

DUBAI OFFICE MARKET UPDATE.

Q1 2021

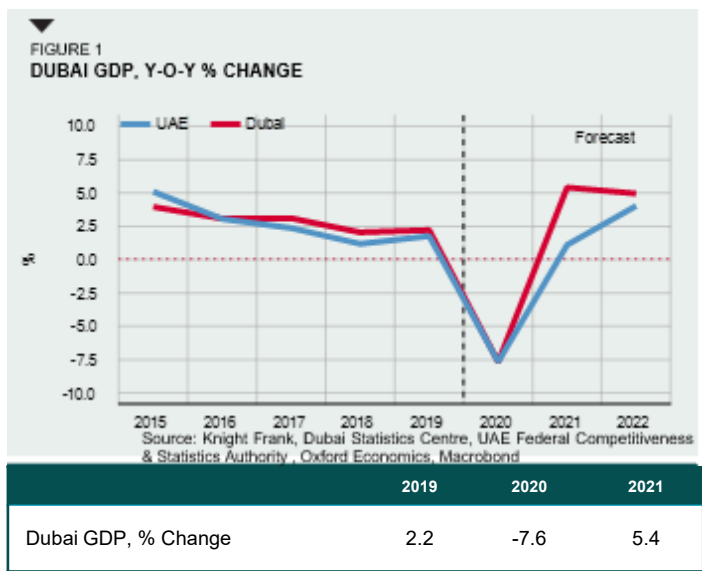
Economic Update.

KEY HEADLINES

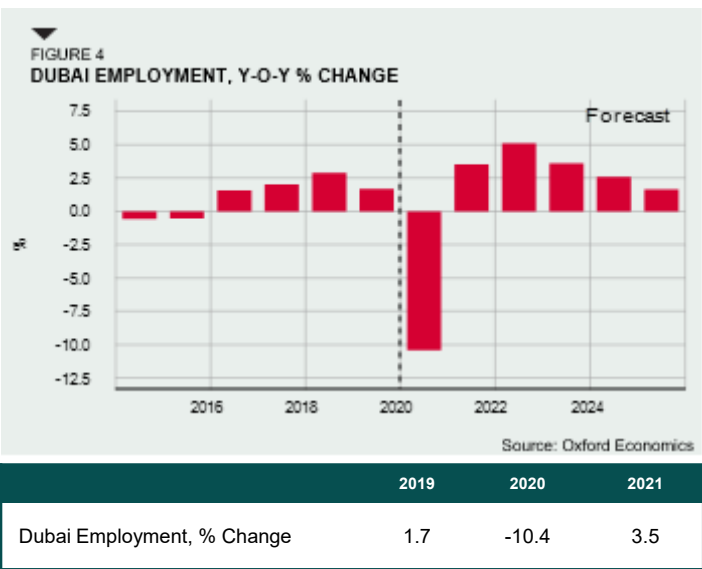
During the first half of 2020, Dubai's GDP contracted by -10.7%; however an early opening up of the economy, a world-leading vaccine rollout programme and decisive intervention to curb the impact of COVID-19 helped to reverse some of the negative impacts of the pandemic, particularly during the second half of 2020. The emirate's heavy reliance on tourism and real estate, coupled with the city's position as a global trading centre meant it has felt the impact of the global pandemic harder than the UAE as a whole. Oxford Economics predicts that Dubai's GDP will return to pre-COVID levels by 2022.

The UAE's Purchasing Managers' Index (PMI), which tracks business confidence in the country's private non-oil economy, recorded a reading of 52.7 in April, the highest reading since June 2019 and the fifth consecutive month a reading over 50 has been registered, indicating continued business growth and expansion. The improving conditions have been linked to the speed of the national vaccination programme, although the rate of improvement is below the 12-year historic average.

