

CRC

Commercial Property Market Report

Q3 2021



October 2021

a Betterhomes. group company.

Foreword

As we head into the final quarter of the year, it is safe to say that we are seeing major changes in the commercial real estate market. For the first time in several years, prices are picking up again, with the market making an almost complete recovery, and returning to pre-pandemic levels.

Restrictions that were implemented at the same time last year have been heavily lifted, allowing individuals to regain some semblance of normality and have greater trust in the current state of affairs. As such, it is clear that companies are increasingly more optimistic about the state of the market, and therefore resuming normal business activity.

We are also seeing an increase in investors in the market, both local and international. As Dubai remains the strongest economy in the region despite the pandemic, it has meant it has become a highly attractive place for investment. This trend is expected to continue with the ongoing Expo 2020. Many have anticipated that the world fair will bring in further foreign investment by attracting international businesses to conduct business in the city.

As the market continues to return to normality, it can be expected that prices for commercial property will continue to rise, which will allow for greater confidence in Dubai's property market, and, in the Dubai economy as a whole.



Ben Bargh
CRC Director

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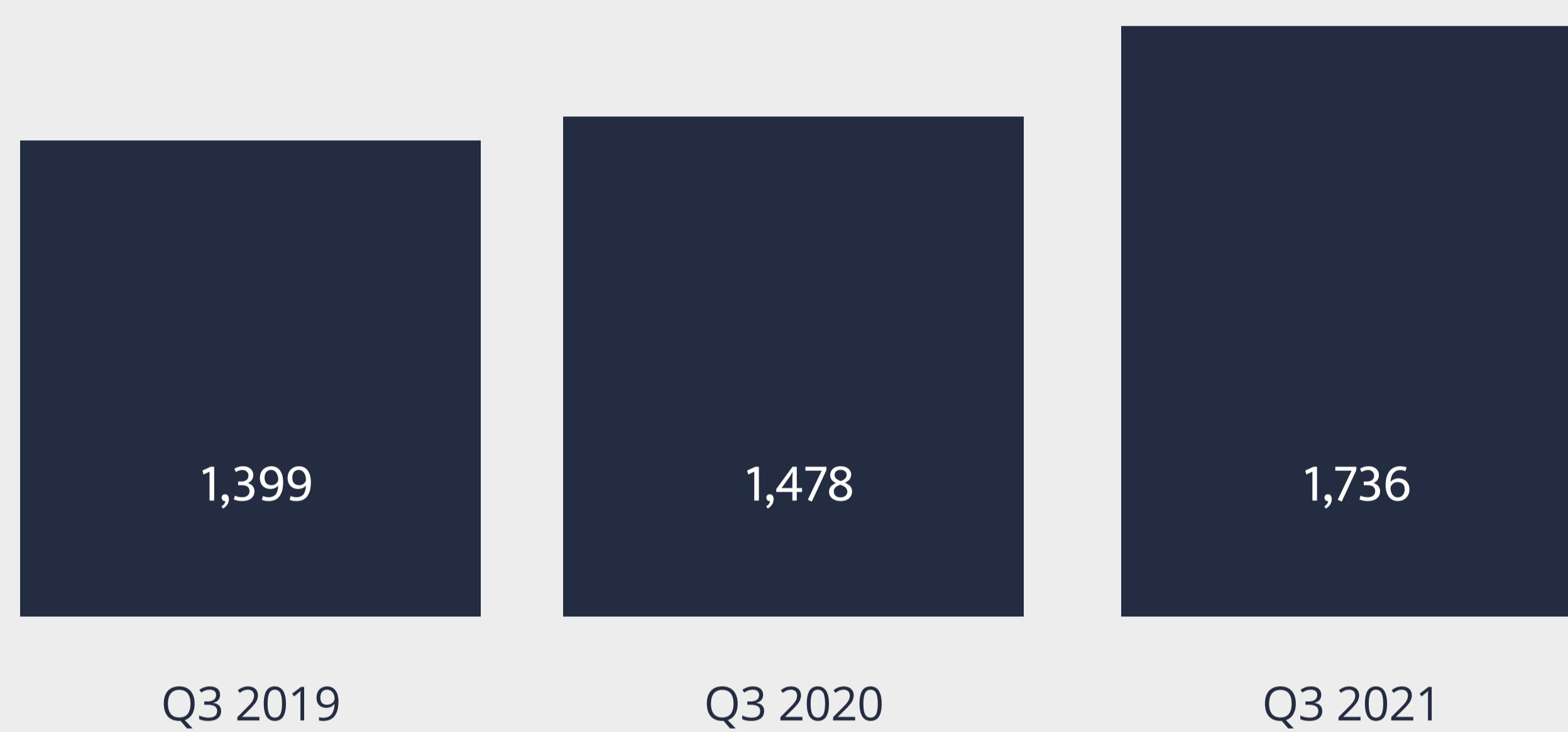
Commercial Sales | Dubai

