UAE COMMERCIAL – H1 2020

Dubai Industrial Market

Increase in enquiries for acquiring industrial and warehousing assets

During H1 2020, the industrial and warehousing market was greatly influenced by global supply chain disruptions and a change in local demand and delivery patterns for goods. There was a sudden urgency among companies to shore up their online presence and invest in logistics and warehousing supply chain. As a result, demand for Grade A industrial and warehousing space witnessed a strong increase across Dubai. This is a marked shift from the subdued activity levels which we reported twelve months ago.

Transaction activity was driven by existing tenants taking up additional space to increase their inventory carrying capacity and by companies that had to invest in their warehousing and logistics capability to move their sales online.

Demand was particularly strong across the key free zone micro-markets of the city. Space take-up was led by e-commerce companies. As per the DED (Department of Economic Development), with online shopping gaining fresh momentum in the UAE, 102 new trade licenses were issued in the period January to April 2020. This was closely followed by companies from the 3PL (Third Party Logistics) sector that were capitalizing on the continued growth of online and omnichannel retail. Companies from the healthcare sector were among the other key drivers of demand during H1 2020. Healthcare remains a vital economic sector and has seen accelerated activity levels in the wake of the pandemic. Companies from the sector were seen taking up warehousing space and industrial land for build-to-suit projects, especially within the Dubai Science Park. There was also a spike in enquiry levels and transactions across Dubai South, driven by the near completion of their first e-fulfilment center measuring approximately 355,000 sq. ft.

As part of this report release, we reached out to key landlords in the city, to understand the impact COVID-19 has had on occupancy level and sentiment among their tenants. The general feedback we received was optimistic. The majority of landlords reported their tenants to be busy over the last six months and freight movements across logistic parks was upbeat. A few sub-markets also witnessed a spike in demand for labor accommodations as companies temporarily shifted their employees from accommodations in other emirates such as Ajman to tackle the challenges posed by the lockdown. Occupancy levels have remained largely stable and, in a few cases, it has marginally improved as companies have taken up additional short-term spaces. We have also seen an increased take-up for land plots from existing clients seeking expansion of their current facilities.

We have witnessed an increase in enquiries for acquiring industrial and warehousing assets from regional investment funds and family offices as well as high net worth investors. The focus being on income producing facilities, with some considering high quality logistics facilities with a view to securing an occupier in one of the growth sectors (e-commerce / pharmaceuticals / 3PL / Fast Moving Consumer Goods).

