

A biannual review of key trends and the performance of Abu Dhabi's office market



Abu Dhabi Office Market Review

Spring | 2022

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RENTAL RESILIENCE PERSISTS

Office rents in Abu Dhabi's best buildings have continued to remain resilient in the wake of the ongoing pandemic. Indeed, some of Abu Dhabi's premium office buildings now commanding slightly higher rents than 12-months ago.

Similarly, at a submarket level, rents in all of the main areas we track have seen no movement in rents during Q1. On an annualised basis, the prime Corniche Area continues to pull away from the rest of the pack, with average area rents climbing by 7.2% over the course of the last 12 months, taking them to AED 1,675 psm.

This rental stability in large part stems from the continuing world-leading and decisive response of the UAE government to the Covid-19 pandemic. Indeed, the UAE is now the world's most vaccinated nation, with close to 100% of the population considered fully vaccinated.

IMPROVING ECONOMIC OUTLOOK

The authorities' resolve to arrest the spread of Covid-19 has also played a big part in boosting business confidence. In fact, the headline non-oil sector PMI reading for the UAE climbed to 55.9 in November 2021, a 29-month high and this remained relatively stable at 55.6 in December last year.

Unsurprisingly, economic growth projections have also improved, with Abu Dhabi expected to register real GDP growth of 6.3% this year, up from 0.5% last year, according to initial estimates by Oxford Economics. The speed of the speed of the anticipated recovery has also helped to lift employment growth projections. After a 6.3% drop in employment levels Abu Dhabi in 2020, employment is expected to have increased by 0.3% last year, with a further increase of 3% forecast for 2022 (Oxford Economics).

Aiding the positive economic undertone has been the recent sharp rebounding in oil prices. At the start of April, oil was hovering at US\$ 100 per barrel, the highest level since October 2014. Historically, a sustained period of high oil prices has driven heightened public sector spending. Should the current upswing in oil prices persist, we expect to see increased infrastructure spending, which will in turn drive-up job creation rates and therefore requirement levels, however for now, new demand is limited.



ENQUIRY LEVELS EDGE UP IN Q4 2021

Despite the emergence of an increasingly positive economic environment, enquiries for office space have stayed relatively unchanged over the last nine months, averaging about 17,600 sqm between Q1 and Q3 2021.

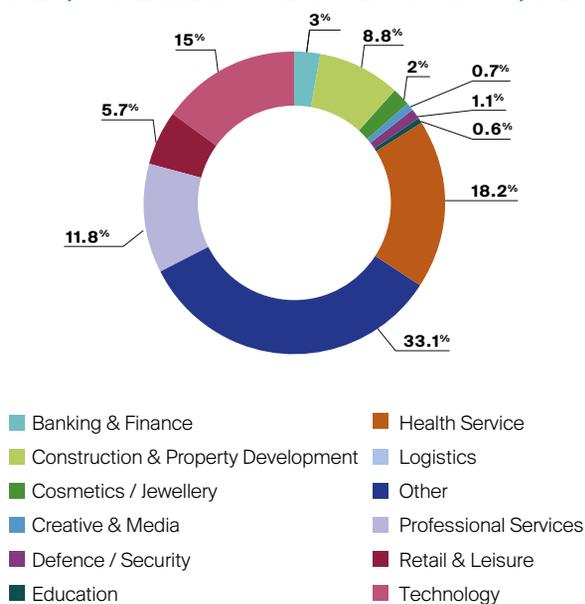
Following new demand for just over 16,000 sqm of office space in Q3 2021, the final three months of 2021 recorded a 5% quarterly rise in requirements, taking the figure to 17,500 sqm. The somewhat stable demand is also reflected in occupancy levels, which currently stand at about 81%, up slightly on 79% at the end of 2020.

The steady office demand is in part linked to the stable, but high office rents, which are now up to 14.5% higher than in 2020. Corniche office rents for prime buildings, which are 2.5% in the case of both Al Reem Island and Capital Centre, which is to an extent suppressing domestic demand from cost conscious occupiers, who are still assessing long-term occupational strategies, with a view to incorporating greater hybrid working. That said, we have registered examples of some businesses exploring alternative options, albeit the underlying driver appears to either be cost saving, or information gathering for renegotiating existing lease terms.

