

Commercial Real Estate

UAE Retail and Industrial Market Review Q1 2024

VIEWPOINT

Rising demand levels in the UAE's retail and industrial markets despite the limited availability of quality stock.

CBRE RESEARCH
MAY 2024



Key Takeaways

- In the first quarter of the year, the total number of rental contracts registered in Dubai’s retail market stood at 23,139, marking a marginal increase of 0.2% compared to the previous year. Throughout this period, despite that, new rental registrations increased by 1.6%, whereas renewed tenancy contracts registered recorded a drop of 3.4%.
- Given the supply-and-demand imbalance witnessed in the retail market, rents in both Abu Dhabi and Dubai continued to register increases. In the year to the first quarter of 2024, average retail rents in Abu Dhabi grew by 14.7%, and in Dubai, average rents rose by 10.5%.
- Given the marked increase in demand, rental performance in both Abu Dhabi and Dubai’s industrial and logistics markets has significantly improved. In the first quarter of 2024, average rents in Abu Dhabi and Dubai registered year-on-year increases of 5.1% and 14.3%, respectively.

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Within the UAE’s industrial and logistics market, additional developments are due to come online in the short to medium term; that being said, we do not expect this to negatively impact rates, with rents expected to continue to showcase strong performance.

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Taimur Khan
Head of Research



UAE Retail Market

A slowdown in activity levels has been witnessed in Abu Dhabi's retail market during the first quarter of 2024. A total of 7,779 rental contracts were registered over this period, down by 8.1% compared to a year earlier. This decline has been primarily driven by a slowdown of 8.8% in renewed rental registrations and a drop of 6.6% in new contracts registered.

In the first quarter of the year, the total number of rental contracts registered in Dubai's retail market stood at 23,139, marking a marginal increase of 0.2% compared to the previous year. Throughout this period, despite that, new rental registrations increased by 1.6%, whereas renewed tenancy contracts registered recorded a drop of 3.4%. Although demand within Dubai's retail market continues to primarily originate from the food and beverage sector, we are seeing a rising number of global and international retail brands looking to establish or expand in Dubai's core locations despite the limited availability of quality stock and elevated occupancy levels, particularly within the Prime segment of the market, hampering market activity. These prevailing conditions have led to a more landlord-favoured market where limited incentives are being provided.

Growth in average retail rents in
Abu Dhabi, in the year to Q1 2024

14.7%

Growth in average retail rents in
Dubai, in the year to Q1 2024

10.5%



UAE Retail Market

Given the supply-and-demand imbalance, rents in both Abu Dhabi and Dubai continued to register increases. In the year to the first quarter of 2024, average retail rents in Abu Dhabi grew by 14.7%, and in Dubai, average rents rose by 10.5%. As of Q1 2024, average lease rates in Abu Dhabi and Dubai reached AED 2,150 per square metre and AED 493 per square foot, respectively.

Demand within both Abu Dhabi and Dubai is still biased towards quality assets, particularly within core locations; that being said, the lack of availability of such stock is still one of the main challenges being faced. This has resulted from the lack of upcoming developments, particularly in Dubai, and we expect this to continue to underpin rental growth moving forward. Given this, we expect new rental registrations to continue to edge down, although total demand will remain net positive.

