PROPERTY TIMES

Public Sector Restructuring Impacts on Real Estate Demand Qatar Q3 2015

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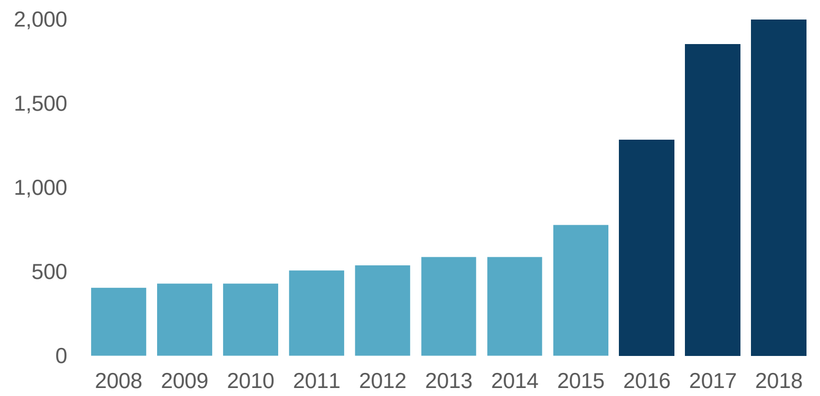
Contents

- The economy in Qatar has been driven to a large degree by the hydrocarbon sector, however due to the recent fall in oil prices there has been a review of government spending throughout 2015. This has started to have an impact on some areas of the real estate market in the past 6 months
- Revised government budgets have resulted in a lack of new office acquisitions from the public sector, which has been responsible for more than 60% of office leasing in West Bay. The majority of recent activity in the office market in Q2 and Q3 has been limited to smaller transactions of less than 250 sq m.
- Recent redundancies in the oil and gas sector has seen an increase in vacancy levels in the prime residential market, however continued population growth has maintained high demand for residential property in most areas
- Residential rents remained strong throughout Q2 and Q3, however there has been evidence of incentives such as rent free periods available for some prime residential property
- The hospitality sector has witnessed a traditional slowdown throughout the summer months, however overall year on year occupancy levels continued to improve
- The opening of Gulf Mall earlier in the year increased ‘organised’ retail space by 17%, however high occupancy levels prevail throughout all of the organised retail malls, with very limited availability of prime retail units

Figure 1

Organised Retail Accommodation, ,000 Sq M 2008 - 2018



Source: DTZ Research

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Economic Overview

The continuing fall in oil prices throughout 2015 has resulted in reduced income from the hydrocarbon sector, which has been the primary driver of the Qatar economy. QNB's Qatar Economic Insight, published in February 2015, also stated that hydrocarbon production fell throughout 2014, due in part to a moratorium on further gas exploration in the North Field.

Economic growth in Qatar was estimated at 6.5% in 2014. This was driven by double digit growth in the non-hydrocarbon sector (11.9%). Over the same period the hydrocarbon sector declined by an estimated 1.3% on the back of falling oil prices.

Despite lower oil prices, the Qatar Economic Outlook 2015 – 2017 published by the Ministry of Development Planning and Statistics in June 2015 states that real economic growth is expected to increase to 7.3% this year due to strong performance in the non-hydrocarbon sector and upstream hydrocarbon production from the Barzan gas project.

While Qatar's economy is in a strong financial position to withstand a temporary decline in oil prices due to a high level of reserves, the extended fall in oil prices has led to a reviews of government spending in some sectors. Notwithstanding this, the government has committed to the programs and projects set out in the National Development Strategy 2011-16. This has set out a program for major infrastructural projects, with an allocated budget of QAR 200 billion.

Qatar's government is in the process of changing the end of its fiscal year from March 31 to December 31st. Earlier this year, the Ministry of Finance confirmed that the government ran a QR137 billion ($37.62 billion) surplus during its most recent fiscal year - a 19-percent jump from the QR115 billion ($31.57 billion) surplus recorded in 2013-14. Despite fears of cuts in government budgets, the Ministry of Finance confirmed that revenue and expenditure forecasts for the next nine months will be kept on par with the last fiscal year.

