



Q3 2012
DUBAI
OFFICES

Market update

Knight Frank

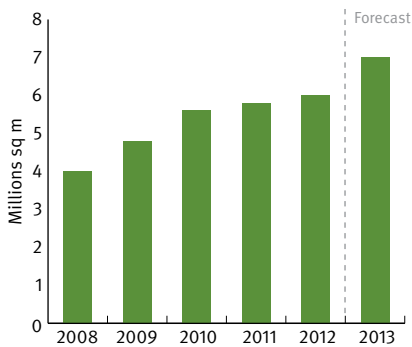
HIGHLIGHTS

- Prime headline rents remain unchanged during Q3 2012.
- Prime rental rates outside the Dubai International Financial Centre (DIFC) look set to increase with the introduction of the Standard Chartered Building on Sheikh Zayed Road.
- Dubai is regarded as the business destination in the Middle East and will continue to attract and retain international corporate occupiers.
- The secondary office market has struggled to attract larger corporate occupiers and in the last quarter we have witnessed further pressure on rental and occupancy levels.

Market comment

- Dubai's office market has witnessed an increase in inventory in the last quarter albeit at a slower rate than in previous years, current stock totals 5.9 million sq m.
- With the continued increase in supply, current vacancy rates for city wide properties stands at approximately 50%, while prime locations have vacancy of under 20%.
- The flight to quality by occupiers has continued with an increase in large companies consolidating operations into one location in attempt to benefit from a reduction in rent and an increase in quality.
- City wide rental rates are under constant pressure, meanwhile prime locations with best in class accommodation have reached their low point in this property cycle.

Figure 1
Dubai office stock (2008-2013)



Source: Knight Frank

Figure 2
Total vacancy rates



Source: Knight Frank

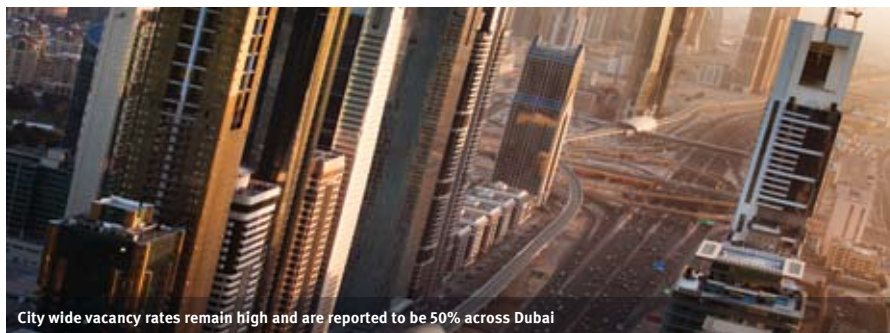
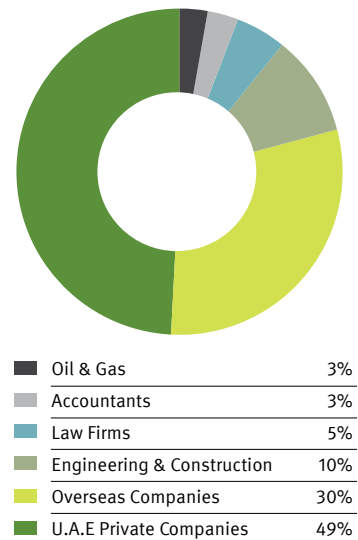


Figure 3
Key market indicators
To category A fit out

	Rents	Trending
Prime	AED 1,615	▶
Grade A	AED 1,290	▼
Grade B	AED 645	▼
Availability/vacancy	50%	▲
Average rent free inducement	13%	▶

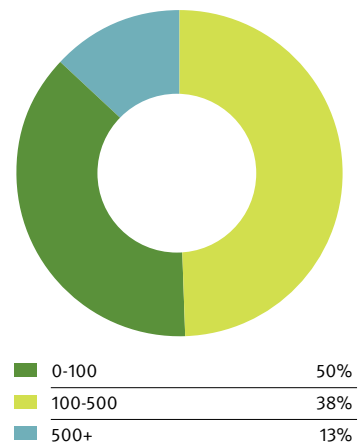
Source: Knight Frank

Figure 4
Current demand by occupier in Q3 2012



Source: Knight Frank

Figure 5
Tenant size requirement (sq m) in Q3 2012



Source: Knight Frank

MARKET VIEW

- Best in class, prime office accommodation will continue to attract the best quality tenants and while these properties are in short supply we may witness an increase in prime rents.
- The secondary market will have to price themselves more competitively to attract new tenants which will result in further softening in rents or greater incentives.
- Dubai has witnessed an increased interest in stabilised, income producing real estate assets. There is an increased demand in investable grade buildings by both owner occupiers and investors.
- The Capital Plaza and the Conrad Hotel developments on Sheikh Zayed Road are due to complete in the next 6 months and will provide more high quality office accommodation.