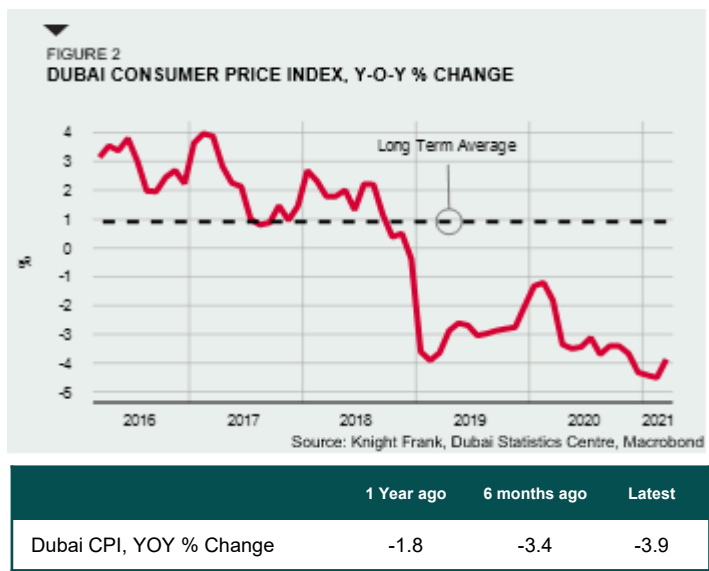
Total employment across the emirate is estimated to have declined by 10.4% last year, driven exclusively by the wide-ranging impact of the pandemic on Dubai's economy. Given the improving domestic and global economic conditions as global vaccination levels gather pace, employment levels are expected to increase by 3.5% this year and by 5.1% in 2022.



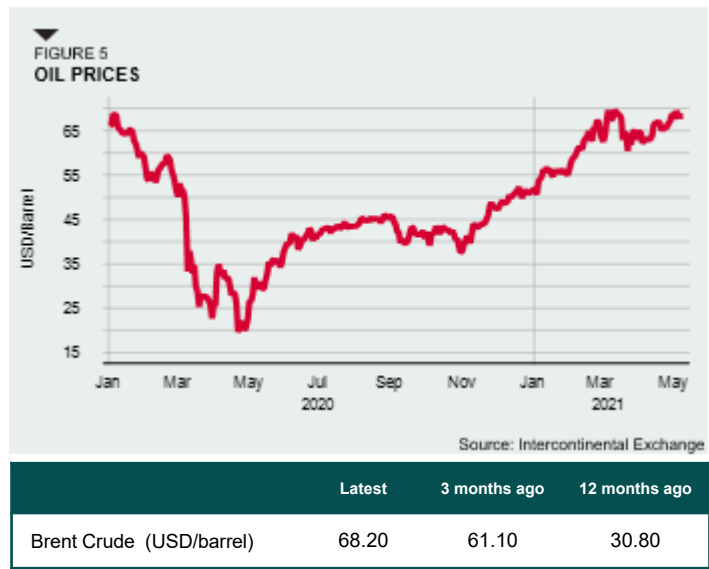
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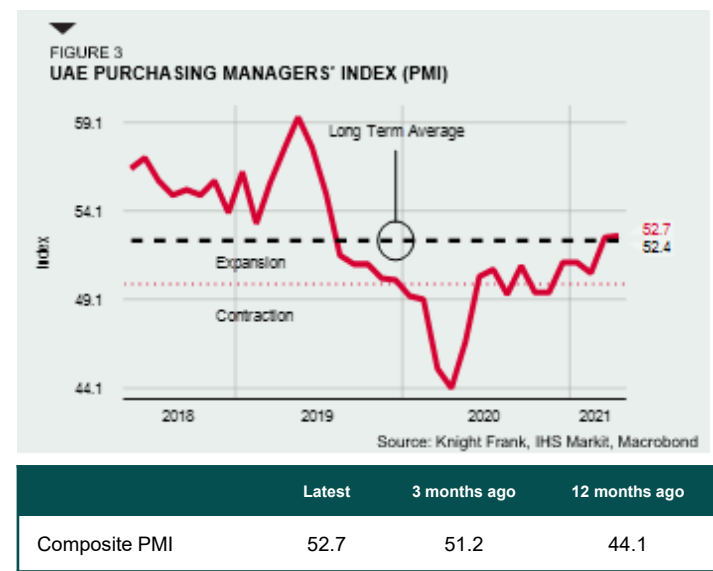
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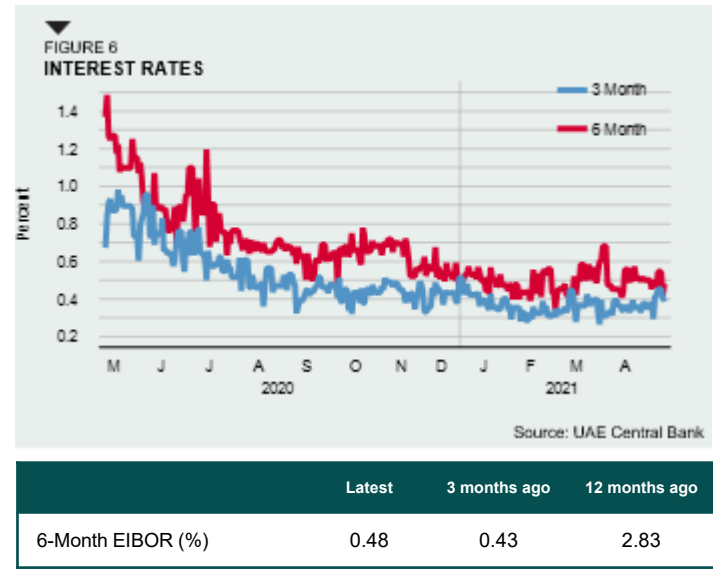
Dubai has experienced deflation since the end of 2018, a trend which has only recently begun to show signs of reversing. Prices fell by 3.9% in the year to March 2021, up from the -4.5% annual change recorded in the 12-months to the end of February. Last March, CPI stood at -1.8%. The declining CPI has been driven by lower housing, utility, fuel, food, beverages and clothing costs, according to the DSC.



