DTZ Research

PROPERTY TIMES

Increasing vacancy rates as new supply hits the market
Qatar Q1 2017

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Contents

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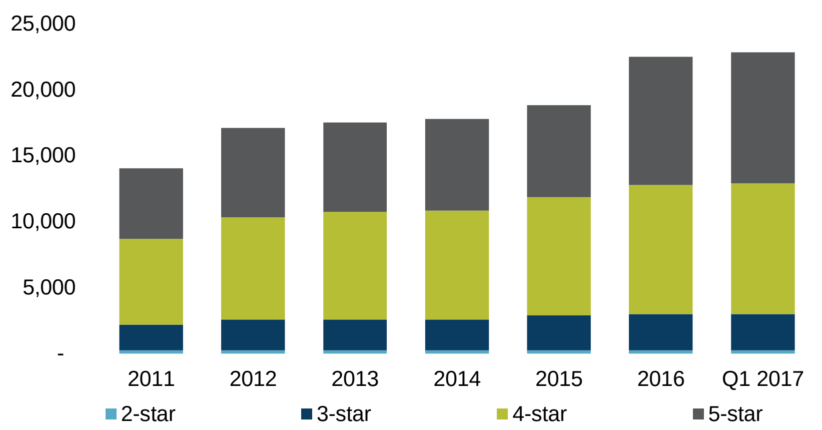
- Qatar's overall GDP growth for 2016 was estimated at 2.6%; however, this is expected to accelerate to 3.4% in 2017 and 4.4% in 2018, on the back of rising hydrocarbon prices, reduced fiscal consolidation and a stronger projects market.
- The fall in oil prices has resulted in a significant downturn in demand for offices from the public and hydrocarbon sectors. This has led to fears of escalating vacancy rates as new office buildings complete in West Bay and Lusail.
- Rental levels in prime districts have remained largely stable in recent months for one and three bedroom apartments, where occupancy remains high; however, there has been a recent softening of rents for two bedroom units in Q1, where there has been more availability.
- New residential buildings in districts such as Umm Ghuwailina, Al Sadd, Bin Mahmoud and Al Mirqab have been released to the market quoting rental levels similar to existing properties. These developments typically offer tenants higher quality apartments, and superior amenities.
- Recently released performance statistics indicate that occupancy rates for hotels in Doha increased to 66% from 65% in February 2016. The same monthly statistics showed that overall average daily rates fell from QAR 497 to QAR 460, with revenue per average room falling from QAR 324 to QAR 306
- Retail performance has remained strong in Doha in 2017, with high occupancy rates and strong rents being maintained in all major malls. Rental levels and occupancy rates are likely to be tested with the addition of more than 2 million sq m of leasable accommodation within a 3 year period.

Figure 1

Hotel Keys by Classification 2011 – 2017



Source: DTZ Research

Economic Overview

Qatar's overall GDP growth for 2016 was estimated at 2.6%; however, this is expected to accelerate to 3.4% in 2017 and 4.4% in 2018, on the back of rising hydrocarbon prices, reduced fiscal consolidation and a stronger projects market.

The Barzan gas project and Ras Laffan II Condensates Refinery are expected to offset any OPEC led cuts in crude production. GDP growth is expected to be driven by the non-hydrocarbon sector, with expected growth of 6% in 2017.

Policy rates in Qatar were increased by 25bps in March, in line with US federal fund policy. Two further hikes are forecasted for the US this year, although it is expected that Qatar will only be subject to one more increase of 25bps, as pressure on the currency has receded.

Inflation in February fell to 0.7%, which reflected its lowest rise since December 2010. This is said to reflect weak growth, favourable external factors, and base effects. Inflation is expected to increase to an average of 1.5% throughout 2017, with a further increase to 3.8% in 2018 on the back of the introduction of VAT in January.

Qatar's external position deteriorated as the current account moved into deficit of 3.7% of GDP in 2016 – the first deficit in 15 years. Foreign reserves fell to US$30.7bn in December, which was their lowest level since August 2012.

