

PROPERTY TIMES

Increased demand for prime apartments as residents ‘trade up’ Qatar Q1 2019

31 March 2019

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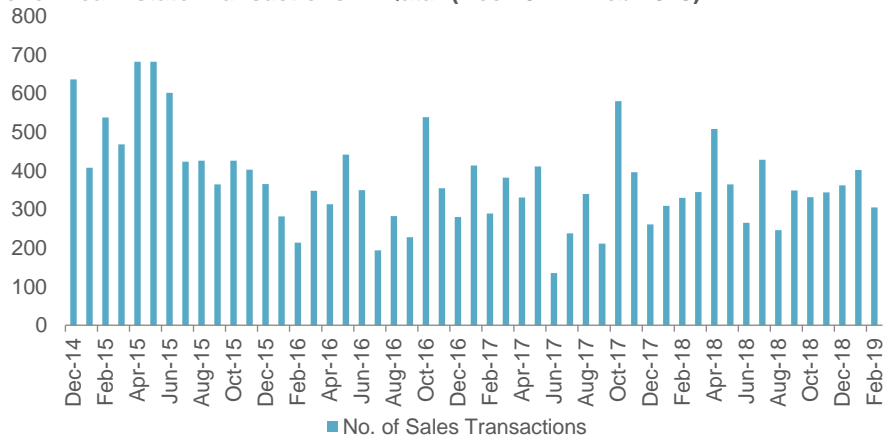
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- Demand is yet to catch up with the new supply of office accommodation coming online in the Marina District of Lusail. Relocations are more likely to happen as corporate occupiers seek to upgrade.
- Office rents in West Bay are now typically between QAR 110 and QAR 140 per sq m per month for CAT A space on a floor-by-floor basis; however, smaller premium fitted suites can still command in excess of QAR 160 per sq m per month.
- The increasing affordability of premium apartments has increased demand for units in West Bay, The Pearl Qatar and Lusail as residents look to ‘trade up’.
- Overall residential sales activity increased by 40% in January and February this year compared to the same months last year, as purchasers capitalise on falling values. Apartments in The Pearl Qatar are currently selling for prices of between QAR 11,000 and QAR 16,000 per sq m with the highest prices typically being achieved for studio and one-bedroom units in Viva Bahriya.
- Hotel supply has surpassed 26,000 keys, with 5-star accommodation accounting for 56% of total available keys. By 2022 an additional 23,000 hotel rooms and hotel apartments are expected to come online, with 117 entities currently at various stages of planning and construction.
- Higher vacancy rates have become evident in many retail malls as supply increases. Rental and capital incentives are being offered to prospective tenants as landlords compete for retail occupiers – a sign of an oversupplied retail market in a climate of reduced retail spending.

Figure 1

No. of Real Estate Transactions in Qatar (Dec 2014 – Feb 2019)



Source: MDPS

QATAR Q1 2019

Economic Overview

While Qatar's official Q4 GDP data is not yet available in March, Oxford Economics expect that it will show a rebound in activity, increasing annual GDP growth in 2018 to 2.1% from 1.6% in 2017. As the country sets its own gas and oil production levels after leaving OPEC, economic growth of 3.3% is forecasted for 2019, which will also be driven by government spending.

Growth in the non-oil sector is still forecast to rise to 5.2% in 2019 from an estimate of 4.8% in 2018. This is underpinned by state investment in infrastructure projects in preparation for the 2022 FIFA World Cup, and the increasing population, which are both driving solid internal demand. The hydrocarbon sector is expected to gain, with recovery in the non-hydrocarbon sector also projected.

Both industrial production (which showed a 0.6% y/y gain in January) and a PMI survey carried out by Qatar Financial Centre (averaging 49.5 in January - February, up from 48.5 in Q4) indicate recovery will continue this year. Companies' optimism surrounding demand and business conditions bodes well for non-oil activity in the coming year.

Qatar's baseline estimate of 1.6% growth in oil production in 2019 is still maintained, but the oil price projection for 2019 has been revised to US\$ 64pb.

