



Dubai Residential

Free(hold) Guy

Analyzing the Changes in the Office Market in
Dubai

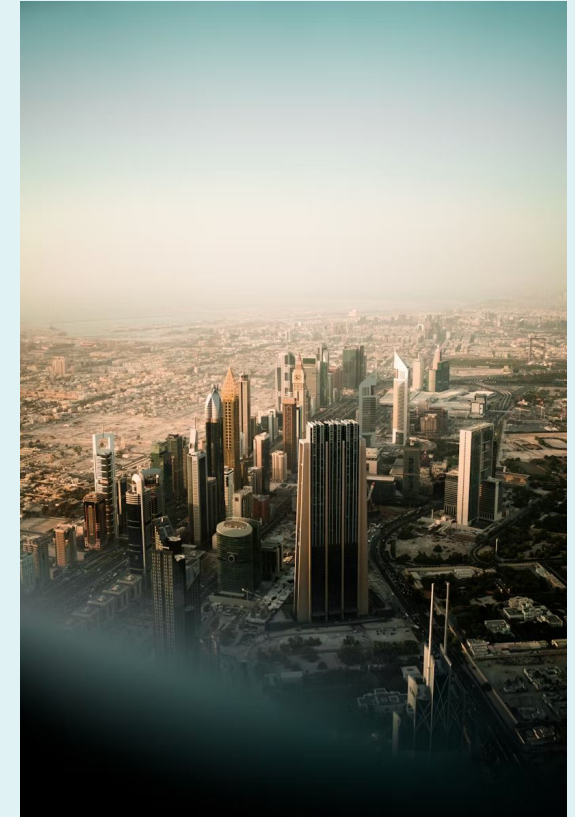
Executive Summary

- **Trade Center Office Trends**

Trade Center currently comprises nearly one-tenth of all completed office GLA space in Dubai. As a result, the newly announced changes in the law that allow property owners on Sheikh Zayed Road to convert their ownership to freehold status affects a significant portion of Dubai's office market. Looking at the price trends do Trade Center going as far back as 2008, it is easy to see why policy initiatives that aim to increase property value and rent prices have been prioritized, as prices took a significant nosedive after 2008 and have failed to return to their pre-2009 levels.

- **International Comparisons**

There are many examples from major international cities around the world where rezoning has led to improvements in both property value as well as property quality. Take, for example, Hudson Yards in New York, which has seen significant commercial investment from major corporations since its rezoning project was approved. Furthermore, its offices are able to command higher rents than other offices in Midtown Manhattan (which is where Hudson Yards is located).



