PROPERTY TIMES

Increase in sales transactions towards year end Qatar Q4 2017

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Contents

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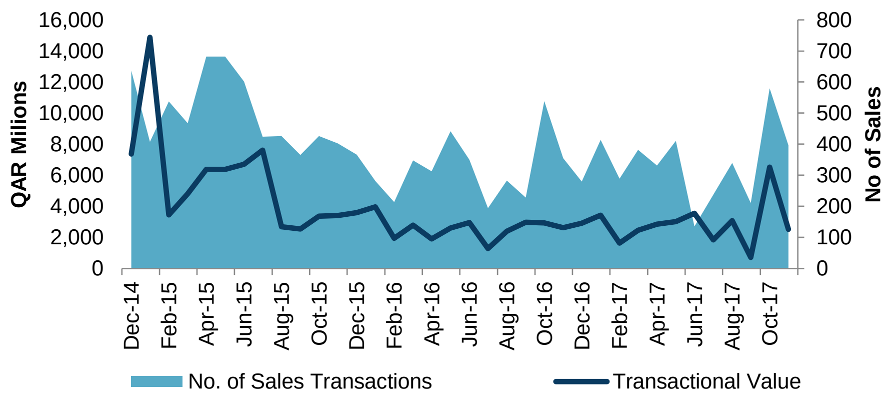
- Following the uncertainty in the months following the introduction of the blockade, the Qatar real estate market showed signs of resilience in Q4 with encouraging statistics in relation to real estate transactions. October saw the number of year-on-year transactions increase by 8%, with the number of transactions in November up 12% on the same month in 2016.
- While the number of real estate sales transactions have increased in recent months, much of the activity is being driven by reduced asking prices for both land and residential units. On average, market values have reduced by between 10% and 15% since 2016, depending on the asset category.
- Increasing housing supply has seen the residential leasing market soften in recent months. Rising vacancy rates have resulted in an increase of rent free incentives. Overall prime residential rents have fallen by 10% - 15% over the past year.
- Office market rents in West Bay have been subdued by the quantity of available accommodation, which now stands at 320,000 sq m, or 20% of total supply. Demand has largely been generated by private sector tenants looking for suites of 500 sq m or less.
- Following a brief boost in domestic tourism after the announcement of the economic blockade in June, hotel performances have suffered from reduced occupancy rates in Q4. Hotel supply has now reached 25,000 keys in Qatar and will continue to increase in 2018, putting further pressure on occupancy rates and profitability.
- Some prime retail malls have performed strongly in recent months, despite challenging conditions, however most shopping malls recorded a decline in footfall in recent months. Increasing competition between new malls to secure tenants has resulted in some locations lowering rents and providing generous incentives to retailers.

Figure 1

Real Estate Sales Per Month by Value and Quantity (QR Millions & No. of Sales)



Source: MDPS

Economic Overview

The blockade, which began in June 2017, has continued to interfere with cooperation between Qatar and neighbouring states, as was evident from the collapse of the GCC summit in early-December. This has delayed progress on several regional issues and has impacted on investor confidence.

Non-hydrocarbon sector growth fell to c.3% in 2017 from 5.6% in 2016. A fall in crude oil output will result in overall growth for 2017 being recorded at 1.3%, a 23-year low.

Oil production is expected to fall to 5.8% in 2017 as Qatar exceeded its OPEC cut target (with its compliance at about 130%). Oil output was unchanged at 0.6m b/d in November. Limited short-term impact is expected from the lifting of the moratorium on North Field projects, though barring further delays, the Barzan gas-to-liquids project will boost output.

Qatar is expected to post a budget deficit in 2017 and again in 2018, but with the budget Brent price assumption of $45pb, it is anticipated that that the gap may be narrower than the official forecast at just 1.5% of GDP in 2018, down from almost 4% in 2017. Economic activity in Qatar in 2018 will be supported by preparation for the 2022 football World Cup and the National Vision 2030 plan.

