PROPERTY TIMES

Doha's new prime office district opens at Msheireb

Qatar Q3 2018

30 September 2018

Contents

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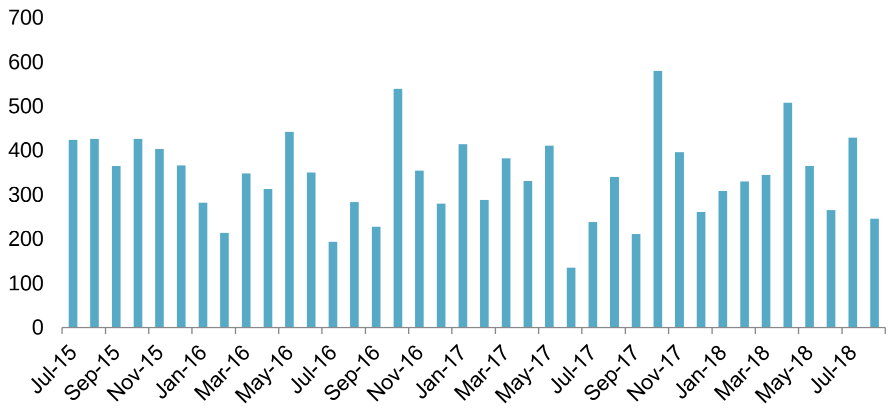
- Activity in the office leasing market has been dominated by relocations within Doha in recent months with limited new demand. The first commercial office occupiers have now moved into Msheireb, which is likely to become one of Doha's prime office locations
- Office rents in West Bay now average QAR130 to QAR150 per sq m per month on a floor-by-floor basis for shell and core space, however premium fitted suites can still command in excess of QAR200 per sq m per month
- Residential supply continues to increase throughout the market with the completion of new apartment buildings and villa compounds. A relative slowdown in new demand has seen residential rents continue to soften in most areas
- While year-on-year sales activity increased by 9% in July and August, average values have reduced. Prime apartments in the Pearl Qatar have recently achieved QAR12,000 to QAR16,000 depending on unit type and size
- Hotel supply surpassed 25,800 keys by Q3, with 4-star and 5-star accommodation comprising 87% of total available keys. An additional 16,000+ hotel room and hotel apartment keys are currently at various stages of planning and construction
- The supply of organised retail accommodation in Qatar has grown by more than 600,000 sq m since 2015. The increase in supply has seen a shift in the market dynamic from undersupply to oversupply during this period resulting in a fall in occupancy rates and rental levels throughout 2018.

Figure 1

No. of Real Estate Transactions in Qatar (Mar 2015 – Aug 2018)



Source: MDPS

Economic Overview

GDP forecasts for 2018 have recently been downgraded to 2.7% due to a slowdown of the non-hydrocarbon sector; however, this remains significantly higher than the 1.8% GDP growth recorded in 2017. The oil and gas sectors are anticipated to grow by 1.4% this year, compared to approximately 4% growth in the non-hydrocarbon sectors. According to Oxford Economics overall GDP growth is expected to rebound to 3.3% in 2019 and 3.5% a year until 2022.

The construction sector accounts for approximately 20% of non-hydrocarbon activity in Qatar. After a strong showing in July, building permits fell by 32% in August indicating that the construction sector remains under pressure, outside of the main infrastructure projects.

Overall, the fiscal position of Qatar is improving, driven by a 4 year high in oil prices. It is anticipated that the budget deficit will narrow to 1.6% of GDP this year from 5.8% in 2017. After three years of deficit, it is expected that Qatar will return to surplus in 2019, due in a large part to the forecasted oil price of approximately $75 per barrel.

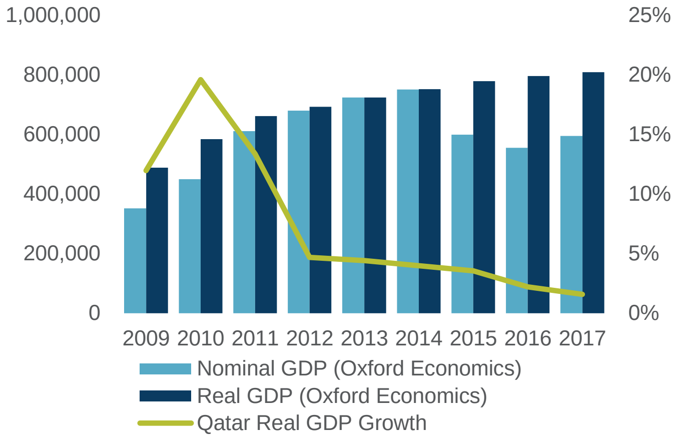
Inflation throughout 2018 has been almost stagnant, with an average rate of less than 0.5% between January and August. Household spending and utilities are the main sectors contributing to the inflation rate drag. Oxford Economics expect annual inflation for 2018 to reflect 1.8% by year-end, and increase to 2.8% in 2019, which reflects the anticipated introduction of VAT.