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Trade Center Office Trends

**"When the past no longer illuminates the future,
the spirit walks in darkness."**

– Alexis de Tocqueville

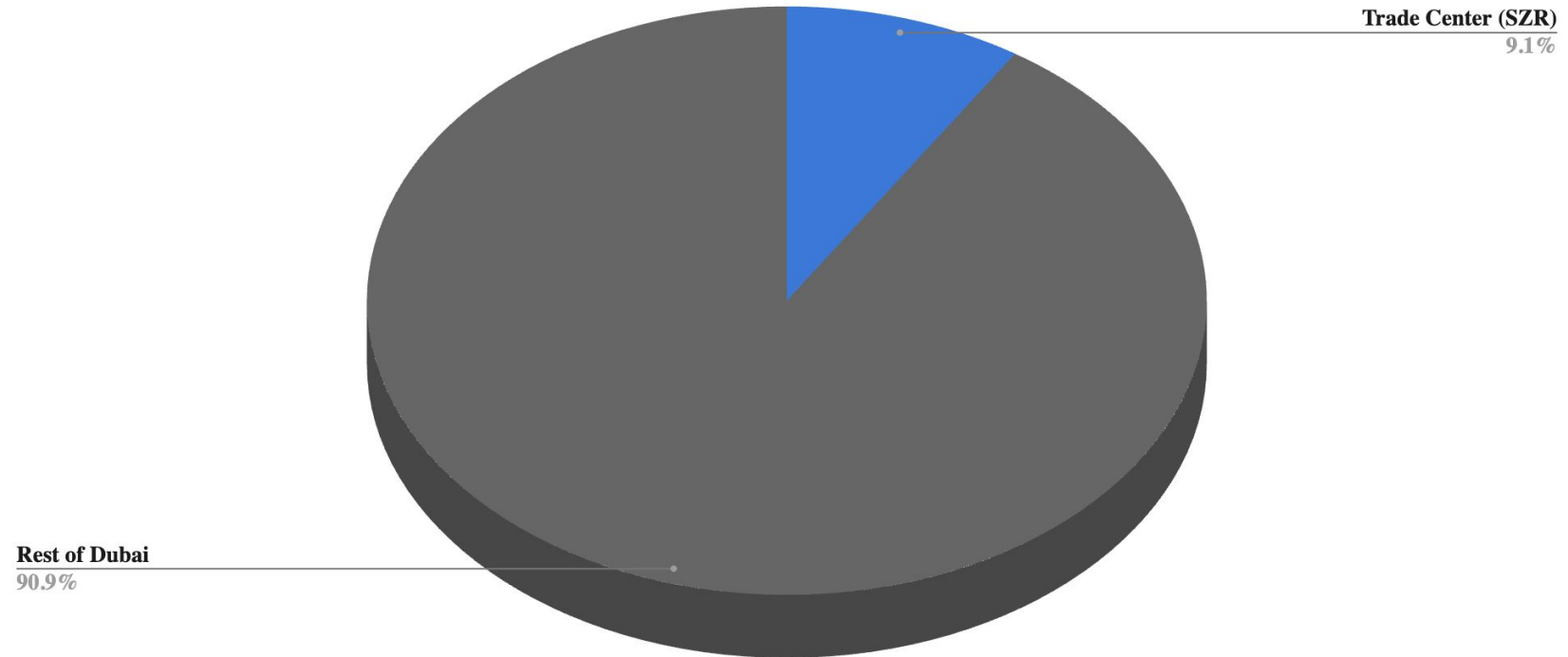


Trade Center Relative to Citywide Office Completed GLA

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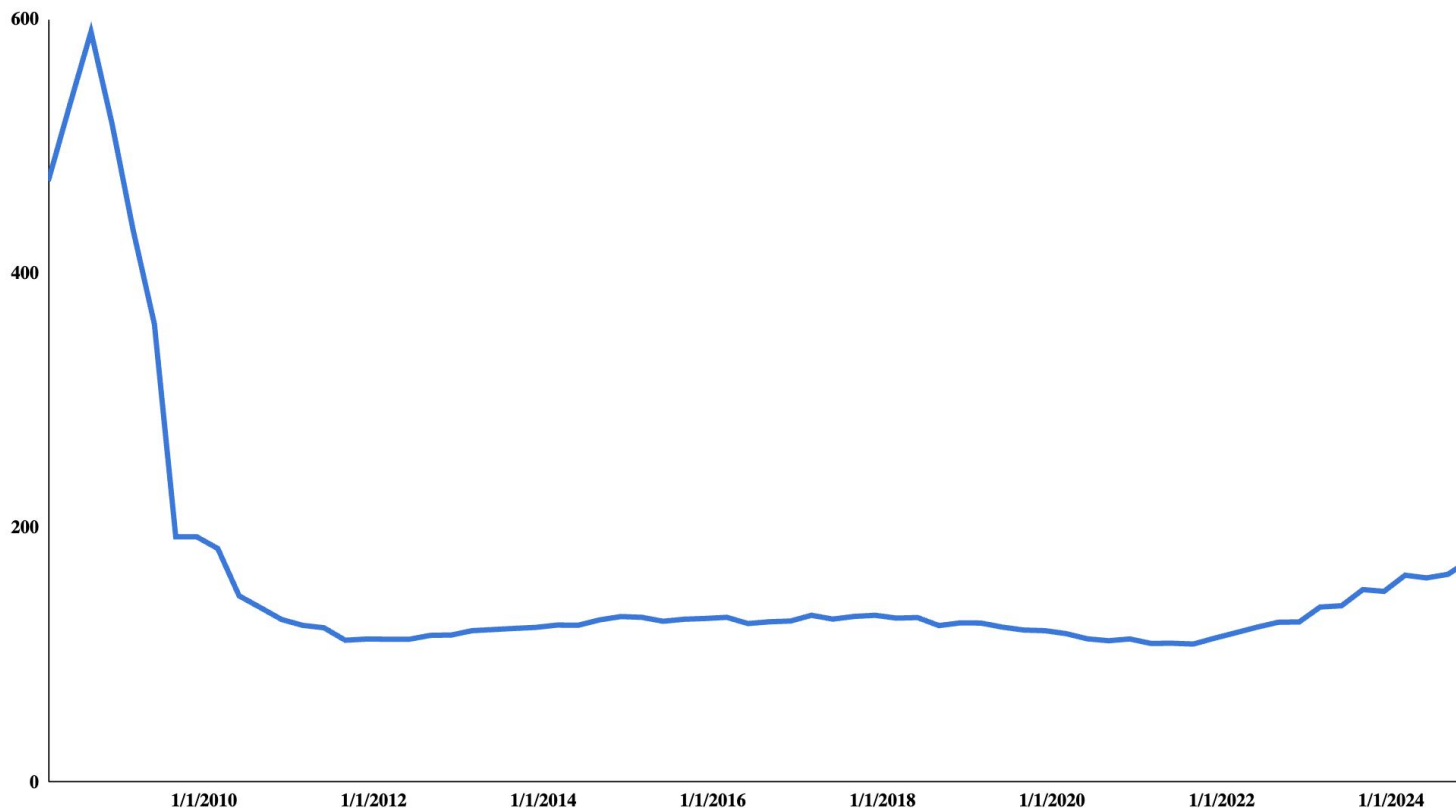
Completed Office GLA