Average inflation in 2018 reached 0.2%, half of what it was in 2017, having been negative for two months. Decreasing housing and transport costs have been the major reason keeping the headline rate down, while food prices stayed flat. The 2019 inflation forecast has been lowered to 0.8% from 1.1%, with the further scope for revision due to lessened expectations of US Fed hikes prompting a looser monetary policy domestically.

The budget deficit is still expected to return to small surplus in 2019 which is to continue increasing as a looser fiscal policy benefits non-oil growth.

While banks have been resilient, reliance on foreign funding is on the increase again; however, the overall FX liquidity has improved, despite the local equity market not holding on to the gains in Q1 having outperformed GCC and EM peers in 2018.

(Economics Overview insight provided by Oxford Economics)

Figure 2

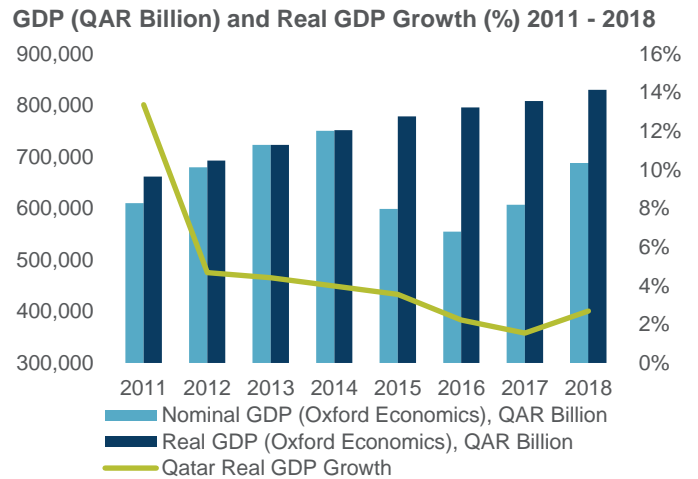


Figure 3

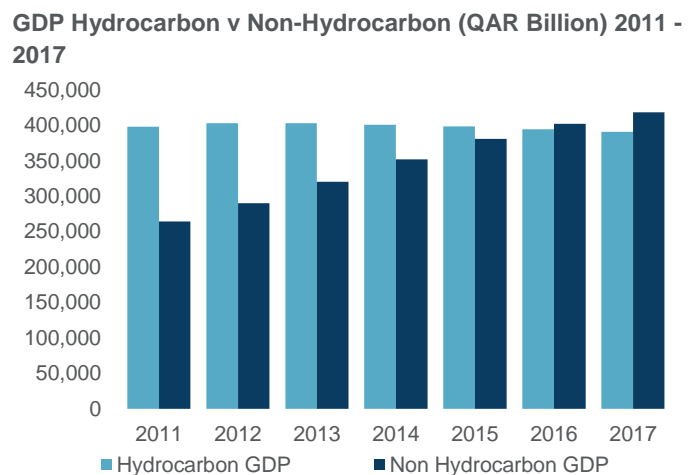
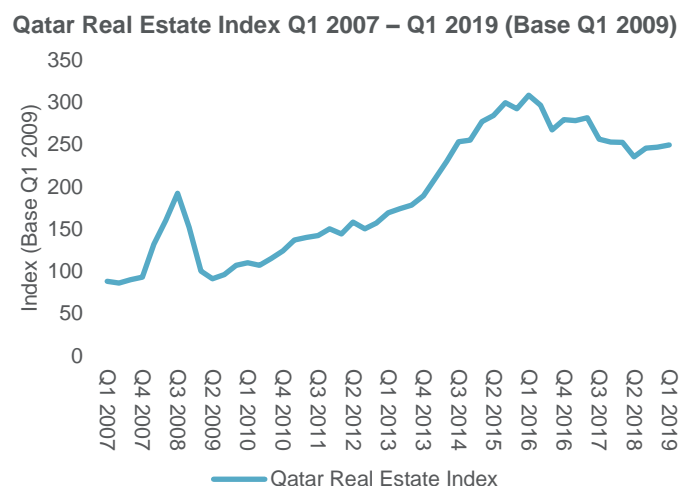


Figure 4



QATAR Q1 2019

Office Market Overview

There have been some major new additions to Doha's office supply in Q1, with the launch of some of Qatar's largest Grade A office buildings in Lusail's Marina District. The E18teen, Burj Alfardan and QIG Tower are all now nearing completion and available to lease, adding more than 120,000 sq m to supply in Lusail.

