PROPERTY TIMES

Increase in Sales Transactions as Prices Reduce

Qatar Q2 2018

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Contents

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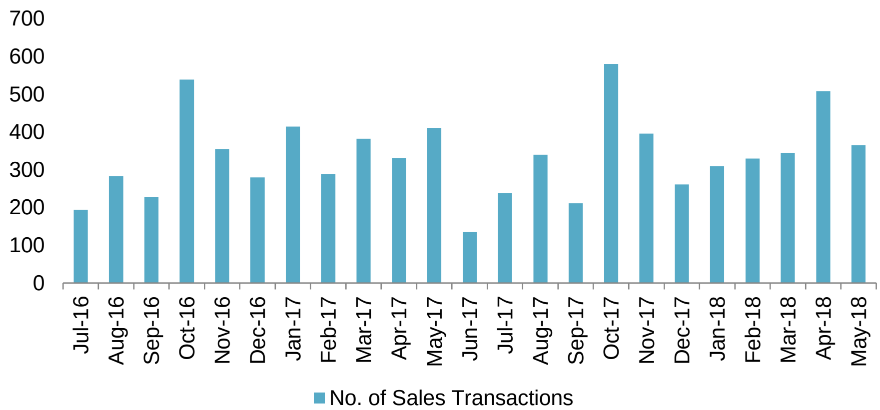
- The number of real estate transactions increased by 20% between April and May compared to the same months last year; however, the overall value of real estate transacted fell by 11%
- Prime office rents have reduced as new supply arrives on the market. Increasingly flexible lease terms over recent months have reflected the fact that landlords are now prioritising occupancy over headline rents. Demand remains strongest from small to medium sized companies looking for small units or serviced accommodation
- There has been a noticeable increase in the number of office enquiries, largely being generated by companies in the region who are looking to establish a physical presence in Qatar
- Following years of strong growth, residential rents have been falling to more sustainable levels over the past 2 years. There was a noticeable drop in prime residential rents in Q2, with some quoted rents up to 15% lower than this point last year, and rent-free incentives typically available for new tenancies
- Supply in the hotel sector in Qatar has increased by approximately 2,500 keys since the beginning of 2017. Increasing supply, coupled with the downturn in visitor numbers over the past 12 months, has seen overall occupancy for April and May fall by 2% to 60%
- Organised retail supply in Qatar has grown by approximately 75% to 1.4 million sq m in the past 3 years. The increase in supply has seen rents stabilize, and in some cases reduce, with increasing competition between malls to attract established retail brands and increase footfall.

Figure 1

No. of Real Estate Transactions in Qatar (July 2016 – May 2018)



Source: MDPS

Economic Overview

GDP is expected to grow to 3.1% in 2018, driven largely by non-hydrocarbon activity, including construction and infrastructure spending. This is well in excess of the low growth of 1.8% experienced in 2017. Oxford Economics project a further rebound of up to 3.5% per annum between 2019 and 2021 due to continued preparations for the 2022 FIFA World Cup.

Non-hydrocarbon GDP growth is expected to rise to almost 5% this year, and this level is likely to be maintained as key public infrastructure projects and a growing population drive demand up to 2022.

The recent move by OPEC-plus to ease oil production cuts is expected to modestly benefit Qatar with a focus on projection in oil prices. Brent crude is expected to average $75 per barrel in 2018, while previous projections had anticipated an average price of $77 per barrel in 2018.

It is anticipated that the budget deficit will narrow to 1.6% of GDP this year from 5.8% in 2017. The budget is expected to return to surplus in 2019. These economic improvements have contributed to the Fitch agency raising the outlook on Qatar's AA- sovereign credit rating to 'stable' in early June.

