of 9.8%. Over this period, new rental registrations increased by 25.2%, whereas renewed registrations dropped by 9.9%.

The vast majority of occupational activity within Abu Dhabi continues to originate from government-related entities in both on-shore and off-shore locations. That being said, over the past quarter, we have seen increased demand from private sector occupiers across a range of businesses, where the legal and financial services entities have seen marked growth in occupier activity.

The availability of quality stock remains relatively limited owing to the lack of developments. This has led a number of firms to secure more sizable spaces to accommodate their future expansion plans. Serviced office providers are also expanding their operations within the capital on the back of the elevated levels of demand for fitted and flexible spaces. Such demand is particularly prevalent from new market entrants.

“

Moving forward, we expect that rental growth within the Prime and Grade A segments of the market will continue to be relatively strong.

”



Abu Dhabi Office Market

The market-wide average occupancy rate in institutional-grade buildings tracked by CBRE reached 90.8% in the third quarter of 2023, up from 87.1% a year earlier. Rental performance has improved further on the back of the rising levels of demand, where in the year to the third quarter of 2023, average Prime, Grade A, and Grade B rents increased by 7.0%, 8.6%, and 13.0%, respectively.

Moving forward, we expect that rental growth within the Prime and Grade A segments of the market will continue to be relatively strong, owing to the lack of quality stock resulting from the scarcity of new developments alongside the elevated levels of demand. Given the prevailing market conditions, incentives coming from landlords remain relatively limited.

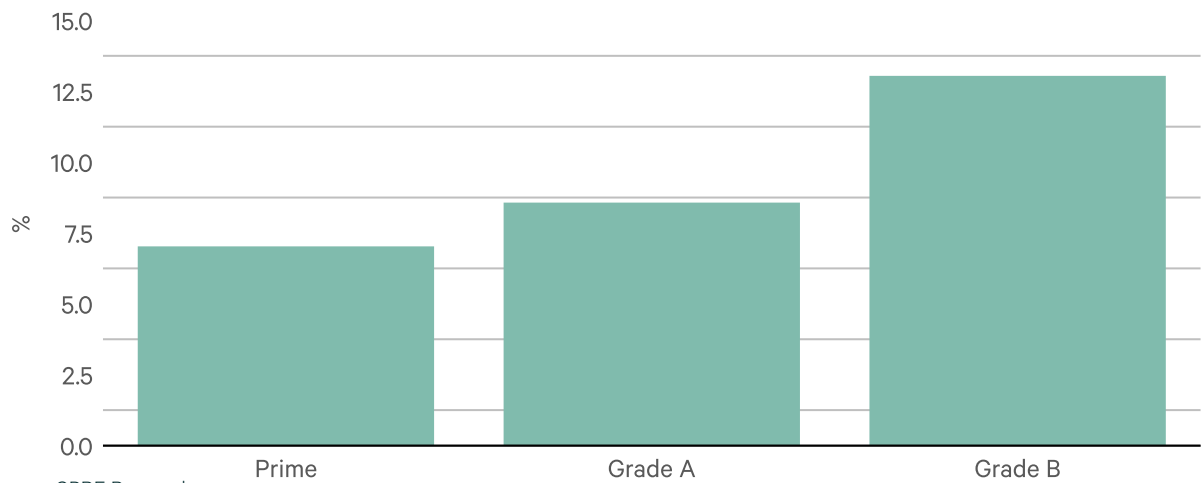
Average office occupancy rate in Abu Dhabi in Q3 2023