Figure 1: UAE, Retail Rents, YoY % Change to Q1 2024

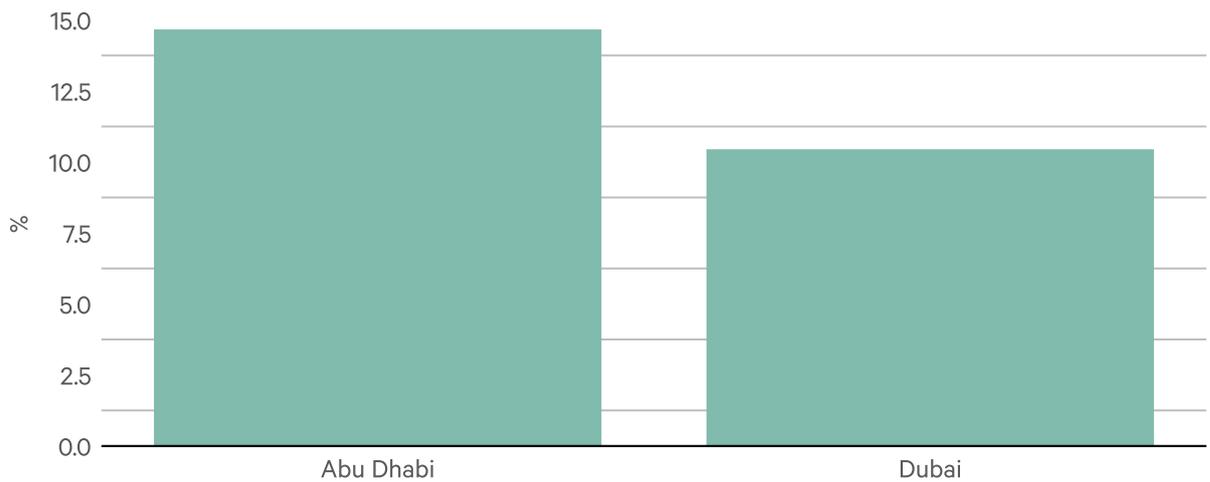
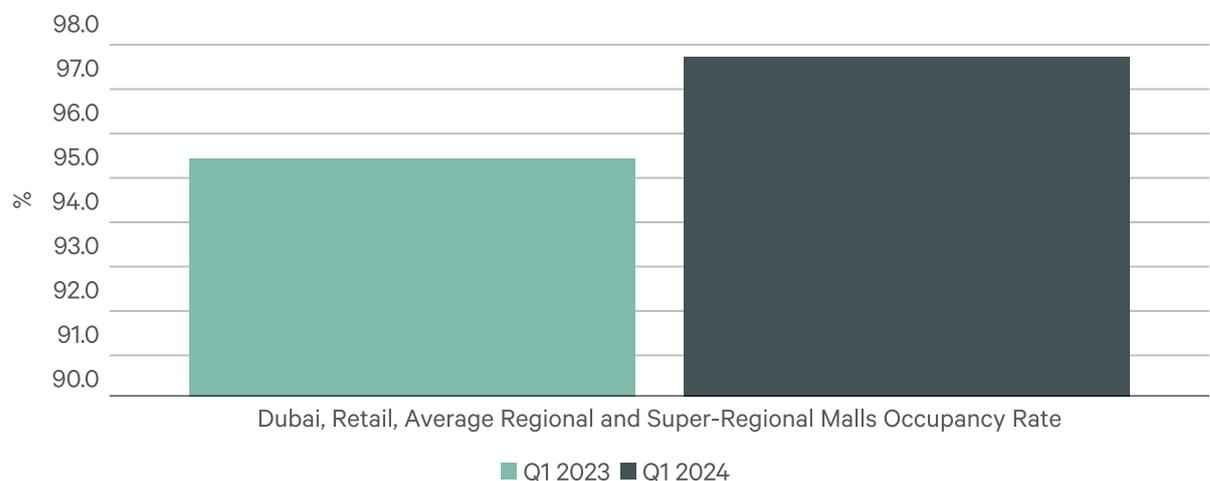


Figure 2: Dubai, Retail, Average Regional and Super-Regional Malls Occupancy Rate, %



Source: CBRE Research

UAE Industrial Market

Notwithstanding the limited availability of quality stock, robust levels of demand continued to be witnessed in the UAE's industrial market in the first quarter of 2024. The total number of rental registrations in Abu Dhabi's industrial and logistics market registered an increase of 4.7% in the year to Q1 2024. Throughout this period, new rental contracts registered grew by 9.0% and renewed registrations increased by 2.0%. Demand continues to primarily stem from the manufacturing sector largely driven by the capital's relative competitiveness on labour and energy costs. In order to meet the rising demand levels, we have started seeing a number of new developments taking place, given the significant lack of available quality stock, that being said, even following the materialisation of this scheduled stock, demand will continue to substantially outstrip the available supply.

Data from the Dubai Land Department revealed that a total of 2,914 rental registrations occurred in Dubai's industrial market over the first quarter of the year, marking a year-on-year increase of 3.2%. This growth has been supported by a 3.4% increase in new rental registrations and a 3.1% increase in renewed rental registrations. The elevated levels of demand within Dubai, along with the limited number of new developments witnessed in the past period, have resulted in a lack of quality stock. The primary inhibitor that is limiting new developments is the absence of the necessary infrastructure required or available land plots.

Growth in I&L rental rates in Abu Dhabi, in the year to Q1 2024

5.1%

Growth in I&L rental rates in Dubai, in the year to Q1 2024

14.3%



UAE Industrial Market

Given the marked increase in demand, rental performance in both Abu Dhabi and Dubai’s industrial and logistics markets has significantly improved. In the first quarter of 2024, average rents in Abu Dhabi stood at AED 408 per square metre, registering a year-on-year increase of 5.1%. Over this period, average industrial rents in Dubai grew by 14.3% to reach AED 43 per square foot as at Q1 2024.