Headline inflation remained positive in November, at 0.2%, for a second consecutive month, though housing and utilities costs remain a major drag (-5.7% y/y). This is in line with Oxford Economics' 0.4% inflation projection for the year. Rising world food prices, fuel subsidy cuts and the proposed introduction of VAT may see the rate rise to 3.5% in 2018, however this projection is uncertain given the phase-in date for VAT remains unspecified.

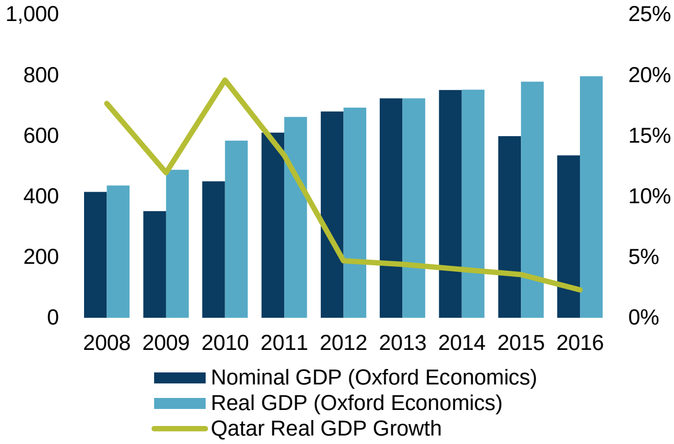
Banks remain at risk from the ongoing regional dispute due to their dependence, albeit declining, on foreign funding. Non-resident share in total deposits has declined from 27% at the start of the year to 17.3%. Efforts by the Qatar Central Bank and the government have been successful in injecting/ repatriating funds into the banking sector to fill the gap from fleeing private sector (mostly non-resident) deposits.

The pressure on the Qatari riyal has subsided, demonstrating resilience. This is despite the fact that FX reserves remain close to multi-year lows at US$36.1bn in October

(Economics Overview insight provided by Oxford Economics)

Figure 2

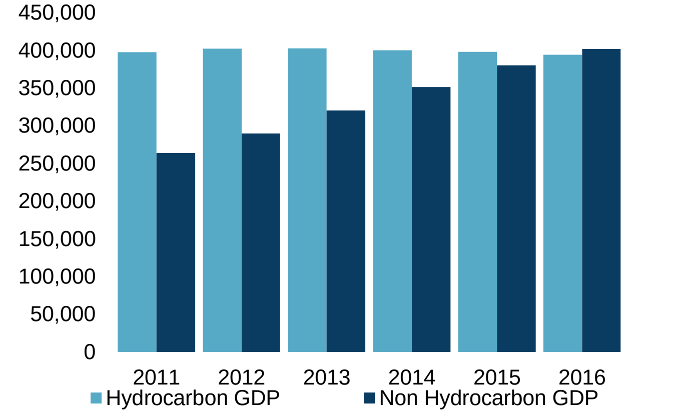
GDP (QAR Billion) and Real GDP Growth (%) 2008 - 2016



Source: MDPS/Oxford Economics

Figure 3

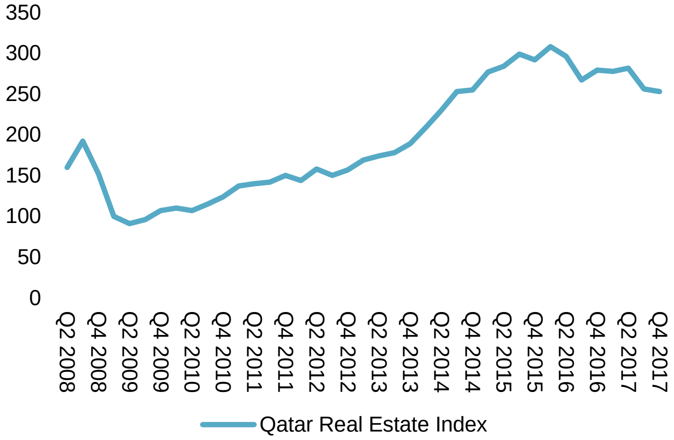
GDP Hydrocarbon v Non-Hydrocarbon (QAR Billion) 2011 - 2016



Source: MDPS/Oxford Economics

Figure 4

Qatar Real Estate Index 2007 – Q3 2017 (Base Q1 2009)



Source: EIU

Office Market Overview

Activity in Q4 saw the Ministry of Prosecution relocate to Al Jasimya Tower on the Corniche, and a number of floors being leased in the recently opened Al Ashmakh Tower on Majlis Al Taawon Street in West Bay. Elsewhere leasing activity in the prime office market was largely limited to lettings of less than 1,000 sqm.