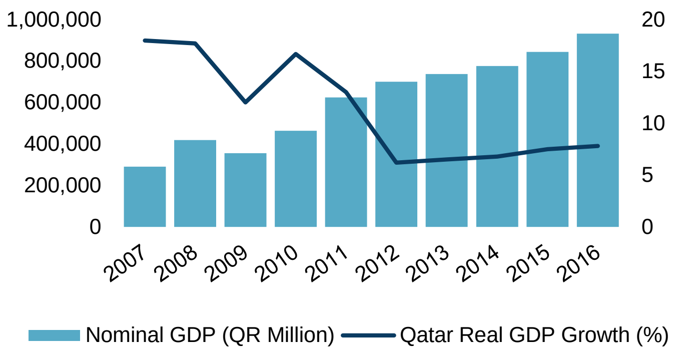
Based on QSA figures, the population hit a high of 2.37 million in May 2015, before experiencing a seasonal fall throughout the summer months. This represented a 12 month increase of 9.2%. The increasing population is generating significant demand for new residential real estate development, and is also fueling growth throughout various sectors of the economy, not least in services such as finance, hotels and restaurants, and trade and transport.

According to the MDPS Qatar Economic Outlook 2015 - 2017, inflation is forecast to average 2% in 2015. The annual inflation rate in Qatar averaged 3.56% from 2005 until 2015, reaching an all-time high of 16.59%in June of 2008 and a record low of -9.96% in December of 2009.

The major concern in relation to Qatar's inflation rate is the housing market, where rents have been increasing due to an undersupply of accommodation. There are also major concerns about construction cost inflation, which according to an independent report by EC Harris could potentially peek at 18% during a World Cup building boom between 2016 and 2019.

Figure 2

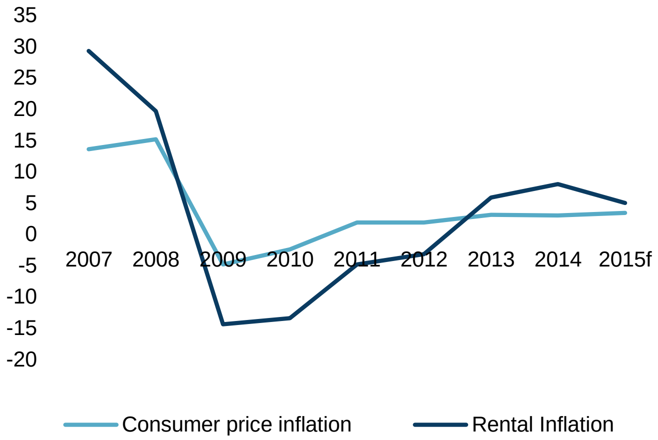
GDP (QAR Million) and Real GDP Growth (%)



Source: GSDP

Figure 3

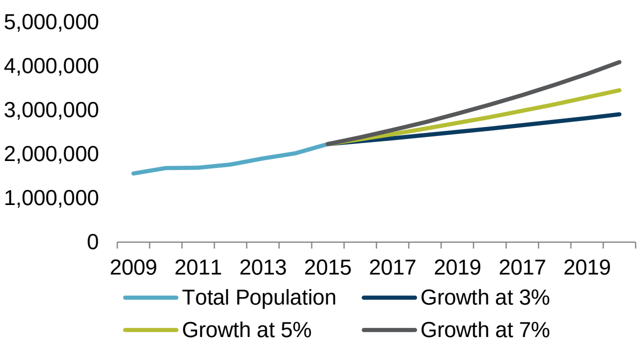
Inflation (%)



Source: EIU

Figure 4

Population Growth Forecast



Source: MDPS/DTZ Research

Office Market Overview

Since 2006, the office market in Qatar has been dominated by the government and hydrocarbon sectors, with the letting of entire office towers to single occupiers common in the West Bay Area.

According to our latest analysis there is currently in the region of 1.7 million sq m of purpose built office space in West Bay, which represents approximately over 40% of the supply of purpose built office accommodation in Doha.

DTZ estimates that in the region of 65% of office space in West Bay is occupied or leased either by government or hydrocarbon related companies, however activity on this front has reduced significantly in the past 12 months.

The recent fall in oil prices has resulted in many Qatari institutions revising their budgets, which has had an impact on demand for new offices. The result has been a significant drop in leasing activity from previous years, with no commercial leases in excess of 3,000 sq m agreed in Q3.

The majority of lease transactions in Doha this year have related to smaller office suites of less than 250 sq m. In order to replace the demand that was previously generated by government related activity, a significant increase in private sector activity will be required.

