PROPERTY TIMES

Blockade of Qatar Brings Uncertainty to Property Market

Qatar Q2 2017

30 June 2017

Contents

Author

Johnny Archer
Associate Director
Consulting & Research, Qatar
+974 7404 3927
johnny.archer@dtz.com

Contacts

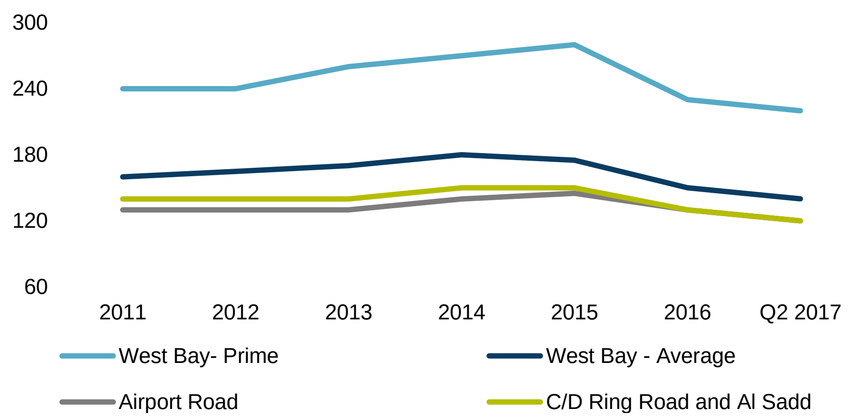
Mark Proudley
Director
Consultancy & Commercial Agency,
Qatar
+974 5584 8281
mark.proudley@dtz.com

Edd Brookes
General Manager
DTZ Qatar
+974 5586 7044
edd.brookes@dtz.com

- In June 2017, three Gulf countries – Saudi Arabia, Bahrain and the UAE, together with Egypt, severed ties with Qatar in a long-standing political dispute and allegations of support for various terrorist and sectarian factions in the region
- The impact of the blockade on the real estate market is likely to become clearer over time, subject to the duration and severity of the sanctions, as well as changes to Qatar's economic policy that may result
- Increased flexibility in the residential rental market has become more evident as landlords compete for tenants and new residential buildings complete. Incentives such as rent-free periods have become more common, while the quoted rents for vacant apartments and villas have fallen in recent months
- Recent activity in the prime office market includes North Oilfield Company leasing QIIB Tower on Majlis Al Taawon Street and the Ministry of Justice moving into the building formerly occupied by the Ministry of Economy and Commerce in West Bay
- Hotel performance continued to struggle in Q2, however the sanctions against Qatar saw an unexpected upsurge in hotel bookings by Qatari citizens and residents throughout June, in a show of support for the local economy
- Q2 saw the opening of Qatar's largest purpose-built retail mall, Doha Festival City, in April. DFC adds 240,000 sq m of gross leasable space to the Qatar retail market, bring total supply to more than one million square metres.

Figure 1

Prime Office Rents by District 2011 – 2017 (QAR PSM Per Month)



Source: DTZ Research

Economic Overview

In June 2017, three Gulf countries – Saudi Arabia, Bahrain and the UAE, together with Egypt severed ties with Qatar in a long-standing political dispute and allegations of support for various terrorist and sectarian factions in the region.

Markets reacted badly to the dispute, with the Qatari stock market falling by 7.5% in one day, while the yield on ten-year bonds had increased to 3.61% by the end of June.

The rating agency S&P lowered Qatar's credit rating to AA and the Qatari Riyal came under unprecedented pressure, however significant external assets and reserves of around 20% of GDP support the currency, which is not presently expected to lose its peg to the US Dollar.

The rift has resulted in Qatar's overall GDP growth forecast for 2017 being downgraded to 1.9% from 3.4% by Oxford Economics. This is due to largely to a deceleration in the non-hydrocarbon sector, which has fueled GDP growth over the past 30 months.

Inflation fell to a six year low of 0.1% in May, however the blockade, and most notably the closed land border with Saudi Arabia, has increased the cost of food and product imports. While many of these costs have been offset by the government to date, Oxford Economics have increased the inflation forecast for 2017 to 1.8% with a further increase to 4.4% in 2018 on the back of the introduction of VAT in January.