Interestingly, zooming in to existing requirements reveals that excluding confidential requirements, the technology (15%) and health services sectors (18.2%) are together responsible for 5,800 sqm of new demand. Professional services businesses (11.8%) account for the third largest source of requirements.

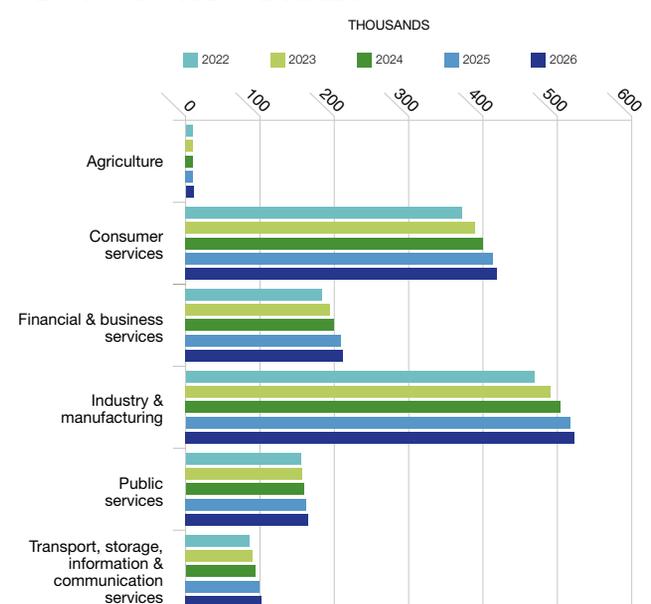
Demand from these sectors also mirrors employment growth projections for the capital, with the consumer services (61,510 new jobs) sector, expected to add the highest number of jobs to Abu Dhabi's economy between 2022 and 2026. The industry & manufacturing (68,350 new jobs) sector is forecast to add the most net new jobs, with financial and business services businesses (c. 31,000 new jobs) expected to be the third highest jobs generator over the same period (Oxford Economics).

SHARE OF NEW OFFICE SPACE REQUIREMENTS BY SECTOR - Q4 2021



Source: Knight Frank

EMPLOYMENT PROJECTIONS BY SECTOR - ABU DHABI



Source: Oxford Economics

OUTLOOK

The protracted stability of lease rates is a strong indicator that the market is at, or near the bottom of the current cycle.

Indeed, with all economic indicators demonstrating a dramatic improvement, the slightest upturn in requirements is likely to rapidly lift rents, especially as new stock in the market is extremely limited.

This, combined with near 100% occupancy in many of the city's prime buildings, further suggests that the market may be on the cusp of a return to growth.

Furthermore, with almost no new completions expected this year and with vacancy levels below the long-term average, new demand, particularly for prime stock will inevitably drive-up rents in the city's best buildings. Total stock this year is expected to remain relatively stable at 22.5m sq ft, after rising by 628,000 sq ft in 2021 (REIDIN).



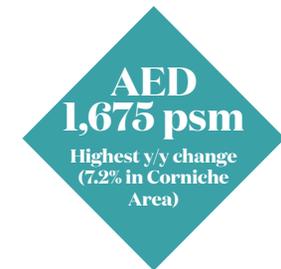
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ABU DHABI OFFICE MARKET IN NUMBERS

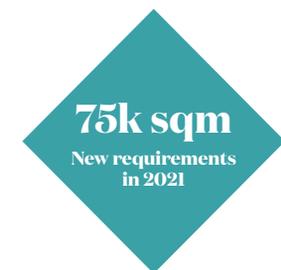
PRIME OFFICE RENTS (psm)

Submarket	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	3-month change	12-month change
 Abu Dhabi Mainland	1,188	1,188	1,150	1,138	1,138	0.0%	-4.2%
 Abu Dhabi Freezones	1,950	1,970	1,950	1,880	1,880	0.0%	-3.6%
 Al Reem Island	950	950	950	950	950	0.0%	0.0%
 Capital Centre	1,308	1,325	1,350	1,367	1,367	0.0%	4.5%
 Corniche Area	1,563	1,600	1,625	1,675	1,675	0.0%	7.2%



