PROPERTY TIMES

Rising Oil Prices Expected to Boost Real Estate Demand

Qatar Q1 2018

31 March 2018

Contents

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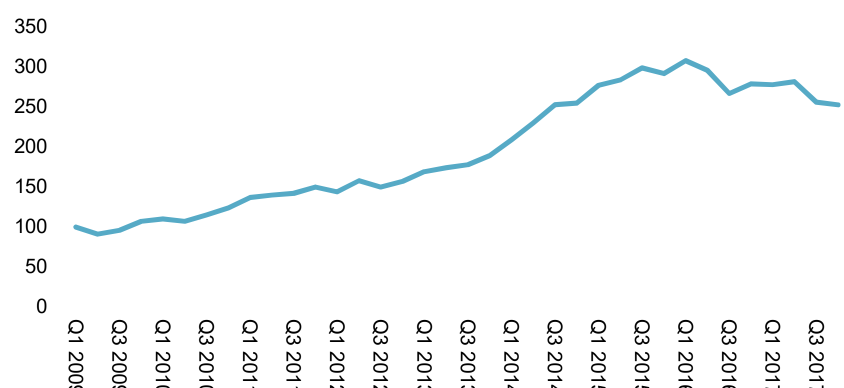
- Following a slow down in property sales between December and January, property sales increase in February by 14% compared to the same month last year. DTZ estimates that on average real estate values have fallen by approximately 10% over this 12 month period. This is in line with trends indicated in the Qatar Central Bank Real Estate Index (Figure 1)
- The subdued commercial office market has resulted in increased competition to attract tenants. Over recent months there has been examples of landlords willing to contribute to fit-out costs, which are a major consideration for small to medium sized companies looking to relocate
- There has been an increase in demand for small business units, driven by an increase in 'start-up' companies. Typically these units are being sought in suburban areas where rents are less expensive than the city centre
- The ongoing development of new housing supply, and relatively low demand in comparison to previous years, is continuing to impact on rental levels. Increasing vacancy rates have resulted in an average fall in quoted rents c.10% over the past 12 months
- Performance in the hotel sector continues to feel the impact of slowing demand in combination with aditional new supply. Supply in the hotel sector increased by approximately 2,250 keys in Qatar in 2017, however overall occupancy fell from 62% to 57%
- Tawar Mall opened its doors in Q1 2018, bringing total supply or organised retail accommodation to almost 1.4 million sq m. Up to 300,000 additional sq m could potentially be delivered in 2018, if projects complete on time as proposed.

Figure 1

Qatar Central Bank Real Estate Index (Base 100, Q1 2009)



Source: QCB

Economic Overview

Despite a noticiable reduction on GDP growth in 2017, largely due to the impact of the blockade, activity is expected to increase in 2018 fuelling an acceleration in growth to 3.1% from 1.8% last year. The more optimistic outlook is being fuelled by rising oil prices and hydrocarbon revenues, and improving consumer confidence about the economy.

Non-hydrocarbon GDP growth is expected to rise to almost 5% in 2018, while preparations for the 2022 World Cup are expected to continue to grow the population and drive domestic demand.

The sacking of US Secretary of State Rex Tillerson in March has, in many peoples opinion, reduced the already slim chances of a quick resolution to the diplomatic dispute between Qatar and it's neighbours. However; following actions taken by Qatar in the early months of the dispute, the worst impacts of the blockade have largely dissappated. Non-resident deposits increased by QAR5.3 billion in February, which was the highest in over a year, while FX reserves have also been increasing.

Despite cuts by OPEC to oil production, stable commodity prices are expected to support government revenues in 2018. These factors, together with projections for increase government spending means that Oxford Economics expect the budget deficit to narrow to 2.3% of GDP, from an estimated 4.7% in 2017, with a return to surplus expected in 2019.

