MARKET IN MINUTES
Savills Research

UAE Commercial – H1 2019

Dubai Industrial Market

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Increase in vacancy levels and rental pressures observed across most micro-markets

Market sentiment across the industrial and warehousing micro-markets in the city remain subdued, a trend which has carried through from 2018. Oversupply in select locations and a limited number of new market entrants to drive fresh demand, were among the key factors for the sluggish market activity.

Transactions reflected a mix of build-to-suit demand, both expansion and consolidation exercises and 'flight-to-quality' requirements. Transaction closures were observed for small-to-medium sized space ranging from 10,000 sq. ft. to 30,000 sq. ft., however, limited transactional activity was recorded in the 50,000 sq. ft. and above segment. Renewal activity on the other hand increased as landlords became flexible on rental expectations and lease terms in a bid to compete with the newly completed supply.

E-commerce brands were the primary new occupiers of warehousing space and were closely followed by 3PL (Third Party Logistics) companies that have been expanding their presence in Dubai to service clients from pharmaceutical, retail and e-commerce sectors. However, demand from manufacturing companies, retail operators and other sectors remained limited.

The existing supply and demand mismatch has resulted in an increase in vacancy levels and rental pressures across most micro-markets. Rental decline was observed mainly across Grade B properties with poorer specifications as tenant relocation to modern purpose-built warehousing was recorded.

On a half-yearly comparison, rental values for Grade A properties declined by 4% – 6% in Jebel Ali Freezone Authority (JAFZA), Dubai Investments Park, Dubai South and Ras Al Khor industrial area, while rents for Grade B stock declined by 8% – 10% across JAFZA and Jebel Ali Industrial. However, rents for properties in Dubai Airport Freezone Authority (DAFZA), Dubai Silicon Oasis and DuBiotech remained stable when compared to H2 2018.

The current market dynamics have prompted developers / landlords to reposition their projects to meet current and future demands. Dubai South for example, is positioning itself as the hub for e-commerce players. As part of this objective, it recently launched the EZDubai district which enables occupiers to consolidate their onshore and offshore activities into one facility; thereby benefitting from dual licensing issued by Dubai Economic Department (DED-LLC) and Dubai World Central (DWC-FZE). This rationalization of activities and licenses under one location is likely to create operational efficiencies through consolidation, economies of scale and tax benefits to an occupier, resulting in cost savings. This fares well with the prevalent occupier profile as e-commerce companies are among the major drivers of warehousing demand in the city. The sector has recorded tremendous growth over the past few years and is anticipated to further witness a CAGR (Compounded Annual Growth Rate) of 30% to become a circa USD 29 Bn sector in the MENA region by 2022. [1]