NOTABLE OFFICE REQUIREMENTS

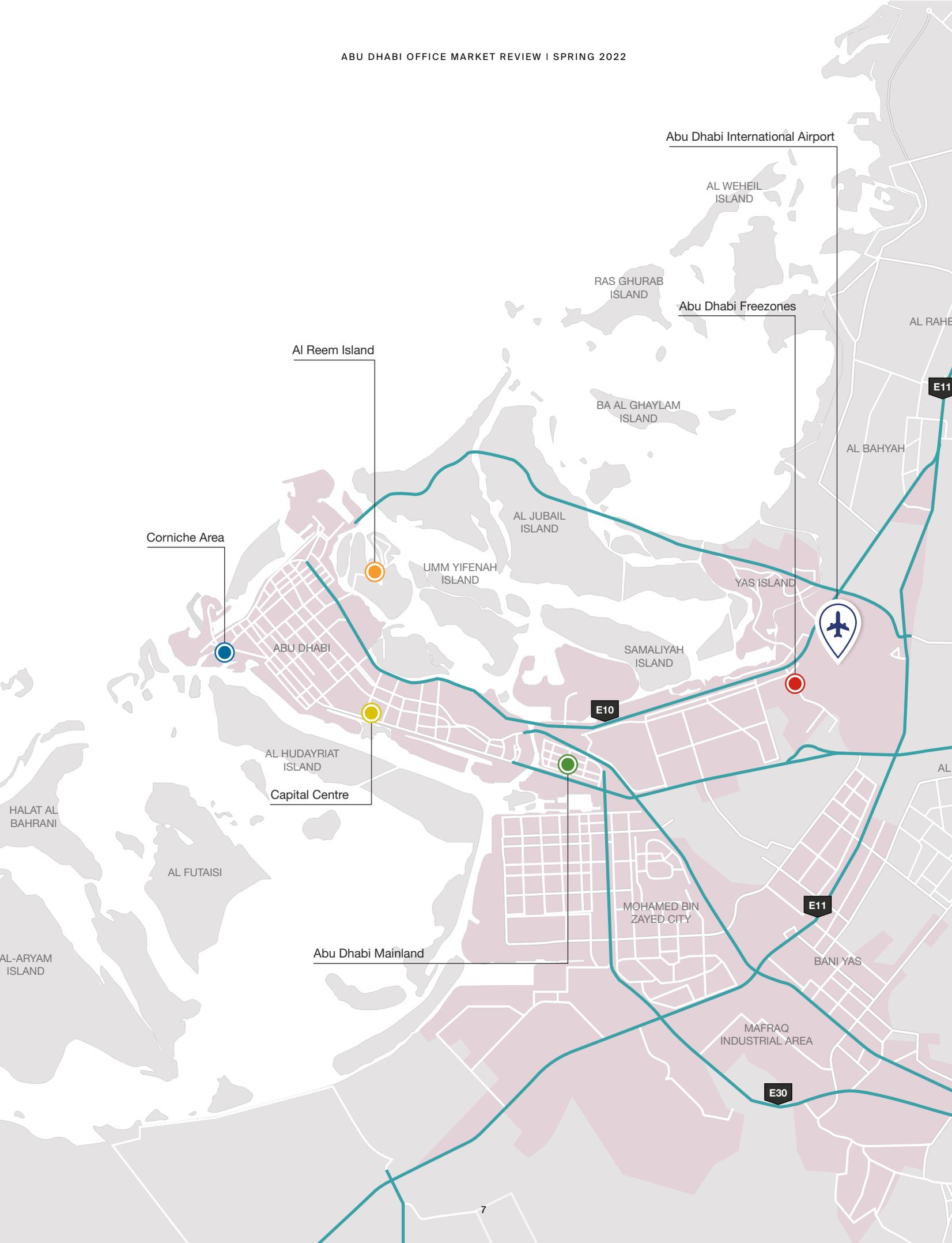
Company name	Sector	Requirement size (sqm)
Confidential	Health Services	3,000
Confidential	Confidential	1,800
Confidential	Technology	1,500
Confidential	Professional Services	1,400



Source: Knight Frank, REIDIN

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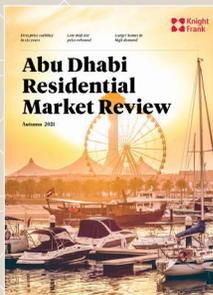
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