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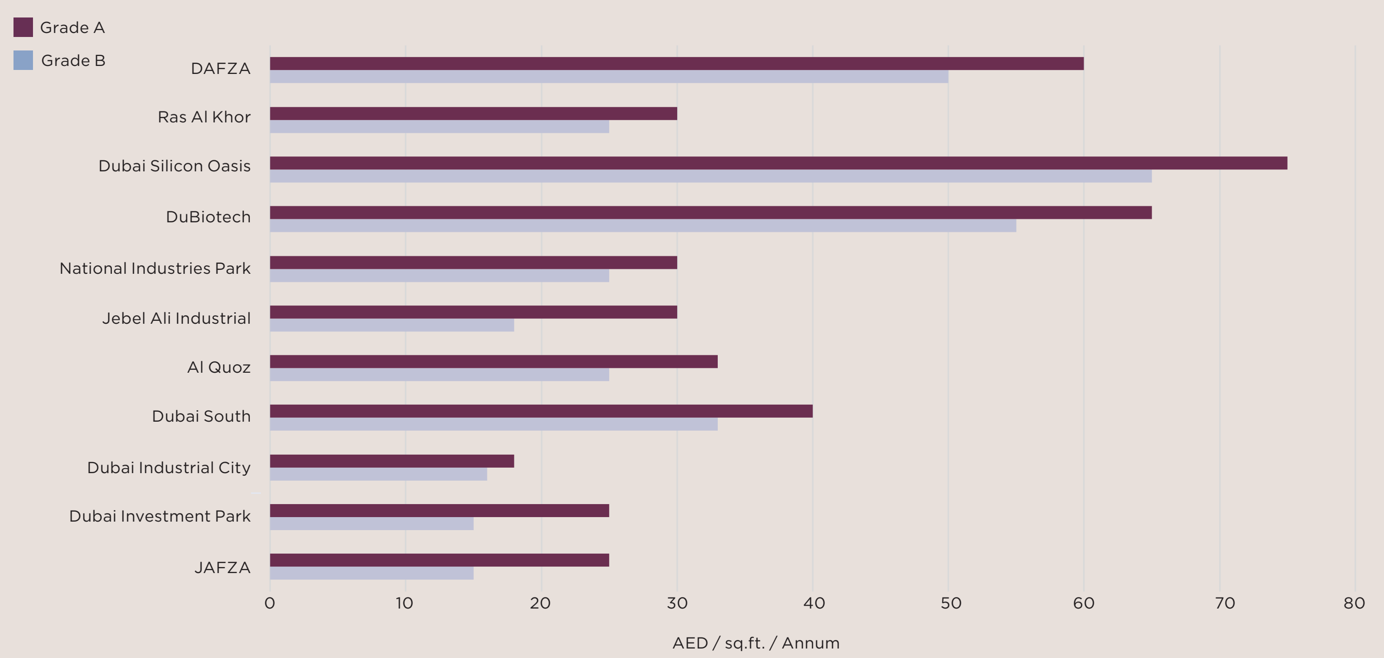
End-user demand is likely to remain strong for automated build-to-suit, temperature-controlled centers with new technologies.