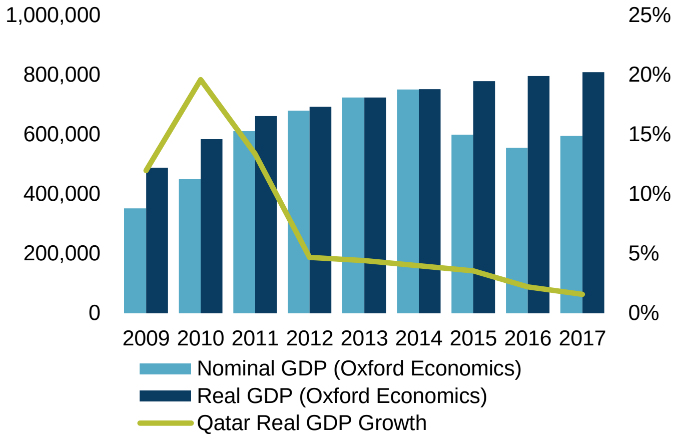
Headline inflation has been lower than expected. Annual inflation rose to 0.5% in May from 0.1% in April but has been slowing on month to month terms. Household and utilities are the main sectors contributing to the inflation rate drag. Oxford Economics expect annual inflation for 2018 to reflect 1.8% by year-end.

Despite the continuing blockade of Qatar by the Saudi-led alliance, FX liquidity in Qatar appears to be improving. Central Bank reserves have increased to US$40bn, although they are still below the pre-embargo level of $46bn. There has been a fall in non-resident deposits in Q2; however, the banking sector has been resilient overall due to liquidity injections by the government.

(Economics Overview insight provided by Oxford Economics)

Figure 2

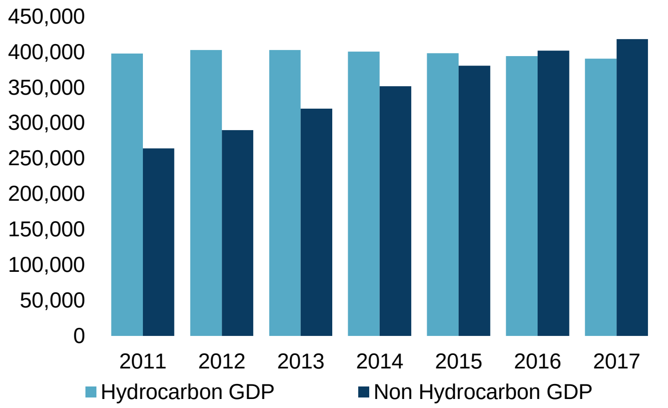
GDP (QAR Billion) and Real GDP Growth (%) 2009 - 2017



Source: MDPS/Oxford Economics

Figure 3

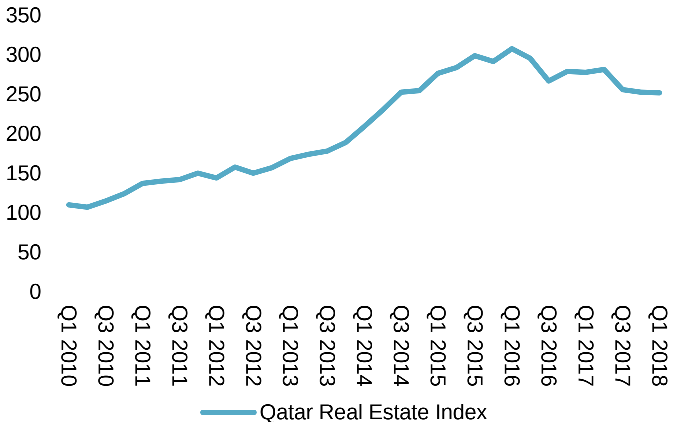
GDP Hydrocarbon v Non-Hydrocarbon (QAR Billion) 2011 - 2017



Source: MDPS/Oxford Economics

Figure 4

Qatar Real Estate Index 2007 – Q1 2018 (Base Q1 2009)



Source: QCB

Office Market Overview

Office rents in Qatar are continuing to feel the impact of the increase in new supply, and reduced demand since 2016. Typically, office rents in Doha have fallen by 20-25% since the height of the market in 2015. The fall in office rents has, to a large extent, been welcomed throughout the business community as Qatar strives to increase the competitiveness of its business environment.

