PROPERTY TIMES

Real estate feels the impact of recent blockade

Qatar Q3 2017

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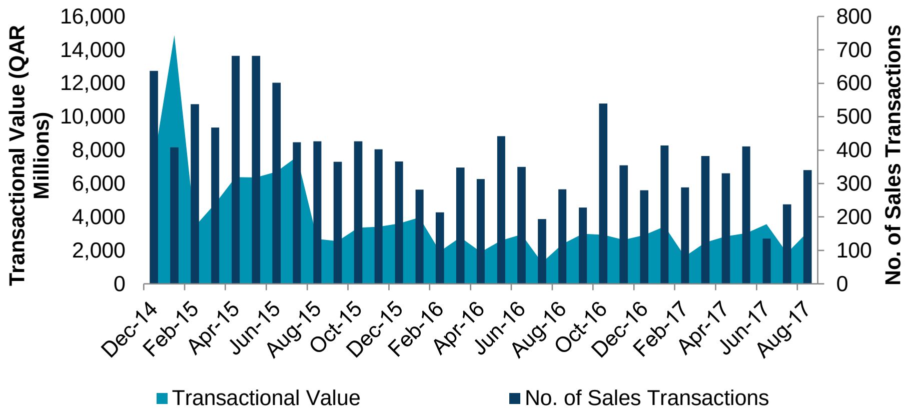
- Qatar has reacted to the boycott announced in June, by seeking new trading opportunities and strengthening ties with Turkey and Iran. Despite the measures being taken by Qatar, the impact of the blockade on the economy has started to show. Moody's estimated that Qatar dipped into its national reserves by approximately US$38bn in June and July to support the economy and the financial system. Trade, tourism and the financial sector have all suffered. It is estimated that US$30bn flowed out of the banking sector over the two months and further declines are expected
- Increasing competition in the residential rental market has become more evident as supply increases. Incentives such as rent-free periods have become more common, while the quoted rents for vacant apartments and villas have fallen in recent months
- Asking rents for vacant residential units have, on average declined by between 10% and 20% since Q3 2016 as landlords' priorities shift to maintaining and optimising occupancy rates
- In September, the cabinet approved amendments to Law No.4 of 2018 governing commercial leases. The move is set to improve transparency and formalise all commercial real estate leasing transactions
- Despite the completion of office buildings in Lusail in recent months, transactional activity remains slow on the back of the economic uncertainty created by the blockade of Qatar by its neighbours
- Real Estate sales activity in Qatar has been falling since 2014. The recent measures taken by Saudi Arabia, Bahrain, Egypt and UAE have resulted in a further decline in market confidence, with transactional activity and values being impacted

Figure 1

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



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. The prolonged nature of the dispute, and uncertainty in relation to its duration is having an impact on the economic performance and economic projections for Qatar

Oxford Economics now forecast GDP to grow by just 1.3% this year, down from 2.2% in 2016, as the dispute continues. This reflects an expected 3% rise in non-oil sector activity and a fall in hydrocarbon sector output.

Inflation for food and beverages fell back to 2.8% in August from 4.5% in July, suggesting that efforts to offset lower imports, particularly supplies of food, have been quite successful. Prices for houses and utilities fell 4% y/y in August as lower business sentiment saw foreign investors withdraw from the market. Headline CPI inflation also fell back into negative territory at -0.4%. Accordingly; Oxford Economics' inflation forecasts for this year fell to 0.7% from 1.3%, in line with lower inflation forecasts for the region.

The failure of mediation efforts thus far indicates there will be no quick resolution to the diplomatic crisis. The severity of the dispute and the threat of escalation continues to weigh on confidence, as seen in the 17% y/y fall in the stock market in August. If relations do not improve, the possibility of credit rating downgrades and lower confidence and FDI will dampen growth prospects further

Growth in the non-oil sector is expected to slow to approximately 3% this year from 5.6% in 2016. Economic activity will be largely supported by preparation for the 2022 football World Cup.