90.8%

Increase in Prime office rental rates in Abu Dhabi, in the year to Q3 2023

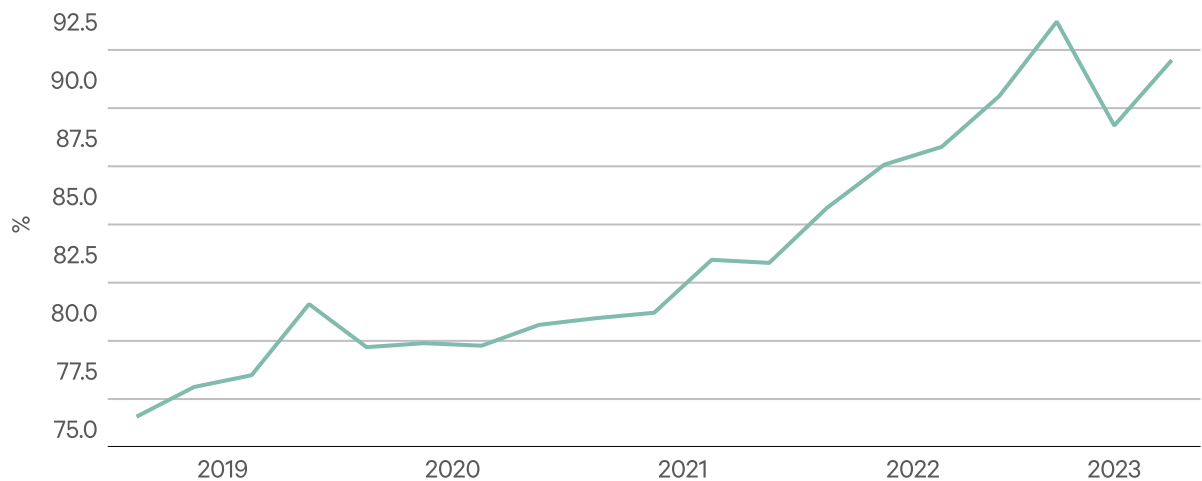
7.0%

Figure 1: Abu Dhabi, Office Rents, YoY % Change to Q3 2023



Source: CBRE Research

Figure 2: Abu Dhabi, Offices, Average Occupancy Rate, %



Source: CBRE Research

Dubai Office Market

Robust levels of demand continue to be seen in Dubai's occupier market in the third quarter of 2023. Data published by the Dubai Land Department show that a total of 35,822 rental contracts were recorded, registering a rise of 40.7% from the year prior. During this quarter, the number of new rental registrations totalled 26,568, up 50.1% compared to the previous year. Over this period, the total number of renewed contracts reached 9,254, registering a year-on-year increase of 19.2%.

The supply and demand imbalance remains one of the major concerns, and this continues to underpin a landlord-favoured market. The prevailing market backdrop is putting additional pressure on businesses. Global corporates, which usually have lengthier decision-making processes are, more often than not, failing to meet landlords' tight decision-making timelines, with many landlords operating on a first-come, first-served basis. Many occupiers are instead choosing to renew leases and often committing to longer lease terms in order to ensure certainty.

However, for some, this will, in the medium to long term, impact their businesses' growth plans. More so, with limited new developments in the pipeline and those which are seeing strong pre-leasing activity, this trend is likely to underpin the market for some time. Another notable trend which has been witnessed during this quarter is the marked increase in demand for fitted and serviced spaces, given the cost-effective/ flexible solutions provided.

Increase in new office rental registrations in Dubai in Q3 2023 vs. previous year