New demand from the government and the hydrocarbon sector has been subdued due to fiscal consolidation introduced following the steep drop in oil prices between 2015 and 2016. Between 2009 and 2014 the acquisition of entire buildings by government ministries and petrochemical companies drove demand in the office sector.

It is expected that government initiatives to grow the private sector will increase office demand in the in the next 12 to 24 months, however reduced government activity, and new construction means it is likely that occupancy rates will continue to fall in the short term.

The majority office demand from the private sector relates to units of between 200 sq m and 500 sq m. This typically equates to between a quarter and a half of a single floor in a high-rise office tower. New office buildings in West Bay and Lusail are increasingly willing to provide smaller suites to meet this demand.

There is currently approximately 1.65 million sq m of Grade A office accommodation in West Bay, excluding the QP District, which will add a further 230,000 sq m when completed. A further 195,000 sq m is now either occupied or available to lease in Lusail's Marina District. Overall commercial office supply in Doha is estimated to be in excess of 4 million sq m.

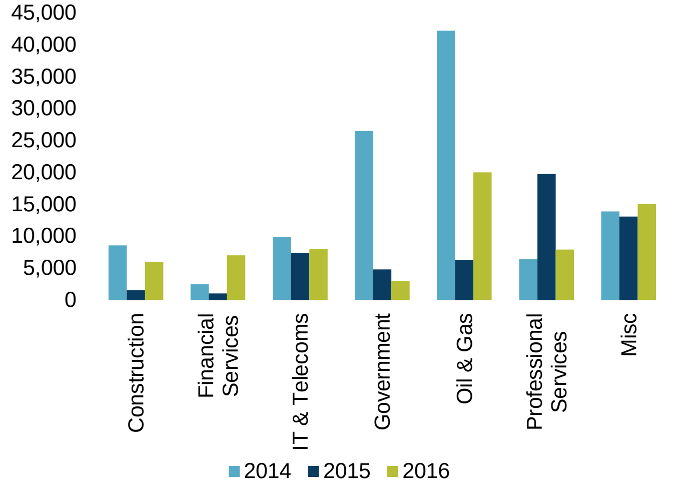
There is currently in the region of 320,000 sq m of Grade A accommodation available to lease in West Bay, which reflects an availability rate of approximately 20%. In DTZ's opinion, occupancy rates are likely to come under increasing pressure as new supply is delivered in a variety of locations, including Lusail, Msheireb and West. The additional supply is also likely to reduce market rents.

Office rents in West Bay for full floor suites currently range from QAR130 and QAR170 per sq m per month although rent free periods are increasing common to attract a limited pool of new tenants. Rents in excess of QAR200 per sq m per month, are still achievable for units of less than 250 sq m.

Offices in areas such as Old Salata, Al Sadd, and Airport Road, now command rents of between QAR90 and QAR140 per sq m per month, depending on size, quality, fit-out and location.

Figure 5

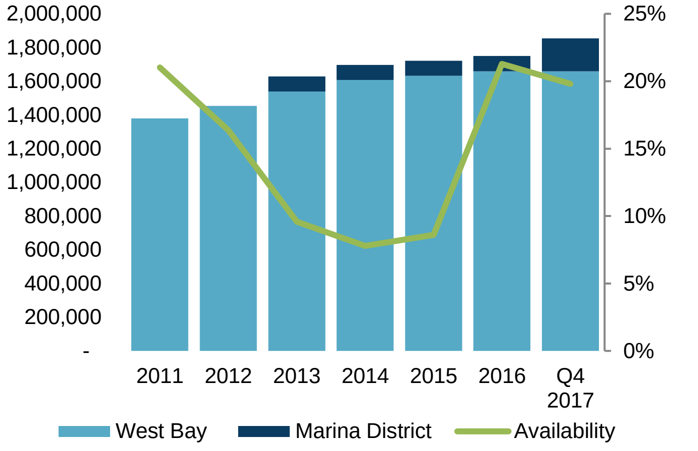
West Bay Office Demand by Sector (sq m/2014 – 2016)



