Commercial Real Estate

UAE Office Market Review Q1 2024

VIEWPOINT

Performance in UAE's occupier market remained strong in the first quarter of 2024, underpinned by elevated levels of demand.

CBRE RESEARCH
MAY 2024

Key Takeaways

- Occupier activity in Dubai's office segment of the market remained robust over the first quarter of the year. Data from the Dubai Land Department revealed that the total number of rental registrations increased by 35.8% compared to the year prior, reaching 46,850.

- Given the increased level of occupier demand, the average occupancy rate in Dubai's office market increased from 90.1% in Q1 2023 to 91.3% in Q1 2024.

- In Abu Dhabi's occupier market, the increased occupancy levels have underpinned growth in rental rates, where in the year to Q1 2024, average Prime, Grade A, and Grade B rents registered average growth rates of 6.6%, 3.4%, and 9.7%, respectively.

"Robust levels of demand continued to be seen in the UAE's occupier market in the first quarter of the year, largely driven by the strong levels of economic growth that continue to attract occupiers to the country."

Taimur Khan
Head of Research

Abu Dhabi Office Market

Robust levels of activity have been witnessed in Abu Dhabi's occupier market. In the first quarter of 2024, a total of 10,475 rental contracts were registered, marking a year-on-year growth of 9.1%. This increase has been primarily supported by a 21.2% increase in new rental registrations, whilst renewed contracts registered dropped by 5.1%.

Entities with direct and indirect government links remain the largest source of occupier demand in Abu Dhabi's occupier market in terms of total space required, particularly in on-shore locations. That being said, the limited availability of quality stock remains one of the main challenges being faced. Given this, a number of entities have started considering build-to-suit options, particularly within core CBD locations, in order to account for their future expansion plans. Alongside this, throughout the first quarter of the year, we have seen a marked demand from private businesses, where we saw a number of new and existing market players looking to expand their footprint within the capital, predominantly within off-shore locations. On the back of the current market backdrop, incentives offered remain relatively limited; however, landlords are still prioritising achieving diverse occupiers' profiles, where we are seeing them providing attractive rental rates and longer lease terms for specific client sectors and profiles.

> "High-quality assets are expected to continue to register strong performance levels, owing to the rising levels of demand resulting from the ongoing flight to quality trend and scarcity of available supply."

Abu Dhabi Office Market

Given the prevailing market fundamentals, the average occupancy rate of institutional-grade buildings tracked by CBRE reached 94.0% in Q1 2024, up from the 92.5% level registered in Q1 2023. These increased occupancy levels have underpinned growth in rental rates, where in the year to Q1 2024, average Prime, Grade A, and Grade B rents registered average growth rates of 6.6%, 3.4%, and 9.7%, respectively.

The strong performance witnessed within Abu Dhabi's office market is expected to continue over the remainder of the year. High-quality assets, particularly Prime and Grade A stock, are expected to continue to register strong performance levels, owing to the rising levels of demand resulting from the ongoing flight to quality trend and scarcity of available supply. That being said, developers have started addressing the supply issue, where we are seeing a number of new developments scheduled for delivery in the upcoming two years, this is something that we have not seen in earnest since 2012.