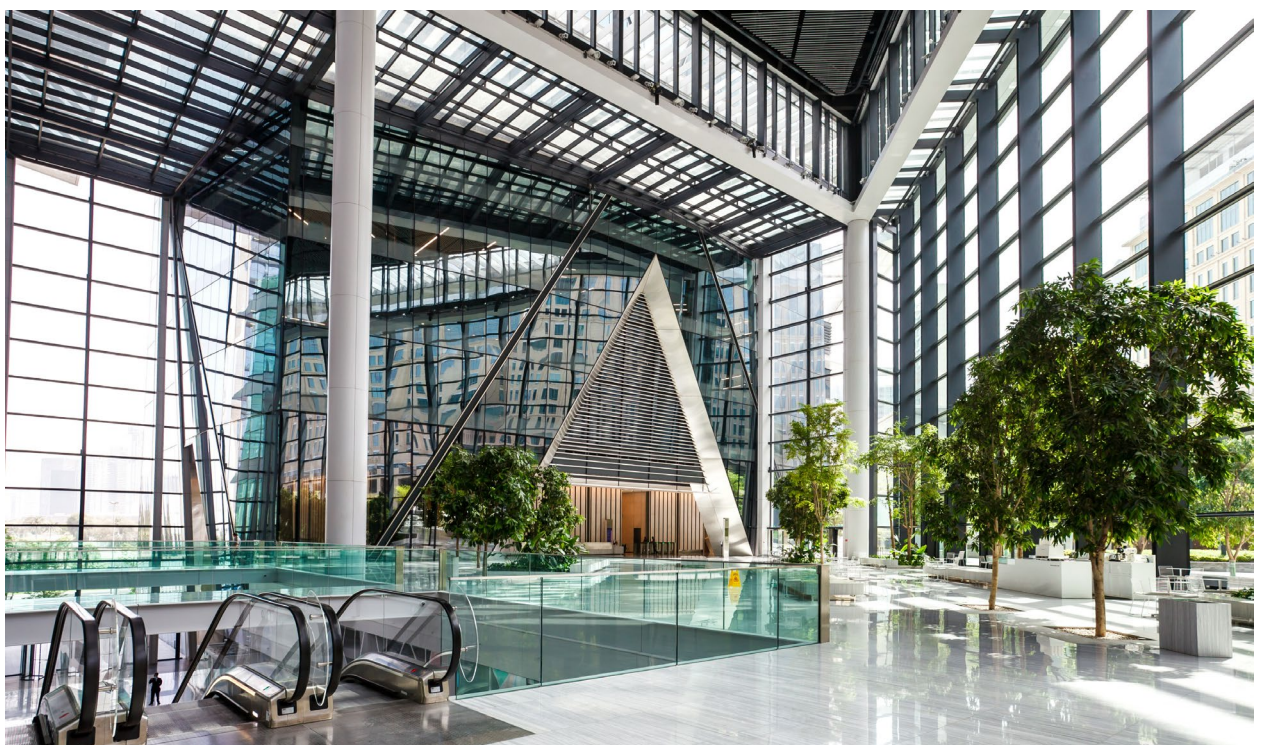
50.1%

Increase in Prime office rental rates in Dubai, in the year to Q3 2023

10.7%

Average office occupancy rate in Dubai in Q3 2023

92.4%



Dubai Office Market

The average occupancy rate within this market segment reached 92.4% in Q3 2023, up from 86.9% a year earlier. The lack of availability of quality stock, paired with the elevated levels of demand, continues to drive rental growth, where in the year to the third quarter of 2023, average Prime, Grade A, Grade B, and Grade C rents increased by 10.7%, 14.4%, 20.1% and 30.0%, respectively. As at Q3 2023, average rents within the Prime, Grade A, Grade B, and Grade C segments reached AED 249, AED 178, AED 146, and AED 125, respectively.

With the delivery of new stock remaining limited over the upcoming period, we anticipate that the performance within this segment will remain steadfast going forward.



With the delivery of new stock remaining limited over the upcoming period, we anticipate that the performance within this segment will remain steadfast going forward.