Despite a reduced level of new office lettings in 2015, DTZ estimate that there is currently in the region of 130,000 sq m of vacant offices available to rent in West Bay, which represents approximately 8% of total supply. This has resulted in stable rental levels being maintained in the West Bay area.

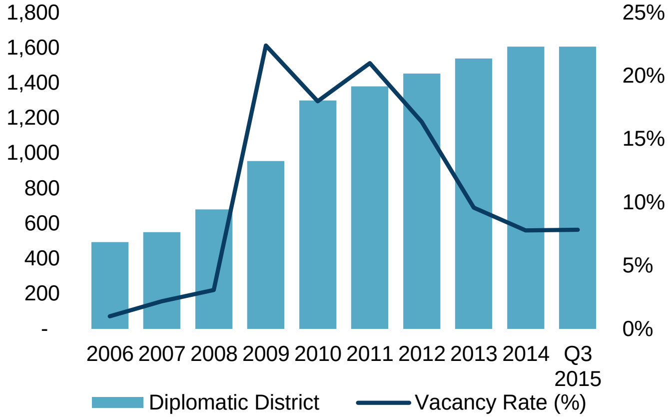
A further 300,000 sq m of office accommodation is likely to come to the market in West Bay and Lusail within the next 12 months, which will increase supply levels and potentially increase vacancy rates, and is likely to put downward pressure on rental levels.

In West Bay, rents can vary from QAR160 per sq m per month to QAR280 per sq m per month depending on the quality of the accommodation and the amount of space leased. Small office units in high quality buildings remain in short supply and still commanded premium rents.

Elsewhere, office rents around C and D Ring Roads, Old Salata, Airport Road, and Al Sadd typically command between QAR120 and QAR180 per sq m per month, relative to the age and the standard of finish for the building.

Figure 5

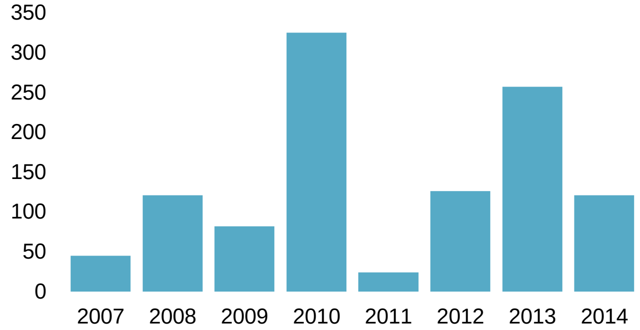
Levels of Office Stock & Availability, 000 sq m



Source: DTZ Research

Figure 6

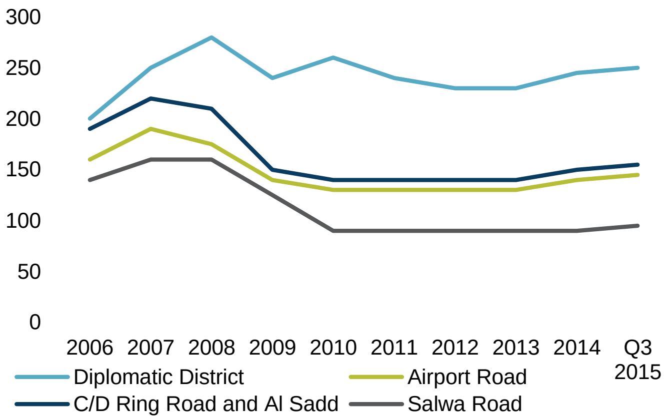
Annual Take Up of Office Accommodation – Prime Stock, 000 sq m



Source: DTZ Research

Figure 7

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



Source: DTZ Research

Residential Market Overview

Demand for new residential property in Qatar has been underpinned by strong growth in population. According to Qatar Statistics Authority, before the traditional decrease during the summer months, the population reached 2.37 million in May 2015, a twelve month increase of 9.2%.

The demand for new residential property is most evident in the lower to middle income bracket, where developers have struggled to meet demand for affordable residential accommodation.

Recent redundancies in various Oil & Gas companies due to restructuring throughout the sector created an increase in vacancy levels in the prime residential market in Q2 & Q3. The recent restructuring in this sector has also seen some large companies put their requirements for new residential accommodation on hold, and in some circumstances, downsize their portfolio of staff accommodation. In addition, ongoing construction throughout the greater Doha area is increasing the supply of new villa and apartment accommodation.