Overall supply in Lusail has now increased to approximately 450,000 sq m, with the total supply of purpose-built office accommodation in Doha estimated to be in excess of 4.5 million sq m. While the development of West Bay as an office district is substantially complete, additional floor space in developments such as QP District, and Al Mana Tower will increase supply in this district to more than 1.85 million sq m by 2020.

DTZ research indicates that additional new supply in Lusail has increased the vacancy rate of Grade A offices to more than 30% in West Bay and Lusail.

Demand for new office accommodation in Doha, both from government bodies and oil and gas companies has reduced significantly since 2015, while most private sector companies have been largely consolidating or downsizing their office requirements since 2016. It is hoped that government initiatives to expand and diversify Qatar's economy, which has seen a large increase in company registrations, will soon translate into significant new demand for corporate office accommodation.

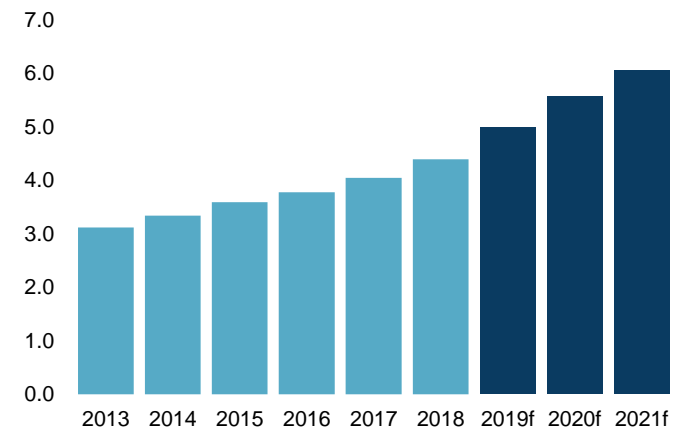
The increasing vacancy rates in Doha, has seen rents continue to soften going into 2019. Prime offices in West Bay, fitted to CAT A standard, are now available for between QAR 110 and QAR 140 per sq m per month. Discounted rents can be secured on shell and core office space, while prime fitted suites of less than 500 sq m can still command in excess of QAR 160 per sq m per month.

Offices in secondary areas such as Al Sadd, Old Salata and C-Ring Road are often now quoted at monthly rates between QAR 70 and QAR 90 per sq m, depending on size, quality, fit-out and location.

Rent free periods of two to three months for new leases of three to five years respectively for smaller suites are now commonplace, with fixed annual rental uplifts no longer featuring in most commercial lease terms.

Figure 5

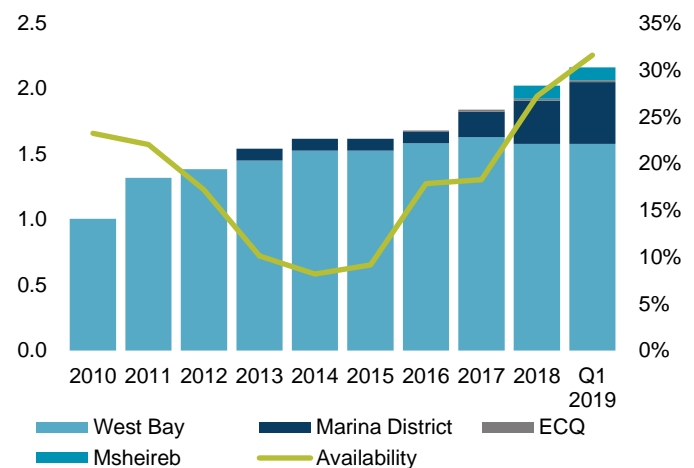
Estimated Office Supply, Doha 2013 – 2020f (Million sq. m)