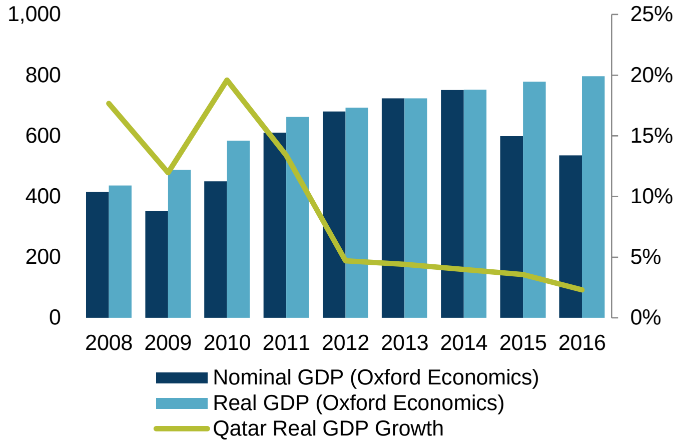
External debt (Govt and Bank) has increased significantly, up an estimated 25% last year. Even so, with the prospect of the deficit being eliminated in 2017, and strong external assets estimated at US$335bn, Qatar's external stock position remains strong.

The government plans to spend US$200bn on infrastructure and help diversify the economy over the over the next few years ahead of the World Cup; however, growth could be constrained by rising costs, and the difficulty in coordinating mega projects in time for 2022.

Source: Oxford Economics Qatar Forecasts

Figure 2

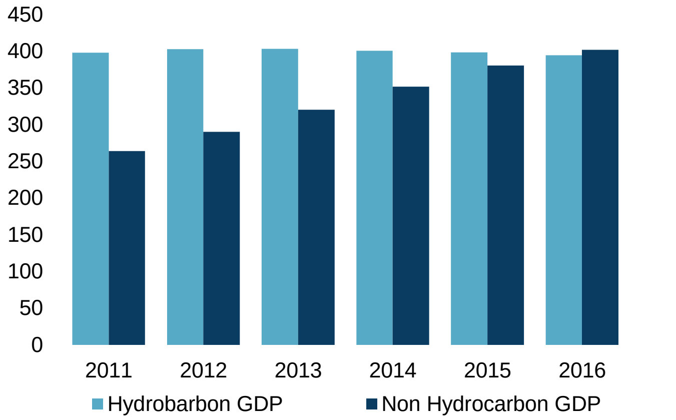
GDP (QAR Billion) and Real GDP Growth (%) 2008 - 2016



Source: MDPS/Oxford Economics

Figure 3

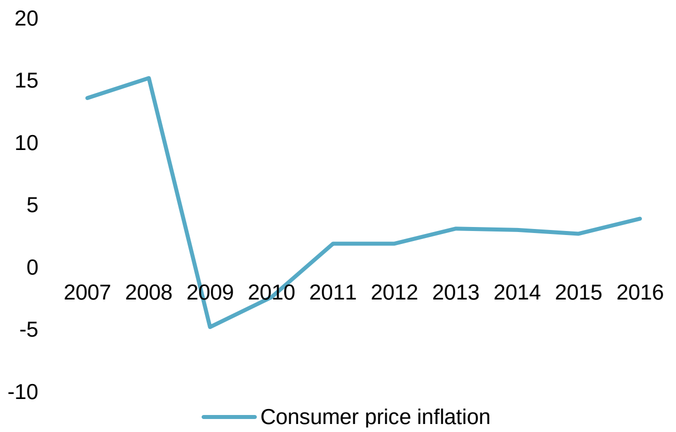
GDP Hydrocarbon v Non Hydrocarbon (QAR Billion) 2011 - 2016



Source: MDPS/Oxford Economics

Figure 4

Consumer Price Inflation (%) 2007 - 2016



Source: EIU

Office Market Overview

Total purpose built office supply in Doha is estimated to be in excess of 4 million sq m, of which 1.64 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.

QP District on Majlis Al Taawon Street is expected to complete in 2017, increasing total supply in West Bay to more than 1.86 million sq m. A number of new office buildings in Lusail are also due to complete shortly, which will increase the existing supply by approximately 134,000 sq m.

Demand for prime office accommodation in Doha between 2010 and 2013 was dominated by government ministries, government linked organisations, and the hydrocarbon sector, all of whom typically secured entire buildings of between 10,000 sq m and 40,000 sq m. This demand maintained high occupancy levels, particularly in West Bay, where a host of new office towers were being constructed.

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 between 15% and 20% over the past 12 months.

