Qatar’s strong economic performance and major infrastructural development projects in preparation for the World Cup in 2022, is driving population growth. There continues to be substantial government investment in all areas of the economy to reduce reliance on the hydrocarbon sector.

The increased pressure on the housing market from the rapidly increasing population has lead to concerns about escalation of inflation rates.

There are a number of major development projects under construction which will aim to address the undersupply of good quality affordable accommodation. If the rate of population increase is maintained however, supply of affordable accommodation may struggle to meet demand in the coming years.

There has been a seasonal reduction in demand for high quality apartment and villa accommodation however the market remains buoyant with strong underlying demand.

A number of new apartment developments on Pearl Qatar are expected to be released to the market over 2015 which could ease rental inflation in this sector.

Demand has reached unprecedented levels from retailers for prime accommodation however no new retails malls opened throughout 2014. A number of new shopping malls are expected to open in 2015, easing the current shortage in retail accommodation.

The hotel sector witnessed strong growth throughout the year, with occupancy levels exceeding 70% in Q4. A number of new 5 star hotels are due to open in early 2015 which is likely to see average occupancy levels reduce.

**Figure 1**

Organised Retail Supply by Year, Sq M (GLA)
Economic Overview

Qatar’s strong economic performance continued throughout 2014, with growth levels expected to be confirmed at 6.3%, a slight drop from 6.5%, which was witnessed in 2013.

The fiscal budget for 2014/15 sets out proposed expenditure of QAR 218 billion. Revenues are expected to total QAR 225 billion but these are based on an oil price of US$ 65 per barrel, which is above current levels.

Qatar’s economic growth, together with the enormous infrastructural development spending in preparation for the FIFA 2022 World Cup is helping to drive the increase in population. Based on QSA figures, the population hit a high of 2,269,672 in November 2014, representing a 12 month increase of 9.7%. A recent publication by Qatar National Bank predicts that population figures will continue to increase by 7.4% per annum, surpassing 2,500,000 by the middle of 2016.

The rapid increase of the population has a knock-on effect on growth figures for various sectors of the economy, particularly in services such as finance, hotels and restaurants, and trade and transport.

Qatar’s economy has been underpinned by exports in the hydrocarbon sector, however substantial government expenditure is helping reduce the reliance on the hydrocarbon sector. The hydrocarbon sector still accounts for approximately 40% of total GDP, though domestic investment has replaced the oil and gas sector as the key driver of economic growth. Earlier this year the Government set out plans for investment of US$ 182 billion for projects over the next five years.

According to Ministry of Development Planning and Statistics inflation is expected to be recorded at 3% and 3.4% in 2014 and 2015 respectively however banking experts believe this figures are conservative, with inflation estimated in some quarters at between 3.8% and 5% in 2014. The major concern in relation to Qatar’s inflation rate is the housing market, where rents have been increasing due to an undersupply of good quality accommodation. Similarly, there are major concerns about construction cost inflation, which according to an independent report by EC Harris could peak at 18% during a World Cup building boom between 2016 and 2019.
**Office Market Overview**

There are a number of high rise office towers currently under construction in Doha’s prime office district of West Bay, however no new building’s were released to the market in Q4 2014. Office stock in West Bay stands at approximately 1.637 million sq m.

There has been limited leasing activity in recent months however leases have been agreed on more than 120,000 sq m throughout 2014, the majority of which has been to ‘government’ related bodies. The amount of new office space leased in 2014 is less than the annual average of 162,000 sq m recorded over 2009 to 2013.

In spite of reduced take-up of new lettings, DTZ estimate that there is currently just 146,000 sq m of vacant offices available to rent in West Bay, which represents less than 9% of total supply,

DTZ expects more than 300,000 sq m of office accommodation to come to the market in West Bay and Lusail by the end of 2015, which will increase vacancy levels and ease the upward pressure on rents that was witnessed in 2014.

Rental levels have remained relatively stable since 2011. In the Diplomatic District (West Bay) rents can vary significantly depending on the quantum and the quality of the accommodation being leased. It is possible to lease offices in excess of 5,000 sq m from rental rates of QR160 per sq m per month, whereas smaller office units of less than 250 sq m can command rents of as much as QAR 300 per sq m per month.

Many towers in West Bay are leased in their entirety to government ministries, or government affiliated organisations. Rental levels to government companies in such transactions are currently fixed at QAR150 per sq m per annum, and are typically 5 year leases with rights to renew.

Elsewhere, office accommodation is concentrated around C and D Ring Roads, Old Salata, Airport Road, and Al Sadd. Rental levels in these areas typically range from QAR 120 per sq m to QAR160 per sq m per month.

As new office buildings in West Bay, Al Sadd, Lusail, and Shamal Road come to the market in 2015, DTZ forecasts that higher vacancy levels will see rents remain at the levels seen in 2014, with more attractive deals potentially available for occupiers who seek professional representation.
Residential Market Overview

The residential property market in Qatar is being driven by the consistent and strong growth in population. The population recorded by the Qatar Statistics Authority in November reflected a 9.7% increase in 12 months.