We are at a point where we are seeing a dramatic shift in the commercial real estate market. The market is bottomed out with prices starting to rise again, which, when comparing the data from the previous 3 quarters, one can see that the commercial property landscape is returning to pre-pandemic levels. For the first time in nearly a decade, prices are on the up, both in terms of leasing and sales. The number of total sales transactions have increased by 50% since last year, as price changes have caused a sudden surge in demand for commercial property.



Total sales transactions,
DLD (units)

Source: Property Monitor



THE VALUES OF OFFICE TRANSACTIONS ON THE RISE IN Q3 2021

When looking at the sales value for commercial property, Q3 of last year saw an overall increase in transacted value, although there was a slight drop in terms of transacted value for offices. There was also a slight drop in the number of office units sold.

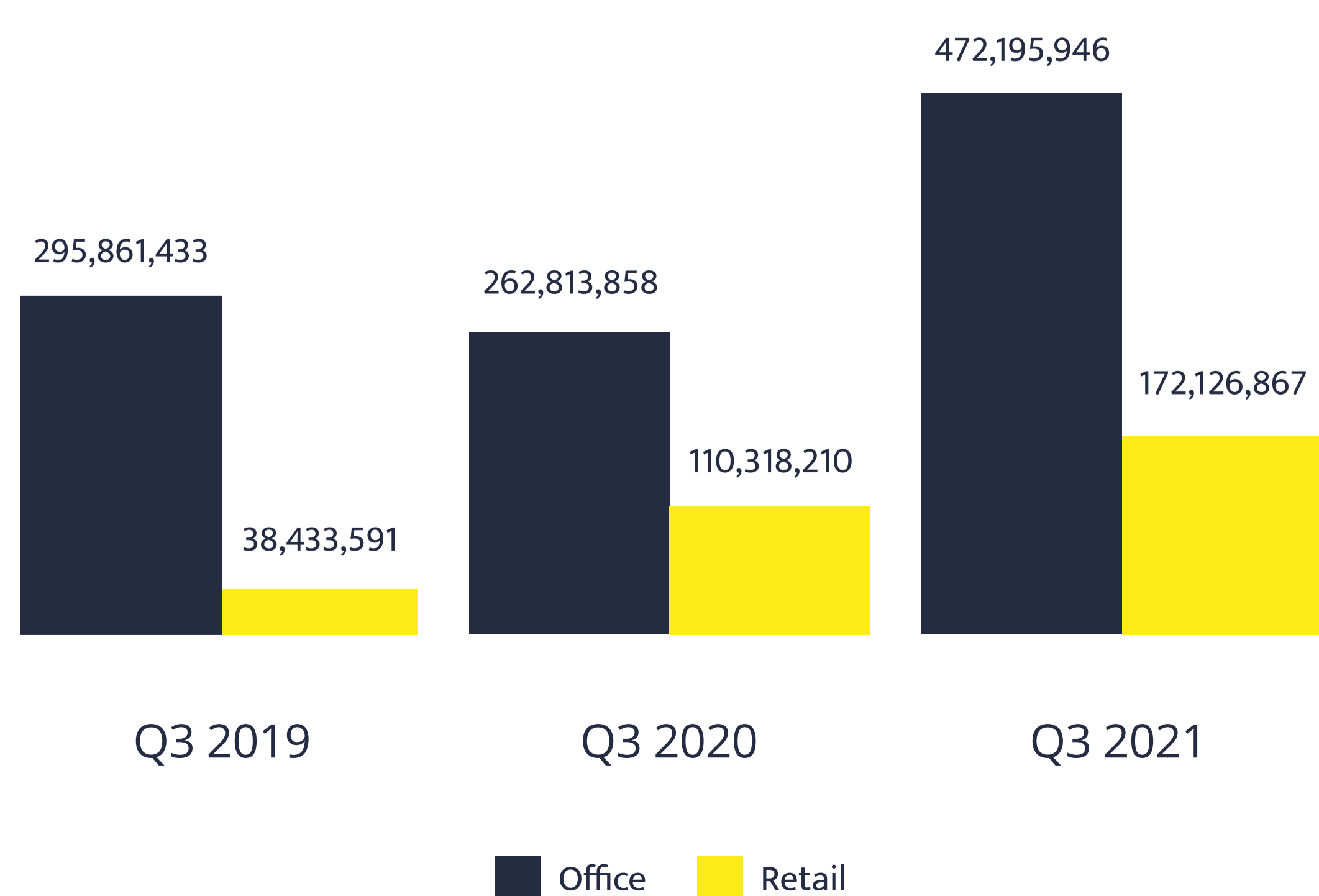
Total transacted value, DLD (AED)