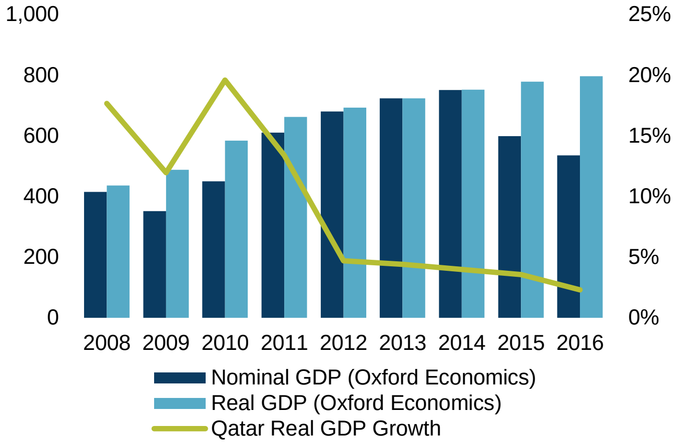
Government spending will rise this year to help offset the impact of the blockade on the local population, but with a higher oil price the budget deficit is forecast to narrow to 4.2% of GDP from 9% in 2016. Moving into 2018, gradual fiscal consolidation including the introduction of VAT and excise taxes will narrow the deficit further.

Qatar Central Bank's Real Estate Index illustrates that after 6 years of strong growth, the real estate market has declined since 2015, in line with hydrocarbon prices, and general economic trends.

(Economics Overview data provided by Oxford Economics)

Figure 2

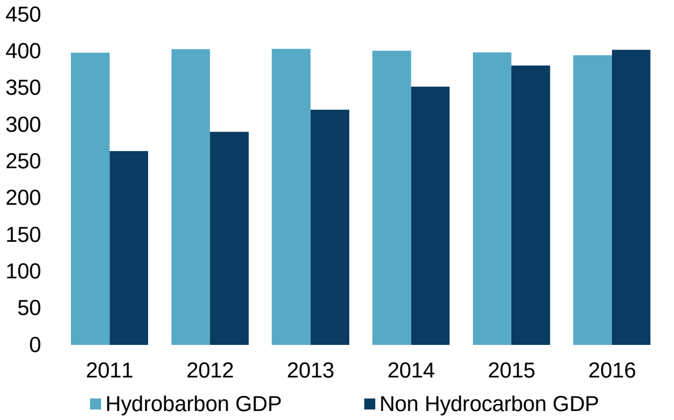
GDP (QAR Billion) and Real GDP Growth (%) 2008 - 2016



Source: MDPS/Oxford Economics

Figure 3

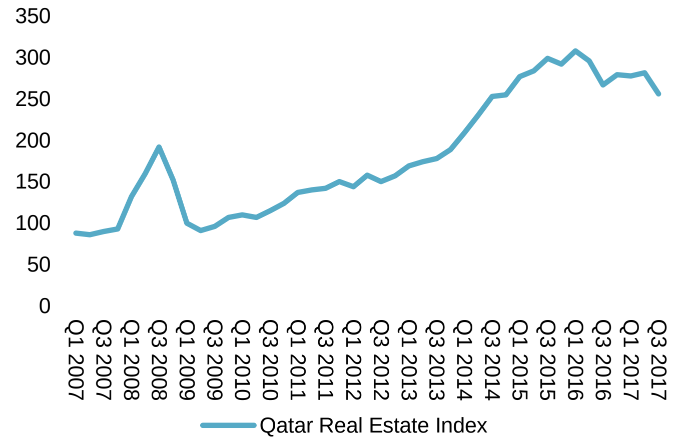
GDP Hydrocarbon v Non Hydrocarbon (QAR Billion) 2011 - 2016



Source: MDPS/Oxford Economics

Figure 4

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



Source: EIU

Office Market Overview

Recent activity in West Bay has seen international occupiers acquire accommodation in Tornado Tower, Al Ashmakh Tower and Burj Doha. This follows the re-location of the Ministry of Justice to the building formerly occupied by the Ministry of Economy and Commerce, where they now occupy approximately 15,000 sqm.

The fall in oil prices has resulted in a significant downturn in demand from the public and hydrocarbon sectors. At this point it is difficult to assess the long-term impact of the blockade on the office leasing market, however a prolonged dispute is likely to undermine appetite from the private sector, on which the office market in Doha will depend in the coming years.

The majority of new private sector demand is for offices 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 as competition increases.

Recent building completions in Lusail have increased the supply of Grade A offices in Doha to more than 1.8 million sq m, with total supply of purpose built office accommodation estimated to be in excess of 4 million sq m. DTZ estimates that there is currently 370,000 sq m of office accommodation available to lease in West Bay and Lusail, which reflects an availability rate in excess of 20%.