The increasing number of residents in Qatar has been putting pressure on residential supply, especially for affordable housing, where new development supply struggles to meet demand.

Demand has been strong for family accommodation, particularly four and five bedroom villas, where occupancy rates throughout Doha are currently high. A number of developers confirm that waiting lists are in place for some of the better located residential compounds.

The high-end of the market, including West Bay and The Pearl Qatar, has seen a number of new developments in 2014. This has resulted in rental levels stabilizing for some apartment types following the strong increases witnessed in 2013. The current levels of prime apartment stock reached approximately 14,600 units by the end of 2014.

DTZ estimate that up to three more residential towers in Porto Arabia could potentially be released to the market by the end of Q1 2015 (subject to approval being received from the civil defense requirements) increasing supply by more than 700 apartment units.

On the Pearl, DTZ has seen strong demand for one bedroom and three bedroom apartments in particular, which are now in shorter supply than two bedroom units. The impact of high occupancy rates has been a gradual uplift in the average monthly rental rates as shown in Figure 9.

Residential sales at The Pearl-Qatar still dominate the freehold market, with sales activity in 2014 registering an improvement on previous years. The majority of demand however is restricted to Qatari and GCC based investors.

Prices have grown at a stable rate since 2011. While there is evidence of sales transaction on the Pearl-Qatar reflecting prices of more than QR 18,000 per sq m for premium units, average sales prices range from QAR 12,000 – 14,000 per sq m.
Hospitality Market Overview

There was a significant increase in tourist numbers recorded by the Qatar Tourism Authority with hotel occupancy rates increasing from 65% over 2013 to 73% over 2014.

The Qatar National Tourism Sector Strategy Plan: 2030 (QNTSSP 2030) was published in February 2014. The plan outlined public and private investment of $45bn on tourism projects with a view to increasing tourist numbers from 1.1m in 2013 to 7m by 2030.

QNTSSP 2030 also aims to diversify the tourism sector, which relies heavily on business related travelers and visitors from GCC countries, particularly Saudi Arabia. The plan aims to increase visitors from outside the GCC to 64% by 2030.

In Q4 2014, DTZ identified 108 hotels and serviced apartment hotels, which are rated between 2-star and 5-star. These establishments provide the tourism sector in Qatar with approximately 16,700 rooms, of which 85% are either 4-star or 5-star.

There are currently approximately 125 hotel establishments currently under construction in Qatar, which, on completion, will increase the level of stock to approximately 35,000 room keys. Despite the number of hotels being built, 2014 saw a slowdown in new hotels coming to the market. There were no major hotel openings throughout the year, although The Kempinski Marsa Malaz on the Pearl Qatar opened in January 2015.

The slowdown in new hotel openings combined with the increase in tourist numbers resulted in a jump in occupancy levels in the past 12 months. Despite the recent performance, DTZ expect occupancy levels to come under pressure again in the near future with up to 4,000 new hotel rooms scheduled to come to the market over 2015 and 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.

Figure 11
No. of Hotels/Serviced Apartments by Rating

Source: DTZ Research

Figure 12
Rooms by Rating Q4 2014

Source: DTZ Research

Figure 13
Hotel Performance Indicators. Luxury and Upperscale Hotels: Average Daily Rate in QAR, Occupancy in %.

Source: STR Global
Retail Market Overview

The retail market in Qatar is currently undergoing significant change, with a number of shopping malls due to open, bringing much needed new supply.

The retail sector in Qatar is driven by the high levels of disposable income. In 2013 the World Bank estimated that the Per Capita GDP reached $136,727, representing the highest level of disposable income per capita in the world.

The strong spending power within Qatar has seen significant increase in demand for retail accommodation from both local and international retailers with current occupancy levels in the main shopping malls at unprecedented levels.

The retail market in Qatar is generally divided between organised retail malls, high street showrooms, and souq retail.

The organised retail market is currently dominated by the Villagio and City Centre malls, which between them account for 42% of the current supply. Overall supply currently stands at approximately 590,000 sq m across 13 shopping centres.

While no new malls have opened in 2014, DTZ estimates that there is more than one million square meters of retail space being constructed in nine new shopping malls. With proposed opening dates of between 2015 and 2016, these new additions are likely to change the dynamics of the retail market in Qatar considerably.

Retail rates have remained relatively stable in recent years. In the prime retail malls rents vary between unit sizes, and their location within the malls. At the primary malls rents range from QAR 220 to QAR 250 per sq m per month for the medium size units. Anchor stores have typically secured accommodation for between QAR 40 and QAR 80 per sq m per month.

Elsewhere, the showroom retail market has seen the addition of Barwa Commercial Avenue, providing much needed good quality accommodation. This development has added approximately 250,000 sq m of new showroom accommodation, which represents approximately 25% of the total stock. DTZ understand that more than 70% of the retail units have been reserved by various retailers.

Medina Central on The Pearl –Qatar has also increased the amount of retail space available in Doha. The development comprises approximately 65,000 sq m of commercial space. DTZ understands that lettings have been agreed on the majority of the retail units, which are due to open their doors in 2015.