West Bay remains the prime office location in Qatar. DTZ estimates that in excess of 30% of purpose built commercial office accommodation in Doha is situated in the West Bay area, which attracts banks, oil and gas companies, government entities and international corporate occupiers. West Bay commands the highest rental levels in the market, with average monthly rents of between QAR130 and QAR150 per sq m on a floor-by-floor basis, while smaller fitted suits can still command between QAR200 and QAR250 per sq m.

Offices in areas such as Old Salata, Al Sadd, and Airport Road are currently available at monthly rents of between QAR70 and QAR110 per sq m, depending on size, quality, fit-out and location.

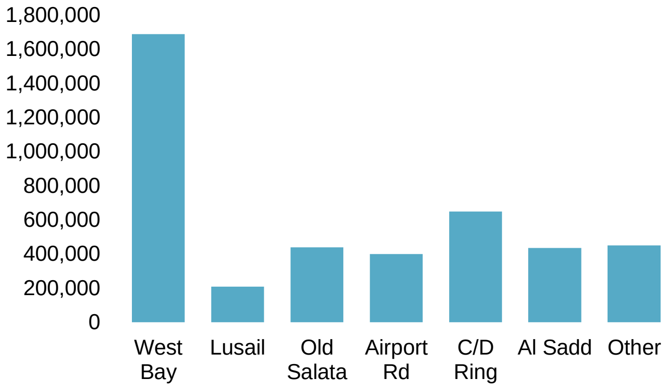
Total office supply in West Bay currently stands at approximately 1.7 million sq m. While the QP District will increase supply by more than 200,000 sq m, it is anticipated that most new supply will be delivered in the Marina District of Lusail in the next few years. Additional office accommodation in Msheireb and in Energy City is likely to put pressure on occupancy rates, with potential for further reductions in prime rental levels as new supply is delivered.

Recent months has seen a large increase in demand for small office units or serviced office suites. This demand has largely been generated by companies based in the region, who now required a full-time presence in Doha; however, this has not yet translated into a significant absorption of available office accommodation in West Bay or other prime areas.

One of the most notable office transactions of Q2 saw Schlumberger occupy an entire floor of Tornado Tower in West Bay, while Regus have opened serviced offices in Marina Twin Towers in Lusail. Elsewhere, recent market conditions have seen increasing flexibility among landlords in order to attract and retain tenants. Rent free periods of between 2 and 3 months are now commonplace for new leases, while rents on lease renewals increasing reflect current market levels rather than the inflated rents that had been agreed between 2013 and 2015.

Figure 5

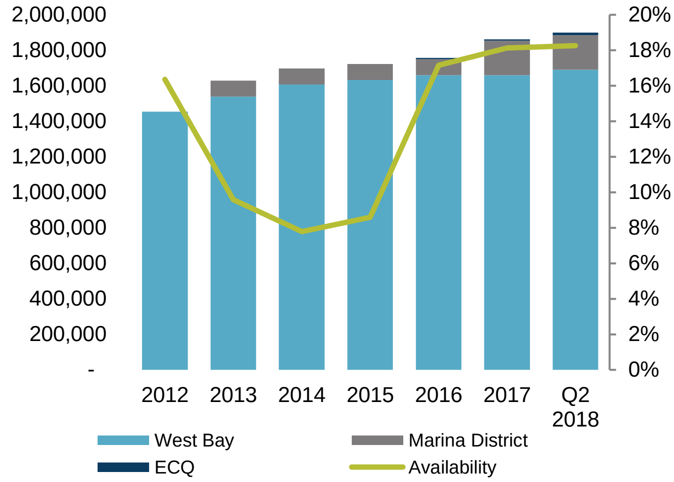
Total Purpose-Built Office Supply Q2 2018