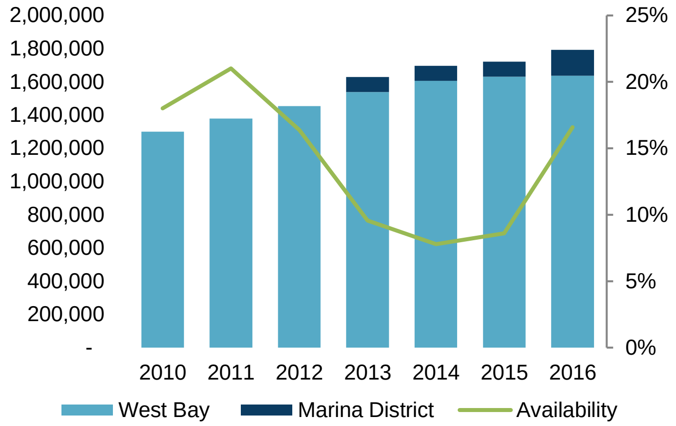
In total, DTZ estimates that up to 2 million sq m of new office accommodation is planned for Qatar within the next decade, largely in Lusail. This will create greater pressure on the growth and diversification of Qatar's private sector to maintain occupancy rates. DTZ believe it is likely that some of 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 QAR150 per sq m per month, depending on the age of the building and the standard of internal finishing.

Figure 5

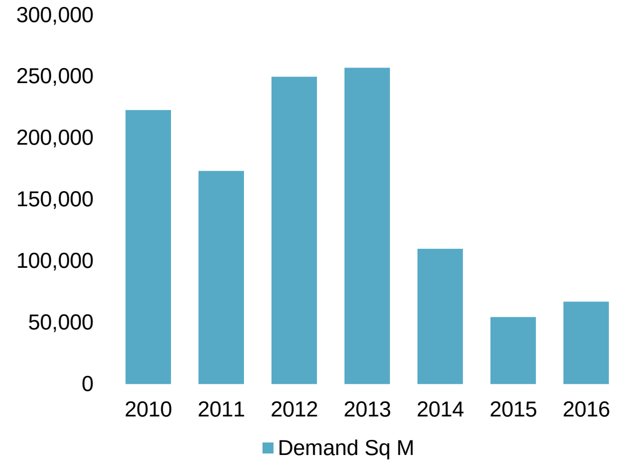
West Bay Office Supply v Availability 2011-2016 (sq m)



Source: DTZ Research

Figure 6

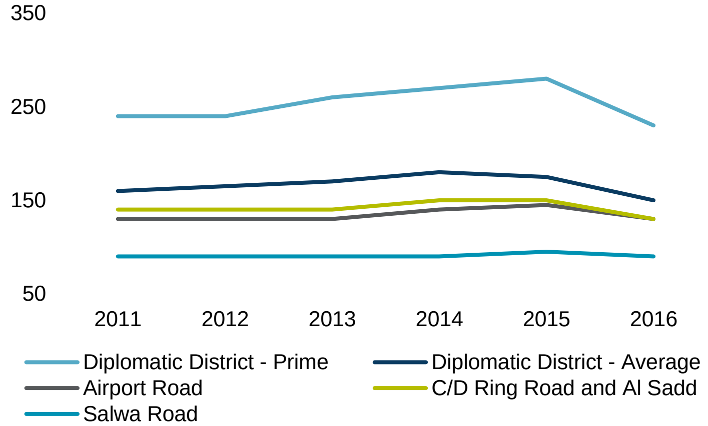
Office Up-Take, West Bay, 2010 – 2016 (sq m)



Source: DTZ Research

Figure 7

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



Source: DTZ Research

Residential Market Overview

The residential market in Qatar has been driven by a rapidly increasing population in recent years. The population increased to 2,637,022 in February 2017, a 3.4% year on year increase. This represents a slowdown in annual population growth, which has typically been 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.

This has resulted in a fall in quoted rents for the majority of vacant apartments and villas over the past 12 months, following a five year period of strong rental growth.

Rental levels in prime districts have remained largely stable in recent months for one and three bedroom apartments, where occupancy remains high; however, there has been a recent softening of rents for two bedroom units, where there is greater availability.

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.