Dubai Industrial Market Rents H1 2020



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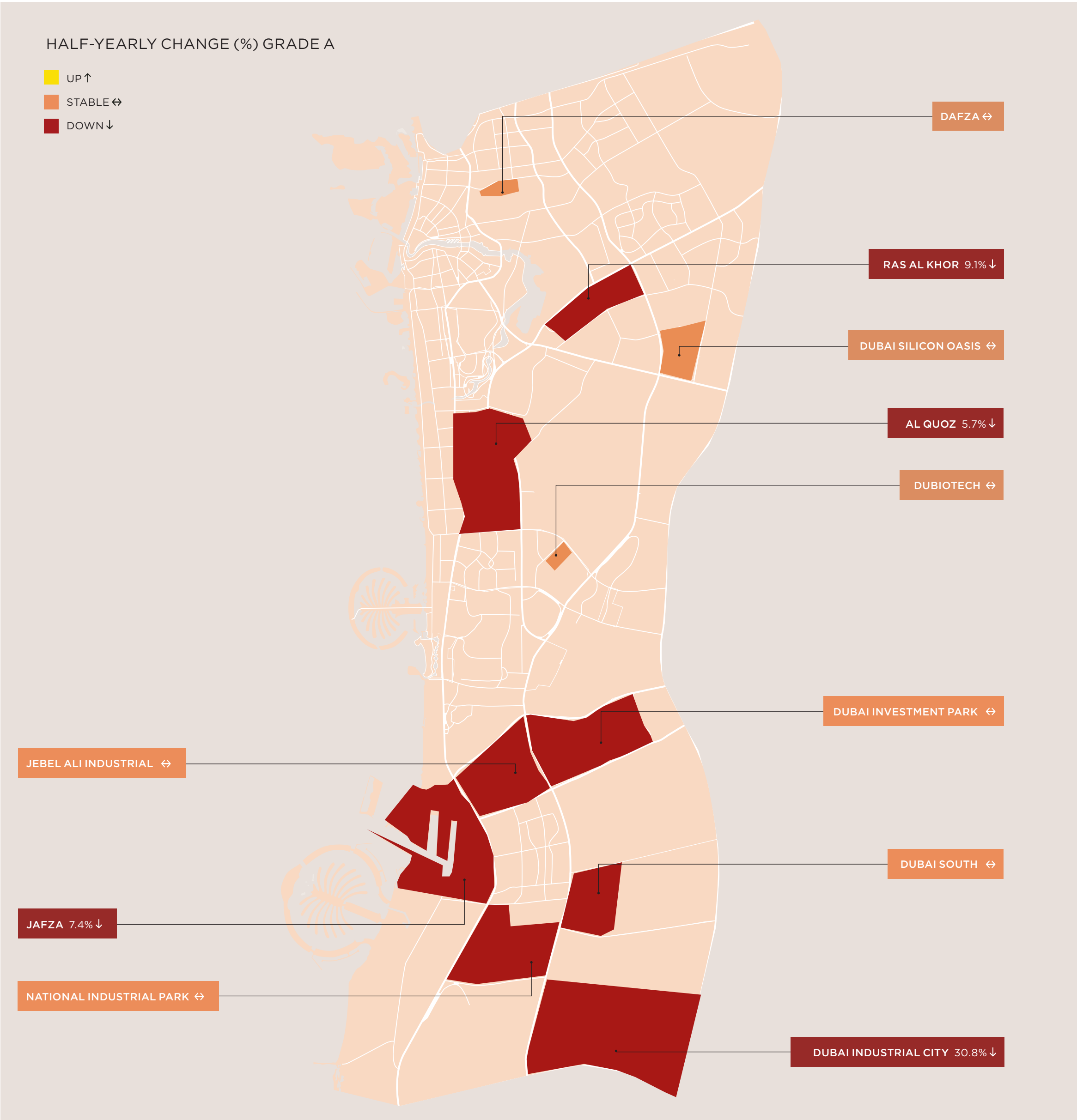
Unlike the office sector, we haven't seen rental rebates or reductions being offered to tenants across the warehousing sector. Most of the incentives have been in the form of rent deferrals to help clients manage their cash flow. There has also been an increase in flexibility towards rental payments with landlords open to accepting quarterly or half yearly payments. However, there has been an increase in incentives offered by government with the aim of supporting the business sectors to enhance financial liquidity. Among other incentives, the suspension of 2.5% market fees, recovery of 20% of custom fees on imported products sold locally, cancellation of the AED 50,000 bank guarantee or cash required to exercise customs clearance activity and 90% reduction on the fees imposed on submitting customs documents, have been particularly beneficial for companies in the sector.

Despite the strong increase in leasing activity and enquiry levels, rental values continued to remain subdued. A general oversupply in the market, especially in the Grade B segment and limited entry of new companies to the emirate were the primary reason for this trend. On a half yearly comparison, rental values for Grade A properties declined by 6% – 10% in Jebel Ali Free Zone Authority (JAFZA), Al Quoz, Jebel Ali Industrial and Ras Al Khor industrial area. Rental correction across Grade B stock was more prominent in a few micro-markets which witnessed significant corrections as occupier preference clearly shifts towards Grade A stock. An average 6% - 10% drop in rental values was recorded across Grade B stocks in JAFZA, Jebel Ali Industrial and Ras Al Khor industrial area. Grade B stock in Al Quoz and Dubai Industrial City has seen significant drops in quoted rental values and were down by 17% - 25% when compared to H2 2019.

Going forward, end-user demand is likely to remain strong for automated build-to-suit, temperature-controlled centers with new technologies. There is a strong interest for projects with good power load (over 200 KW) and eaves heights of more than 10 meters. We anticipate that companies from the e-commerce, pharmaceutical and 3PL sector will remain active and drive demand throughout H2 2020. In terms of supply, four new facilities located in EZDubai are in the design stage with proposed delivery by July 2021. This includes two last mile centers measuring approximately 89,000 sq. ft. and two e-fulfilment centers measuring 142,000 sq. ft. and 236,800 sq. ft. each.



* Map is for representation purpose only

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