Source: DTZ Research

Figure 6

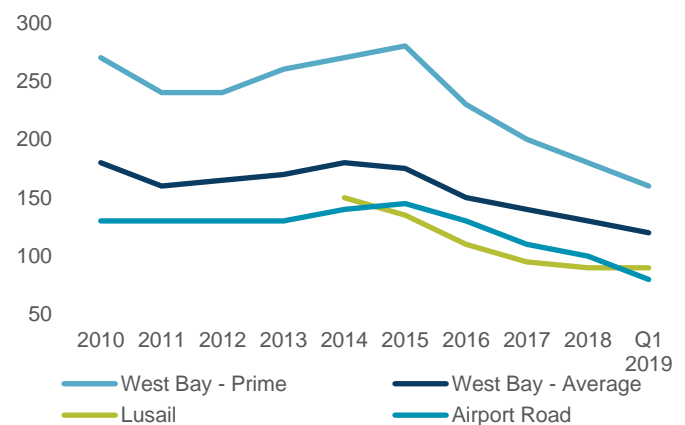
Grade A Office Supply (Million sq. m) and Availability (%), 2010 – Q1 2019



Source: DTZ Research

Figure 7

Office Rents by District, (QAR/sq. m/month) 2010 – Q1 2019



Source: DTZ Research

Residential Market Overview

The potential market for residential sales has been expanded by Law No. 16 of 2018, which was implemented in March of 2019, as the number of 'freehold' zones in Qatar has been increased from three to 10.

According to the Ministry of Development Planning and Statistics' most recent reports, both the overall number of residential sales and the total value of transactions in Qatar in January and February increased by 40% and 32% respectively compared to the corresponding months last year; however, the average price per transaction has decreased by 6% as purchasers take advantage of a softening market.

Several new residential towers have recently been completed in Viva Bahriya, with a significant number of additional buildings in Abraj Quartier, the Marina District and Viva Bahriya expected to complete within the next 12-18 months. Furthermore, quite a few new residential towers are due to come to the market in West Bay, although these are largely serviced apartments developments, some of which are connected to 5-star hotel entities.

As supply increases, so does the range of options available to residents in all income brackets. The average rental reduction of more than 20% over the past three years has increased the affordability of many prime locations, with increased demand for West Bay and The Pearl-Qatar being driven by residents looking to 'trade-up'. The lower rents that are now on offer are also being supplemented by rental incentives, such as rent-free periods or the inclusion of utility bills within quoted rents.

While residential rents have typically fallen by between 5% and 8% over the past 12 months, a lack of available three-bedroom units in Porto Arabia has seen rents for these units increase, bucking the general trend.

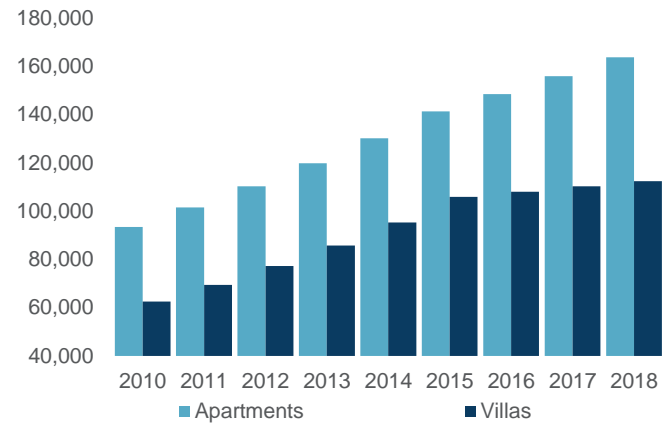
The large increase in the number of one-bedroom units being delivered to the market in new and upcoming developments (in comparison with two and three-bedroom units) is likely to see greater downward rental pressure on these units in the coming year.

Occupancy rates in villa compounds has also been recovering throughout Doha, particularly in some of the more sought-after developments. This has resulted in rental levels stabilizing after a period of decline between 2016 and 2018.