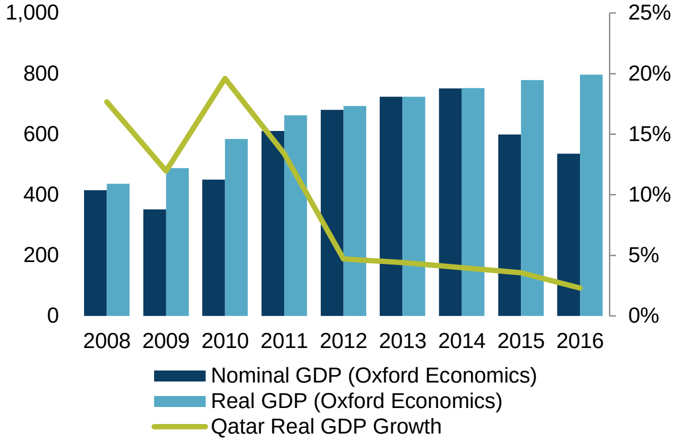
The 2017 budget confirmed that QAR93bn has been earmarked for projects in the health, education, infrastructure and transport sectors in 2017. Government spending is expected to see a small increase; however the budget deficit is expected to narrow to 2.4% in 2017 due to increasing hydrocarbon prices.

Crude production is expected to fall to 4.6% in 2017 due to the obligations of the OPEC agreement in 2016, however the recent lifting of the moratorium on the North Field gas projects will boost the overall hydrocarbon output in 2017.

(Economics Overview data provided by Oxford Economics)

Figure 2

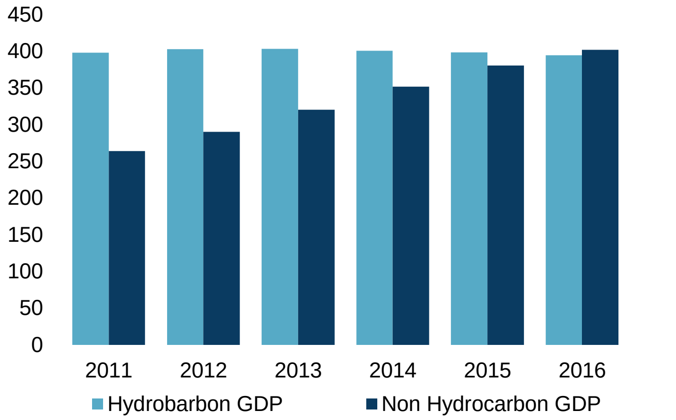
GDP (QAR Billion) and Real GDP Growth (%) 2008 - 2016



Source: MDPS/Oxford Economics

Figure 3

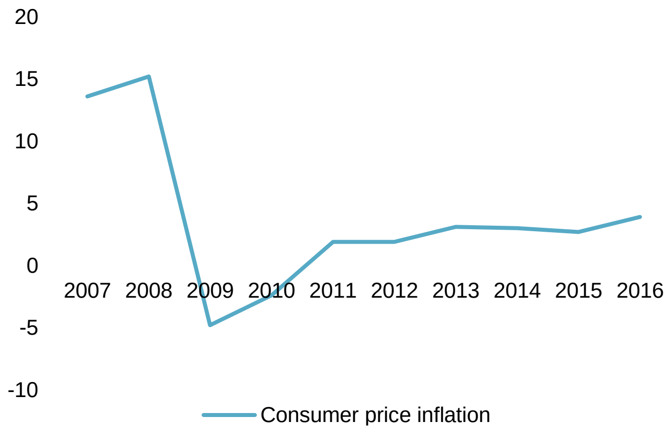
GDP Hydrocarbon v Non Hydrocarbon (QAR Billion) 2011 - 2016



Source: MDPS/Oxford Economics

Figure 4

Consumer Price Inflation (%) 2007 - 2016



Source: EIU

Office Market Overview

Recent activity in West Bay has seen the Ministry of Justice occupy a 15,000 sq m building formerly occupied by the Ministry of Economy and Commerce, which has relocated to Lusail. North Oilfield Company have also leased the QIIB Tower on Majlis Al Taawon Street.