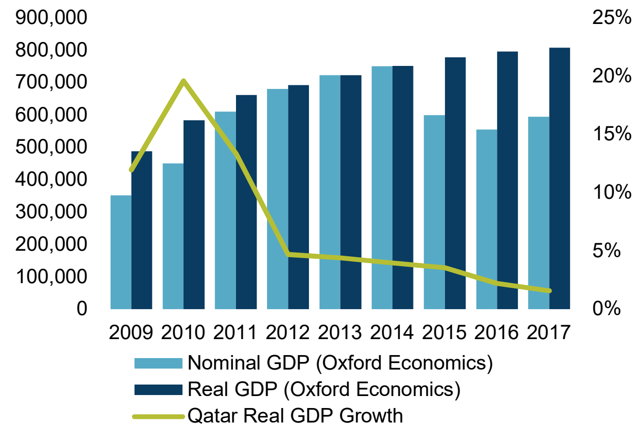
Headline inflation slowed to 0.8% year-on-year in February, from 0.9% in January. Inflation is expected to accelerate in 2018 as the impact of the housing category fades, however Oxford Economics see downside risks to the previous projections of their full-year forecast of 2.6%

The Central Bank is expected to tighten policy to prevent the outflow of capital. While it kept repo and lending rates unchanged in March at 2.4% and 5% respectively, the overnight deposit rate was raised by 25bps to 1.75% in line with the US Fed. Further rate hikes are expected by Oxford Economics in 2018.

(Economics Overview insight provided by Oxford Economics)

Figure 2

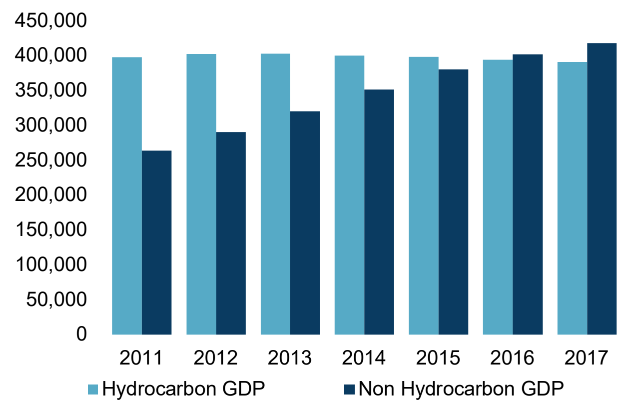
GDP (QAR Billion) and Real GDP Growth (%) 2009 - 2017



Source: MDPS/Oxford Economics

Figure 3

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



Source: MDPS/Oxford Economics

Figure 4

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

Source: EIU

Office Market Overview

There has been limited new demand for prime office in West Bay and Lusail in Q1, with activity largely limited to relocations and downsizing of existing space.

Despite signs of increased activity for start ups looking for small business units over the past 12 months, this has largely been restricted to less expensive suburban locations and has not, as yet, translated into demand for corporate office accommodation.

The merger of Ras Gas and Qatar Gas consolidated their operations in Palm Tower in West Bay, with Qatar Petroleum occupying the accommodation vacated by Qatar Gas in Navigation Tower. Otherwise, demand for new offices from the hydrocarbon sector remains subdued due to fiscal consolidation measures first introduced in 2015 and 2016.

Recent inactivity in the market has resulted in increasingly generous incentives being offered to tenants who are looking for new premises. Rent free periods of two to three months have been commonplace over the past 18 months, however in some cases rent free periods in excess of six months are now available, depending on the length of the lease.

One of the main barriers to office re-locations for small to medium sized companies in the private sector is the cost associated with moving. The capital exoenditure of fitting out an office from shell-and-core is often prohibitive, not least due to the uncertain economic climate. As competition increases between buildings, there has been an emerging trend in Q1 of landlords offering tenants turn-key offices fitted to their specification.

Overall office supply in West Bay remains at approximately 1.65 million sq m. A further 210,000 sq m is now either occupied or available to lease in Lusail, between Energy City and the Marina District. Overall commercial office supply in Doha is estimated to be in excess of 4.2 million sq m.