The increase in vacancy levels has resulted in rents for prime apartments and villas stabilizing, providing respite to tenants who had experienced strong rental growth in recent years. These has been little evidence of reduced rents due to the increase in vacancy levels, however in some cases landlords have been willing to grant incentives such as rent free periods for properties that have been vacant for an extended period.

DTZ are of the opinion that the recent increase in vacancies caused by the redundancies in the oil and gas sector is likely to be temporary, as further demand will be generated by the economic and population growth in the coming months

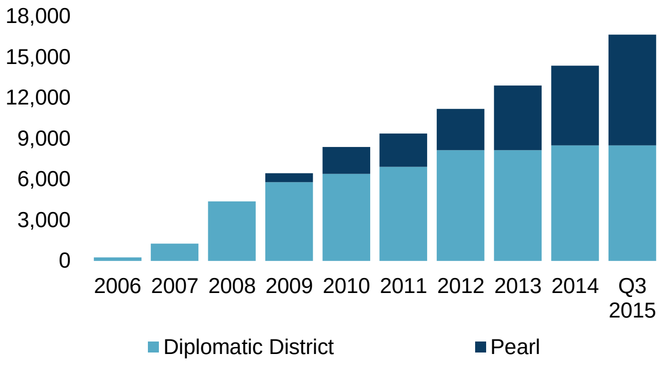
At the premium end of the residential market DTZ estimates that current levels of prime apartment stock has surpassed 14,000 units across the Pearl Qatar and West Bay.

The residential sales market had a strong start to the year, with the increase in mortgage applications from 2014 continuing into Q2. The past 3 months has seen a significant fall in sales activity, however this is likely to be explained by traditional ‘summer slowdown’.

Freehold prices have been growing consistently since 2011, however sales prices in recent months have stabilized somewhat. Porto Arabia has seen the highest amount of sales activity, where second hand units typically trade at between QAR13,000 and QAR15,000 per sq m, and new units can achieve in excess of QAR17,000 per sq m.

Figure 8

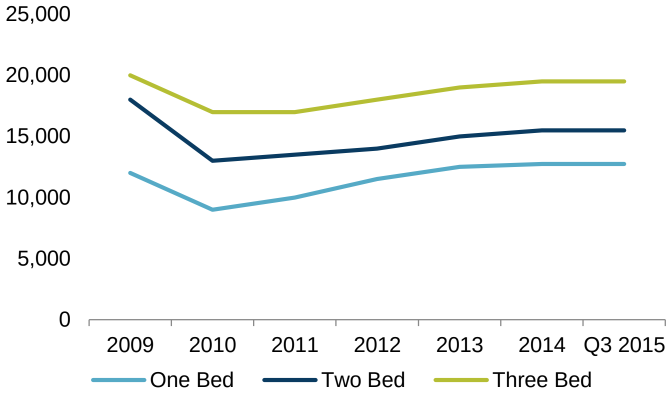
Prime Apartment Supply by District, No. of apartments



Source: DTZ Research

Figure 9

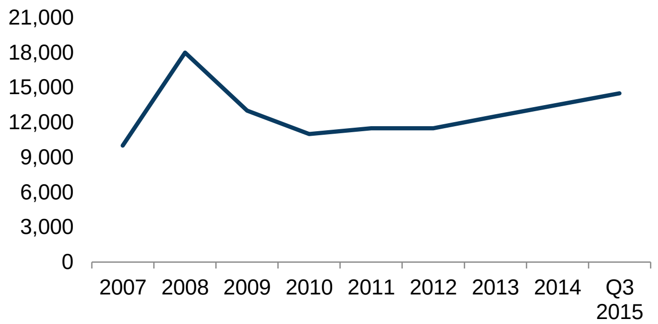
Prime Apartment Rents, QAR/Month



Source: DTZ Research

Figure 10

Average Freehold Sales Prices, Pearl Qatar, QAR/sq m



Source: DTZ Research

Hospitality Market Overview

The Qatar Tourism Authority's mid-year review, released in July, reflected positive results for the key performance indicators in the hospitality market in Qatar. Total tourist numbers between January and June reached 1,528,718, a 7% increase on the corresponding period in 2014.

