MARKET IN MINUTES

Savills Research

UAE COMMERCIAL – H1 2022

Dubai Industrial Market

Strong enquiry levels and transactions from new entrants to the market

The industrial and warehousing sector in Dubai continues to remain buoyant with strong demand levels and steady leasing activity. Demand was particularly strong by companies in the oil & gas sector. The recent spike in oil prices and subsequent revenue gains have resulted in increased investments and capacity expansion by engineering and other oil & gas support services companies. There was a notable increase in enquiry levels from companies headquartered in the US, UK, Norway and Netherlands to set up operations or expand their existing industrial footprint across Dubai.

E-commerce, contract logistics and indoor farm operators were the other prominent demand drivers for warehouse leasing activity during the first half of 2022. Traditional e-commerce operators have been gradually expanding their operations across the city as they continue to gain market share of the overall retail sector in Dubai.

Growth in real estate footprint of e-commerce operators during H1 2022 was largely in the form of 'Dark Stores', which are aimed at delivering everyday goods in a short period of time, typically under 30 minutes. To achieve the express delivery timeline, operators require locations in proximity to the serviced sub-market, usually a high-density residential area, with the majority opting for ground floor retail spaces. As Dark Stores rely on constant inventory replenishing, they are supported by related distribution centres. As a result, leasing activity was observed across prominent non-bonded warehousing hubs such as Al Quoz, Dubai Investments Park (DIP) and National Industries Park (NIP) for these distribution centres.

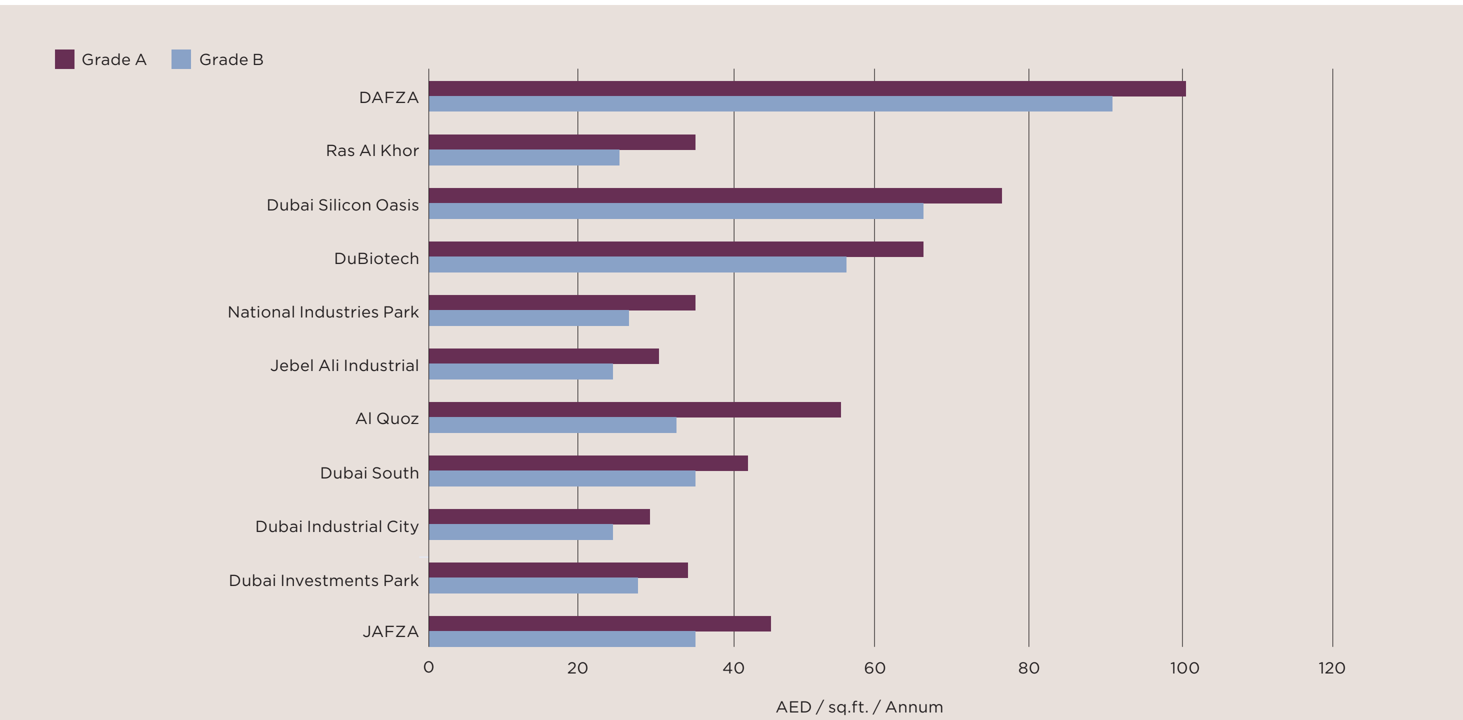
Another demand driver has been the growth in number of vertical farm operators, especially in the last 6-12 months, on account of the increase in demand from consumers for local produce and a push towards self-sufficiency and less reliance on foreign food imports. However, the scale of operations is critical for success in the farming sector as we have noted indoor farming operations with facilities over 50,000 sq ft performing well, in contrast to smaller sized setups that have faced challenges.

The general feedback we received from landlords was positive. Majority of the landlords reported increased occupancy levels and suggested an encouraging outlook for the sector going forward.

Demand during H1 2022 was primarily concentrated across traditional hotspots such as Dubai South, JAFZA, NIP and DIP. Dubai South developed two Grade A last mile centres of 8,200 sqm each in EZ Dubai, a dual bonded e-commerce zone. Both last mile centres were speculatively built and pre-leased during construction.