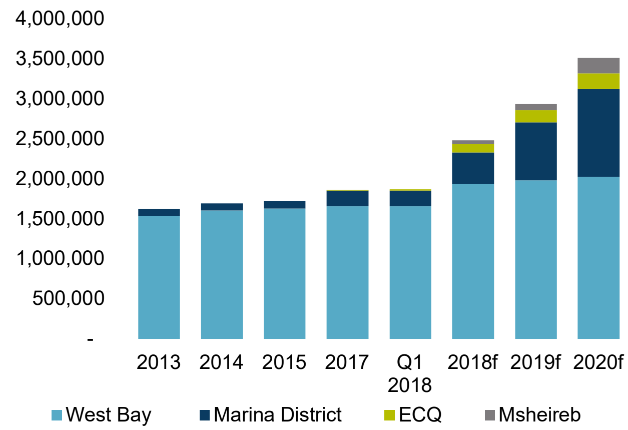
DTZ estimates that there is approximately 350,000 sq m of Grade A accommodation available to lease in West Bay and Lusail, which represents approximately 19% of total supply in these districts.

Prime headline rents in West Bay of QAR200 per sq m per month are still being achieved for units of less than 250 sq m in prime towers, however rents for larger suites and full floors currently range from QAR120 to QAR170 per sq m per month.

Offices in areas such as Old Salata, Al Sadd, and Airport Road, now command headline rents of between QAR70 and QAR120 per sq m per month, depending on size, quality, fit-out and location.

Figure 5

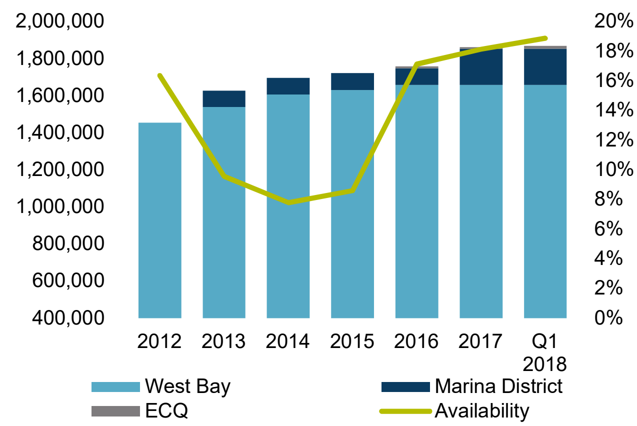
Prime Office Supply & Pipeline (2013 – 2020)



Source: DTZ Research

Figure 6

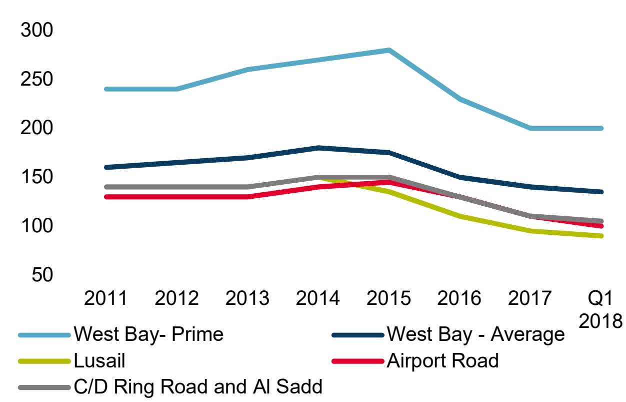
Office Supply (Sq m) and Availability (%), 2012 – Q1 2018



Source: DTZ Research

Figure 7

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



Source: DTZ Research

Residential Market Overview

Rents continued to soften in Q1 as the residential sector continues to feel the impacts of the economic downturn and a reduction in new demand. The impact on residential rents varies between unit types and quality. Prime villas and apartments have seen the highest percentage fall in rental levels, however this follows a period of strong rental growth between 2011 and 2015.

Asking rents for vacant apartments in West Bay and the Pearl Qatar have typically dropped by 8% - 12% over the past 12 months, with rent free incentives of one to two months now commonplace.

In the secondary market, asking rents have typically fallen by 6% to 10% over the past 12 months. This market has been impacted by a large number of new buildings, which has put pressure on occupancy rates.