Demand for prime office accommodation in Doha between 2010 and 2013 was dominated by government ministries, government linked organisations, and the hydrocarbon sector, whom typically secured entire buildings of between 10,000 sq m and 40,000 sq m. The fall in oil prices has resulted in a significant downturn in demand from the public and hydrocarbon sectors, due to fiscal consolidation. Figure 6 illustrates how this has impacted on new office take up in West Bay since 2013.

Over the past three years, the office market has relied to a much greater degree on private sector requirements; however, DTZ records show that the majority of companies have been seeking between 200 sq m and 500 sq m. As expected, the reliance on private sector lettings, together with company downsizing has increased vacancy levels throughout the office market since 2015. The increasing gap between supply and demand has resulted in quoted office rents in West Bay falling by more than 20% since 2015.

Total purpose-built office supply in Doha is estimated to exceed 4 million sq m, of which 1.61 million sq m is situated in the West Bay area. Recent building completions in Lusail have increased office supply in the district to almost 200,000 sq m. DTZ research shows that current availability stands at approximately 18% of prime stock.

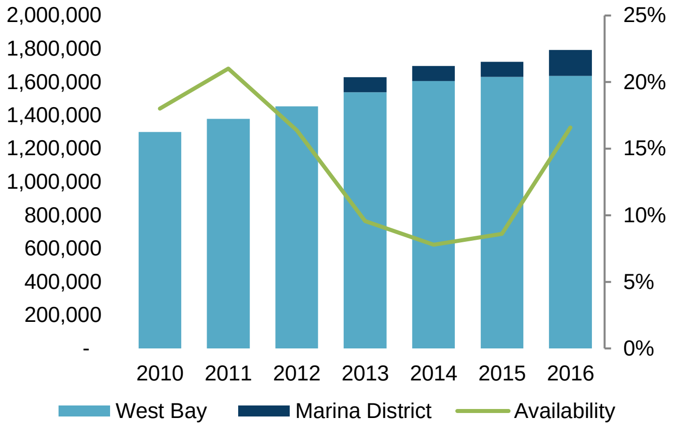
In total, DTZ estimates that up to 2 million sq m of new office accommodation is planned for Qatar within the next decade, largely in Lusail. This will create greater pressure on the growth and diversification of Qatar's private sector to maintain occupancy rates. DTZ believe it is likely that some of the proposed developments will be put on hold over the next decade due to potential oversupply.

Prime rents in West Bay can still achieve in excess of QAR200 per sq m per month for smaller fitted units. The majority of recent rental transactions reflect monthly rents of between QAR130 and QAR170 per sq m.

Rents in areas such as Old Salata, Al Sadd, Airport Road, and C/D Ring Roads typically command between QAR110 and QAR140 per sq m per month, depending on the age of the building and the standard of internal finishing.

Figure 5

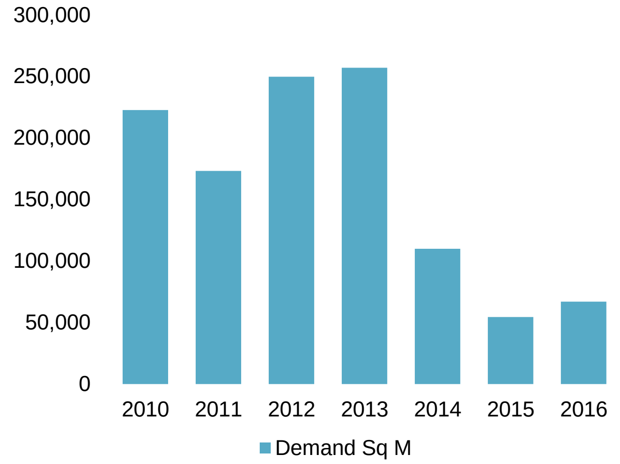
West Bay Office Supply v Availability 2011-2016 (sq m)