Source: Property Monitor

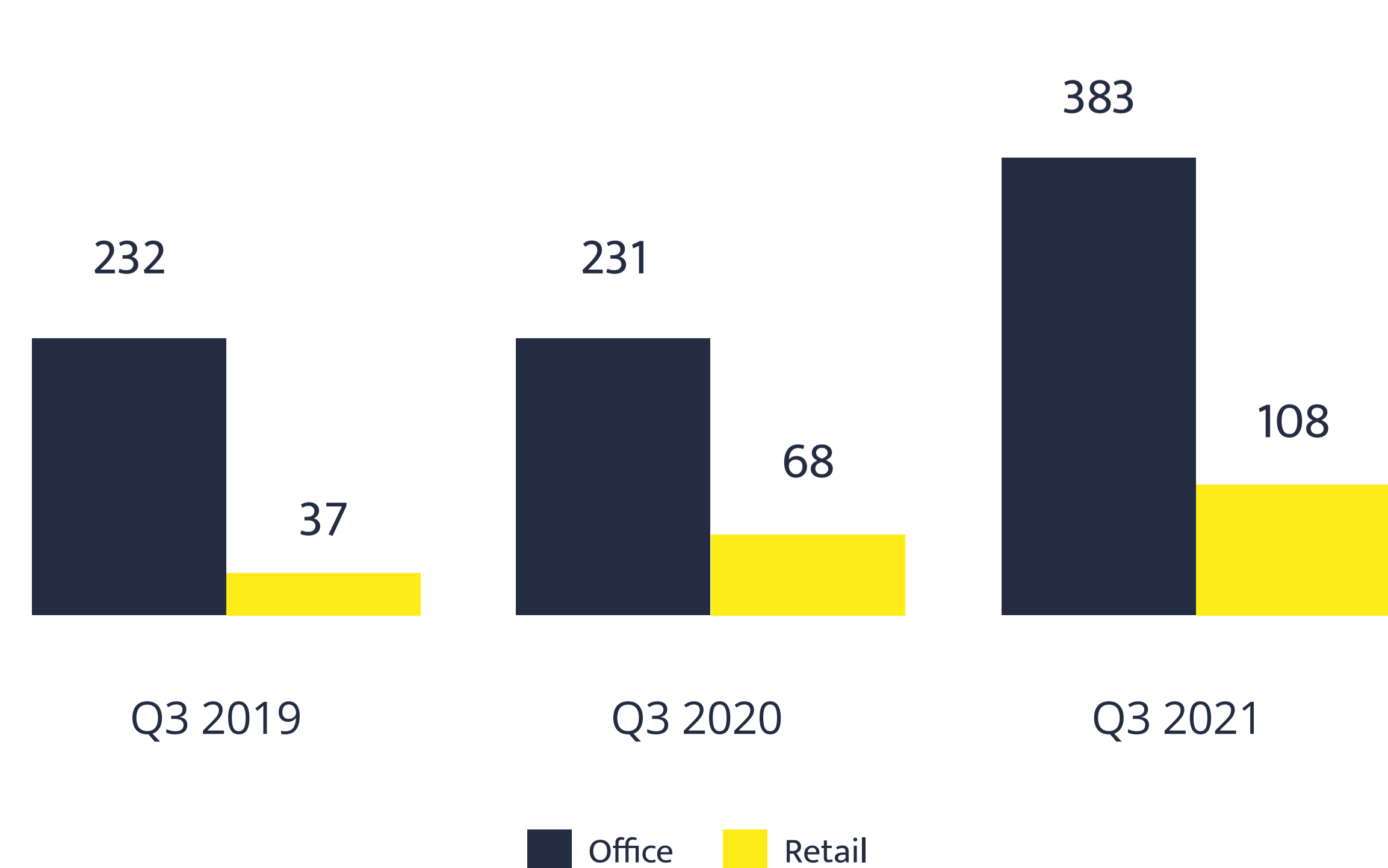


Looking at the previous three quarters, gives us a good indication of the state of the market before the pandemic, during the pandemic, and now, as we are navigating our way out of it. Transacted value for offices has risen above pre-pandemic levels, dramatically increasing from AED 6,535,537,832 to AED 9,216,675,125, whilst the number of units sold has increased from 1,399 in Q3 2019, to 1,478 in Q3 2020, to 1,736 in Q3 2021. Transactions for office spaces are primarily in freehold areas such as Business Bay and JLT, which have remained the most desirable places for companies to conduct their business.

Sales value by property type, DLD (AED)



Sales transactions by property type, DLD (units)