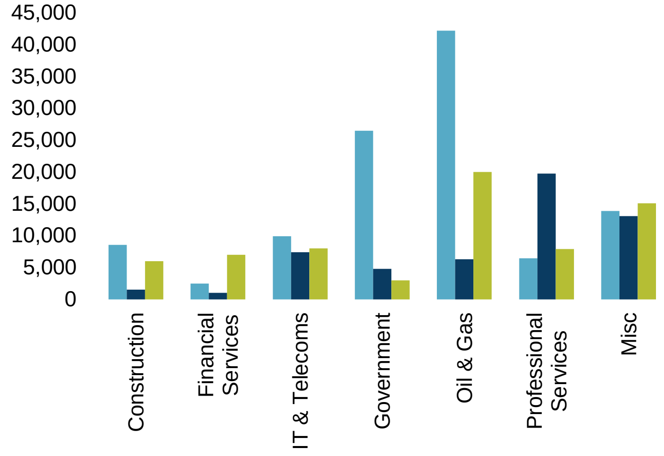
In the region of 2 million sq m of new office accommodation is planned for Qatar within the next decade, largely in Lusail. If completed, DTZ anticipate that occupancy rates will come under further pressure. The commencement of a number of office developments have been put on hold over the past 12 months due to fears of oversupply in the short to medium term.

Prime office rents in West Bay can achieve in excess of QAR200 per sq m, per month, however these rents typically relate to smaller fitted units. The majority of office transactions in West Bay in 2017 have been agreed at between QAR130 and QAR170 per sq m per month.

Rents in areas such as Old Salata, Al Sadd, Airport Road, and C/D Ring Roads have fallen in recent months, with many office buildings now offering ‘shell and core’ space for between QAR100 and QAR120 per sq m per month.

Figure 5

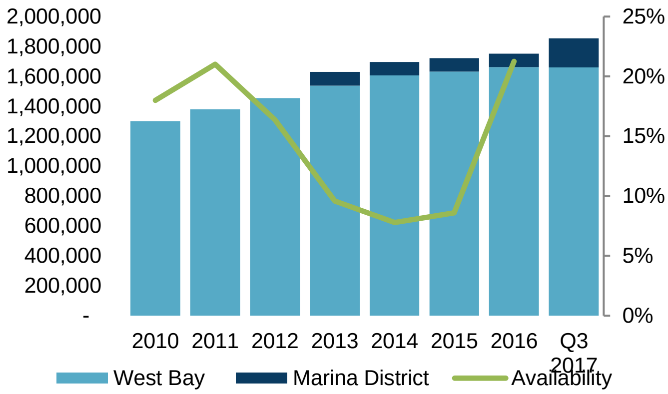
West Bay Office Demand by Sector (sq m/2014 – 2016)



Source: DTZ Research

Figure 6

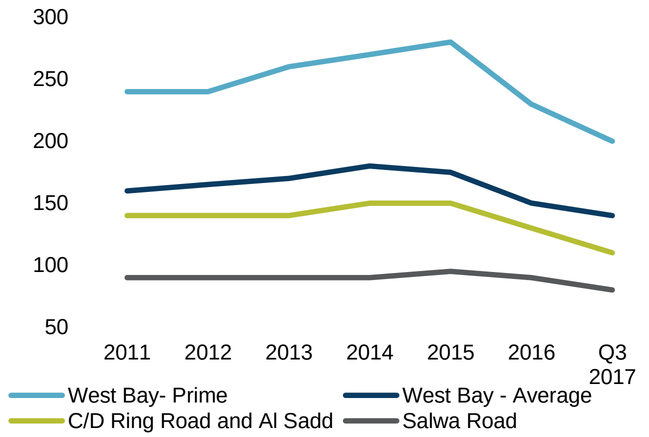
Office Supply (Sq m) and Availability (%), 2010 – Q3 2017



Source: DTZ Research

Figure 7

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



Source: DTZ Research

Residential Market Overview

Demand for housing in Qatar has been driven largely by population growth. Official figures indicate that the population has increased by almost 1.4 million in the 10-year period up to September 2017 - an average increase of approximately 7% per annum. In September the population was recorded at 2,634,234, which reflected a 3% increase. The slowdown of population growth, coupled with the increase in supply of new buildings, has seen a shift in supply and demand dynamics over the past 18 months.

Fuelled by population increases and strong economic growth between 2011 and 2015, Qatar experienced strong rental growth in all residential sectors. The first signs of this trend reversing came in 2016, as fiscal consolidation at government level, and extensive redundancy programmes, saw reduced demand and a fall in headline rents for prime residential units.