The banking sector has remained resilient in 2018, due in part to liquidity injections by the government. Overall FX liquidity has improved, while the local equity market is up over 14% year-to-date. Taking a lead from US monetary policy, Qatar raised its deposit rate by 25bp to 2.25% in September. A further hike is expected in Q4.

(Economics Overview insight provided by Oxford Economics)

Figure 2

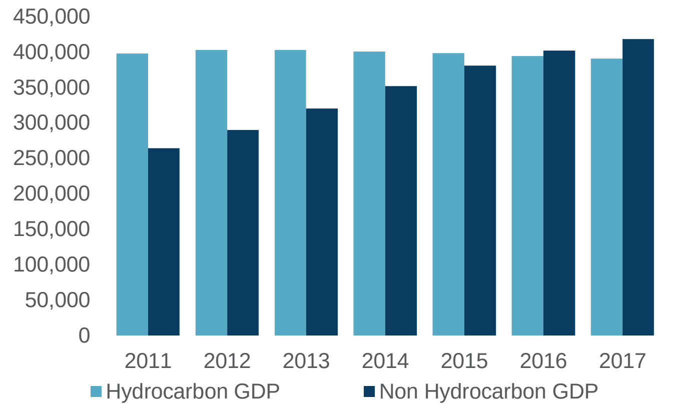
GDP (QAR Billion) and Real GDP Growth (%) 2009 - 2017



Source: MDPS/Oxford Economics

Figure 3

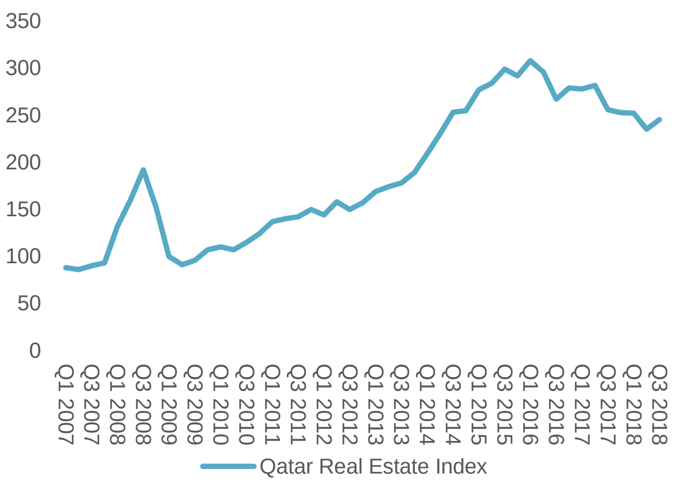
GDP Hydrocarbon v Non-Hydrocarbon (QAR Billion) 2011 - 2017



Source: MDPS/Oxford Economics

Figure 4

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



Source: QCB

Office Market Overview

The office leasing market remained subdued in Q3. The majority of recent demand has been generated by companies relocating within Doha, the most notable being BeIN Sports' move to Al Asmakh Tower on Majlis Al Taawon Street. Outside of West Bay, QNB became the first company to move into Msheireb, having secured more than 2,500 sq m in Doha's newest prime office location.

West Bay remains Doha's principal commercial district, comprising in the region of 30% of all purpose-built commercial office accommodation in Doha. Total office supply in West Bay currently stands at approximately 1.7 million sq m.

QP District in West Bay will, on completion, increase supply by more than 200,000 sq m, however most of the new supply in the current pipeline will be delivered in the Marina District of Lusail in the next few years.

While new demand from larger corporate occupiers remains weak, the fall in office rents has generated activity within Doha as tenants strive to secure more attractive lease terms. There has been a significant increase in demand for small business units or serviced office suites in Qatar in 2018. This demand has largely been generated by companies based in the region, who now require 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.