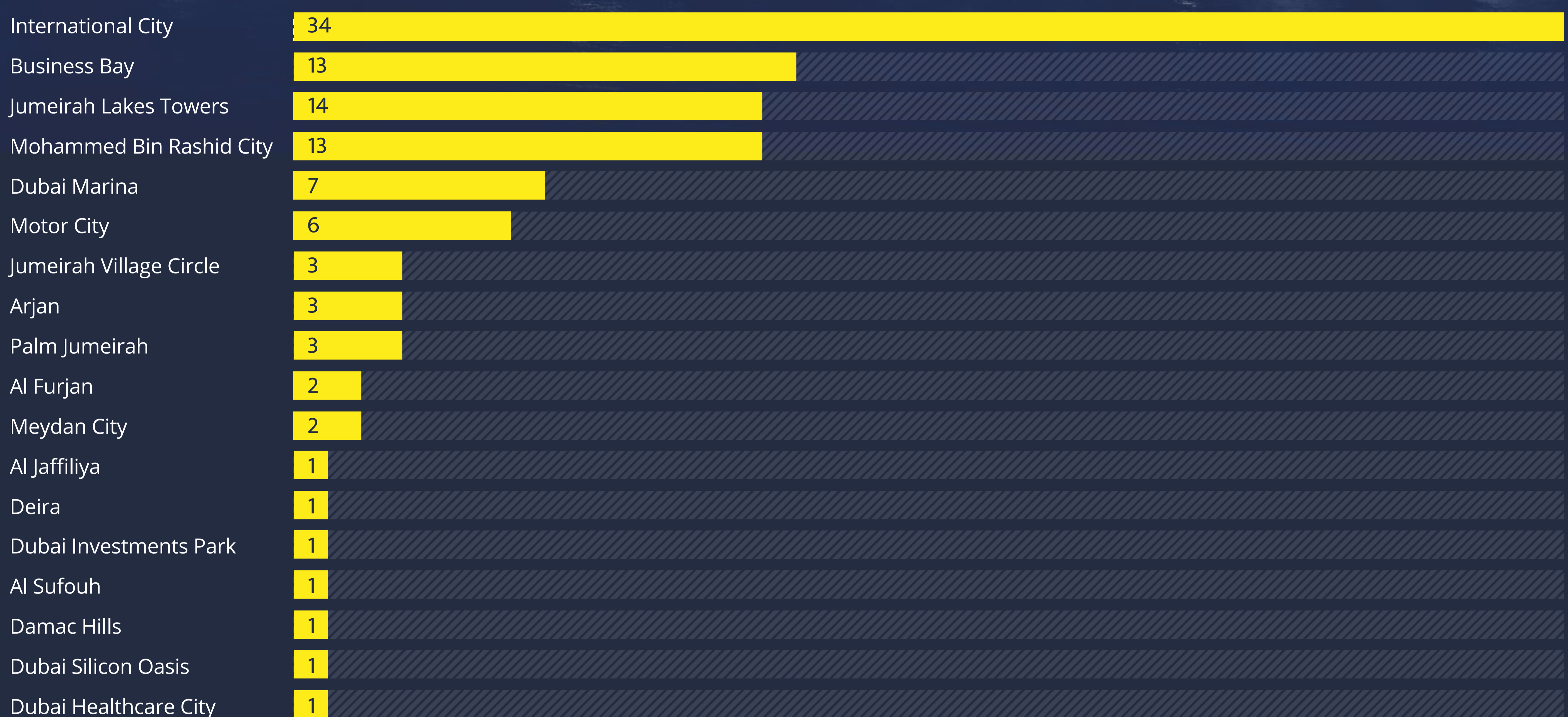


STEADY GROWTH IN DUBAI'S RETAIL SECTOR

Retail units have seen steady growth throughout the past 3 quarters, with an increase of 40 units since last year. International City and JVC have remained the most popular areas for street side retail. Whilst Arjaan and JVC have yet to see the same amount of transactions as International City or JLT, they are two areas that can be expected to see a burst of transactions in the near future as it is anticipated that prices will stay low, with a large number of handovers occurring.

Retail sales, DLD

Source: Property Monitor



THE DEMAND FOR OFFICE SPACES DECLINED DURING THE SUMMER

The number of leads for commercial property has been down by 6%, although this has primarily concerned office spaces. with the number of leads going down by 18%.

Buyer leads at CRC ▼ 6%

Offices ▼ 18% Retail ▲ 47% Warehouses ▲ 61%

82% increase

Sales transactions, CRC

200 sq.ft increase

Average office size in Jumeirah Lake Towers & Business Bay in Q3 2021

This can be attributed to the fact that prices for commercial property market has bottomed out, and are coming back up for the first time in the last 5 years. As such, it is natural that with prices rising, demand will go down. With the prices at such