The current market backdrop has led to an increasingly landlord-favoured market, where tenants are pressured to accept the requirements set forth by landlords and incentives offered remain limited. Looking ahead, although a number of new developments are scheduled for delivery over the upcoming period, we do not expect that this will result in some pressure on rates. Average rents of new institutional-grade assets are expected to continue their upward trajectory and reach record levels, unlike dated stock, which is expected to register a more subdued performance.

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New high-quality stock is expected to achieve historic figures, whilst the performance of older assets is anticipated to be more fragmented in comparison.
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Figure 3: Abu Dhabi, Industrial Rents, AED/SQM

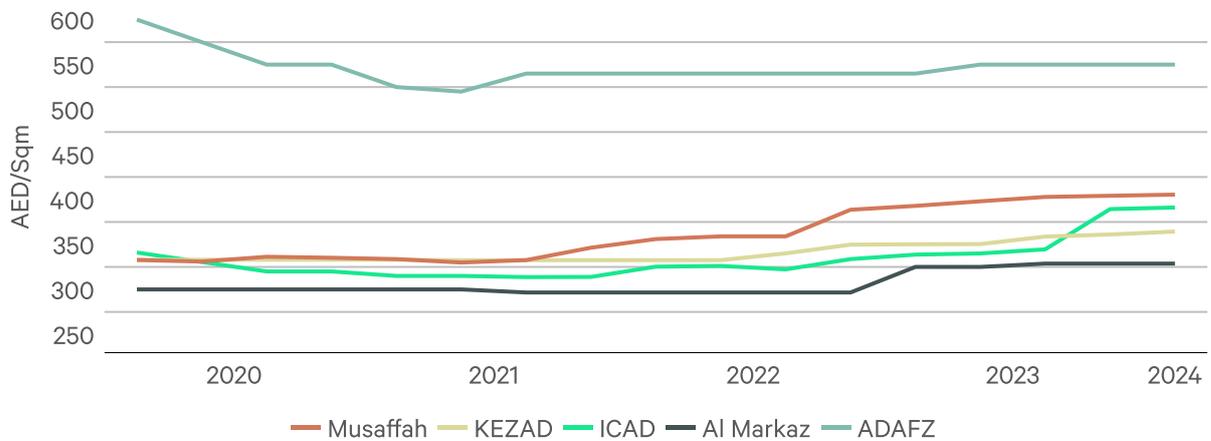
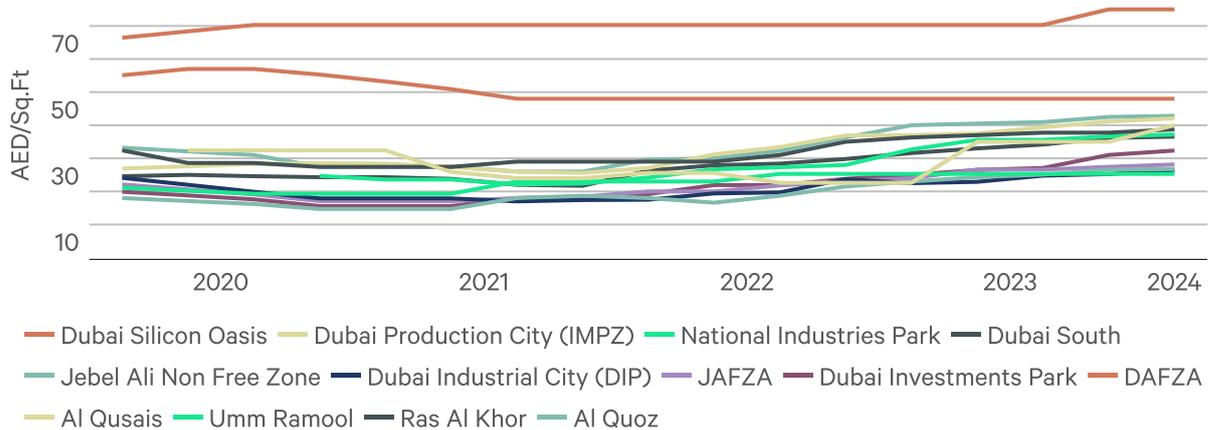


Figure 4: Dubai, Industrial Rents, AED/SQ.FT.



Source: CBRE Research

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