Apartment sales prices in The Pearl Qatar vary between districts and unit sizes. New studio and one-bedroom units in Viva Bahriya can still command prices in excess of QAR 16,000 per sq m, while two-bedroom, second-hand apartments in Porto Arabia have been transacting for less than QAR 13,000 per sq m.

Figure 8

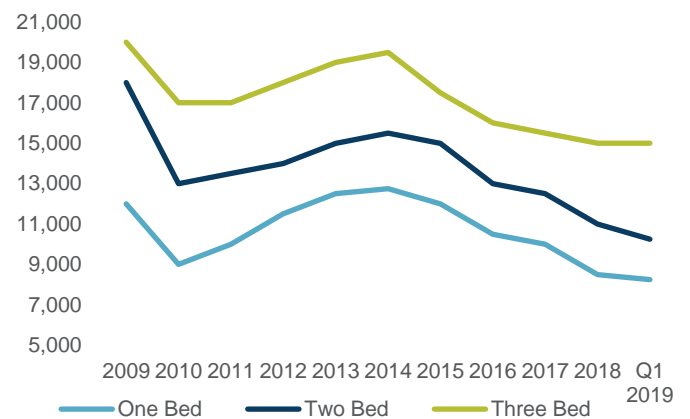
Estimated Apartment and Villa Supply, Qatar 2010 - 2018



Source: MDPS & DTZ Research

Figure 9

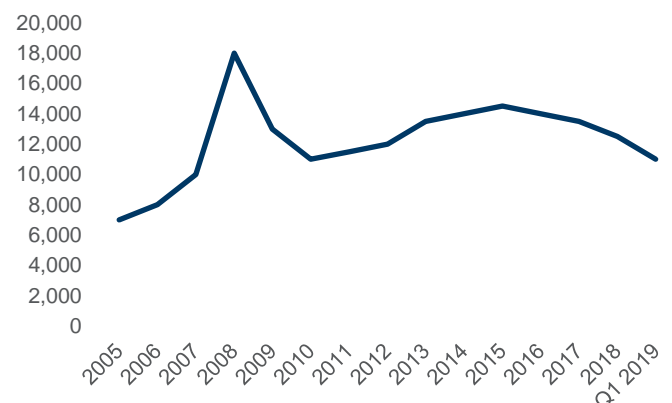
Average Apartment Rents, Porto Arabia, (QAR/Month) 2009 – Q1 2019 (semi-furnished)



Source: DTZ Research

Figure 10

Average Apartment Value Porto Arabia 2005 – Q1 2019 (QAR Per Sq M)



Source: DTZ Research

Hospitality Market Overview

Tourist arrivals into Qatar decreased by 19% in 2018 compared to 2017 as per the latest official statistics released by the National Tourism Council (NTC); however, despite the fall in tourist numbers, demand for hotel rooms increased in 2018.

According to the NTC's annual report for 2018 the total number of available rooms in December 2018 was 25,917, contained in 124 hotel and hotel apartment establishments. DTZ research shows that this number has increased by almost 700 rooms in Q1 with the opening of The Mandarin Oriental and M Gallery in Msheireb, as well as VIP Hotel on C-Ring Road.

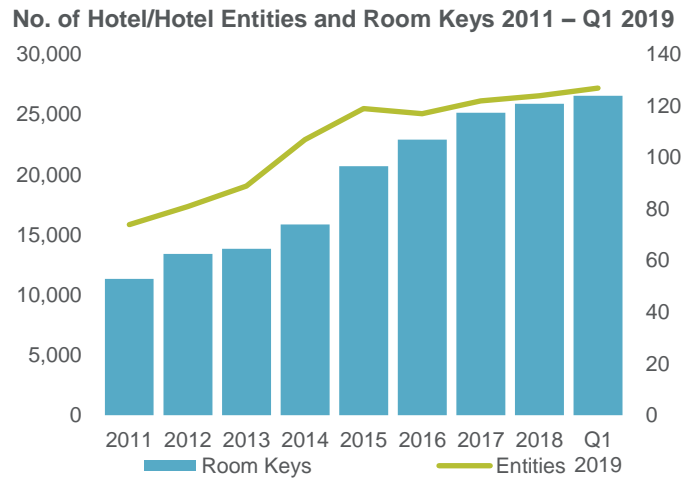
Luxury accommodation still dominates the market with more than 85% of overall supply currently categorized as either 4-Star or 5-Star. According to NTC's estimates, approximately 23,000 hotel keys at various stages of planning and construction to be completed prior to the 2022 FIFA World Cup.