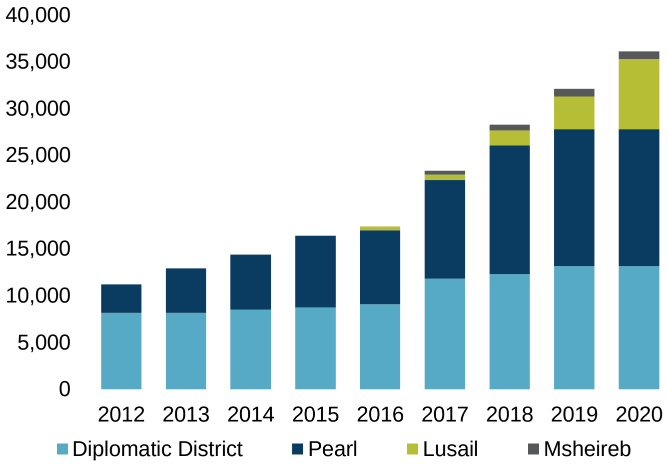
A number large employers have recently reduced their housing allowance as a cost saving measure. It is also increasingly common for housing allowances to be provided rather than employee housing. This has had an impact on the rents achievable for compound villas; a market that had previously been dominated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

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.

Figure 8

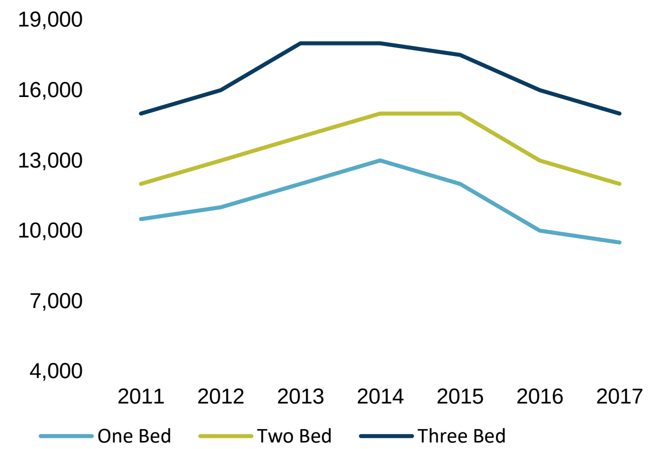
Apartment Supply, Prime Districts



Source: DTZ Research

Figure 9

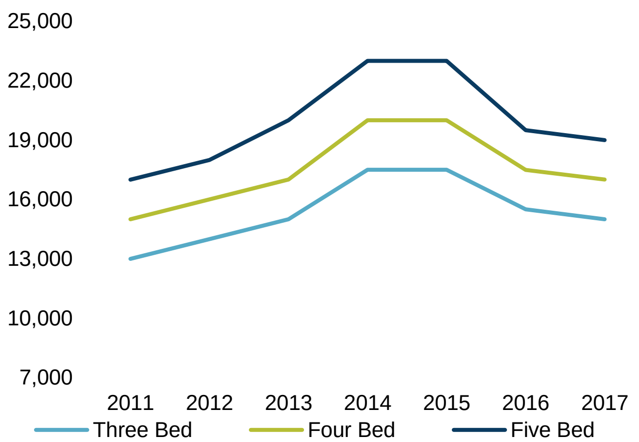
Apartment Rents, West Bay, QAR/Month



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 for February 2017 increased to 66% from 65% in February 2016. The same monthly statistics showed that overall average daily rates fell from QAR 497 to QAR 460, with revenue per average room falling from QAR 324 to QAR 306.

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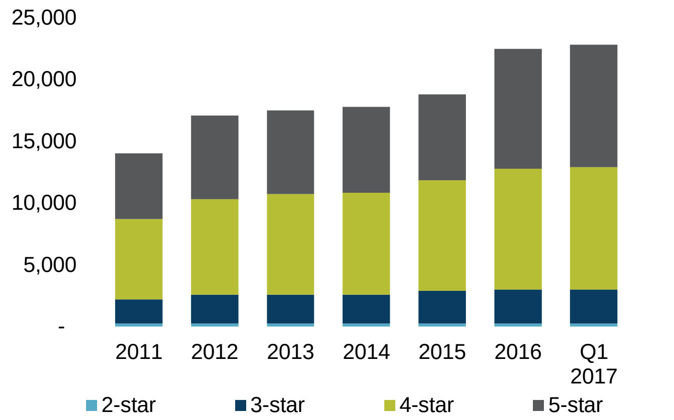
Figure 11