Source: DTZ Research

Figure 6

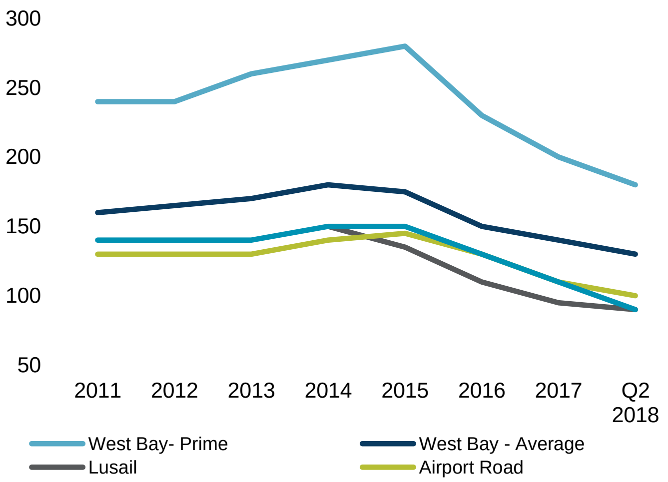
Office Supply (Sq m) and Availability (%), 2012 – Q1 2018



Source: DTZ Research

Figure 7

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



Source: DTZ Research

Residential Market Overview

The recent softening in residential rents has continued in Q2, as landlords look to maintain or increase occupancy within their buildings. A recent analysis of apartment and villa rents in various districts throughout Doha shows a decrease in headline rents in excess of 10% for available properties over the past 12 months.

Asking rents for vacant apartments in West Bay and the Pearl Qatar have typically dropped by 10% - 15% over the past 12 months, with rent free incentives of one to two months now commonplace. The recent correction in rental values restores value to the market, following unsustainable rental increases between 2011 and 2015.

Recent activity in the rental market has been largely dominated by residents moving between properties in order to take advantage of lower rents and the rental incentives on offer for vacant units. The relative slowdown in population growth has seen less demand from new residents, leading to a slight increase in vacancy rates as new buildings are released.

The fall in rents throughout the market has resulted in an increase in demand for apartments in areas such as West Bay and the Pearl Qatar, as rents have become more affordable, especially to residents whose 'living allowances' can now stretch further.

Reduced rents in central Doha districts such as Najma, Mansoura and Muntaza has also resulted in an increase in demand from residents looking to move from more peripheral locations such as Al Wakra, where lower rents had been available in recent years.

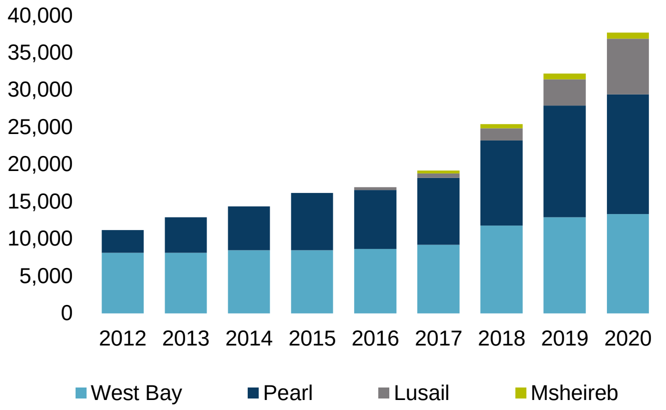
As development projects complete and the FIFA 2022 World Cup approaches, DTZ expects there to be an increase in demand for 'affordable' residential property due to the expected growth of the service sector. Developments such as Ezdan Oasis in Al Wakra and Mesaimeer City now provide high quality accommodation at lower rents and are well placed to meet this demand. Rental levels of QAR4,500 for a one-bedroom apartment up to QAR6,500 for a three-bedroom apartment, are currently being sought in Ezdan Oasis, which is likely to set the tone for mid-market rental levels.

Recent months have witnessed an increase in residential sales in Qatar, although activity has fluctuated on a month by month basis. Overall residential sales transactions in April and May were up 19.6% on the same months in 2017; however, the overall value of these transactions fell by 11%, reflecting a downward trend in real estate values.

New apartments in the Pearl Qatar are currently available for between QAR12,000 and QAR16,000 per square metre, depending on size and apartment type, while in the 'second hand market' recent transactions have typically reflected prices of between QAR9,000 and QAR11,000 per sq m.