Hotel revenues have been affected by the overall increase in supply, reflecting increasing competition between hotels to secure overnight guests. The overall Average Daily Rate (ADRs) dropped to QAR 380 for 2018. According to the Ministry of Development Planning and Statistics, the overall average ADR in February was QAR 368, which reflected a 6% fall in 12 months and an 20% fall over two years.

Despite the fall in tourist numbers, occupancy rates in hotels have remained stable. According to the NTC, the overall occupancy rate for 2018 was 61%, which is a 3% increase on 2017's figure. DTZ understands that there has been a significant increase in domestic tourism ('staycations'), especially in 5-Star establishments, while overnight stays for regional business travelers have increased since the introduction of the blockade. Overall occupancy rates have also been boosted by the popularity of hotel apartments with long-stay guests / full time residents.

The NTC has introduced several measures to counteract the fall in tourist arrivals since 2016 and to boost the hotel sector, including the introduction of e-visas, free 96-hour transit visas, and visa free arrivals for more than 80 countries. As a result, there has been an increase in arrivals from Russia and China (top two countries in terms of growth since 2013) where NTC opened representative offices in 2018, with India boasting the highest absolute increase. Consequently, Qatar now ranks as the most open country in the Middle East and the 8th most open country in the world according to the World Tourism Organization (UNWTO) visa openness rankings.

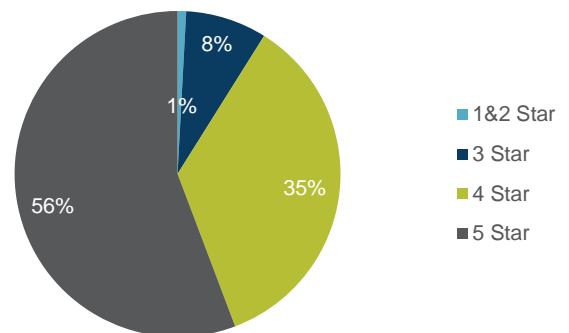
Figure 11



Source: DTZ Research

Figure 12

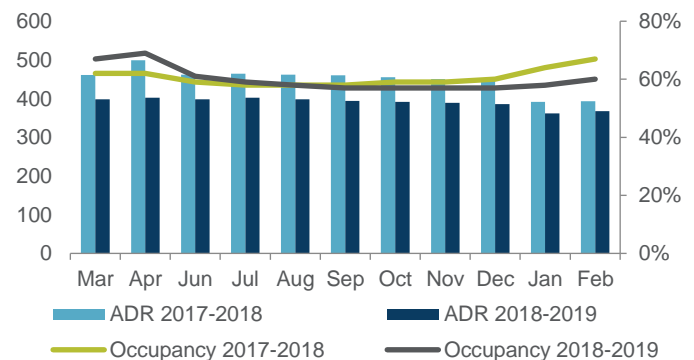
Keys by Star Rating, Q1 2019 (Total 26,572)



Source: DTZ Research

Figure 13

Rolling 12 months' Hotel Performance Indicators (Mar – Feb): ADR, Occupancy in %



Source: MDPS

Retail Market Overview

With the opening of 13 new malls in Doha, Al Khor and Al Wakra, organised retail supply in Qatar more than doubled between 2015 and 2018. There is now almost 1.4 million sq m of retail accommodation in 21 purpose-built malls across Qatar.

A significant amount of the organised retail market is dominated by the four largest 'super-regional' malls, Doha Festival City, Mall of Qatar, City Centre and Villaggio. These malls currently account for almost half of total supply in Qatar.