Source: DTZ Research

Figure 6

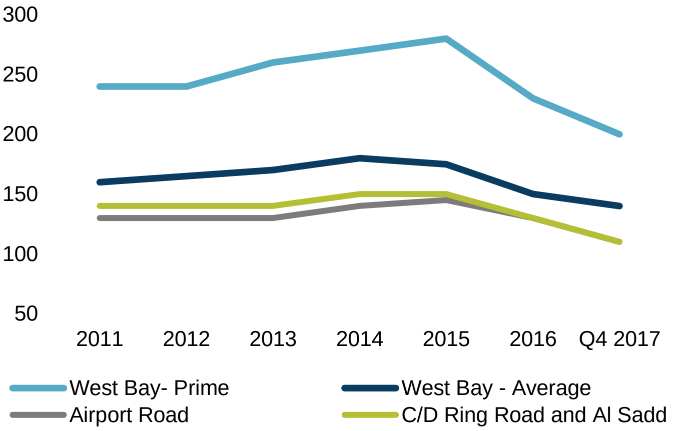
Office Supply (Sq m) and Availability (%), 2010 – Q3 2017



Source: DTZ Research

Figure 7

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



Source: DTZ Research

Residential Market Overview

Strong rental growth experienced between 2011 and 2015 has been reversed over the past 24 months due to a combination of factors. Demand for apartments and villas has been affected by the economic downturn – resulting from the fall in hydrocarbon prices - and has been compounded by recent economic blockade. Reduced demand has coincided with the completion of major residential projects, which has seen supply grow substantially.

Residential demand in Qatar has been driven by population growth, which exceeded 7% per annum in recent years, however population has levelled off through 2017. In November the population was recorded at 2,682,596, which reflected a year on year increase of less than 2%. Anecdotal evidence suggests that the increase in population is largely accounted for by construction workers, due to the acceleration of the government's spending on infrastructure projects. In real terms, DTZ note that there has been a reduction in demand from tenants looking to acquire villa and apartment accommodation throughout 2017.

The increase in supply and reduced demand has resulted in a fall in overall occupancy rates throughout 2017. While some developments retain high occupancy rates (often due to corporate leases), others have seen a sharp increase in vacancy in recent months. This has encouraged landlords to become more flexible in relation to rental levels and incentives. The result is that tenants are now increasingly willing to 'shop around' on the expiry of existing leases to take advantage of more advantageous lease terms.

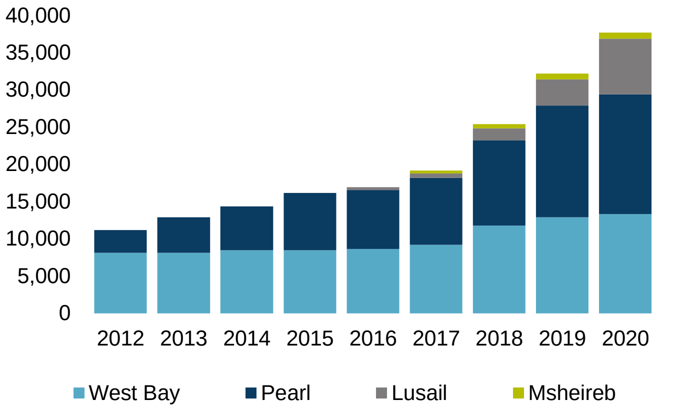
The most significant residential development to influence the residential leasing market in 2017 is Ezdan Oasis, which opened in July. DTZ understands that Phase 1 has attracted significant interest from individual tenants and corporate occupiers looking for staff accommodation. Rental levels of QAR4,500 for a one bed apartment up to QAR6,500 for a three-bedroom have set a benchmark for newly built mid-market apartments on the outskirts of Doha.