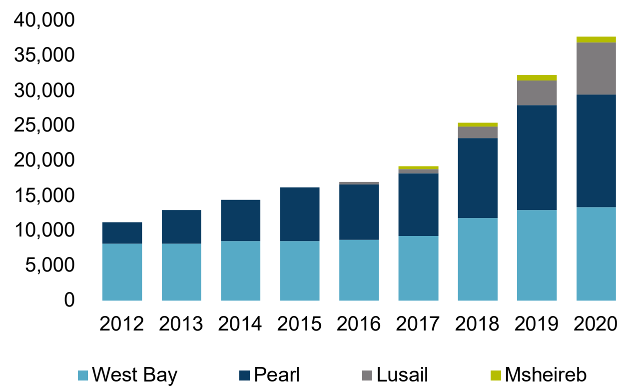
The villa compound sub-sector was impacted most significantly by the fiscal consolidation program that followed the fall in global oil prices. This was largely due to the fact that compounds were previously subject to strong demand for corporate leases, with limited vacancy availability between 2013 and 2015. While many compounds remain fully occupied, an increase in overall vacancy rates has resulted in asking rents falling by up to 20% since the peak of the market.

Future demand for residential property will be driven by population increases. It is anticipated that the majority of the population increase in the coming years will be generated by expatriates in the service industry, as construction projects complete. DTZ expects this to drive demand for 'affordabe residential property'. Ezdan Oasis, which opened in July 2017 has has identified this projected demand and targets both individual and corporate occupiers looking for staff accommodation. Rental levels of QAR4,500 for a one-bedroom apartment up to QAR6,500 for a three-bedroom have set a benchmark for newly built mid-market apartments on the outskirts of Doha.

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, although some prime units and serviced apartments can still command premium prices of up to QAR17,000 per sq m.

Figure 8

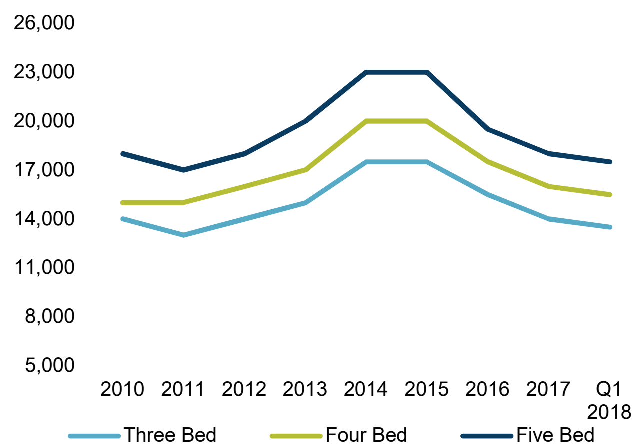
Prime Apartment Supply, Prime Districts



Source: DTZ Research

Figure 9

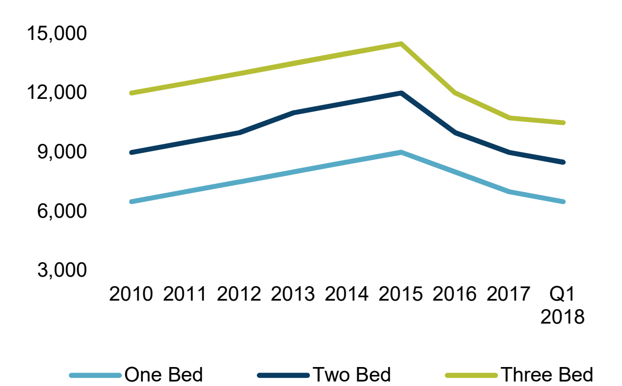
Average Villa Rents, Ein Khalid, QAR/Month



Source: DTZ Research

Figure 10

Average Apartmen Rents, Al Sadd QAR/Month



Source: DTZ Research

Hospitality Market Overview

The total number of hotel and hotel apartment developments currently operating in Qatar was officially recorded at 122 in QTA's end of year report for 2017. These properties provide a total of 25,167 keys, including hotel rooms suites and hotel apartments.