a low point over the summer, there was a buying frenzy that has meant that owners that wanted to sell have already sold. Therefore there is a lack of new stock coming into the market which has meant there are fewer opportunities for potential buyers. That withstanding, the average size of office spaces in JLT and Business Bay, transacted at CRC has increased by an average of 200 square feet.

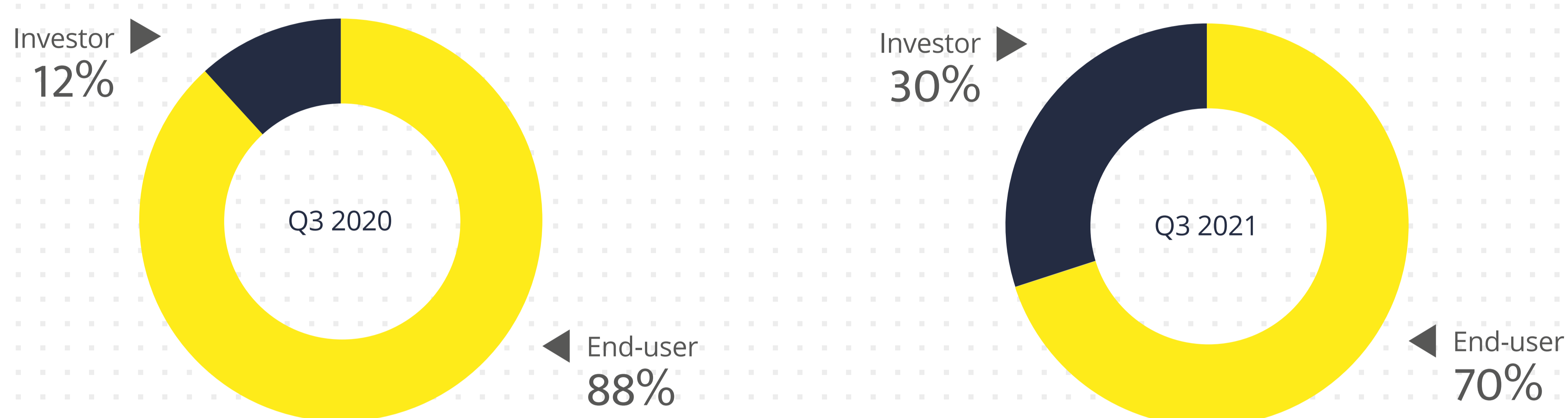
During Q3 2020, companies were still uncertain about the impact of COVID-19 on their businesses and therefore downsized their office spaces as a cost-cutting measure. As confidence in the economic environment grows, many of those businesses are deciding to scale up by moving back into larger office spaces. As such, while the total number of leads is decreasing, the value of inquiries and deals of these potential buyers is much higher. With that being said, lack of leads has primarily been the case for office spaces. The number of leads for retail and warehouse units have continued to be on the rise, with a 47% and 61% increase respectively according to CRC data. The market has seen an increase in new warehouse stock coming to the market, and as such, it can be expected that the number of transactions will increase in the upcoming months.