Figure 8

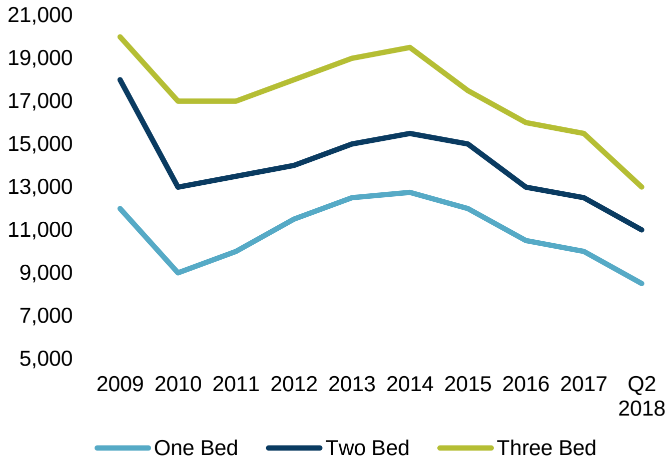
Prime Apartment Supply, Prime Districts



Source: DTZ Research

Figure 9

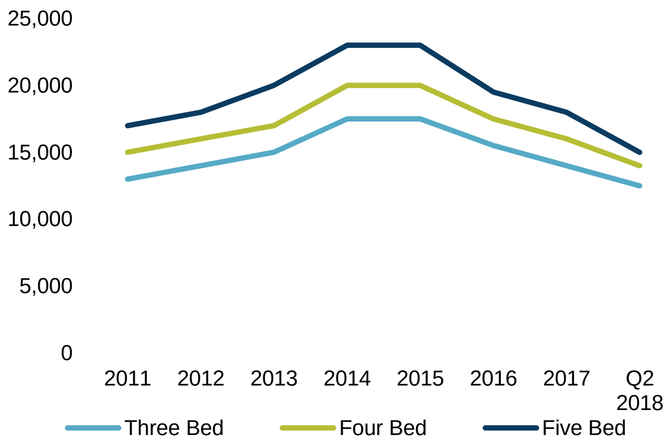
Average Villa Rents, The Pearl-Qatar, QAR/Month



Source: DTZ Research

Figure 10

Average Compound Villa Rents, Al Waab, QAR/Month



Source: DTZ Research

QATAR Q2 2018

Hospitality Market Overview

DTZ's records indicate that by the end of Q2 2018 there were 125 hotels and apartment hotels operating in Qatar. These properties provide approximately 25,350 keys, including rooms, suites and apartments.

QTA statistics indicated that there were 22,921 hotel room keys (not including hotel apartments) at the end of 2017 within 98 properties.

5-star and 4-star establishments currently dominate the market, comprising 87% of supply. The past 12 months has seen an increase in high quality mid-market hotels with the opening of the Holiday Inn, Premier Inn and Millennium Plaza, with an Ibis hotel also expected to open on C-Ring road, adjacent to the Radisson Blu.

There are currently in the region of 17,000 hotel keys and serviced apartments at various stages of planning and construction in Qatar. Tivoli Al Najada, next to Souq Wakif and The Wyndham Hotel in West Bay are expected to open shortly, adding 151 and 264 hotel rooms respectively. Al Najada will also deliver 100 apartments, while the Wyndham started to release their 252 branded apartments in Q2.

The blockade of Qatar by the Saudi-led alliance has now entered its second year. While the overall economy has remained robust, the hotel sector has continued to feel the effects of reduced visitor numbers. The GCC now accounts for 10% of overall visitors, down from approximately 50% before the blockade. Overall, visitor numbers fell by 39.5% for the first 5 months of the year, which has had a considerable impact on demand for hotel rooms.