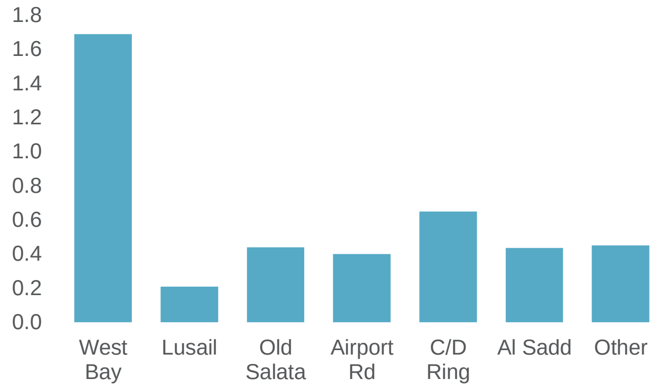
West Bay typically commands rental levels of between QAR130 and QAR150 per sq m per month on a floor-by-floor basis, although rents in excess of QAR200 per sq m per month can be achieved for smaller fully fitted suites.

Offices in secondary locations are now available at monthly rents of between QAR70 and QAR100 per sq m, depending on size, quality, fit-out and location.

Current office rents have reflected a fall of 20-25% since the height of the market in 2015. The current oversupply has also resulted in more 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 increasingly reflect current market levels rather than the inflated rents that had been agreed between 2013 and 2015.

Figure 5

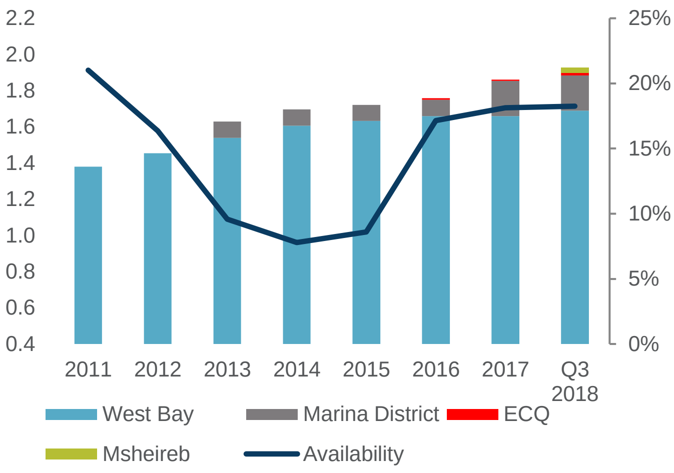
Total Purpose-Built Office Supply (Sq/Millions) Q3 2018



Source: DTZ Research

Figure 6

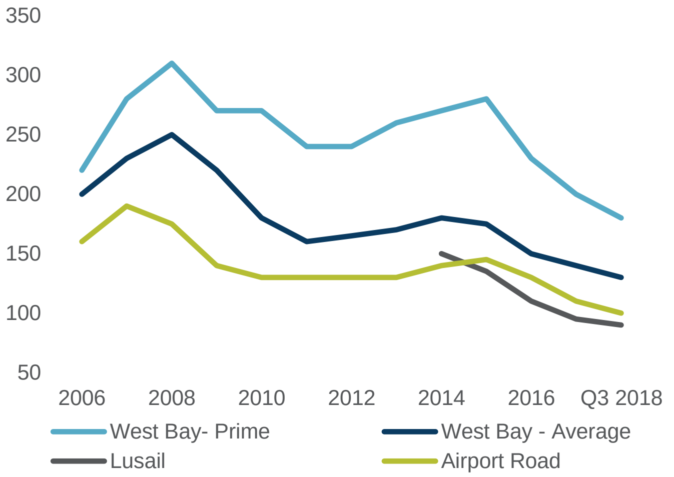
Office Supply (Sq m/Millions) and Availability (%), 2011 – Q3 2018



Source: DTZ Research

Figure 7

Office Rents by District, (QAR/sq m/month) 2006 – Q3 2018



Source: DTZ Research

Residential Market Overview

Residential rents have remained relatively stable over the past three months after two years of decline. Overall, rental trends have declined by approximately 10% - 15% in the past year alone as supply increases.

DTZ has seen an increase in leasing activity in Q3, however the vast majority of new lettings are to existing residents of Qatar looking for reduced rents, rather than incoming residents. The relative lack of new demand currently being generated means that oversupply continues to grow as new developments complete.