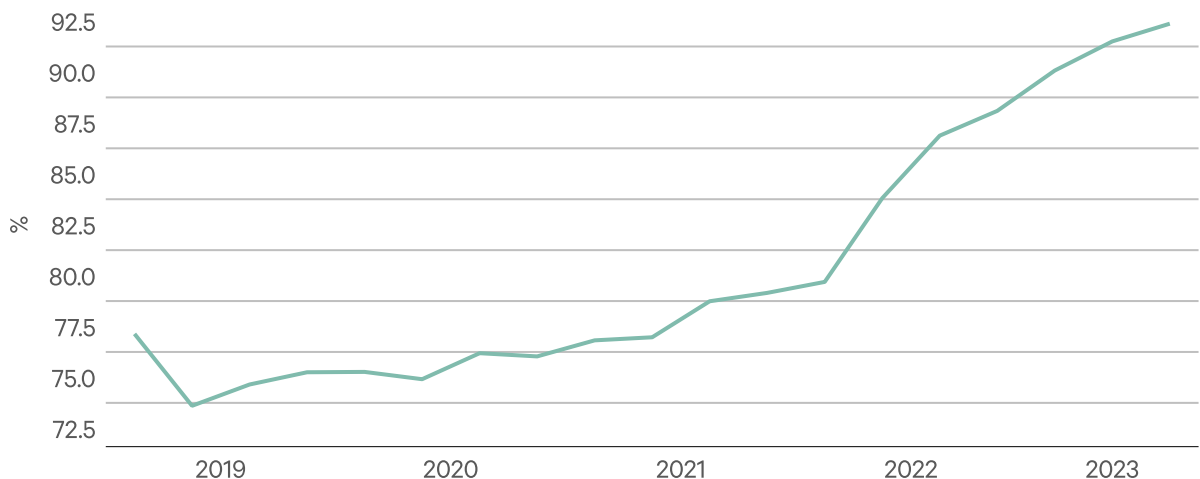


Figure 3: Dubai, Office Rents, YoY % Change to Q3 2023



Source: CBRE Research

Figure 4: Dubai, Offices, Average Occupancy Rate, %



Source: CBRE Research

UAE Retail Market

Leasing activity in Abu Dhabi's retail market was relatively restrained in the third quarter of the year, where the number of rental contracts registered a marginal decline of 1.4% in the year to the third quarter of 2023 to reach a total of 6,990. Over this same period, new rental contract registrations grew by 21.2%, whereas renewed contract registrations declined by 10.7%.

In Dubai, the total number of tenancy contracts recorded within the retail segment of the market reached 17,495 in Q3 2023, up by 10.7% from the previous year. This growth has been supported by a 17.9% increase in renewed registrations, whilst new contracts registered marginally dropped by 0.8%.

While in Dubai a large portion of demand continues to stem from the Food and Beverage sector, we are seeing growing levels of demand for retail spaces coming from global and international retail brands. The lack of availability of prime assets continues to hamper potential activity levels, where retailers are looking to expand, notwithstanding the elevated occupancy levels and lack of availability of vacant quality stock.

Growth in retail rental rates in
Abu Dhabi, in the year to Q3 2023

16.9%

Growth in retail rental rates in
Dubai, in the year to Q3 2023

36.8%



UAE Retail Market

In the year to the third quarter of 2023, significant growth in lease rates has been witnessed in both Abu Dhabi and Dubai, with average rents rising by 16.9% and 36.8%, respectively. As at Q3 2023, retail rents in Abu Dhabi reached an average of AED 2,075 per square metre, and average retail rents in Dubai reached AED 483 per square foot.