As the graph above shows, Trade Center comprises a significant portion of the total completed Gross Leasable Area (GLA) in Dubai. As a result, the changes in ownership laws (despite being confined to what may seem like a relatively small chunk of the city) should have much more far-reaching implications than what many might have initially anticipated.

Trade Center Office Rent Prices

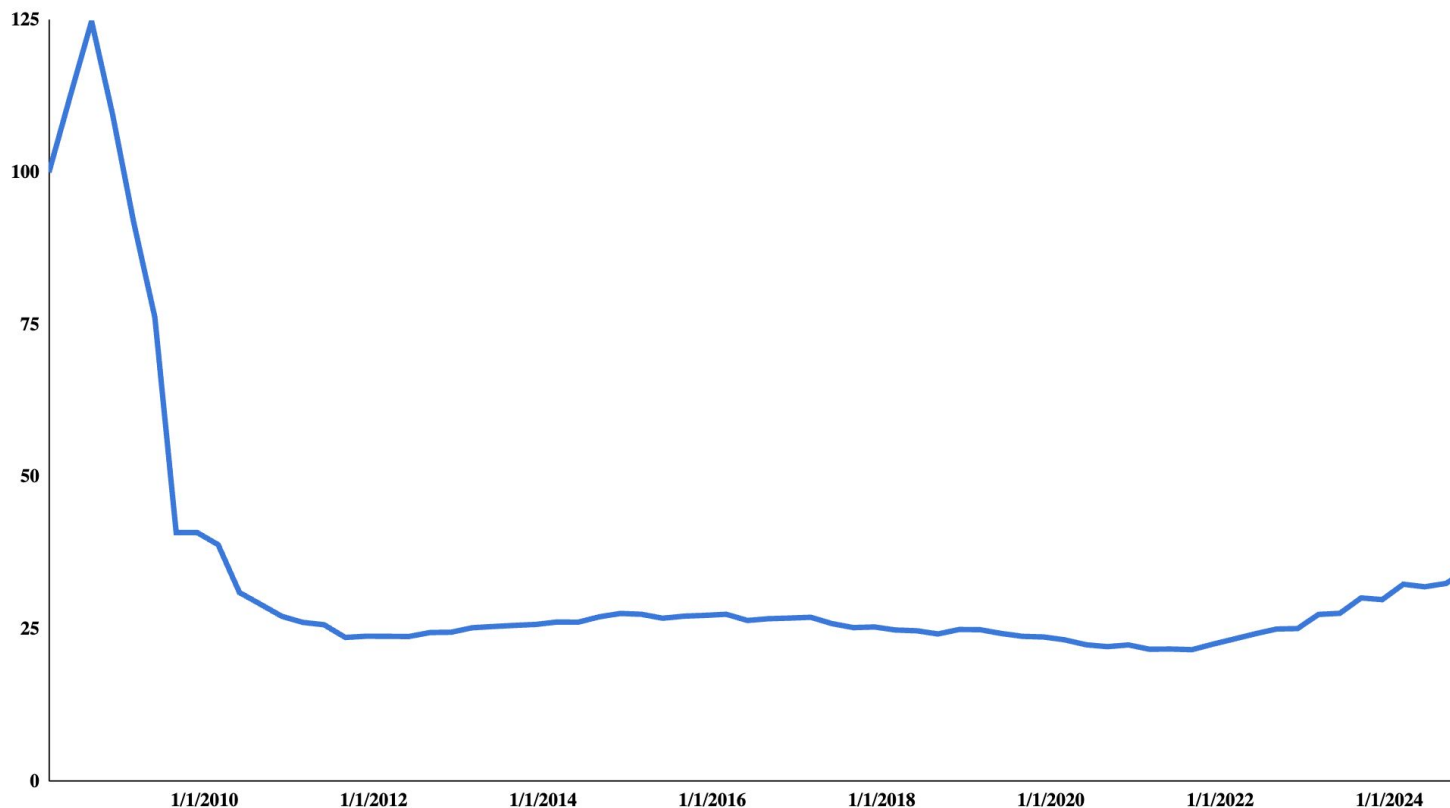
Office Rent Prices (AED/SqFt) - Trade Center (Sheikh Zayed Road)