Source: DTZ Research

Figure 6

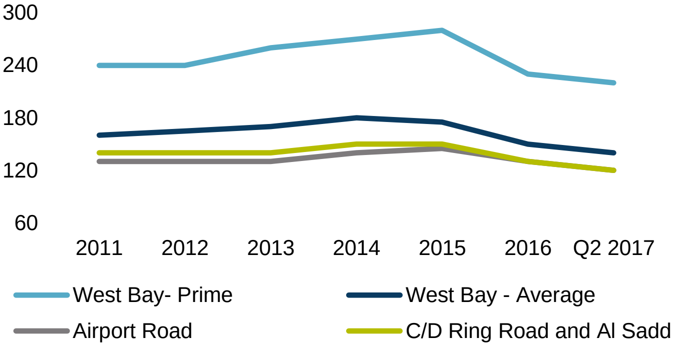
Office Up-Take, West Bay, 2010 – 2016 (sq m)



Source: DTZ Research

Figure 7

Prime Office Rents by District, (QAR/sq m/month)



Source: DTZ Research

Residential Market Overview

Throughout 2017, landlords have largely become more willing to accept rent free periods or drop rental expectations in vacant properties. This has been due to additional supply and an increased in vacancy rates following a five-year period of undersupply and strong rental growth.

The residential market in Qatar has been driven by a rapidly increasing population in recent years. The population increased to 2,545,820 in June 2017, a 2.7% year on year increase. This represents a slowdown in annual population growth, which has averaged in excess of 7% in recent years.

Recent fiscal consolidation at government level, extensive redundancy programmes, and an increased supply of new buildings has seen vacancy levels increase throughout Doha.

Rental levels in prime districts have, on average, reduced throughout Q2 for one two and three-bedroom apartments as new supply increases competition in the market.

There have been a number of new residential buildings completed in districts such as Umm Ghuwailina, Al Sadd, Bin Mahmoud and Al Mirqab. These buildings have typically been released to the market at the same rental levels as existing properties although typically offer tenants higher quality apartments and superior amenities.

Some large employers have reduced their housing allowance throughout 2017 as a cost saving measure. It is also increasingly common for housing allowances to be provided rather than employee housing. This has had an impact on the rents achievable for compound villas; a market that had previously been dominated by corporate leases.

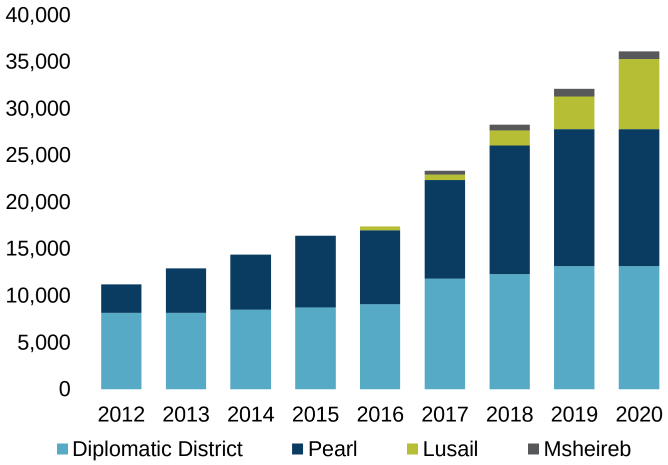
In DTZ's opinion it is unlikely that there will be a return to the strong rental increase witnessed between 2011 and 2015, due to the continuing development of new residential buildings, and the lower demand from higher earning expatriate workers. Demand is likely to remain strong for affordable accommodation, underpinned largely by staff working in the expanding service industry.

Activity in the residential sales investment market has reduced since the peak of the market in 2015, due largely to reduced confidence, both from investors and financial institutions. Apartments in new buildings in The Pearl Qatar are still typically quoting sales prices in excess of QAR17,000 per sq m. Second hand freehold apartments have typically been selling at between QAR12,500 and 15,000 per sq m.

DTZ note that the impact of the recent blockade of Qatar has yet to translate into lower rents or house prices, however this may become more evident in time, depending on the duration and economic impact of the measures.