The increase in new supply of affordable accommodation, coupled with the slowdown in population growth in 2017 has seen rental levels fall throughout the residential sector in 2017. This has been compounded in recent months due to the uncertainty created by the blockade of Qatar. As vacancy rates rise, increasing competition between landlords to maintain occupancy has seen rental levels reduce throughout the year

Apartment rents for new lettings in the Pearl Qatar and West Bay have fallen by approximately 20% since the market peaked in 2014. Two-bedroom apartments can typically be leased for between QAR11,000 and QAR13,000 per month, down from QAR14,000 to QAR16,000 in 2014. Elsewhere, apartments in central areas such as Bin Mahmoud, Al Sadd, and Al Mirqab have seen quoted rents for vacant units fall by more than 10% in 2017, having initially maintained rental levels following the fall in hydrocarbon prices.

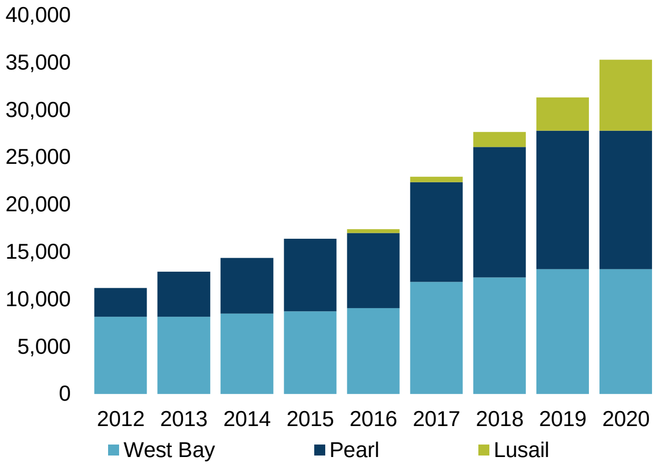
In Al Wakra, the first phase of Ezdan Oasis, Qatar's largest purpose-built residential community was released in 2017. The project will provide approximately 9,000 apartments on completion. Rental levels of QAR4,500 for a one bed apartment up to QAR6,500 for a three-bedroom apartment are likely to set the tone for good quality 'affordable' accommodation in Doha over the next 12 months. Rent free incentives up to 8 months (subject to lease terms) also highlights landlords' shifting priority to optimise occupancy rather than maximise headline rents.

DTZ understand that government housing budgets are also under review, with the anticipated reduction in housing budgets likely to impact overall residential market rents in 2017.

According to MDPS statistics, overall real estate sales activity between January to August increased marginally since the corresponding period last year. However: transactions and overall value have fallen by 40% and 58% respectively since the peal of the market in 2015.

Figure 8

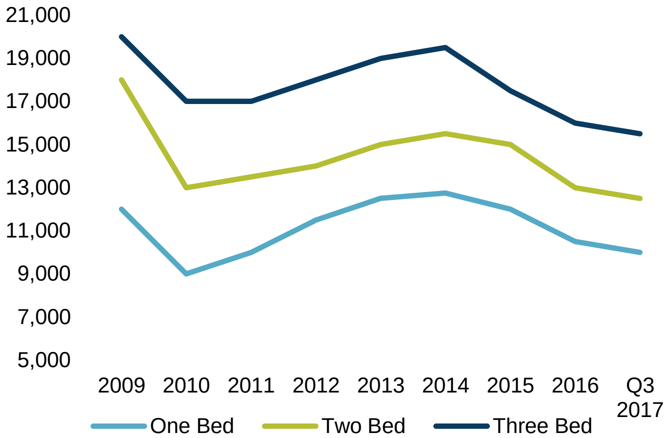
Prime Apartment Supply, Prime Districts



Source: DTZ Research

Figure 9

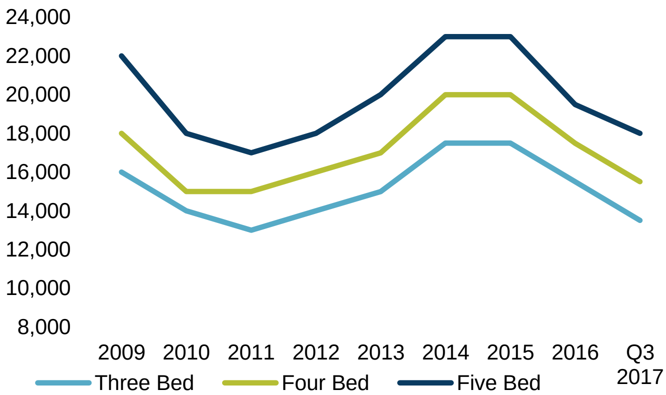
Prime Apartment Rents, Pearl Qatar, QAR/Month