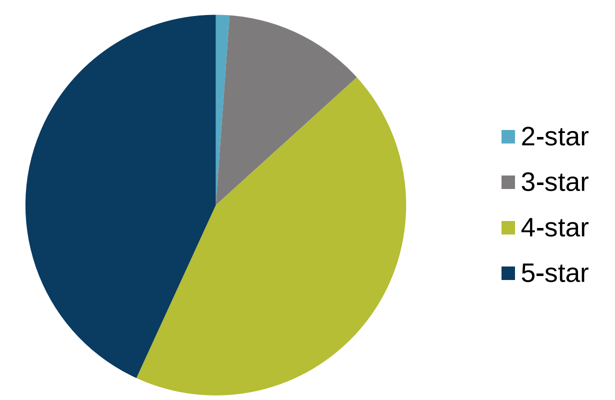
No. of Hotel/Hotel Apartment Keys by Rating



Source: DTZ Research

Figure 12

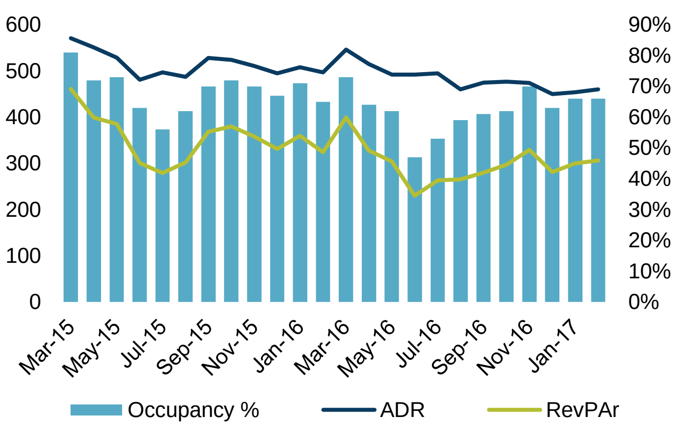
Keys by Rating Feb 2017 (Total 20,823)



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 Mall of Qatar increased the supply of organised retail accommodation in Doha to 838,000 sq m, distributed across 15 shopping malls.

Mall of Qatar represents the largest purpose built mall in Qatar, with approximately 195,000 sq m of leasable area. This will be surpassed in Q2 with the opening of Doha Festival City on Al Shamal Road, which is anticipated to provide in the region of 240,000 sq m of leasable accommodation. DTZ also expect a number of additional new malls to open in the next 12 months, including Al Hazm Mall, 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 Capital 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 5 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 3 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 3 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 in 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

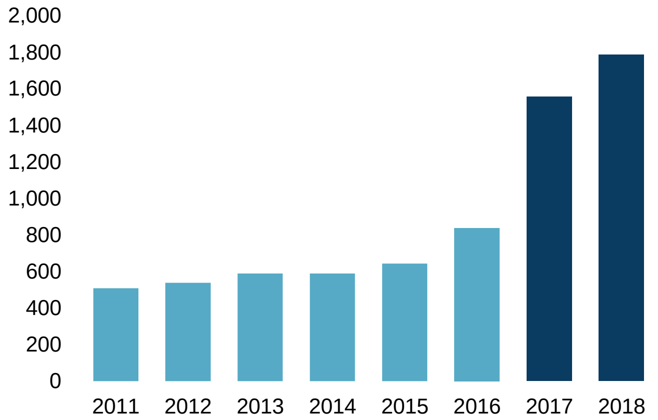
Proposed New Retail Malls

Project	Location	Estimated Completion Date
Doha Festival City	Umm Salal	2017
Al Hazm Mall	Markhiya	2017
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

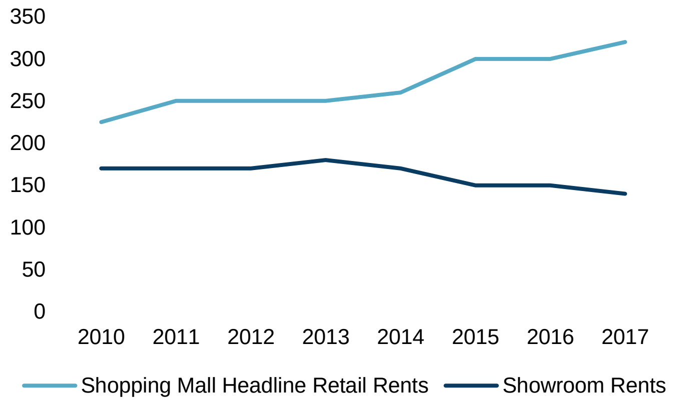
Organised Retail Supply by Year, ,000 sq m (GLA)



Source: DTZ Research

Figure 16

Headline Retail Rents, QAR/sq m/month



Source: DTZ Research

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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

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