The Qatar National Tourism Sector Strategy Plan 2030 has set out a program to invest $45bn in tourism projects over the next 15 years, which will aim to attract a larger amount of tourist numbers from outside GCC, with an ambitious target to increase overall annual arrivals to 7 million.

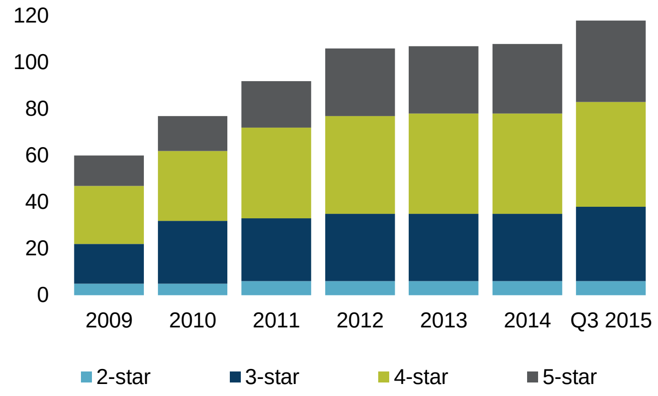
The increase in tourist numbers resulted in an increase in occupancy rates by 2% between January and June compared to the corresponding period in 2014. Despite the recent increase in occupancy levels, Average Daily Rates (ADR's) for the same period fell for the by 2%, following the downward trend which has been evident since 2008. DTZ expect occupancy levels to come under pressure in the coming years as up to 4,000 new hotel rooms are scheduled to come to the market by the end of 2016. Occupancy levels are likely to be tested further in the medium term as the supply of hotel rooms continues to increase to meet Qatar's FIFA 2022 obligations.

After two years where there was little activity in terms of new supply, a number of new establishments have opened in Doha in recent months. In total, 11 new hotels have opened in 2015, adding approximately 1,400 rooms to the hospitality sector. These new hotels have increased the overall number to 118, including apartment hotels. The hospitality sector in Qatar now provides approximately 17,900 keys, of which 84% are either 4-star or 5-star.

According to data from QTA, approvals are in place for more than 120 more hotel establishments in Qatar, which if realized will increase the level of supply to approximately 35,000 keys. DTZ's own research has identified 30 new hospitality developments that are under construction and should increase supply in the market by approximately 10,000 keys over the next three years.

Figure 11

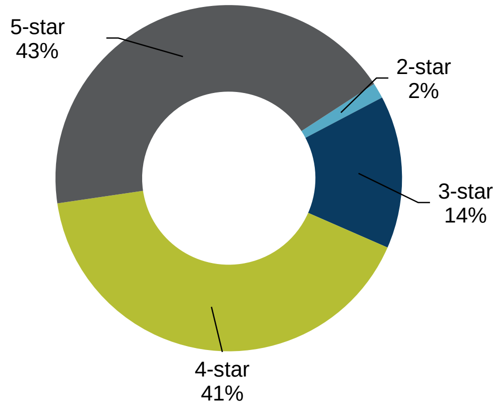
No. of Hotels/Serviced Apartments by Rating



Source: DTZ Research

Figure 12

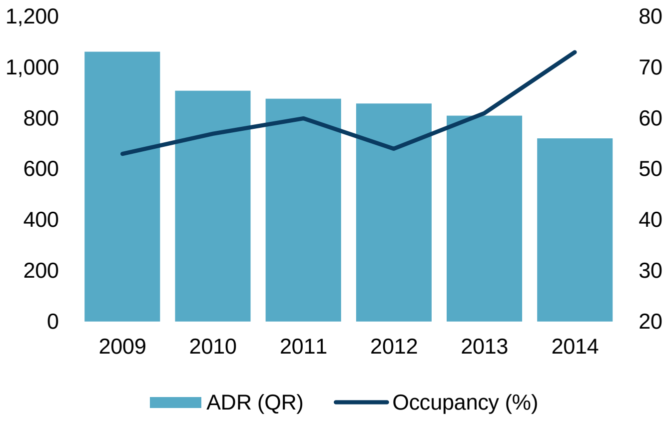
Keys by Rating Q3 2015 (Total Rooms 17,899)



Source: DTZ Research

Figure 13

Hotel Performance Indicators for Luxury and Upperscale Hotels, Average Daily Rate in QAR, Occupancy in %



Source: QTA/STR Global

Retail Market Overview

Strong growth in retail trade in Qatar has been driven by the increasing levels of disposable income. In 2014 the World Bank estimated that the GDP Per Capital GDP (PPP) reached $145,894, representing the highest level of disposable income per capita in the world.