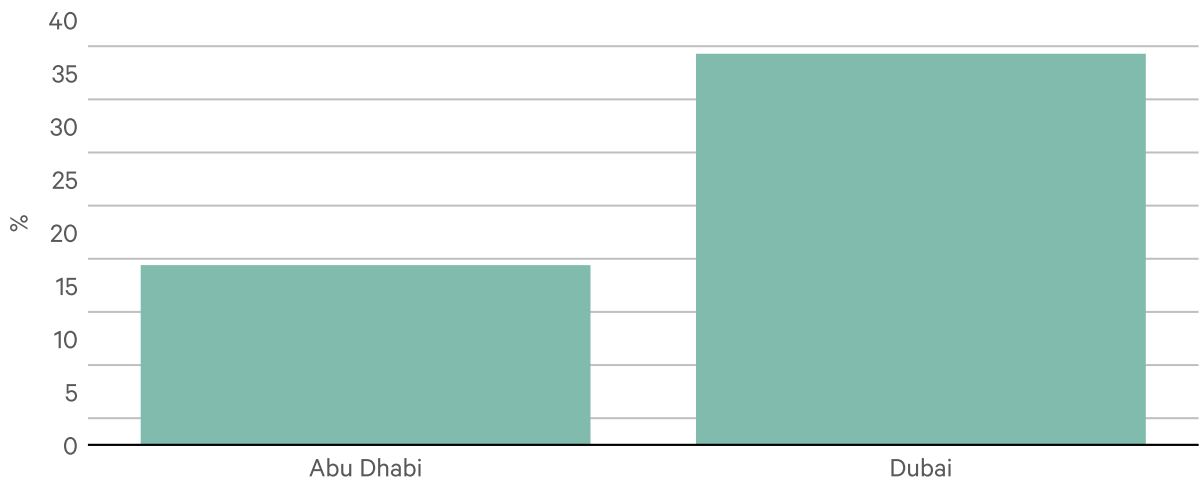
In both Dubai and Abu Dhabi, demand remains skewed towards quality assets, particularly within core and primary locations. However, the limited availability of such stock remains one of the main challenges being faced, and this is something that we expect to continue to drive rental growth.



While in Dubai, a large portion of demand continues to stem from the Food and Beverage sector, we are seeing growing levels of demand for retail spaces coming from global and international retail brands.

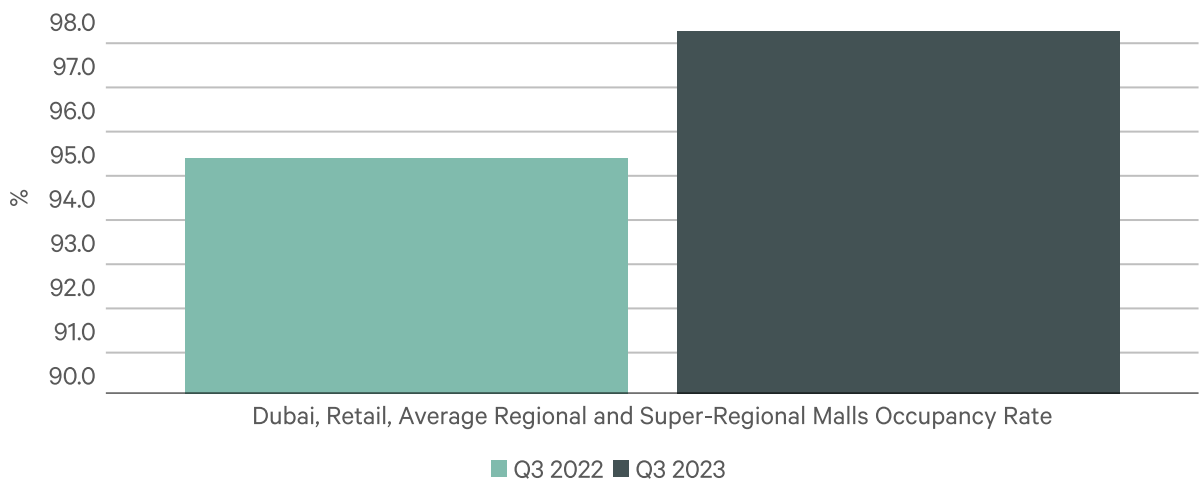


Figure 5: UAE, Retail Rents, YoY % Change to Q3 2023



Source: CBRE Research

Figure 6: Dubai, Retail, Average Regional and Super-Regional Malls Occupancy Rate, %



Source: CBRE Research

UAE Industrial & Logistics Market

In the third quarter of 2023, activity within the industrial and logistics (I&L) sector remained relatively subdued, given the lack of available stock. This has resulted in a more landlord-favoured market, where occupiers are pushed to comply with landlords' conditions, and the incentives provided continue to be relatively constrained.