Outside of the organised/indoor malls, Qatar's retail sector features a number of large outdoor developments including Medina Centrale and Porto Arabia on The Pearl Qatar, Souq Waqif and Katara Cultural Village, all of which are dominated by food and beverage outlets.

The recent increase in organised retail supply has transformed the market from being undersupplied to an oversupply scenario, which has had an impact on occupancy rates and revenue metrics. The oversupply has become evident in some new developments, where significant rent-holidays and fit-out contributions are being used to entice new tenants.

Q1 saw the soft opening of Galeries Lafayette at Katara Plaza. Galeries Lafayette is the second internationally renowned luxury department store to open recently in Qatar after the opening of Harvey Nichols in Doha Festival City. Katara Plaza is one of five significant retail developments that are expected to open in 2019, which will increase leasable retail supply by more than 300,000 sq m (Fig 14).

As competition increases, some existing malls, such as City Centre Mall, are undertaking major refurbishment works in order to compete with the new malls. Furthermore, the provision of leisure, entertainment and F&B provisions as well as strong anchors and generous car parking facilities will be vital in sustaining strong footfall.

Over the past few months DTZ have been dealing with a significant increase in the number of F&B operators looking for retail accommodation. The sector has recently been boosted by increasing popularity of home-delivery apps such as Carriage and Talabat.

Prime retail rents are still in the region of QAR 250 – QAR 300 per sq m per month for some of the malls. High street retail and showroom usually command rents of QAR 120 to QAR 160 per sq m per month, however some larger units in suburban locations are now available for less than QAR 100 per sq m per month.

Figure 14

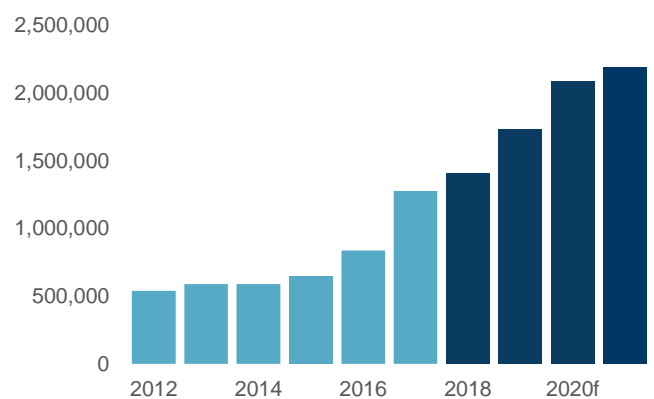
Proposed New Retail Malls for 2019

| Project | Location | Estimated Completion Date |
|----------------------------|------------|---------------------------|
| Doha Mall | Abu Hamour | 2019 |
| Katara Plaza | Al Qassar | 2019 |
| Northgate Mall | North Doha | 2019 |
| La Galleria + other retail | Msheireb | 2019 |
| Doha Souq | Al Mirqab | 2019 |

Source: DTZ Research

Figure 15

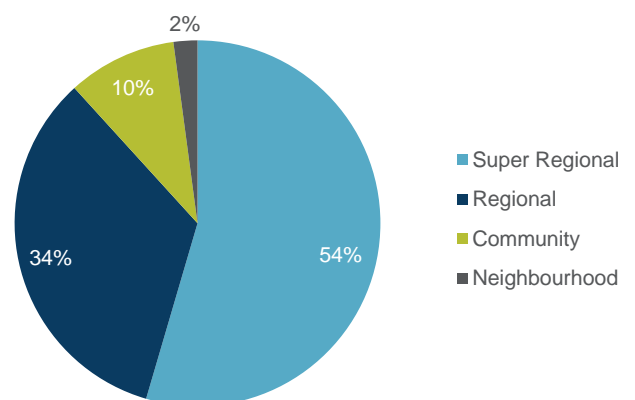
Organised Retail Supply, 2010-2021, (GLA, Million Sq m)



Source: DTZ Research

Figure 16

Organised Supply by Mall Category, Qatar Q1 2019



Source: DTZ Research



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