Source: DTZ Research

Figure 10

Average Compound Villa Rents, Al Waab, QAR/month



Source: DTZ Research

QATAR Q3 2017

Hospitality Market Overview

Qatar Tourism Authority's 2016 annual report indicated that there were 117 hotel and hotel apartment establishment's in Qatar, providing a total of 22,921 room keys. DTZ records indicate that hotel supply is now approaching 24,400 keys. The most recent additions to the hotel supply in Doha have been the 270-room Mondrian Hotel in West Bay Lagoon, the 100-room Al Mansour Plaza, and the Premier Inn in Education City, which provides 219 hotel rooms.

Of the current supply, more than 85% of room keys and almost 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 total number of tourist arrivals in Qatar in 2016 was recorded at 2,938,096. This was a fall of 0.1% on the 2015 figure, following 5 years of strong growth in tourist numbers. Based on initial figures released in Q3, it is expected that overall tourist arrivals will fall considerable in 2017 due to the recent blockade of Qatar by Saudi Arabia, Egypt, Bahrain and UAE.

Tourism in Qatar has largely been generated by visitors from neighbouring GCC countries, particularly Saudi Arabia. In 2016, 48% of arrivals in Qatar were from the GCC. The blockade of Qatar has had a considerable impact on the hotel industry. Occupancy rates for July and August were recorded at 59% and 58% respectively. According to statistics released by the MDPS, average daily rates in August fell to QAR462.

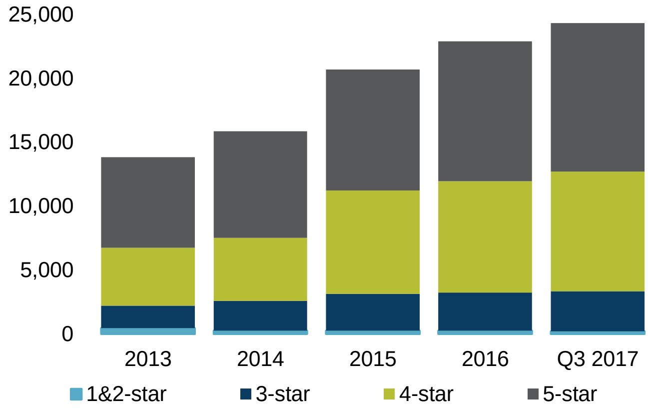
Following an initial surge in support from local residents, choosing to stay in Qatar in the immediate aftermath of the blockade in June, it is likely that a prolonged dispute will increase pressure on occupancy rates and revenue performance in the coming year.

According to the most recent annual report by QTA, more than 20,000 hotel rooms and hotel apartments, are at various stage of development in Qatar. The expansion of the hotel sector is largely due to Qatar's obligations in relation to the FIFA 2022 World Cup. The quantity of hotel rooms being developed has led to concerns that the market will become significantly oversupplied without significant investment in tourism projects and attractions.

In an effort to expand the tourism sector, the Ministry of Interior, in partnership with Qatar Tourism Authority and Qatar Airways, announced in August that 80 countries would be granted visa-free entry into Qatar. This followed the introduction of the e-visa platform in July, through which visitors from all countries can easily apply for visa's online. The new initiatives are part of a wider national tourism sector strategy aimed at boosting visitor numbers and diversifying the country's economy.

Figure 11

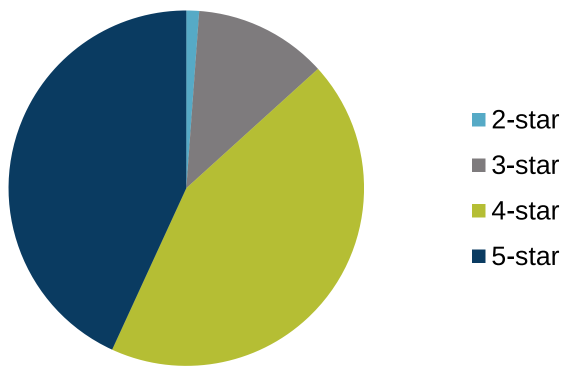
No. of Hotel/Hotel Apartment Keys by Rating