There is currently strong demand for retail accommodation from both local and international retailers looking to either enter or expand in the local market. Options for retailers are currently limited in the existing shopping malls due to high occupancy levels.

Overall supply or organised retail accommodation currently stands at approximately 690,000 sq m across 14 shopping centres. Villagio Mall, City Centre Mall, and the recently opened Gulf Mall account for more than 50% of the current organised retail supply.

DTZ estimates that more than 1.3 million additional square meters of retail space in 12 new shopping malls is currently at various stages of design or construction and may be opened by 2019.This represents a 220% increase on current supply, and if completed as planned, this will have a major impact on the dynamic of the retail market in Qatar.

Due to the high occupancy levels and strong demand from retailers, DTZ has recently observed an increase in rental levels on lease renewals in the busier malls. At the prime malls rents range from QAR250 to QAR300 per sq m per month for the standard line units. Larger anchor stores have typically secured accommodation for between QAR40 and QAR80 per sq m per month.

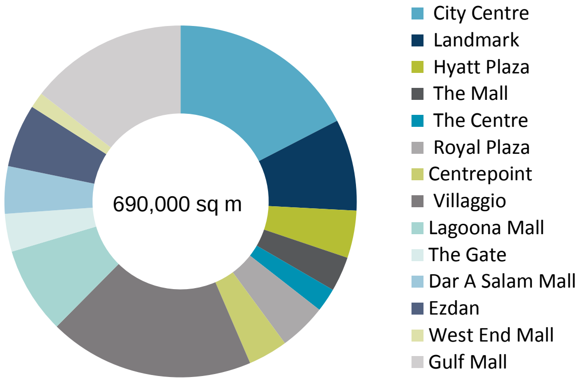
Outside of the organised malls, the retail market in Qatar comprises a mix of Souq retail, and high street retail /showrooms.

The showroom retail market has seen the addition of Barwa Commercial Avenue, providing approximately 250,000 sq m of good quality accommodation. DTZ understand that more than 50% of the retail units have been reserved by various retailers.

It was recently announced that Al Hazm Mall on Al Markhiya Street is expected to open later this year. This is expected to concentrate on providing high-end retail and restaurant accommodation, targeting exclusive international fashion brands.

Figure 14

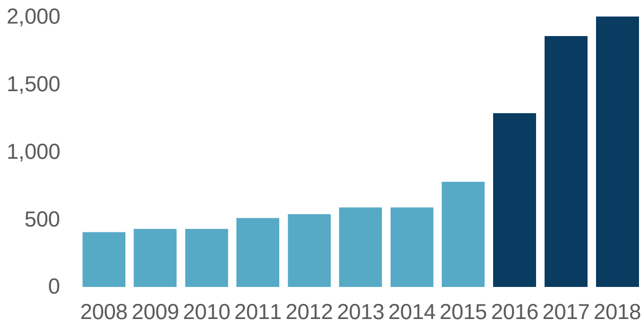
Distribution of Organised Retail Malls



Source: DTZ Research

Figure 15

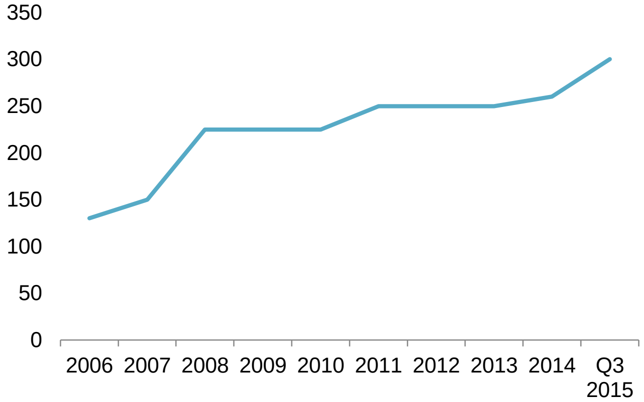
Organised Retail Supply by Year: ,000 sq m (GLA)



Source: DTZ Research

Figure 16

Headline Retail Rents, Shopping Malls, 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 https://www.facebook.com/DTZQatar.

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