Figure 8

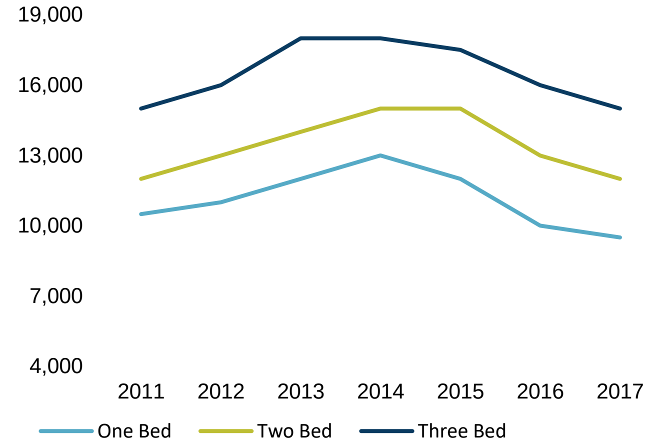
Apartment Supply, Prime Districts



Source: DTZ Research

Figure 9

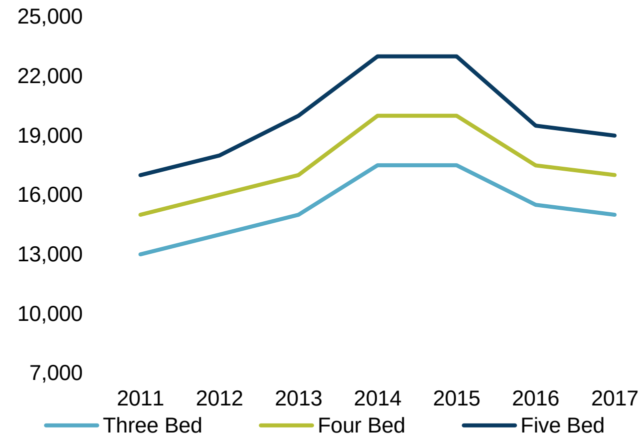
Apartment Rents, West Bay, QAR/Month



Source: DTZ Research

Figure 10

Average Villa Rents, Western Suburbs, QAR/sq m



Source: DTZ Research

Hospitality Market Overview

DTZ's records show that there is currently in excess of 22,800 hotel rooms and serviced apartment keys now available in Doha, in more than 120 establishments. This represents a 33% increase in supply of room keys since 2012. The first quarter of 2017 saw a number of new hotels arrive on the market, including The Town Hotel in Msheireb, and The Millenium Plaza in Al Sadd.

Of the current supply, 87% of hotel keys and more than 70% of establishments are categorized as either 4-Star or 5-Star. According to QTA's latest annual report, for 2016, 43% of upcoming establishments in the development pipeline fall within these high-end categories, with more than 50% of the development pipeline yet to be classified.

The development pipeline indicates that more than 20,000 hotel rooms and hotel apartments, in 100 buildings, are at various stage of construction in Qatar. DTZ estimate that approximately 2,400 hotel rooms and apartments have opened since 2015, with almost 4,000 more keys expected to complete this year.

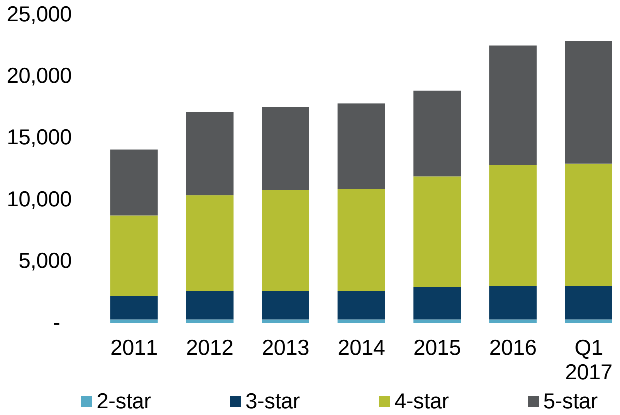
Qatar has obligations to provide more than 60,000 hotel rooms for the FIFA 2022 World Cup; however, the quantity of stock in the pipeline has led to concerns of an oversupply within the sector, particularly in the 5 star category. A recent Hotelier Qatar Hospitality Summit identified the need for the hospitality industry and authorities to devise a destination marketing strategy to avoid a deterioration in hotel performance metrics as the market expands.