Average office occupancy rate in Abu Dhabi in Q1 2024

94.0%

Increase in Prime office rental rates in Abu Dhabi, in the year to Q1 2024

6.6%

Figure 1: Abu Dhabi, Office Rents, YoY % Change to Q1 2024

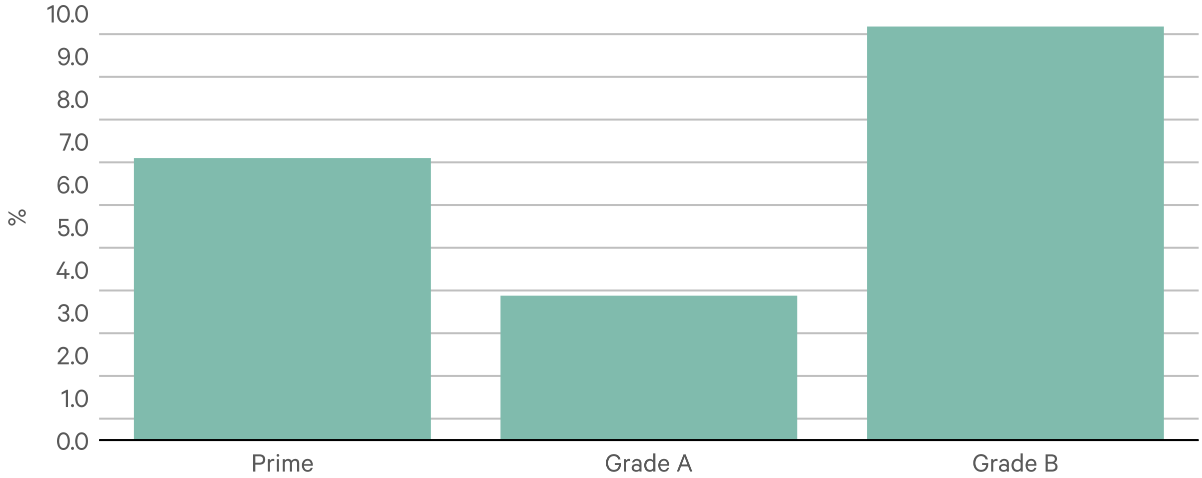
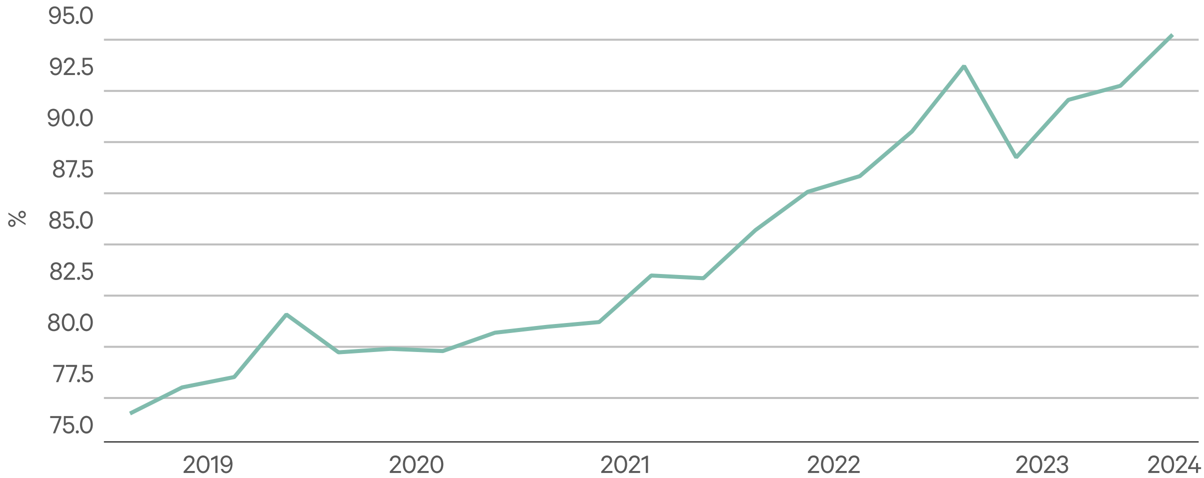


Figure 2: Abu Dhabi, Offices, Average Occupancy Rate, %



Source: CBRE Research

Dubai Office Market

Occupier activity remained robust over the first quarter of the year. Data from the Dubai Land Department revealed that the total number of rental registrations increased by 35.8% compared to the year prior, reaching 46,850. Of this total, 94.9% of transactions are less than 2,000 square feet of space, showcasing the growth in demand from SMEs across various occupier segments. More so, this headline growth has been largely underpinned by a 51.1% increase in new rental registrations, which totalled 34,461. That being said, within core CBD areas, the growth rate is lower, where, given the elevated occupancy levels, the total number of new rental registrations of office spaces that are 2,000 square feet and above recorded a year-on-year growth of 10.6%. Overall, renewed contracts registered reached a total of 12,389, marking an increase of 6.1% from the previous year.

Demand continues to stem from a broad range of sectors, with the financial services sector, namely hedge funds and asset management firms, being notable sectors of demand. In comparison to other global markets, the current dynamics within Dubai's occupier market continue to attract global corporates. Free Zone locations are still capturing a substantial share of market activity despite the lack of supply. To cater for this growing demand, we have started seeing developers fast-tracking future developments across a range of Free Zone and Non-Free Zone locations. Demand is largely skewed towards medium-sized office spaces. Another notable trend that has been witnessed is that firms would rather renew their existing leases even if that means that they may incur higher costs, as relocating and fitting out a new office would cost considerably more.

Increase in new office rental registrations in Dubai in Q1 2024 vs. previous year

51.1%

Increase in Prime office rental rates in Dubai, in the year to Q1 2024

7.6%

Office occupancy rate in Dubai in Q1 2024

91.3%

Dubai Office Market

Given the increased level of occupier demand, the average occupancy rate increased from 90.1% in Q1 2023 to 91.3% in Q1 2024. This increase in occupancy levels, paired with the scarcity of quality stock, continues to support growth in rental rates. In the first quarter of 2024, the average Prime, Grade A, Grade B, and Grade C rents registered year-on-year increases of 7.6%, 17.9%, 21.6%, and 16.8%. Average Prime, Grade A, Grade B and Grade C rental rates reached AED 255, AED 192, AED 162, and AED 131 per square foot per year, respectively, as at Q1 2024. With the delivery of new stock remaining limited and given the lack of quality stock, we expect that performance within Dubai's occupier market will remain strong. This is particularly within the Prime and Grade A segments of the market, which, given their limited availability, we expect that these assets will continue to outpace the wider market.