Source: DTZ Research

Figure 12

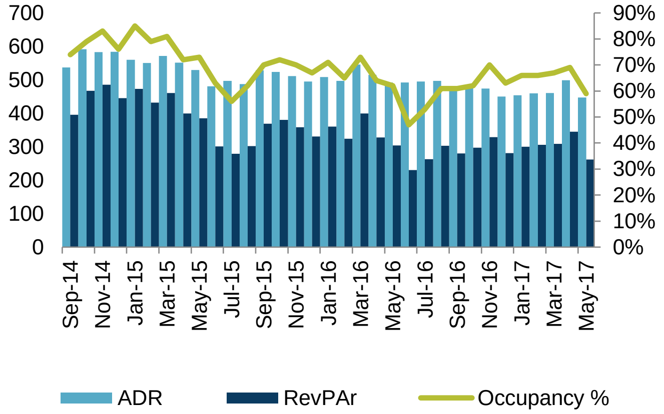
Keys by Rating Sept 2017 (Total 24,334 – DTZ Estimate)



Source: DTZ Research

Figure 13

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



Source: MDPS

Retail Market Overview

Current supply of organised retail accommodation increased to more than 1 million sq m earlier in 2017 following the opening of Doha Festival City on Al Shamal Road. Total supply of organised leasable retail area nationally has now increased to more than 1.26 million sq m following the completion of Al Mirqab Mall and Ezdan Mall in Al Wakra, which is now partially open, with many tenants completing internal fit-out works.

DTZ expects a number of additional new malls to open in the next 12 months, including, Doha Mall, La Gallaria and Northgate Mall.

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 evident.

The retail accommodation offer in Qatar is divided between organised retail malls, high street showroom space and souqs. Other popular retail destinations include out-door clusters such as La Croisette and Medina Centrale in The Pearl Qatar, and Barwa Village. These three centres provide in the region of 230,000 sq m of purpose built retail accommodation supported by car parking provisions.

DTZ understands that retail spending has declined by more than 20% since 2015. DTZ anticipate that retail spending may reduce further in the coming months as a result of reduced tourist numbers, especially from Saudi Arabia.

The quantity of retail construction in the development pipeline is likely to result in total supply more than 2 million sq m by 2022, which has led to fears of an 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 leisure and entertainment attractions.

Despite recent economic conditions, retail rents within organised malls have remained stable. In Doha, prime malls 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.

Elsewhere, rents for stand-alone or high street retail units have come under pressure as landlords aim to maintain occupancy rates. Rents can vary from QAR80 to QAR200psm depending on a number of factors including location, size of unit, footfall and car parking provisions.

Figure 14

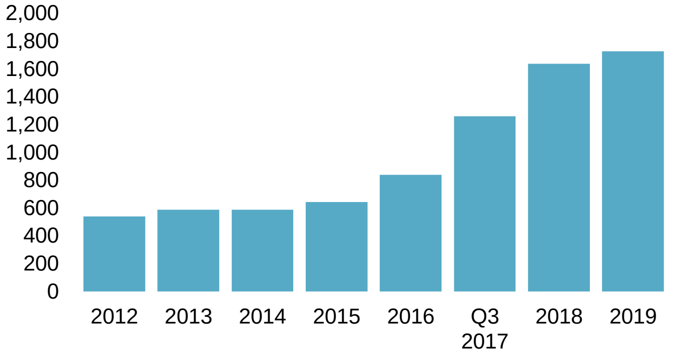
Proposed New Retail Malls for 2017 / 2018

Project	Location	Estimated Completion Date
Tawar Mall	Duhail	2017
Doha Mall	Abu Hamour	2018
Katara Mall	Al Qassar	2018
Northgate	North Doha	2018
La Gallaria	Msheireb	2019

Source: DTZ Research

Figure 15

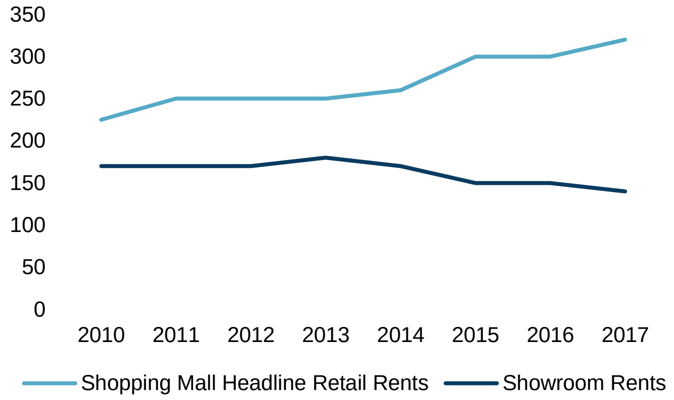
Organised Retail Supply 2012-2019, ,000 sq m (GLA)



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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