The price of oil has continued to recover so far this year as global lockdown measures have eased and major economies have begun to reopen. Jitters around possible global inflation spikes and the emergence of new variants has begun to curb the rate of increases, however at c.USD 68 per barrel in mid-May, they are well above the Covid-induced low of USD 20 per barrel registered last April. Still, the EIA expects Brent Crude to average USD 61 per barrel in H2 2021.



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The UAE's fixed peg to the US Dollar has meant a continued mirroring of the headline US Rate policies. Given the protracted impact of the pandemic on the US economy, the US Federal Reserve reduced the Federal Fund Target Rate from 1.75% to 0.25% in March 2020. The UAE Central Bank followed suit, reducing its policy rate from 2.0% to 1.5% in March 2020. Both benchmark rates have remained unchanged since. As at 11 May, the EIBOR 6-month fix stood at 0.39%.

Dubai Office Market Update.

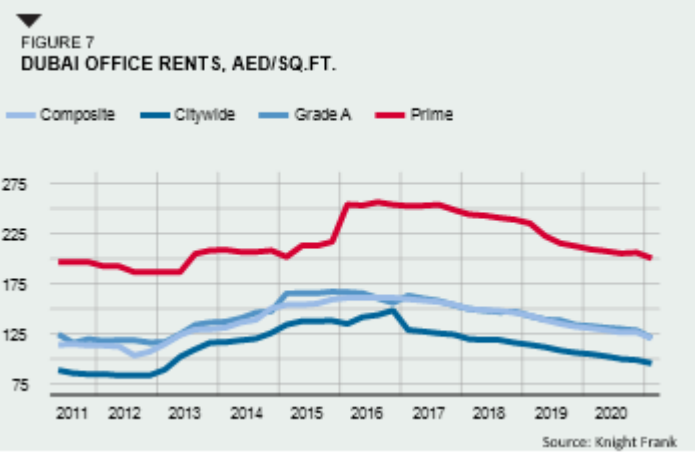
KEY HEADLINES

Average Prime rents across Dubai currently stand at just over AED 200 psf, 4.2% lower than Q1 2020 and the lowest level recorded since Q3 2012.

In the year to Q1 2021, average office rents in Dubai fell by 7.7%. Grade A (AED 121 psf) and Citywide (AED 96 psf) rents fell by 9% and 8.7% respectively over the same period.

Looking ahead, the trends of consolidation of space and flight to quality are likely to continue. Occupiers are, where possible, looking to take advantage of weaker market conditions to upgrade occupational space whilst being mindful of increasing total spend. Finally, landlords are expected to remain flexible in order to retain and attract occupiers. Incentives to achieve this include but are not limited to flexible payment terms, CAPEX contributions and rent free periods.