Total supply of hotel room keys (not including hotel apartments) at year end was 22,921, contained within 98 properties. Of these, 49.7% were categorised as 5-star, while 37.6% were categorised as 4-star. Current supply is heavily weighed in favour of expensive luxury hotel establishments, however the recent opening of good quality mid-market hotels such as the Holiday Inn, Premier Inn and Millenium Plaza have started to redress this balance.

There are currently in the region of 17,000 hotel keys and serviced apartments at various stages of planning and construction in Qatar, with the majority expected to be delivered to 4-star or 5-star specifications.

The blockade of Qatar in June has had a significant and immediate impact on the hospitality sector, with arrivals to Qatar falling by 23.2% in 2017, despite a year-to-date increase of 1.5% being recorded in June.

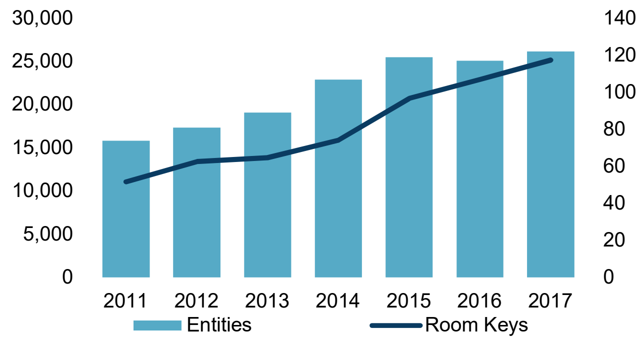
Qatar Tourism Authority recently released its National Tourism Strategy, which set out targets for 2023. Targets include boosting occupancy rates to 72% across the sector, and doubling tourist arrivals to 5.6 million. Qatar recently announced the expansion of visa free entry to 80 countries and the introduction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

These initiaves have proved relatively successful to date. The 'visa on arrival' programme, and online visa application system, coupled with the concentration on new markets have seen traffic from a number of countries increase, notably China (26%), Turkey (22%), Australia (17%), Hong Kong (16%) and Russia (15%). The drive to attract tourists from new markets will be vital for increasing demand to occupy the new hotel rooms that have already been built, and those that are yet to complete.

According to QTA statistics, the overall hotel occupancy for 2017 was 57%, down from 62% recorded in 2016. Average Daily Rates (ADRs) and Revenue per Available Room (RevPARs) were recorded at QAR437 and QAR253 for 2017, representing drops of 9.5% and 15% respectively.

Figure 11

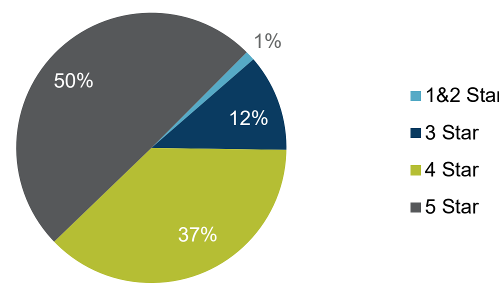
No. of Hotel/Hotel Apartment Keys by Rating, Dec 2017



Source: DTZ Research

Figure 12

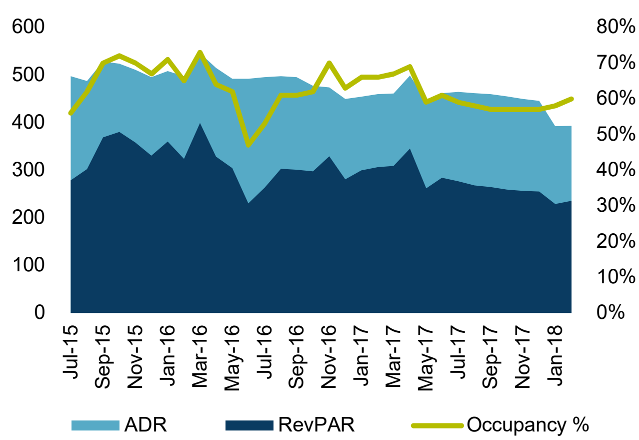
Keys by Rating, Dec 2017 (Total 25,167)



Source: DTZ Research

Figure 13

Hotel Performance Indicators, 2015 - 2018. ADR & RevPar in QAR, Occupancy in %



Source: MDPS

Retail Market Overview

The total supply of organised retail accommodation in Qatar surpassed 1.39 million sq m following the recent opening of Tawar Mall in Umm Lekhba.