In the prime residential sector, while some developments retain strong rents and occupancy rates, quoted rents for vacant units have typically fallen by between 10% and 15% in the past year. Most two-bedroom apartments in West Bay or The Pearl Qatar are now available to lease for between QAR11,000 and QAR13,000 per month.

Sales prices have also been falling over the past year, with purchasers looking to take advantage of the weaker market conditions. Second hand apartment sales in Porto Arabia are now typically transacting at prices between QAR11,000 and QAR12,500 per square metre.

Figure 8

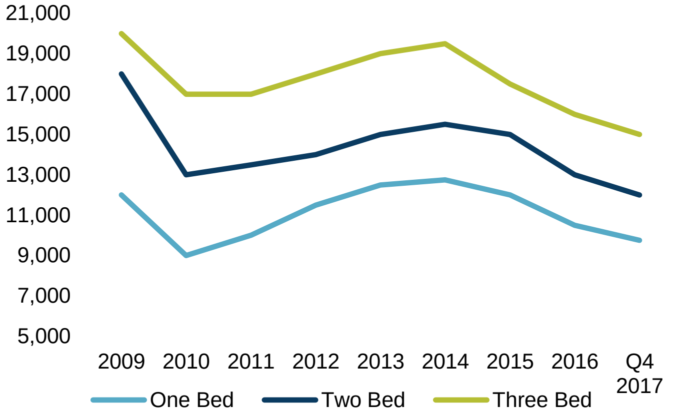
Prime Apartment Supply, Prime Districts



Source: DTZ Research

Figure 9

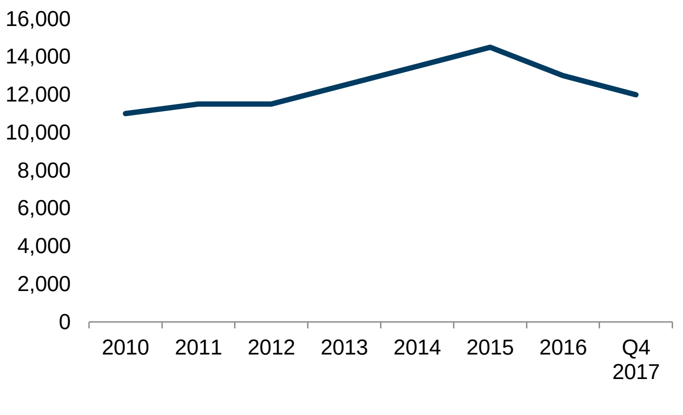
Prime Apartment Rents, Pearl Qatar, QAR/Month



Source: DTZ Research

Figure 10

Average Sales Price Two Bed Apartments Pearl Qatar QAR/PSM



Source: DTZ Research

Hospitality Market Overview

DTZ records indicate that hotel supply approached 25,000 keys by Q4 2017. The most notable new hotels in recent months include the Holiday Inn and Premier Inn, which are located in Airport Road and Education City respectively. These hotels will increase supply of internationally branded mid-market hotels and will target business travelers and tourists with more modest budgets.

Despite the welcome arrival of new 3-star hotels, the market is still dominated by luxury brands. More than 85% of room keys and almost 70% of establishments in Doha are still either 4-star or 5-star. The pipeline of new hotel development remains strong with more than 10,000 hotel rooms and 2,000 serviced apartments at various stages of planning and construction, with the majority being delivered to 4-star or 5-star specifications.

The hospitality sector in Qatar has undoubtedly been impacted by the recent blockade. While official figures for the second half of the year have not yet been released by the Qatar Tourism Authority, statistics released by the Ministry of Development Planning and Statistics in December showed that YTD tourist arrivals had fallen 20% since the previous year, despite the 1.5% YTD increase that had been recorded in June.

According to MDPS statistics, the overall hotel occupancy for November was 57%, down from 70% recorded last year. Average Daily Rates (ADRs) and Revenue per Available Room (RevPARs) were QAR450 and QAR257 respectively in November.