> The limited number of developments in the pipeline in both Abu Dhabi and Dubai is expected to continue to underpin strong performance across all segments.

Figure 3: Dubai, Office Rents, YoY % Change to Q1 2024

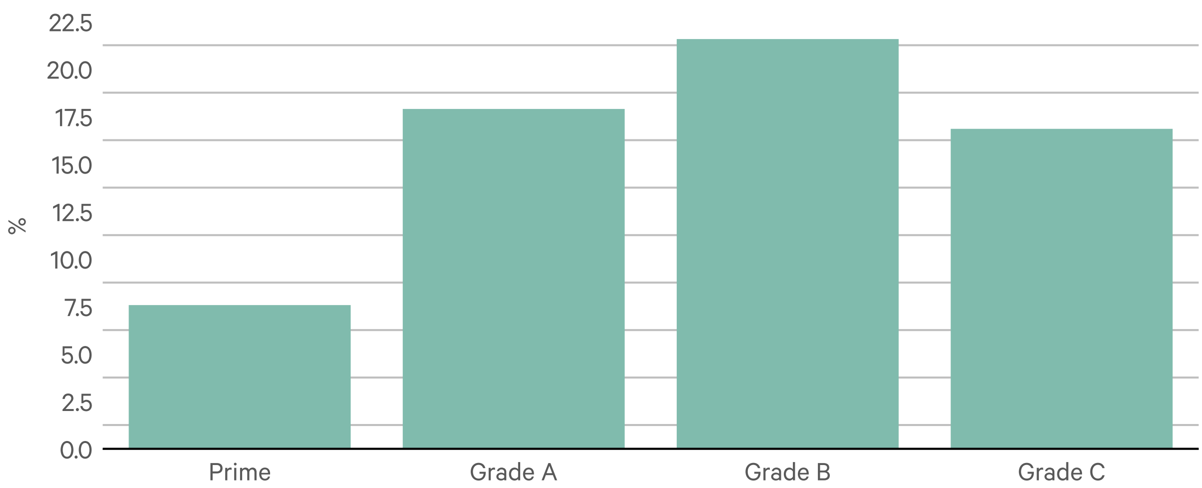
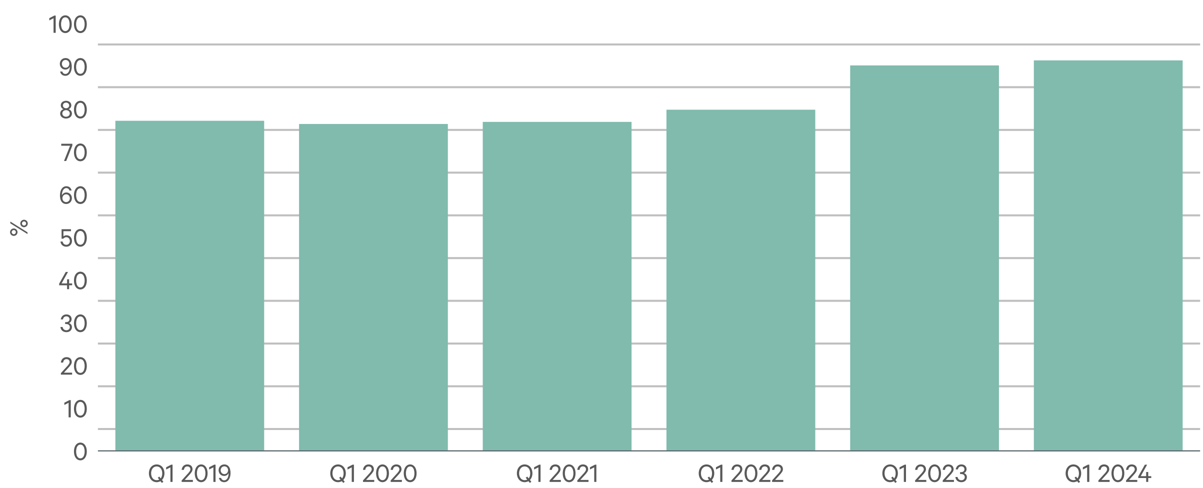


Figure 4: Dubai, Offices, Average Occupancy Rate, %



Source: CBRE Research

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