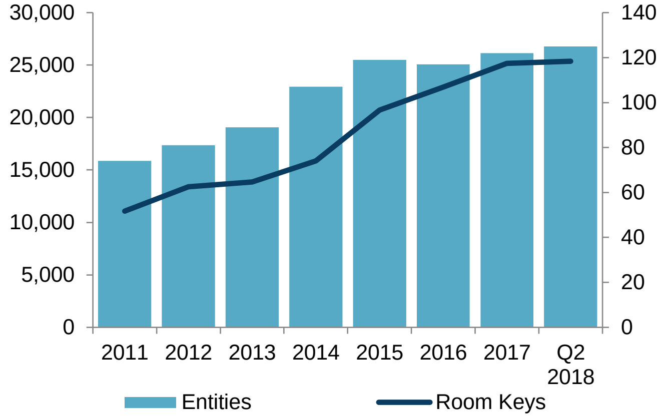
According to statistics released by the Ministry of Development Planning and Statistics, hotel occupancy for April and May fell to 62% and 60% respectively, compared to 69% and 60% for the same months in 2017. Average Daily Rates (ADRs) for all hotels in May was QAR396, down from QAR447 in 2017. The Average Daily Rate for 5-star hotels in May fell 10% year-on-year to QAR574, which reflected a daily revenue per available room of QAR344.

The National Tourism Strategy has set out targets for 2023 to include boosting occupancy rates to 72% across the sector, and doubling tourist arrivals to 5.6 million. To help achieve these targets, QTA recently announced the expansion of visa free entry to 80 countries and the introduction of the e-visa platform.

There have also been steps to increase visitors from new markets, notably China, Turkey, Australia, Hong Kong and Russia. These initiatives will be vital for increasing demand to occupy existing hotel rooms as well as those in the development pipeline.

Figure 11

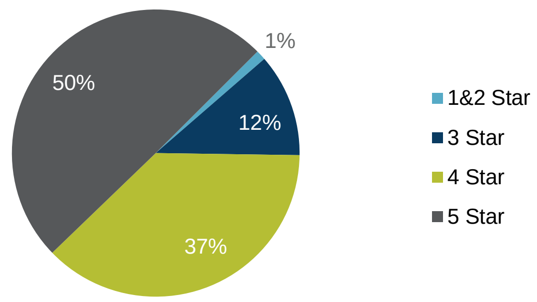
No. of Hotel/Hotel Apartment Keys by Rating, Dec 2017



Source: DTZ Research

Figure 12

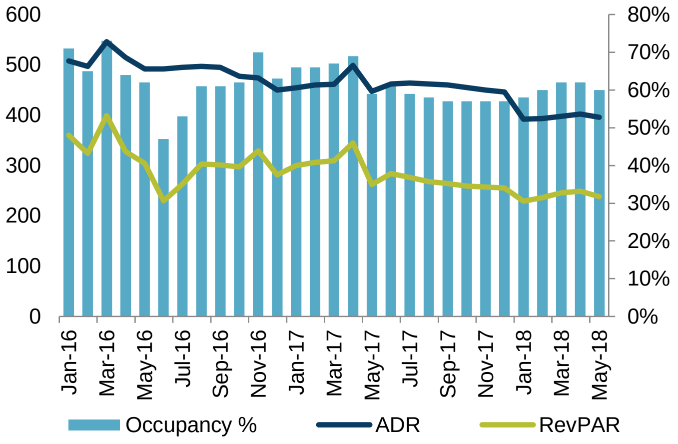
Keys by Rating, Q2 2018 (Total 25,350)



Source: DTZ Research

Figure 13

Hotel Performance Indicators, 2016 – May 2018. ADR & RevPar in QAR, Occupancy in %



Source: MDPS

Retail Market Overview

There is currently a total of 21 purpose-built retail malls in Doha (excluding local neighbourhood centres and stand-alone hypermarket developments), which provide almost 1.4 million sq m of gross leasable accommodation.

The three largest malls in Qatar, Doha Festival City, Mall of Qatar and Villaggio Mall account for more than 40% of retail mall accommodation, providing a total of 565,000 sq m of gross leasable area between them.

Tawar Mall in Umm Lekhba is the most recent mall to open, providing a total of 90,000 sq m of retail accommodation.