Asking rents for vacant apartments in areas such as Al Sadd, Bin Mahmoud Al Mirqab and Bin Omran have fallen by up to 20% since 2016, although a number of new high-quality developments with high specification finishing still command relatively strong rents in these areas.

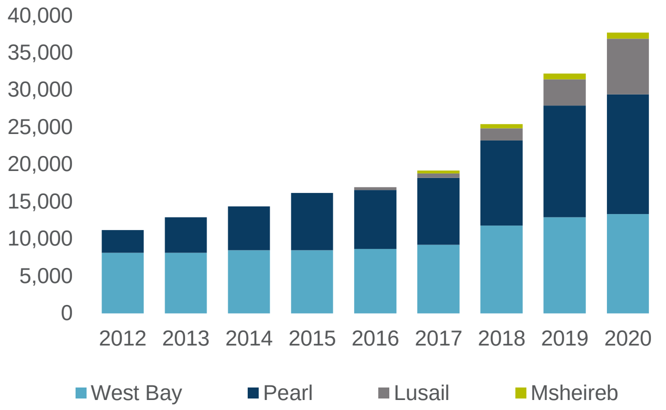
West Bay and the Pearl Qatar have typically dropped by 10% - 15% over the past 12 months, with rent free incentives of at least a month available on the majority of new leases. The recent drop in rent has restored a sense of affordability to the prime residential sector, following several years of escalating rents. Lower rents have also encouraged residents to seek higher quality accommodation than may have previously been deemed affordable. The large pipeline of new prime apartment developments in neighbourhoods such as Pearl Qatar and Lusail is likely to put further downward pressure on rents unless significant new demand is created.

DTZ expects new demand in Qatar to be largely generated by those in the service sector as construction projects complete prior to the FIFA World Cup. Developments such as Ezdan Oasis in Al Wakra now provide modern masterplanned residential neighbourhoods catering for 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 has set the tone for mid-market rental levels.

The number of residential sales transactions for July and August increased by 9% on the same months in 2017, which reflected an overall increase in the value of house sales of 3%. Values have continued their downward trend, which has been evident since 2016. 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

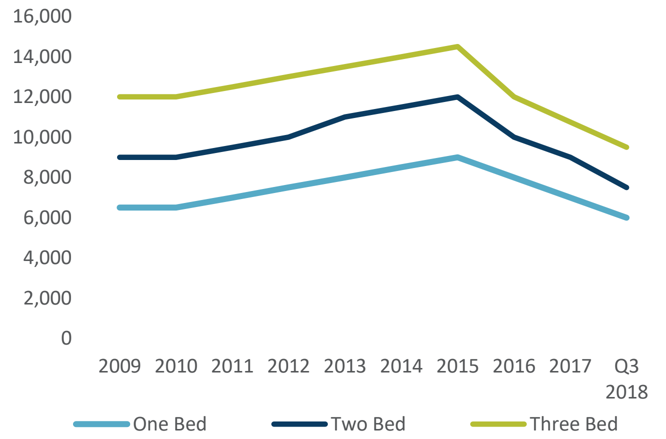
Prime Apartment Supply, Prime Districts



Source: DTZ Research

Figure 9

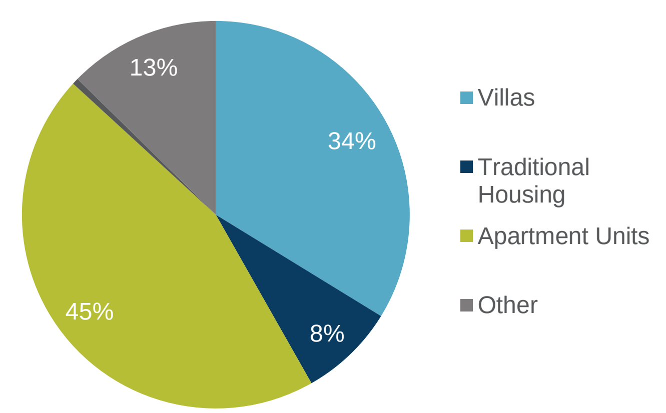
Average Apartment Rents, Bin Omran, QAR/Month 2009 – Q3 2018



Source: DTZ Research

Figure 10

Residential Supply in Qatar by Type, 2018 Estimate



Source: DTZ Research & MDPS

Hospitality Market Overview

Visitor numbers to Qatar fell by 35% in H1 2018 due to the on-going-blockade. While arrivals from other international regions has increased, a fall of 84% in GCC traffic has provided a previously unseen challenge to the hospitality sector in Qatar.