[1] Dubai South

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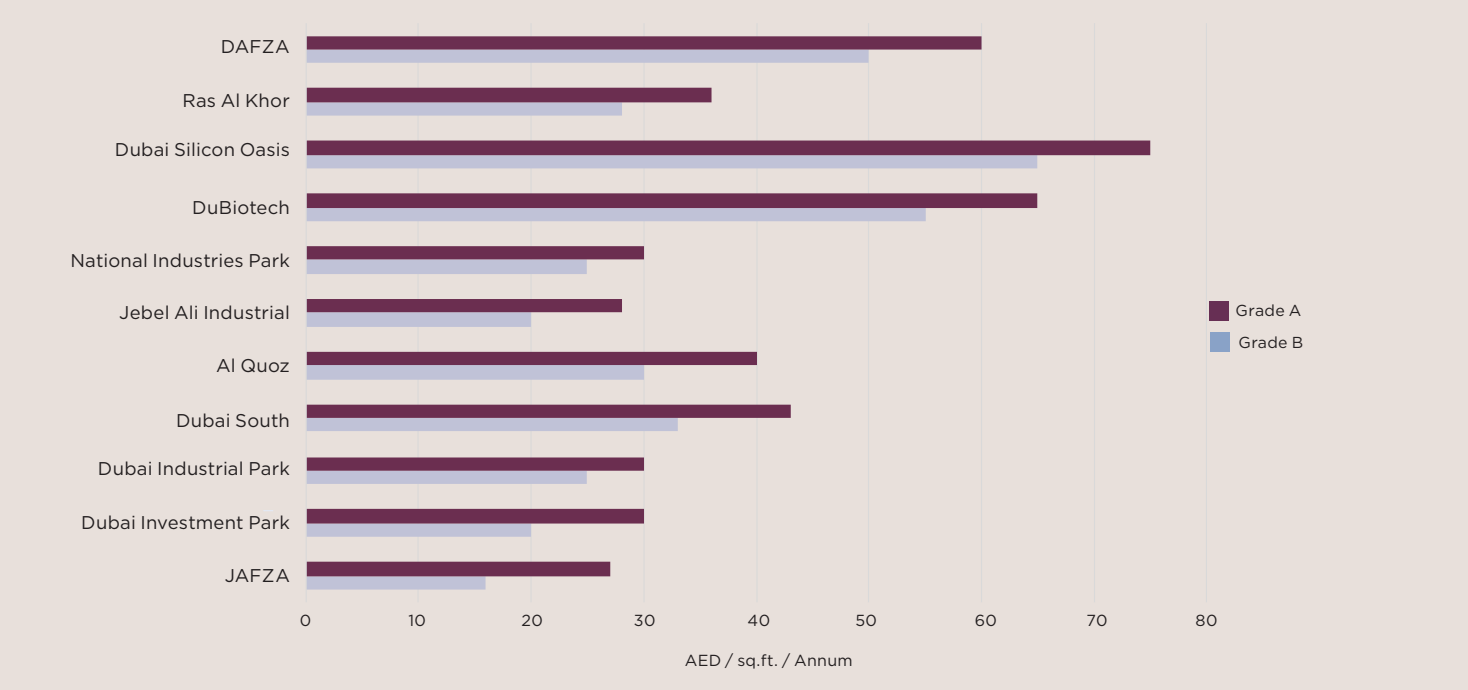
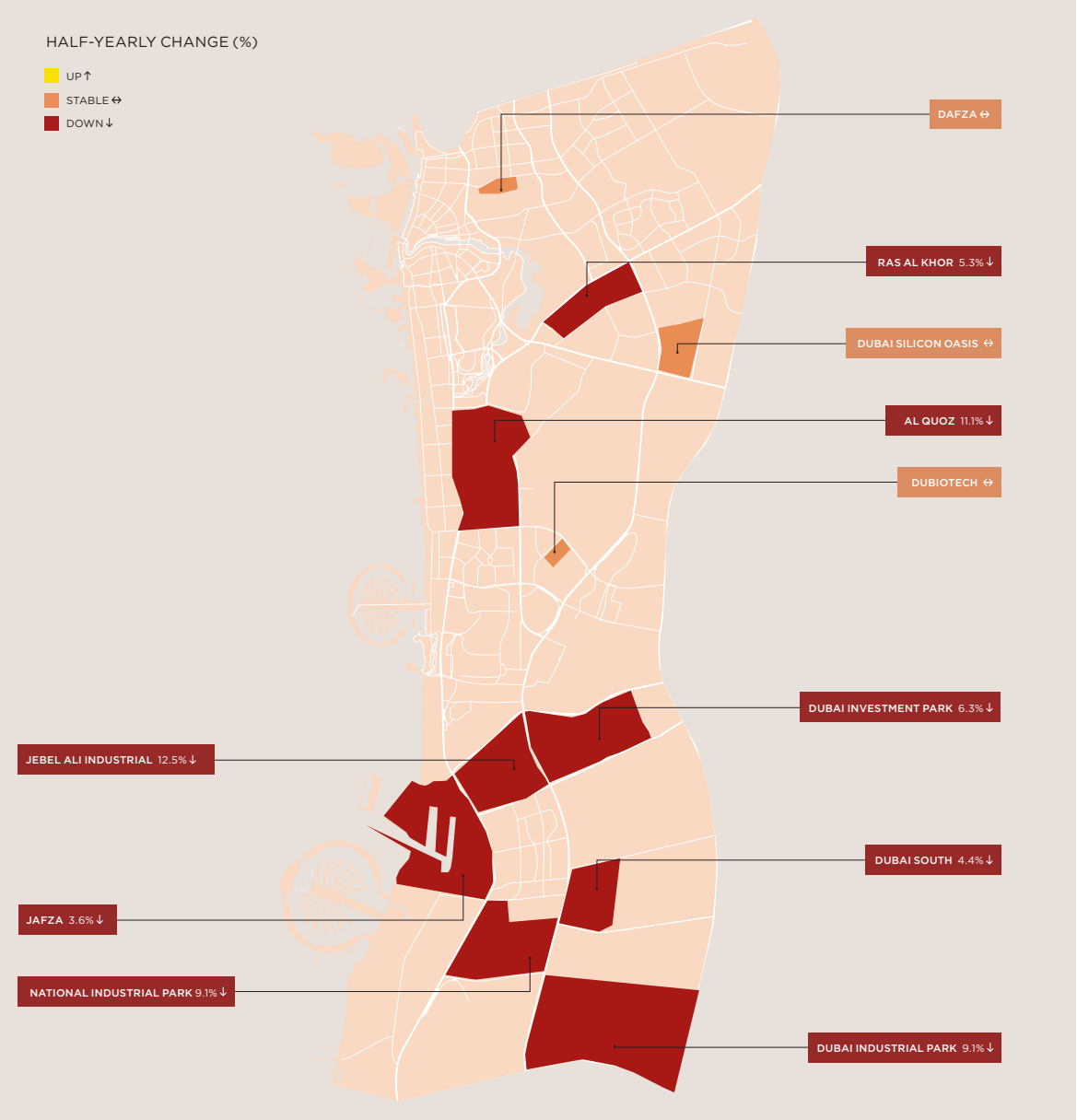
Dubai Industrial Market Rents H1 2019



Source Savills Research



* Map is for representation purpose only

Source Savills Research

Going forward, the low transaction volume environment is likely to persist over the short-to-medium term. Grade B developments and speculatively built projects with limited specifications are likely to remain challenging to let. However, landlords are becoming increasingly flexible around lease terms, with many willing to close deals below headline asking rents.

Institutional interest for properties with international tenants and long lease terms has spiked in the last few months and we anticipate a handful of transaction closures to conclude in the coming quarters. In terms of end-user demand, occupier interest for automated built-to-suit, temperature-controlled centers with new technologies is likely to remain strong. We anticipate that companies from the e-commerce, manufacturing and 3PL sector to remain active and drive demand throughout H2 2019. Demand from e-commerce companies is likely to sustain from new market entrants and expansion by existing players, while the manufacturing sector in Dubai - which has already witnessed an 18% growth in 2018 to AED 36.79 Bn from AED 31.13 Bn in 2017 - is likely to witness heightened activity, especially from Chinese investors. In 2018, 618 licenses were issued to Chinese investors, an increase of 22.8% over the previous year. As the Dubai Silk Road strategy continues to take shape, we anticipate a spike in demand for warehousing and industrial space in the city. Business parks on the other hand have been formulating strategies to reduce the cost of operations and increasing the attractiveness of their portfolio. DAFZA for example, has reduced business set up fees by 65% while JAFZA is offering long-term visas to its customers. These factors, along with other initiatives, are likely to contribute towards a maturing industrial and warehousing market in Dubai over the next few quarters.

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