The supply of organised retail accommodation has trebled within the past 8 years. The completion of 600,000 sq m of leasable retail area since 2015 has resulted in change in dynamic within the retail sector, with vacancy rates increasing in what was previously an undersupplied sector.

The sharp increase in supply, coupled with the downturn in overall consumer spending has resulted in a downward pressure on rents as landlords look maintain occupancy levels.

While a number of prime retail destinations continue to enjoy full occupancy and attract high footfall, the quantity of new supply has increased competition between retail destinations to secure premium brands. The past 12 months has seen an increase in tenant incertyntives such as rent-free periods, fit-out contributions, and lower headline rents.

Outside of the ‘Organised Retail’ sector, the market in Qatar comprises largely of community mini-malls, ‘Al Furjan’ markets, high street showrooms, and traditional souqs, most of which experience high occupancy, by offering lower rents and more flexible lease terms than the larger malls.

Demand for F&B outlets remains strong, although operators are increasingly ‘rent-sensitive’. Throughout Q2, DTZ has seen a notable increase in enquiries for retail and F&B accommodation in Lusail, as residential and office occupiers start moving to the Marina District and Fox Hills.

Within the main shopping malls, line-stores of between 100 and 250 sq m usually command monthly rents of between QAR250 and QAR390 per sq m, with discounted rents available for the larger stores. There is evidence that rental reductions are being granted for tenants in some of the ‘less-prime’ locations in order to maintain existing occupancy levels.

Showroom and high street rents usually vary from QAR100 to QAR160 per sq m depending on the location. Rents in Al Furjan markets, which are a government backed initiative, are typically restricted to QAR6,000 per month for small units.

Figure 14

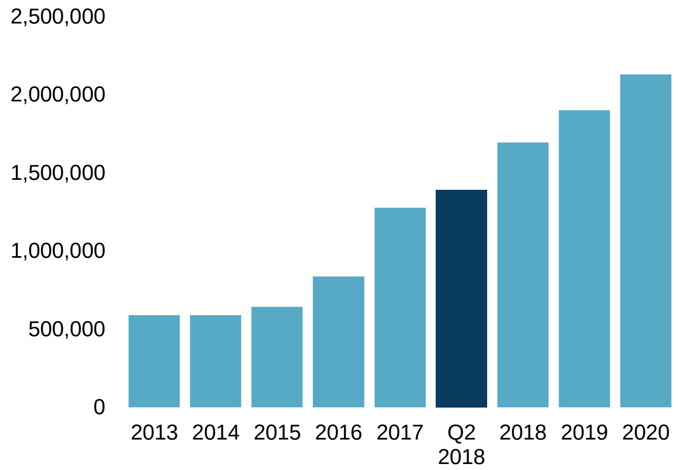
Proposed New Retail Malls for 2018

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

Source: DTZ Research

Figure 15

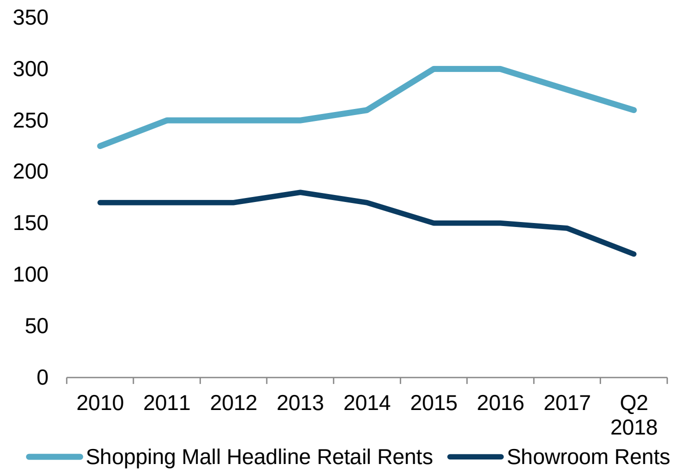
Organised Retail Supply, 2013-2020, sq m (GLA)



Source: DTZ Research

Figure 16

Average Retail Rents, QAR/sq m/month



Source: DTZ Research

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About DTZ Qatar

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