Despite the impact of the blockade, efforts to boost tourism in Qatar have been making inroads in other regions, notably in Asia, which has seen and increase of more than 350,000 visitors in the first six months of the year. This included a growth of 18% from India, one of Qatar's principal target markets.

According to QTA the total supply of hotel keys increased to 25,828 in July 2018, an increase of 883 over the first six months of the year. This represents a 6% jump in supply. The total number of hotel and hotel apartment buildings now stands at 122.

Over the past 12 months, the opening of the Holiday Inn, Premier Inn and Millennium Plaza have increased the supply of mid-market budget hotel accommodation. However; the majority of accommodation remains focused on the luxury market, with 87% of accommodation currently available being categorized as either 4 Star of 5 Star.

The pipeline of new hotel supply remains significant, with a view to meeting targets for the FIFA 2022 World Cup. DTZ understands that there are over 16,000 hotel keys and serviced apartments at various stages of planning and construction in Qatar.

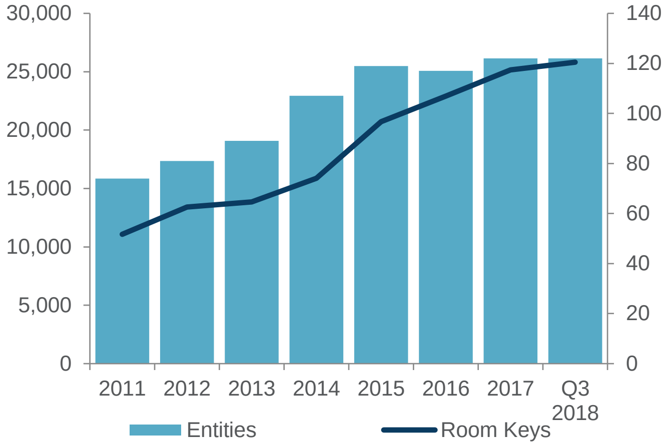
According to the QTA, hotel occupancy for the first half of 2018 was 59%, down from 61% over the same period in 2017. The overall Average Daily Rate (ADR) for the hotel sector fell from QAR 462 to QAR 398 while the overall average revenues per available room (RevPAR) fell from QAR 284 to QAR 234. Interestingly, the best performing category in H1 was the 3 Star category, which saw occupancy rates increase from 60% to 69% since the same period in 2017.

Hotel apartments continue to outperform hotel rooms, with average occupancy rates of 73% recorded for the first half of the year – a year-on-year increase of 17%. This is largely due to the more competitive rates now available on the market for long-stay guests.

Despite recent challenges, overall occupancy rates for the hospitality sector have largely defied the fall in visitor numbers to Qatar, and the increase recent in overall supply, with the main impact being reflected in average daily rates.

Figure 11

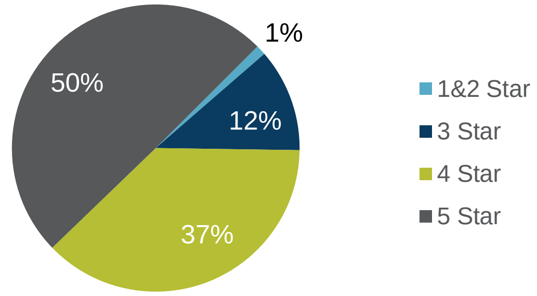
No. of Hotel/Hotel Entities and Room Keys 2011 – Q3 2018



Source: DTZ Research

Figure 12

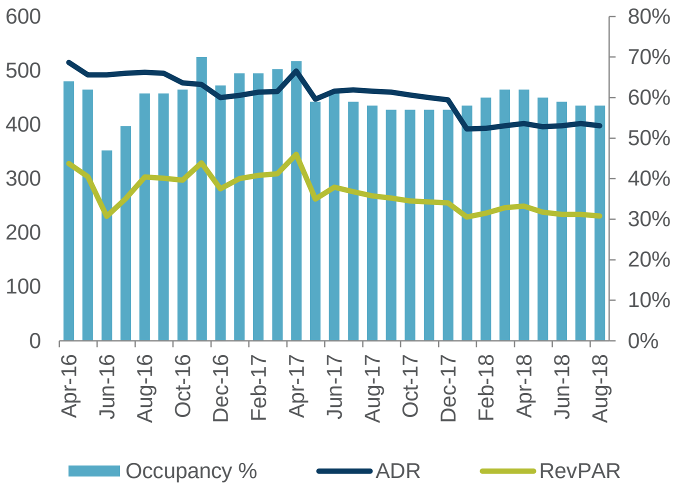
Keys by Rating, Q3 2018 (Total 25,828)