INVESTORS ARE COMING BACK TO THE COMMERCIAL MARKET

The number of investors entering the commercial real estate market has increased from 12% to 30% since last quarter. Investors, both within the UAE and outside, are realising that prices are at a low point, with the belief that with the upcoming Expo 2020, prices will be on the rise again. As such, they are wishing to lock in the prices early, before the property market sees a price hike, allowing them to earn good capital when they decide to sell the property through capital gains. What is more, with rents increasing, investors are seeing offices as a good opportunity to secure alternative income streams. We are also seeing that current tenants are trying to secure longer lease terms. Whilst the primary aim for this is to ensure they do not encounter massive rent hikes, it benefits investors in providing longer-term security in terms of guaranteed income.

Investors vs end-users

Source: CRC



Commercial Leasing | Dubai

Rental prices at prime locations have started to stabilise as demand starts to build up among tenants, especially when it comes to bigger offices spaces and flexible fit-outs. With demand for these spaces increasing, many investors and buyers are seeing this as a new opportunity in the market. This is especially the case when one considers that Dubai is currently hosting Expo 2020, which is expected to bring in new businesses to the city in the upcoming months. As new companies decide to enter the Dubai market, the demand for commercial property will continue to increase, which will further push rental prices up.

SIGNIFICANT INCREASE IN THE AVERAGE SIZE OF LEASING DEALS

Although the number of transactions has decreased by 25%, the average deal value increased by 28%. By looking at the transactions in greater detail, the average size of units increased as well with average sizes of offices in the key communities of Business Bay and DIFC increasing by 25% and 61% respectively. Overall the average size of office spaces increased by 6%, retail units increased by 45%, and warehouses increased by 16%.

Leasing transactions at CRC decreased 25%

- 28% increase**
Average deal value, CRC
- 25% increase**
Average office size in Business Bay
- 61% increase**
Average office size in DIFC

Average sizes increased in Q3 2021, CRC

- 6%**
Office
- 16%**
Warehouse
- 45%**
Retail

This increase in size means that businesses are spending more money on the spaces that they are leasing, opting to go for bigger, and higher quality units. A large number of clients are businesses who have downsized during the pandemic, who are now looking to upgrade again. Tenants are wanting larger spaces that are move-in ready, with high-quality fit-outs. 'Green' office spaces are also seeing a surge in popularity, with an increasing number of companies looking to secure office space that is environmentally friendly, especially since more companies are adopting corporate social responsibility ethos and policies, with plans to be more environmentally sustainable. As such Grade A buildings are becoming a priority, especially for larger companies. With this lack of supply and a shift in priorities and an increasing number of international newcomers to the market, the expectation is that rental prices will continue to rise.

INCREASED DEMAND FOR COMMERCIAL PROPERTY FOR RENT

Overall, there was a noticeable increase in the number of leads for commercial property, with it increasing by 42% since Q3 last year. This shows that there is increasing confidence in the current market, with businesses returning to normality.