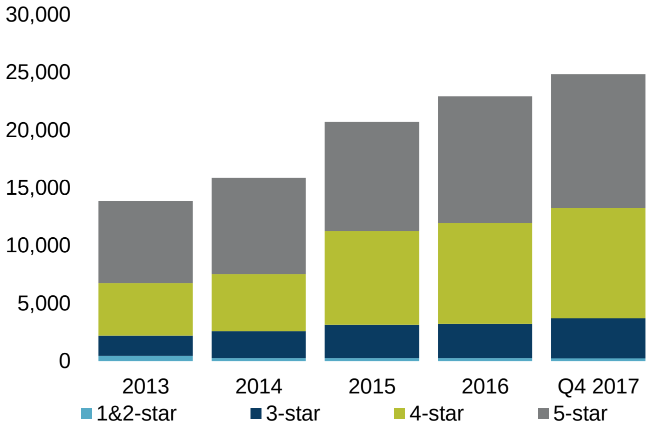
The most recent publication by the QTA for H1 2017 shows official hotel occupancy at 62% for the first six months of the year, a fall of 3% on the previous year. In terms of revenue, ADRs of QAR 450 and RevPARs of QAR 257 reflected falls of 9% and 11% on H1 2016, which can largely be attributed to the increase in competition within the Doha market.

Qatar Tourism Authority recently released its National Tourism Strategy, which set out targets for 2023. Targets include boosting occupancy rates to 72% across the sector, and doubling tourist arrivals to 5.6 million. Qatar recently announced the expansion of visa free entry to 80 countries and the introduction of the e-visa platform.

To attract greater tourist numbers to Qatar, major investment will be required in developing tourist attractions, and adding to the success of initiatives such as Shop Qatar and The Summer Festival.

Figure 11

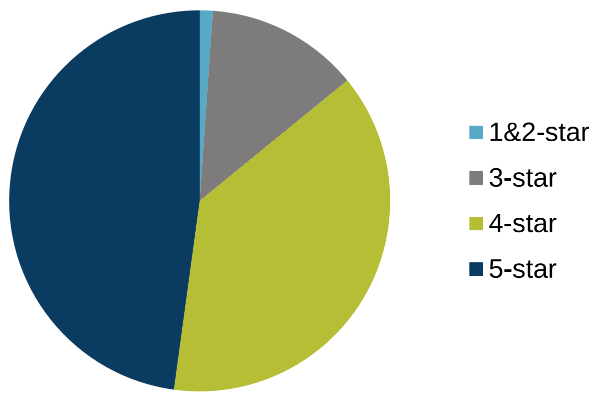
No. of Hotel/Hotel Apartment Keys by Rating



Source: DTZ Research

Figure 12

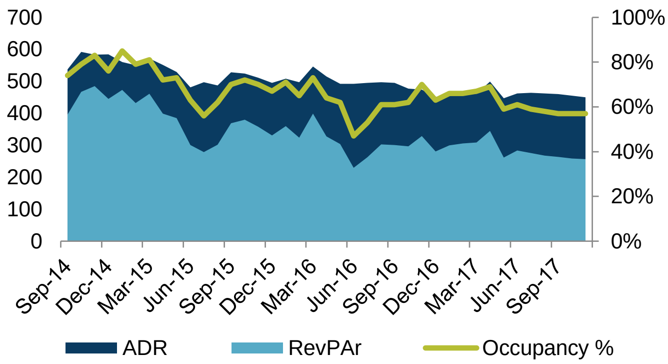
Keys by Rating Sept 2017 (Total 24,852 – DTZ Estimate)



Source: DTZ Research

Figure 13

Hotel Performance Indicators, 2014 - 2017. ADR & RevPar in QAR, Occupancy in %



Source: MDPS

Retail Market Overview

Total organised retail supply in Qatar is now approaching 1.3 million sq m in the country's twenty principal shopping malls. Organised retail supply in Qatar has almost doubled since 2014, which has transformed an undersupplied market to once which suffers from oversupply within three years.

