

Dubai Office Market



Driving value from office space was the key theme during Q1 2019

The office market activity in Dubai continued to soften during Q1 2019. Much of the demand was driven by consolidation and space optimization strategy by corporate occupiers that are streamlining their business to better service their local and regional clients. The majority of enquiry levels and transactions were for small and medium sized office space. Demand for new large sized office space remains limited except in the case of consolidation. Supply addition was stable which led to an increase in vacancy levels across select micro-markets.

Driving value from office space was the key theme during Q1 2019 and this included lease regears, achieving rental savings on renewal, consolidating and right-sizing where relevant. The current market dynamics proved favorable for occupiers as the existing vacancy levels and weak demand resulted in landlords offering flexible commercial terms. Generous rent-free periods, additional car parking, lease flexibility through increased break opportunities with minimal penalties and even upgraded space from shell and core to Category A fit-out (CAT A) were among the options offered as part of the lease discussion.

Many corporate occupiers, however, adopted a wait-and-see approach and committed to shorter lease terms at renewals. On the positive side, expansion led enquiry levels have picked-up especially from companies in the Media /Tech and co-working space.

Average rents at DIFC were estimated at approx. AED 200/ sq. ft. / annum while average rents for properties along Sheikh Zayed Road were estimated at AED 140 / sq. ft. annum. Rents across DAFZA and Downtown Dubai were in the range of AED 135 – 170 / sq. ft. / annum while average rental values around Media City and Internet City were AED 160 / sq. ft. / annum.

Going forward, we expect that demand across prime buildings will remain consistent which may contribute to stable rental values across good quality developments. However, supply will continue to outpace demand which will prompt developers to continue with generous incentives. These incentives are likely to extend to renewals and in some instances, we have seen some landlords offer rent free periods and reduced rentals on select renewal transactions during Q1 2019.

The positive effects of dual licensing are starting to assist emerging sub-markets. A trend, which we anticipate increasing in the future as this will permit companies to have onshore and offshore operations within their designated space. Companies will have a larger variety of options to choose from as they are not restricted to specific areas. Developments such as One Central and ICD Brookfield Place have already witnessed various space take-ups over the last few quarters and continuing to witness occupier demand.



The current market dynamics have proved favorable for occupiers



Strong demand across select prime locations will result in stable rental values

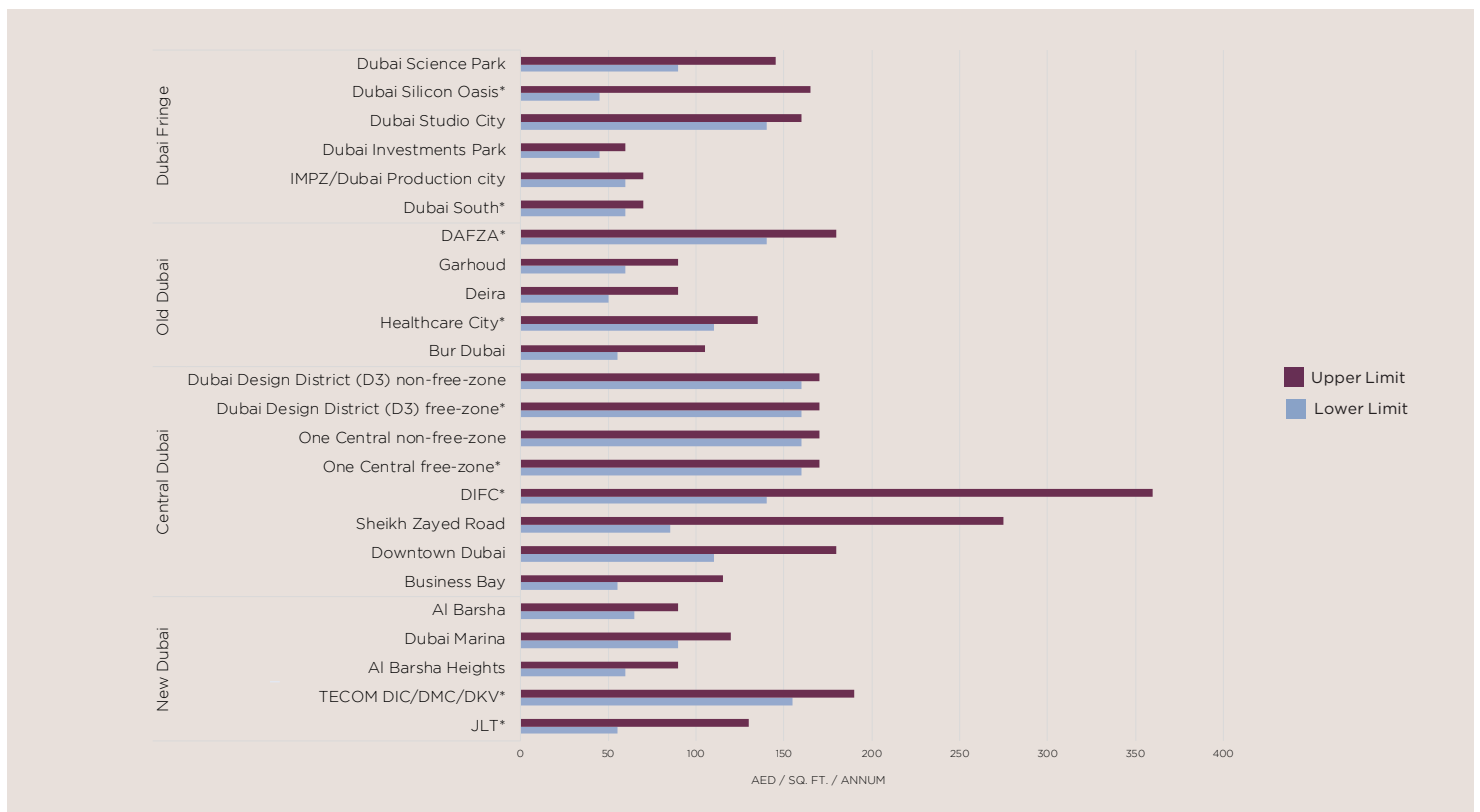


The positive effects of dual licensing are starting to be noticed across sub-markets