Tenant leads, CRC

Source: CRC



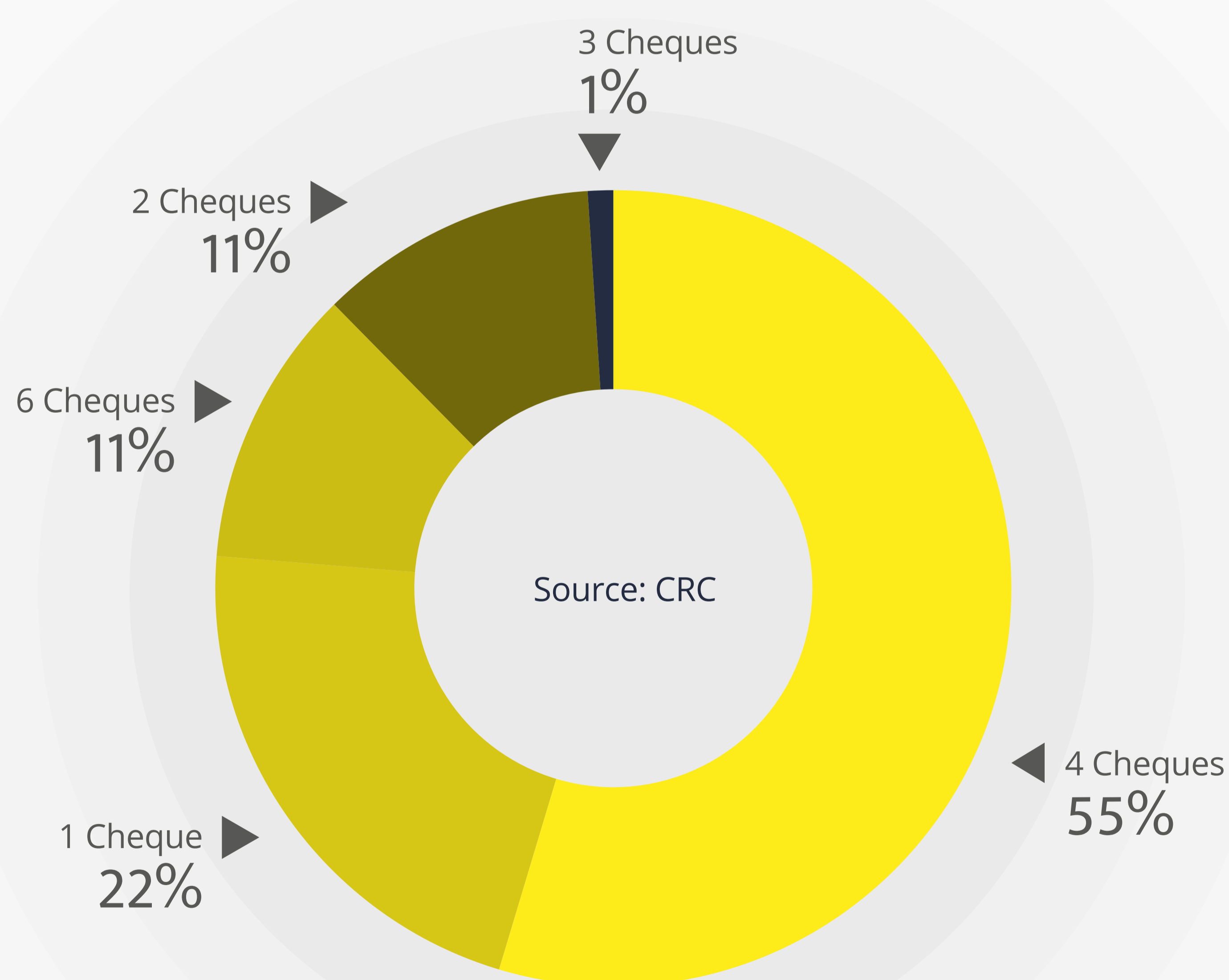
Whilst the number of transactions for offices have gone down, the number of leads has increased by 31%. Companies looking to rent an office space don't have a lot of choice when it comes to high quality commercial buildings.

In regards to office spaces in Dubai, the city has not seen many new major developments to increase supply in the market, especially in well established communities. New stock entering the market usually consists of repurposed spaces that landlords and developers have configured rather than the modern, high quality and environmentally friendly spaces that tenants are demanding nowadays.