The most recent addition to the retail market is B Square Mall in Al Thumama, which combines retail units with extensive entertainment and leisure provisions (accounting 40% of the total leasable area).

Additional supply is expected to arrive in 2018 with the official opening of Tawar Mall, and the completion of Northgate Mall, Katara, and Doha Souq among others.

The sharp increase in retail supply has had a significant impact on performance levels throughout Qatar, most notably for newly developed malls who are competing for tenants in an increasingly challenging market.

Footfall and retail spending has reduced, partially as a result of the blockade, but also due to the general economic downturn following the collapse of oil prices. While some of the prime retail destinations have maintained relatively strong performance in recent months, tenants in many retail malls are finding prevailing conditions increasingly difficult. In DTZ's opinion, this is likely to manifest itself in lower rents and increasing vacancy in the less successful malls once current lease terms expire.

While some new malls have managed to secure high occupancy, a strong tenant mix and high profile international brands, it is becoming increasingly challenging to secure retail operators due to the growing supply pipeline. This has led to an increase in tenant incentives such as rent-free periods, fit-out contributions, and lower headline rents.

Elsewhere the retail market in Qatar comprises largely of community mini-malls, 'Al Furjan' markets, high street showrooms and strip malls, and traditional souqs. The challenging retail conditions has seen the emergence of turnover rent agreements in some locations, as landlords look to attract and retain tenants.

In-line stores in prime retail malls still typically command rents of between QAR250 and QAR350 per sq m per month, however as leases expire over the coming years, we expect to see a greater difference in headline rents emerge between prime malls, and secondary malls.

Elsewhere, high-street rents can vary from QAR100 to QAR200 per sq m depending on many factors, however we expect the recent trend of turnover rents to continue, especially for new developments.

Figure 14

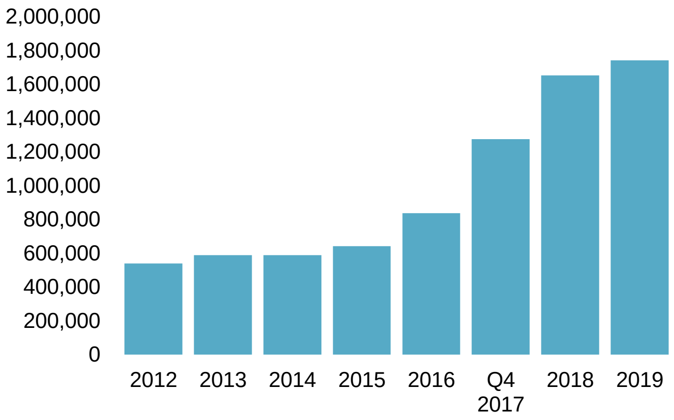
Proposed New Retail Malls for 2018

Project	Location	Estimated Completion Date
Tawar Mall	Duhail	2018
Doha Mall	Abu Hamour	2018
Katara Mall	Al Qassar	2018
Northgate	North Doha	2018
La Gallaria	Msheireb	2018

Source: DTZ Research

Figure 15

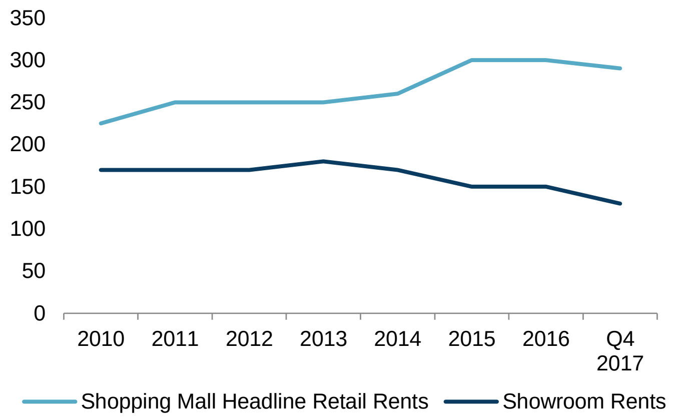
Organised Retail Supply, 2012-2019, sq m (GLA)



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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