In the year to the third quarter of 2023, the total number of rental contracts registered in Abu Dhabi marginally grew by 0.5%. New rental registrations increased by 13.5%, whilst renewed contracts registered dropped by 7.5%. In Dubai's industrial and logistics market, data from the Dubai Land Department showed that Ejari registrations totalled 2,227, up 10.9% from the previous year. Over the same period, new rental contacts registered dropped by 6.1%, whilst renewals increased by 20.4%.

These market fundamentals continued to drive higher leasing rates in Abu Dhabi and Dubai, where rental rates grew by 7.5% and 17.7%, respectively, in the year to the third quarter of 2023. Average rents in Abu Dhabi reached AED 397 per square metre, and in Dubai, reached AED 41 per square foot as of Q3 2023.

Growth in I&L rental rates in Abu Dhabi, in the year to Q3 2023

7.5%

Growth in I&L rental rates in Dubai, in the year to Q3 2023

17.7%



UAE Industrial & Logistics Market

Based on recent data, the Transportation and Logistics sector grew by 10.5% mid-way through the year, registering the most significant contribution to the emirate’s GDP growth with a 42.8% contribution to the headline growth rate while achieving an added value of AED 31.4 billion. The considerable performance within this sector will continue to attract capital and demand. That being said, the lack of availability of vacant stock that resulted from the scarcity of new developments will remain a notable issue.

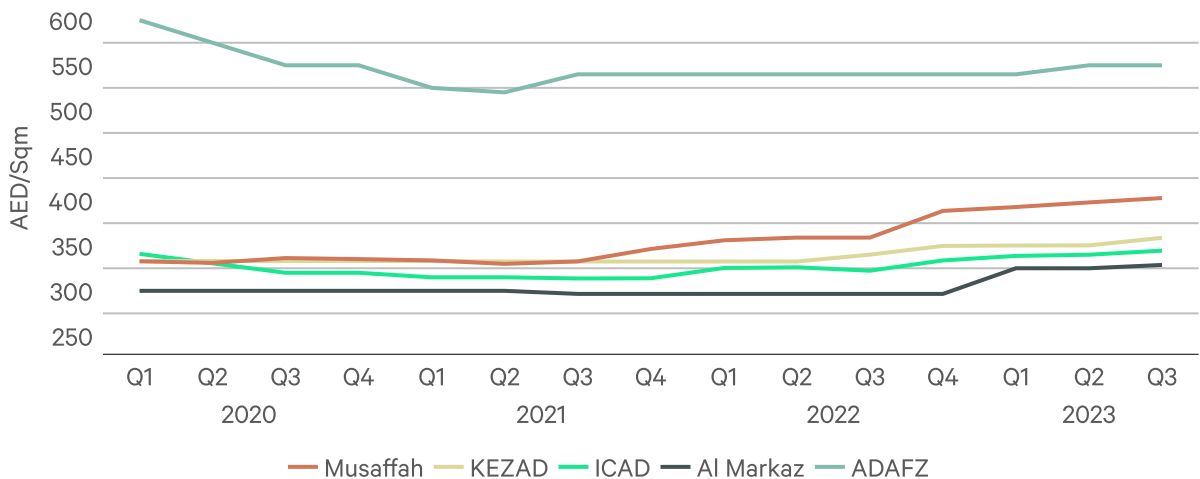
Although development opportunities within this segment are substantial, the availability of appropriate infrastructure continues to pose significant hurdles. On the back of the current market backdrop, further increases in rental rates are expected moving forward in both Abu Dhabi and Dubai, however, not at the same pace.



On the back of the current market backdrop, further increases in rental rates are expected moving forward in both Abu Dhabi and Dubai, however, not at the same pace.