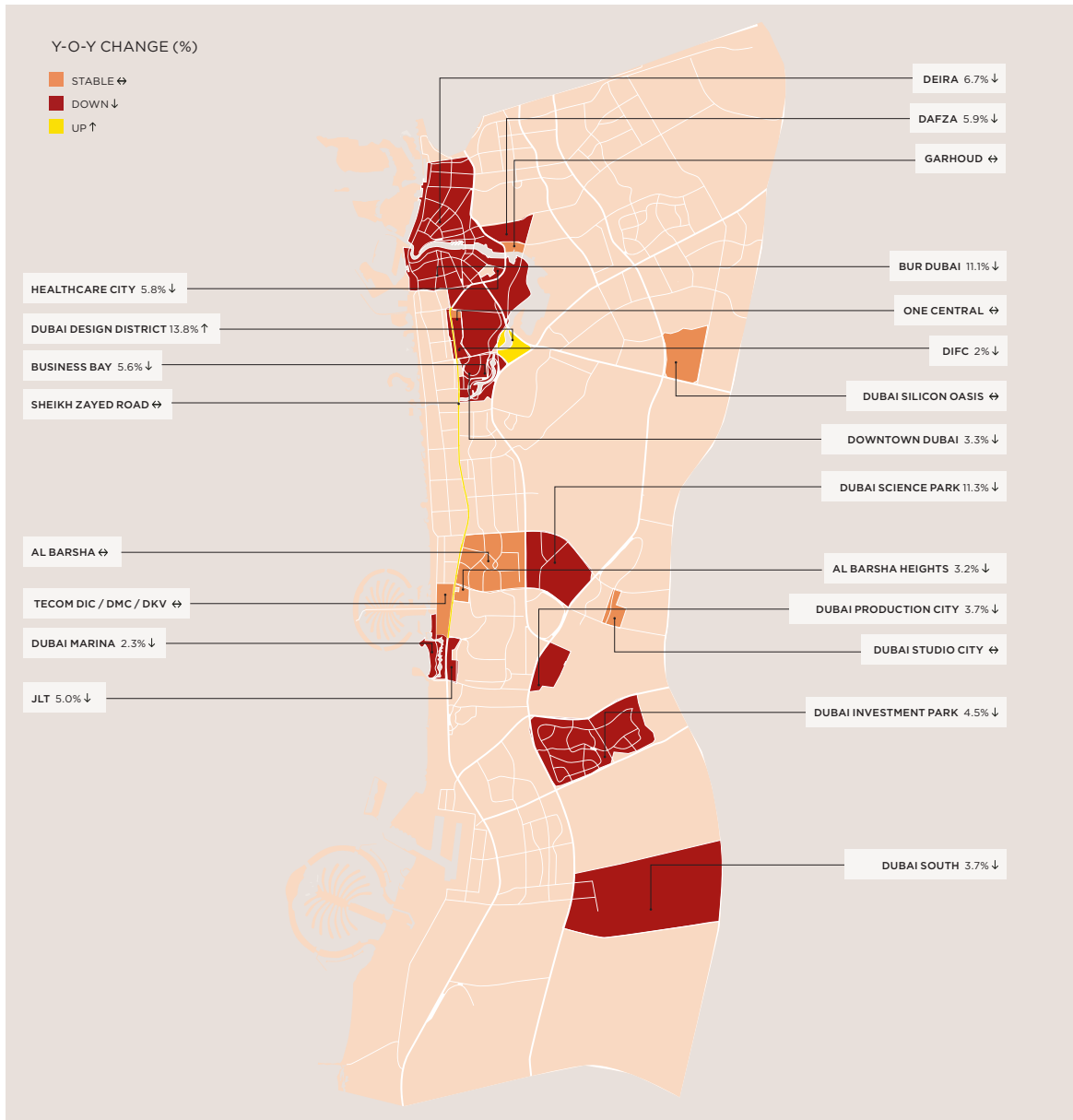


Improved legislation attracts several new providers for the serviced office sector

Dubai Office Rents Q1 2019



* Free Zone



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DEMAND FOR SERVICED OFFICE SPACE INCREASED DURING Q1 2019

Dubai historically has had a limited supply of flexible serviced office providers, with the serviced office market dominated by the usual key global players such as Servcorp and Regus with the addition of a number of local independent serviced office providers such as My Business Centre.

We are starting to see several new providers entering the serviced office sector, such as 'One Space' and 'Nook', with opportunities now being more attractive due to improved legislation allowing these providers to operate in the region more freely while also appealing to a younger business demographic and startups who are driven by business formation costs, location and work environment.

With the possibility of WeWork entering the region they will offer a different approach with open plan co-working, serviced offices such as 'AstroLabs' which cater towards tech startups only offer open desk space – this is a much more cost-effective way for startups to become operational.