Following consistent growth in tourist numbers for a number of years, provisional data suggests that tourist numbers decreased slightly in 2016, putting pressure on occupancy rates, throughout the sector.

Statistics released by the MDPS indicate that occupancy rates in June 2017 increased from 47% to 61% compared to June 2016. Anecdotal evidence suggests that this increase in occupancy rates, is down to Qatari citizens and residents showing support for the country during the blockade. There has been an increase in the numbers staying in Qatar, rather than travelling abroad. This also translated into improved average daily rates and revenues per average room in June. In the event of a prolonged blockade however, the hotel industry is likely to feel the impact of reduced tourism from its gulf neighbours, which make up more than half of the annual visitors to Qatar.

Figure 11

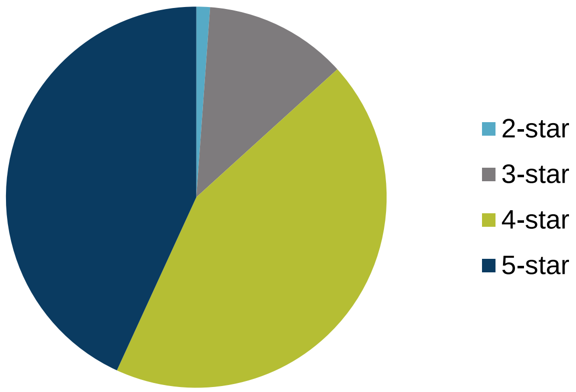
No. of Hotel/Hotel Apartment Keys by Rating



Source: DTZ Research

Figure 12

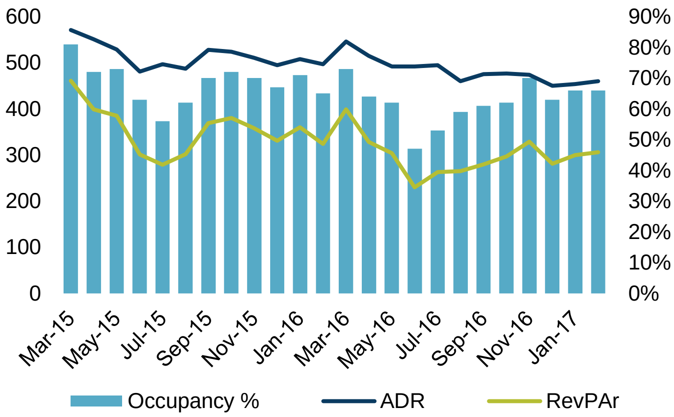
Keys by Rating Feb 2017 (Total 20,823)



Source: DTZ Research

Figure 13

Hotel Performance Indicators, 2015 & 2016. ADR & RevPar in QAR, Occupancy in %



Source: MDPS

Retail Market Overview

The recent opening of Doha Festival City increased the supply of organised retail accommodation in Doha to more than one million square metres of leasable space, distributed across 16 shopping malls.

Doha Festival which comprises approximately 240,000 sq m of leasable area, took over from Mall of Qatar as the country's largest purpose-built shopping centre when it opened its doors in April. DTZ expects a number of additional new malls to open in the next 12 months, including, Doha Mall, Tawar Mall and Al Mirqab Mall.

Qatar's retail market remains underpinned by the high disposable income of a significant section of the population. In 2015 the World Bank estimated that the GDP Per Capita reached $143,788, representing the highest level of disposable income per capita in the world. Despite the recent economic slowdown, which has seen retail spending reduce by 10% to 15% since 2015, DTZ research shows that retailers across the GCC region are optimistic about Qatar's retail performance in the short to medium term.

Over the past five years, retail malls in Qatar have performed well, with high occupancy rates, increasing rental levels, and strong demand from new tenants characterising the market.

The amount of new mall development is changing the retail landscape in Qatar. The new wave of retail construction will result in more than 2 million sq m of accommodation being delivered within a three-year period. While this has allowed a host of new international retailers to enter the market, it has also led to fears of oversupply.

DTZ expects that a two-tier retail market will emerge over the next three years, with customers being attracted to destination malls that provide convenient access, generous parking provisions, and family entertainment areas.