Market wide vacancy in Dubai's office market stood at 24.3% at the end of 2020, up from the 19.4% recorded last summer. Global occupier reviews of occupational strategies, plus an increase in supply, albeit to a lesser extent, is likely to result in an upward creep in vacancy rates throughout 2021.



	Prime	Grade A	Citywide
Q1 2021	201	120	96

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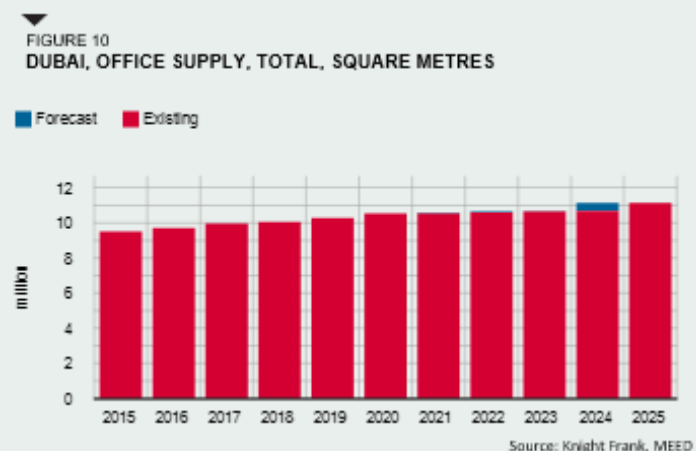


	Prime	Grade A	Citywide	Composite
Y-o-Y % Change	-4.7	-6.1	-7.7	-6.5

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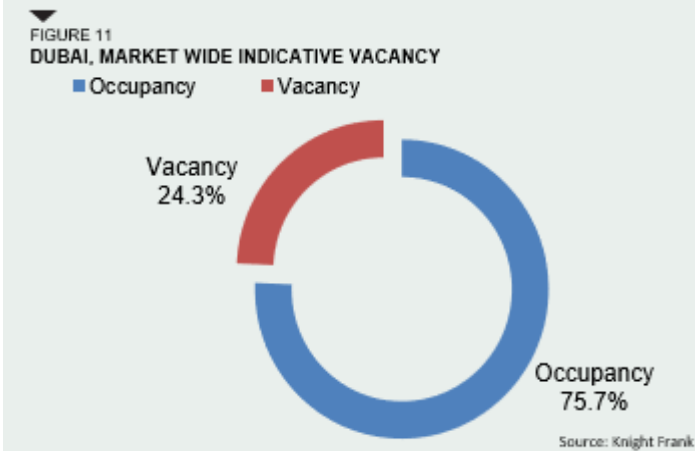


There are an estimated 25 active projects in Dubai, with delivery dates up to 2024, which are either being executed or in the study or design phase. The total value of these projects currently is estimated at USD 1.6b.



	2019	2020	2021	2022
Total stock (million sq m)	10.3	10.5	10.5	10.6

Almost no new space is expected to be added to Dubai's office stock total this year, which will leave the total amount of office space in the city at 10.5m sqm.



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Contacts.



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Document sources: Knight Frank: Macrobond/ Oxford Economics/ MEED Projects and REIDIN
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Note: * The Property Monitor Index methodology is based on a basket of properties where the property value is estimated using a range of sources compared to the price changes for apartments and townhouses/villas which is based on DLD transfers (or asking prices for Dubai) which may result in the average price changes not tallying with one another. This report is published for general information only and not to be relied upon in any way. Although high standards have been used in the preparation of the information, analysis, views and projections presented in this report, no responsibility or liability whatsoever can be accepted by Knight Frank LLP for any loss or damage resultant from any use of, reliance on or reference to the contents of this document. As a general report, this material does not necessarily represent the view of Knight Frank LLP in relation to particular properties or projects. Reproduction of this report in whole or in part is not allowed without prior written approval of Knight Frank LLP to the form and content within which it appears. Knight Frank Middle East Limited (Dubai Branch): Prime Star International Real Estate Brokers (PSIREB RERA ORN: 11964 trading as Knight Frank with registration number 653414. Our registered office is: 5th Floor, Building 2, Emaar Business Park, PO Box 487207, Dubai, UAE.