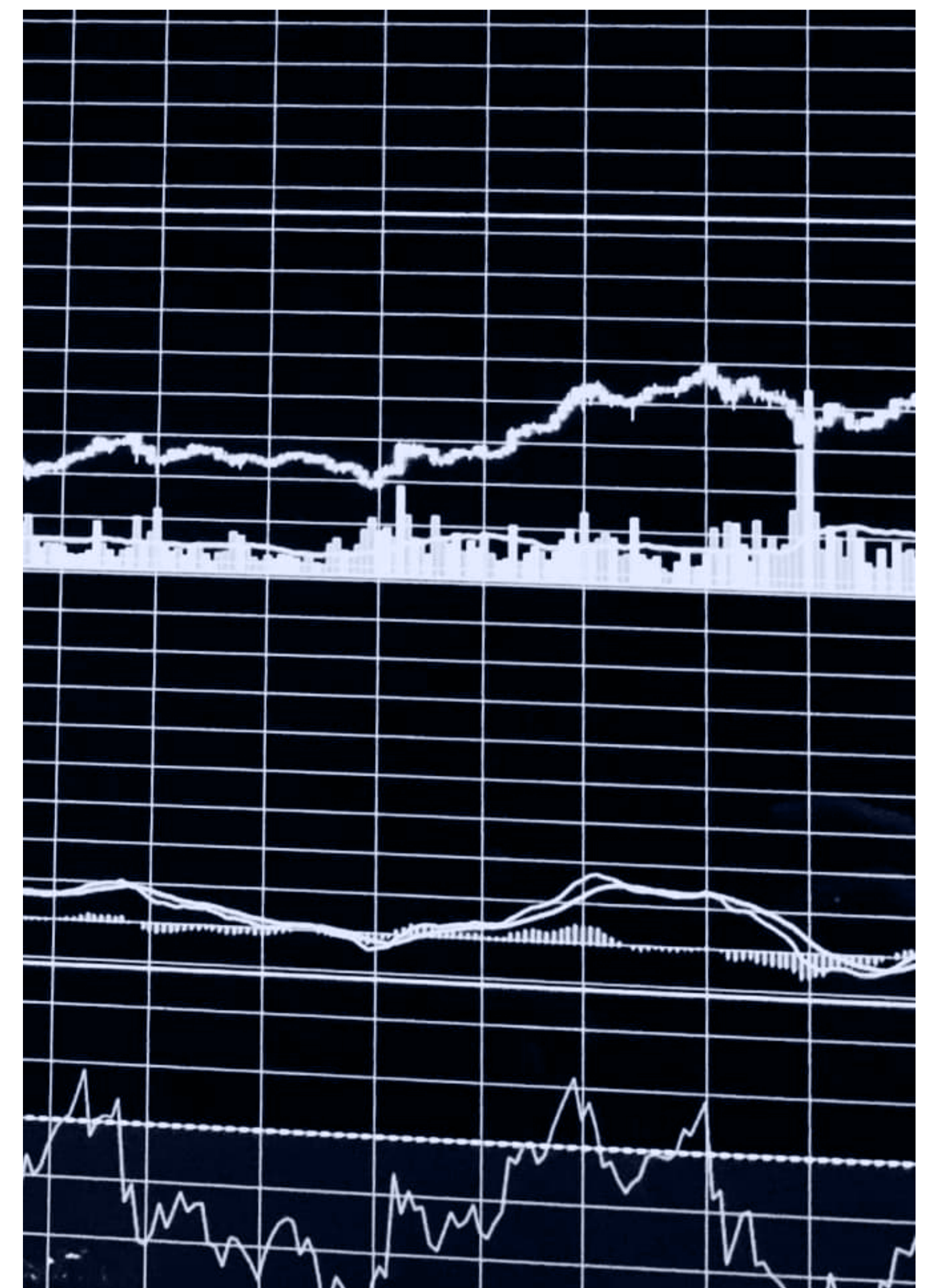
Retail leads have seen a lot of growth since Q3 of last year, which has increased by 106%. The restrictions due to the pandemic have changed massively since then, and as such, there is more confidence for opening up new retail businesses. We are also seeing new retail developments opening up, which has also spurred demand. In regards to industrial commercial real estate, CRC had a significant influx of warehouse leads which increased by 23%.



INCREASED FLEXIBILITY IN RENTAL PAYMENTS



Number of rental cheques changes Q3 2021 over Q3 2020



The market has seen that tenants are opting for more flexibility when it comes to rental payments. The number of tenants that are paying with 4 cheques is now at 55%, a 9% increase over Q3 last year, with the number of tenants choosing to pay with 2 cheques decreasing by 9%.



CRC

About CRC



CRC (Commercial Real Estate Consultants) is a real estate brokerage, an affiliate of Betterhomes, specialised in commercial properties. Founded by some of the most innovative thinkers in the real estate business, CRC caters to international and local clients seeking increased value by selling, leasing or investing in commercial property.

With a team of over 40 property experts, we understand the commercial real estate business. Our consultants are handpicked and trained to the highest standards to represent our brand and your interests professionally.

As part of the well established Betterhomes group, CRC is an integral part of Dubai's real estate history, with over 35 years of industry experience. The group has grown over the years and diversified with several brands under its name, ranging from boutique real estate agencies, such as Ascot & Co and Linda's, to Bridgeway Trust which is focused on immigration advisory.

Leveraging best-in-class technology and support, we provide comprehensive options to strategic direction - now and long into the future. Whether you are looking to buy, sell, or lease a commercial property, get a property valuation, or find an investment advisor, we are here for you.

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