Despite the more challenging economic climate since 2016, rents in the more successful malls have continued to grow, due largely to the fact that the market has been undersupplied. Existing malls in Doha typically command between QAR260 and QAR300 per sq m per month for the standard line units, while larger stores can secure rents of between QAR170 and QAR220 per sq m per month.

New retail malls have been able to secure a number of international brands at premium rents; however, increasing competition for tenants has resulted in more flexibility being shown for 'non-prime' retail accommodation.

Figure 14

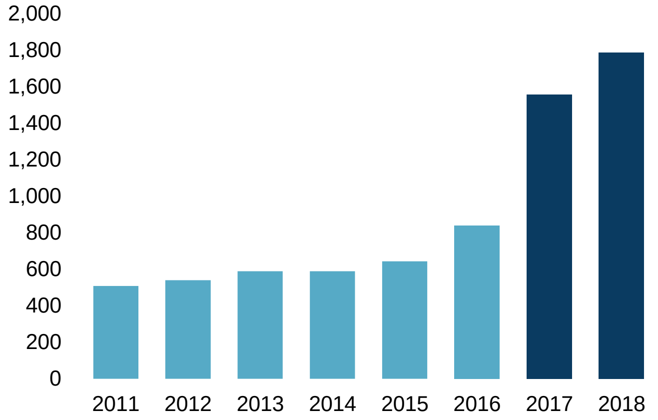
Proposed New Retail Malls

Project	Location	Estimated Completion Date
Doha Mall	Abu Hamour	2017
Katara Mall	Al Qassar	2017
Al Mirqab Mall	Al Mirqab St	2017
Tawar Mall	Duhail	2017
Northgate	North Doha	2017
Place Vendome	Lusail	2018
Marina Mall	Lusail	2019

Source: DTZ Research

Figure 15

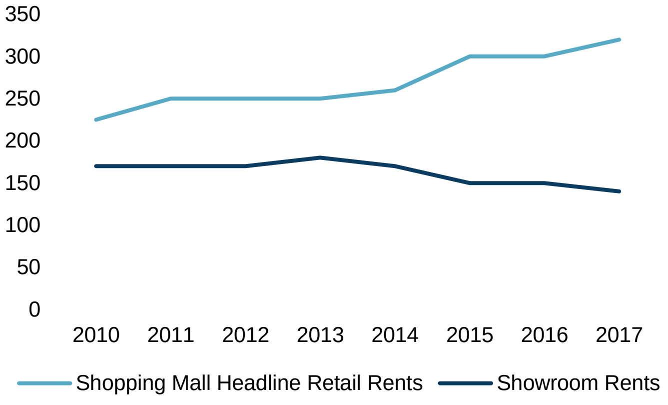
Organised Retail Supply by Year, ,000 sq m (GLA)



Source: DTZ Research

Figure 16

Headline Retail Rents, QAR/sq m/month



Source: DTZ Research

DTZ Middle East Contacts

Edd Brookes
Senior Director
General Manager
+974 4483 7395
edd.brookes@dtz.com

Adam Stewart
Director
Head of Valuation
+974 4483 7395
adam.stewart@dtz.com

Mark Proudley
Director
Consultancy & Commercial Agency
+974 4483 7395
mark.proudley@dtz.com

Johnny Archer
Associate Director
Consulting and Research
+974 4483 7395
johnny.archer@dtz.com

About DTZ Qatar

DTZ Qatar is a member of the global real estate services business, Cushman & Wakefield. DTZ Qatar brings international best practice and local expertise to the market. With a long standing track record in the Qatari market, our aim is to play an integral role in the country's vision of sustainable growth.

DTZ Qatar operates to international best practice standards, providing consistent and responsible service to our clients. Our offering includes: residential agency; commercial agency; property and facility management; consultancy and research; valuation; and local and global investment opportunities. For more information please visit: www.dtzqatarproperties.com or visit our Facebook page at

https://www.facebook.com/DTZQatar.

To see a full list of all our publications please go to **www.dtz.com/research**

Qatar Office
Mezzanine Level
Tornado Tower
West Bay
Doha
phone +974 44837395