Source: DTZ Research

Figure 13

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



Source: MDPS

Retail Market Overview

Doha's organised retail market currently provides almost 1.4 million square meters of leasable accommodation in 21 purpose-built retail malls. This excludes small neighbourhood centres and stand-alone hypermarkets. More than 40% of organised retail accommodation is now provided in the three most prominent destination malls in Qatar; Doha Festival City, Mall of Qatar and Villaggio Mall.

The most recent mall to open in Doha has been Tawar Mall in Umm Lekhba, which opened earlier this year. The addition of 90,000 sq m of retail space in Tawar brought total new supply to more than 600,000 sq m since 2015.

Prior to 2016 the organised retail market had been undersupplied, characterised by full occupancy and increasing rents. The opening of 6 major retail malls since 2016, coupled with the downturn in overall consumer spending has resulted in an oversupply being created. Increasing vacancy rates in some of the major retail malls and competition between new malls for tenants has resulted in downward pressure on rents.

Many prime retail destinations continue to enjoy full occupancy and attract high footfall, despite the increase in supply; however, some malls that lack strong anchors or don't have a strong leisure and F&B component are seeing a drop-in footfall and occupier demand.

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'. Over the past 6 months, DTZ has witnessed a significant increase in enquiries from F&B operators, notably those looking for 'casual dining' restaurants.

Prime retail rents in the main retail malls are still in the region of QAR250 – QAR350 per sq m for smaller line stores; however new occupiers are increasingly likely to secure generous incentives, depending on the property.

Showroom and high street retail premises typically command rents of QAR100 to QAR160 per sq m depending on their size and 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

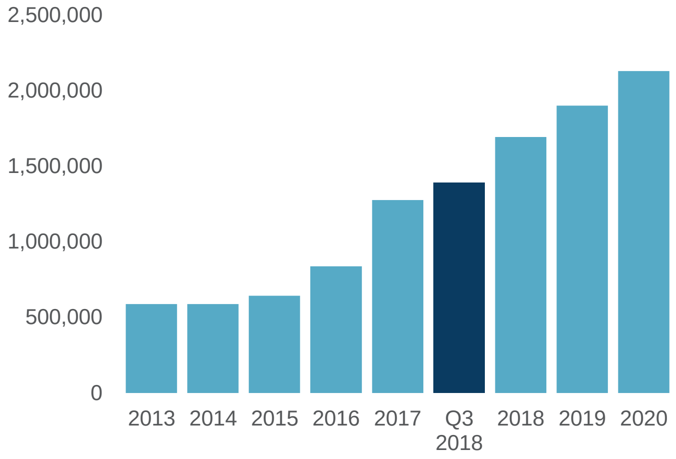
Proposed New Retail Malls for 2019

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

Source: DTZ Research

Figure 15

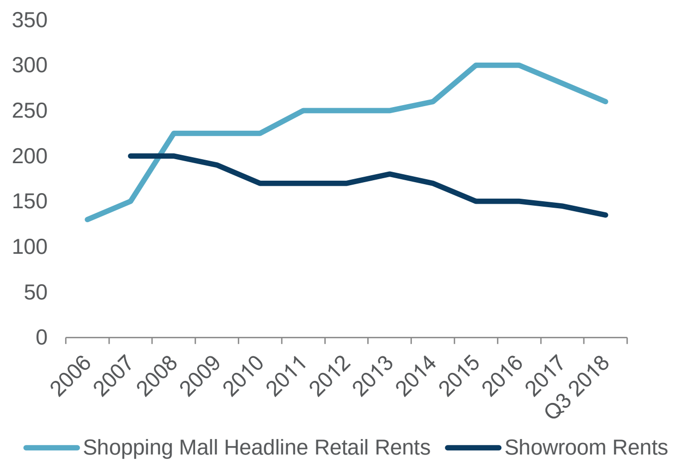
Organised Retail Supply, 2013-2020, sq m (GLA)



Source: DTZ Research

Figure 16

Average Retail Rents, QAR/sq m/month 2006 – Q3 2018



Source: DTZ Research

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About DTZ Qatar

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