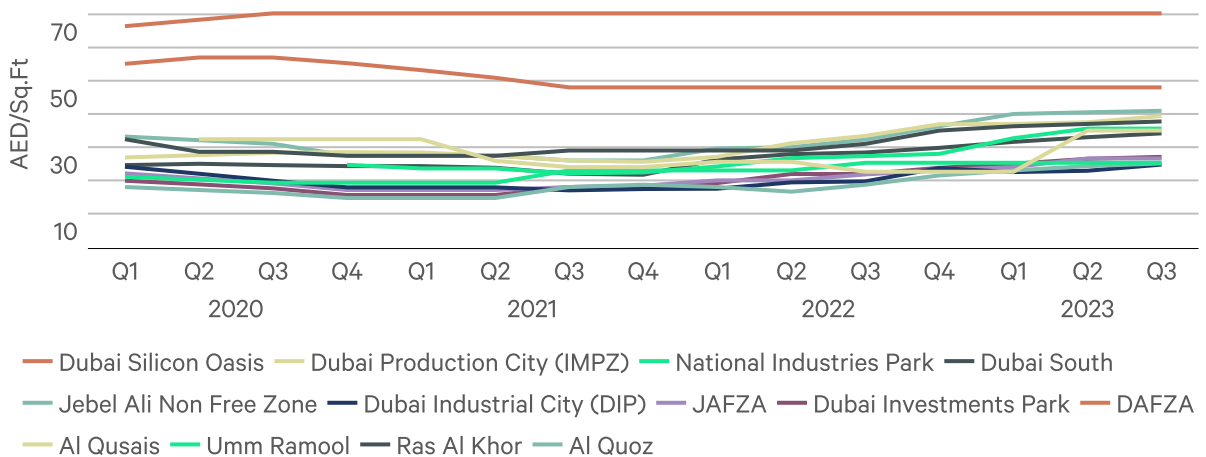


Figure 7: Abu Dhabi, Industrial Rents, AED/SQM



Source: CBRE Research

Figure 8: Dubai, Industrial Rents, AED/SQ.FT



Source: CBRE Research

Contacts

Middle East

Taimur Khan

Head of Research
+971 52 281 6953
taimur.khan@cbre.com

Tatiana El Bazi

Research Analyst
+971 52 414 6791
tatiana.elbazi@cbre.com

Michael Young

Head of Advisory & Transactions
+971 56 603 9160
michael.young@cbre.com

Lindsay McQuillan

Head of Property Management
+971 52 640 9532
lindsay.mcquillan@cbre.com

Daniel McCulloch

Head of Valuation & Consulting
+971 50 656 8325
daniel.mcculloch@cbre.com

Ali Manzoor

Head of Hotels & Tourism
+971 58 149 2583
ali.manzoor@cbre.com

Scott Keaney

Head of Project Management
+971 52 640 9525
scott.keaney@cbre.com

Mehdi Aliouat

Head of Marketing & Communications
+971 52 1005 122
mehdi.aliouat@cbre.com

Global Research

Richard Barkham, Ph.D., MRICS

Global Chief Economist & Head of
Research
richard.barkham@cbre.com

Henry Chin, Ph.D.

Global Head of Investor Thought
Leadership & Head of Research, APAC
henry.chin@cbre.com.hk

Abhinav Joshi

Head of Research, India, Middle East
and North Africa
abhinav.joshi@cbre.co.in

© 2023. CBRE and the CBRE logo are registered trademarks of CBRE Group, Inc., registered in the United States and/or its affiliated or related companies in other countries. All other marks displayed on this document are the property of their respective owners. Use of them does not imply any affiliation with or endorsement by them. All information included herein pertaining to CBRE - including but not limited to its operations, employees, technology and clients - are proprietary and confidential, and are supplied with the understanding that they will be held in confidence and not disclosed to third parties without the prior written consent of CBRE

The information contained herein is presented exclusively for use by CBRE clients and professionals, and cannot be reproduced without prior written permission of CBRE. The material, including projections, has been obtained from sources believed to be reliable. While we do not doubt their accuracy, we have not verified them and make no guarantee, warranty or representation about them. It is your responsibility to confirm independently their accuracy and completeness.