JAFZA broke ground on their 46,000 sqm logistics park which is due to be completed in 2023 and has similarly received interest on a pre-lease basis, demonstrating the strong demand for quality warehousing assets in Dubai.

Dubai Industrial Rents H1 2022



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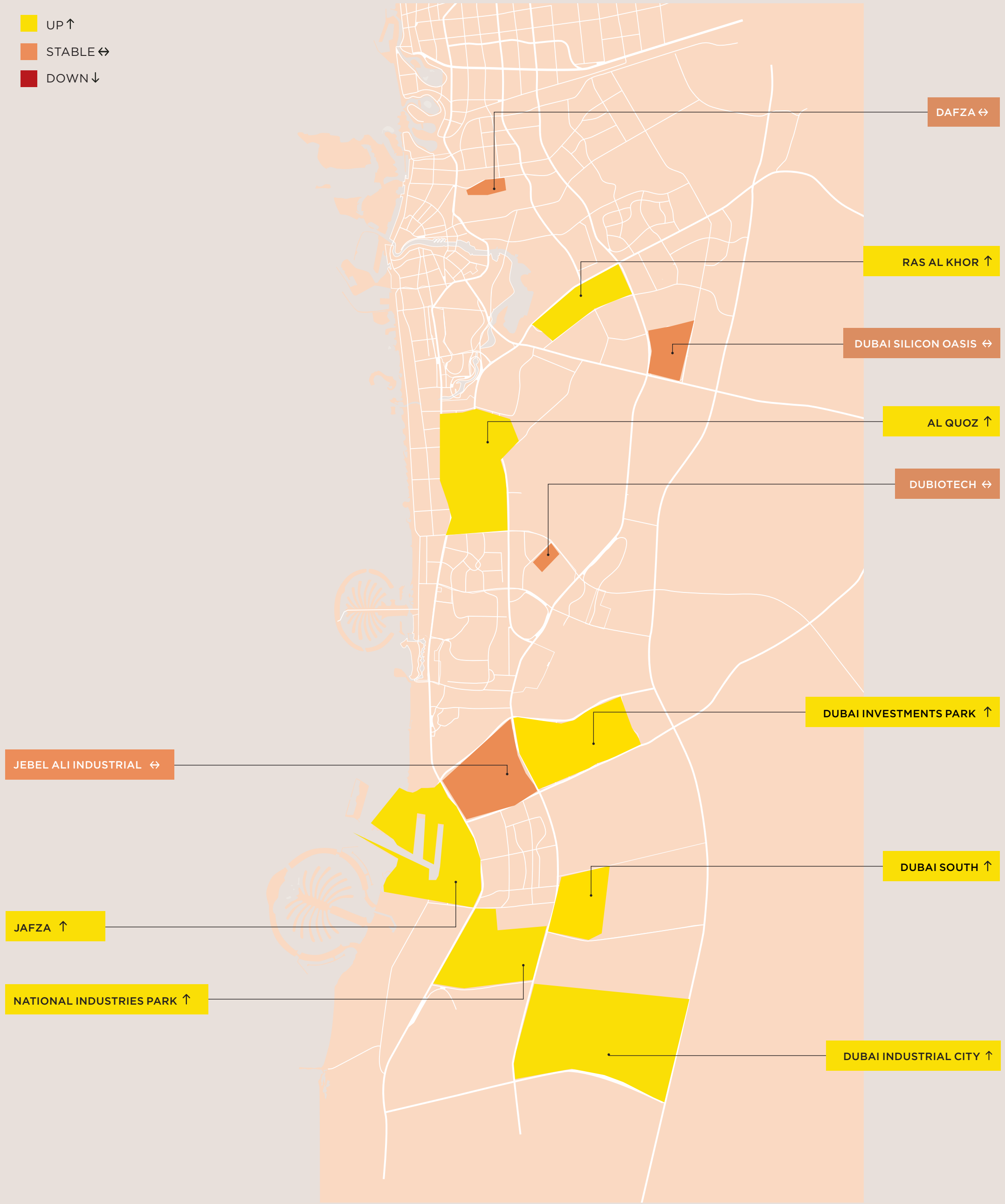
There was also a continued rise in enquiries for acquiring industrial and warehousing assets by international investment funds and family offices with the focus being on income-producing assets. An increasing number of such investors have expanded their search to consider facilities with high quality logistics specifications with a view to securing an occupier from one of the busy growth sectors such as e-commerce, pharmaceuticals, contract logistics and FMCG (Fast Moving Consumer Goods).

Due to the strong rise in leasing activity and enquiry levels, rental values remained stable, with rental increases reported across a number of submarkets. A general lack of supply in the market, especially in the Grade A segment, and limited existing and upcoming stock was the primary reason for this trend. On a half yearly comparison, rental values for Grade A properties increased by an average 16% across NIP and Ras Al Khor industrial area. The rental increase across Grade B stock was more prominent in a few micro-markets which witnessed higher quoted rents as demand spilled over to the segment, due to limited availability across Grade A stock. An average 4-9% increase in rental values was recorded across Grade B stocks in NIP, Al Quoz and Jebel Ali Industrial when compared to H2 2021.

Going forward, end-user demand is likely to remain strong for logistics assets offering temperature-controlled spaces as well as offering compatibility with new automated technologies. There is strong interest for facilities with high power load (over 200 KW per 1,000 sqm) from a range of occupiers including manufacturing. We anticipate that sectors including e-commerce, contract logistics, engineering and manufacturing will remain active and continue to drive demand throughout H2 2022.

HALF-YEARLY CHANGE (%) GRADE A



* Map is for representation purpose only

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