There are currently a total of 21 purpose built retail malls in Doha, excluding local neighbourhood shopping arcades and stand alone hypermarkets.

Between them, Doha Festival City, Mall of Qatar and Villagio Mall account for more than 40% of retail accommodation in purpose built malls, providing a total of 565,000 sq m gross leasable area.

The supply of organised retail accommodation has increased by more than 200% since 2010. While retail supply struggled to meet the demand of the growing population between 2010 and 2015, the completion of more than 600,000 sq m since 2015, coupled with the downturn in consumer confidence has resulted in a changing market dynamic.

A number of prime retail destinations have maintained relatively strong performance in recent months, however reduced spending combined with additional supply, and the impact of the blockade, has been increasing pressure on retailers and creating a downward pressure on rents.

The quantity of new supply has increased competition between new retail destinations to secure premium brands in the past year, with incentives such as rent-free periods, fit-out contributions, and lower headline rents increasingly prevelant.

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. The increasingly challenging market has seen the emergence of turnover rent agreements in some locations, most notably in destinations that concentrate on the F&B sector.

Prime retail units in shopping malls still typically command rents of between QAR250 and QAR350 per sq m per month, however we are increasingly seeing rental reductions being considered for tenants in some of the 'less-prime' locations in order to maintain high occupancy rates.

Elsewhere, showroom rents can vary from QAR100 to QAR180 per sq m depending on their location and profile. Rents in Al Furjan markets are typically restricted to QAR6,000 per month for small retail units.

Figure 14

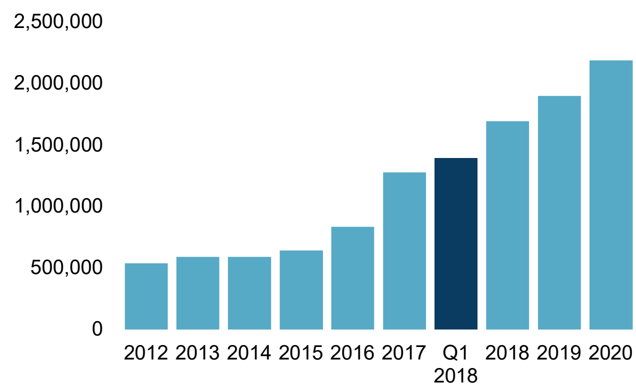
Proposed New Retail Malls for 2018

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

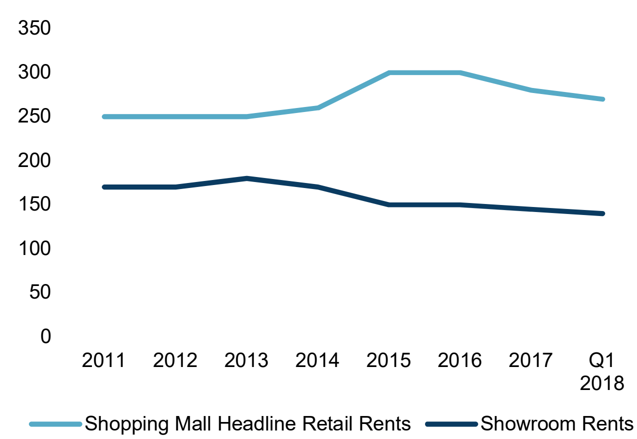
Organised Retail Supply, 2012-2019, sq m (GLA)



Source: DTZ Research

Figure 16

Headline Retail Rents, QAR/sq m/month



Source: DTZ Research

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