Average office rents for Trade Center seemed to peak in Q3 of 2008, reaching AED 590.2 per square foot. Since then, however, prices have plummeted, bottoming out in Q3 of 2021 at AED 108.7 per square foot. Since then, there has been a steady increase in Trade Center average rents, but they remain a long way off their 2008 levels.

Trade Center Office Rent Index

Office Rent Index - Trade Center (Sheikh Zayed Road) 2008 - 2024



Looking at Trade Center's index of office rent prices puts into context just how significant the magnitude of the price differential is between today's prices and 2008's prices. Using Q1 of 2008 as a base returns an office rent price index value of 34.65 for the most recent full quarter for which data is available (Q4 2024).

International Comparisons

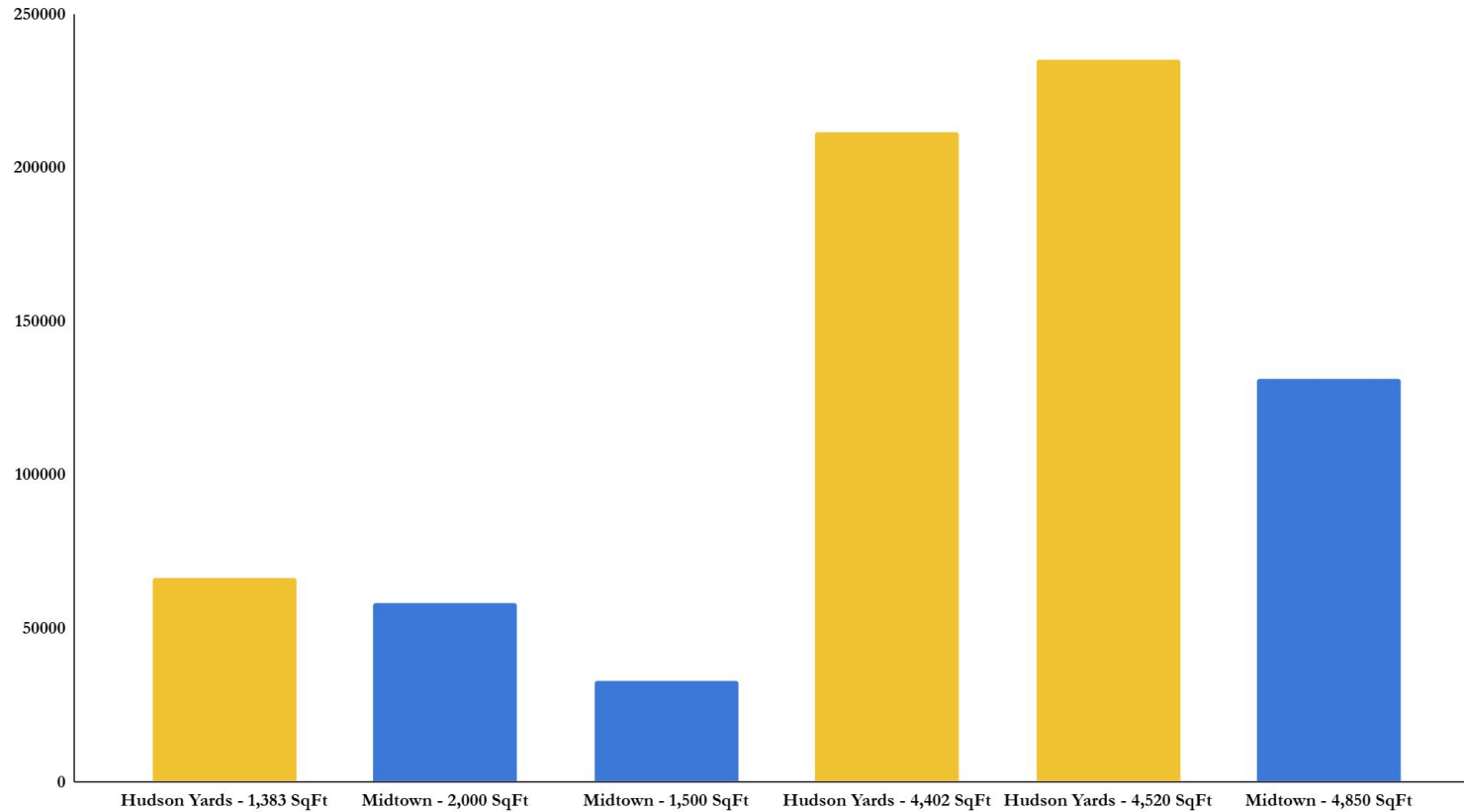
“There are two cardinal sins from which all others spring: impatience and laziness. Because of impatience we were driven out of Paradise, because of laziness we cannot return.”

– Franz Kafka



Offices Price Comparison

Annual Rent Comparison - Hudson Yards vs Midtown Manhattan



Hudson Yards is an international example of where rezoning can enable property value growth. As the rezoning project was only approved in 2005, many of the buildings there are of higher and newer build quality than in surrounding Midtown Manhattan. Not only has this attracted major tenants like Boston Consulting Group (BCG), Wells Fargo and KKR & Co. (to name a few), but as the graph above shows, has led to higher rents for offices of similar sizes compared to older buildings elsewhere in Midtown Manhattan.

Conclusions

Trade Center Office Trends

As Trade Center comprises a significant portion of Dubai's office market (by completed GLA), it is safe to say that the newly announced changes in ownership laws that directly affect Trade Center hold significant implications for Dubai's office market at large. Clearly, the price trends show that drastic measures are required to bring prices back within range of their 2008 levels, and these policy changes could be just that.

International Comparisons

Hudson Yards in New York is but one example of how rezoning can significantly impact property value. The newer build quality of Hudson Yards offices play a significant role in the price delta between them and other offices of a similar size in Midtown Manhattan that are of an older build quality.

Trade Center's Q4 2024 average office rent price, although up by 60.44% from its Q3 2021 trough, is still 70.45% down from its peak in Q3 2008.

Conclusion

The new ownership law changes, in tandem with the new Smart Rental Index, could have major implications for Trade Center as well as Dubai's overall office market. The Dubai Land Department has publicly stated that the aim behind the changes in ownership laws was to enhance property values and attract new investment - and it is not too difficult to see the channels by which these changes can take place. Allowing freehold ownership will likely attract more prospective corporate customers, who will no doubt want to make their own renovations and changes that will raise the value of the property. Simultaneously, existing property owners willing to pay the 30% conversion fee will be incentivized to make their own upgrades to ensure their properties can earn positive ratings on the Smart Rental Index and remain competitive, thus enabling them to be able to raise the rental price moving forward.



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