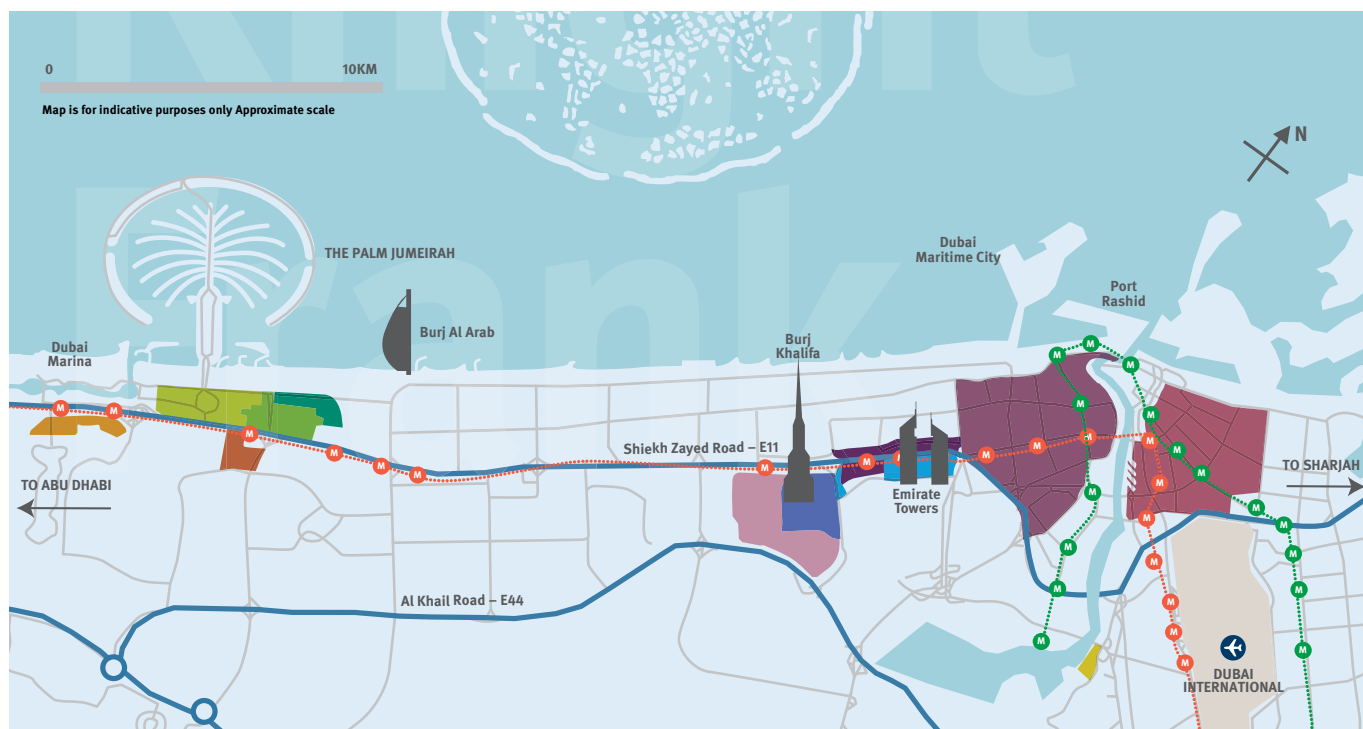
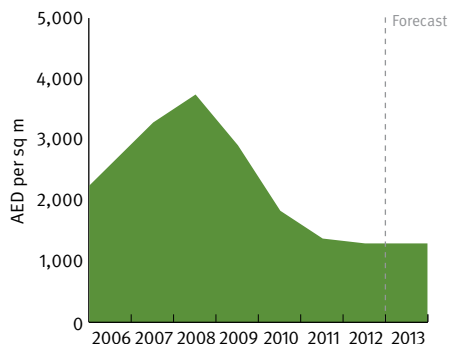


Figure 6
Prime rental rates for office space in Dubai excluding DIFC



Source: Knight Frank



Prime rental rates appear to have found their low point in this property cycle

Table 1 Indicative rents by district

	AED/psm Indicative rent for fitted accommodation	Trending
Sheikh Zayed Road	1,290	▼
Emaar Square / Downtown	1,615	▶
Dubai International Financial Centre	2,530	▼
Internet City	1,720	▶
Media City	1,720	▶
Knowledge Village	1,720	▶
TECOM C	540	▼
Jumeirah Lake Towers	645	▼
Business Bay	540	▼
Deira	1,075	▼
Bur Dubai / Oud Metha	860	▼
Festival City	1,075	▼

Source: Knight Frank Research

FREEZONE VIEW

- Freezones are attracting a large number of corporate occupiers who are attracted by the benefits such as 100% foreign ownership and repatriation of profits.
- Freezones are witnessing lower vacancy levels than the Dubai city average especially in the Dubai International Financial Centre (DIFC), Media City and Internet City.
- The DIFC has reported a 41% increase in new licences and occupancy levels are currently at 98% in Phase 1.

RESEARCH



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Technical Note

- Floorspace has been sub-divided into Prime, A & B grade accommodation, reflecting high and low quality respectively. Whilst subjective, this categorisation is based on an assessment of each property's age, car parking ratio, specification, quality of finish, location, situation and overall attractiveness.
- Category A works comprise services, lift safety elements and basic fittings and finishes for the operation of lettable work space, including but not limited to suspended ceilings; raised floors and skirting; cooling and heating services.
- A Tenant Inducement % is the proportion of rent free period over the term certain.
- The U.A.E Dirham is pegged to the US Dollar at a rate of USD 1: AED 3.673

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