DTZ

PROPERTY TIMES

INVESTMENT OPPORTUNITIES INCREASE WITH ADDITION OF NEW FREEHOLD ZONES

QATAR Q2 2019

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Contents

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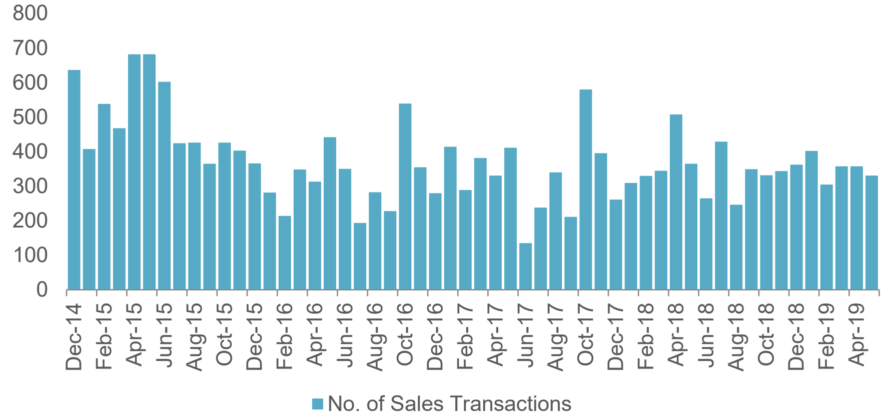
- Law No. 16 of 2018 was implemented in March 2019, expanding the number of freehold zones from three to 10, which will encourage non-Qatari real estate investment in Lusail and West Bay and Onaiza, among other areas.
- Activity in the investment market is still largely concentrated in the Pearl-Qatar, where apartments typically sell for between QAR11,000 and QAR16,000 per sq m; however, new opportunities for investors are now becoming available in Lusail, to the north of Doha.
- While demand remains relatively low in comparison to new supply, DTZ has seen an increase in leasing enquiries for offices in Q2, particularly from companies that operating in IT, Technology and the Oil and Gas sectors.
- Office rents in West Bay are now typically between QAR 110 and QAR 140 per sq m per month for CAT A space on a floor-by-floor basis; however, smaller fitted suites can still command premiums.
- Residential rents have largely stabilised following three years of decline. The increasing affordability of apartments in Qatar has seen an increase in demand for apartments in prime locations such as The Pearl-Qatar and West Bay, while residential towers in Lusail have also recently come to the market.
- In the retail sector, rental and capital incentives are still on offer to prospective tenants in what is currently an oversupplied retail market; however, there has been a noticeable increase in small independent F&B operators opening in ‘pop-up’ destinations, which have become popular weekend destinations.
- This year’s ‘Summer in Qatar’ is taking place between Eid al-Fitr and Eid al-Adha, with Katara Hospitality, Al Rayyan Hospitality and Marriott International hotel groups participating across hospitality sector. Nine retail malls, Souq Waqif, Katara Cultural Village and Qatar Airways have also been participating in the initiative to drive the hotel and retail sectors.

Figure 1

No. of Real Estate Transactions in Qatar (Dec 2014 – May 2019)



Source: MDPS

Economic Overview

Preliminary data suggests Qatar's economy grew by 0.9% y/y in Q1 this year, up from 0.5% in Q4 2018. The oil sector performance turned positive after four quarters of contraction, with non-oil activity also showing some improvement. With recent developments suggesting a loss of momentum in Q2, Oxford Economics have cut their 2019 GDP growth forecast to a below-consensus 1.3%.

The pace of recovery is expected to improve in the medium term, amid ongoing investment ahead of World Cup 2022, with growth forecast to average 2.9% between 2020 and 2022.

The outlook for exports has worsened, reflected in a deterioration in the external balance. The current account surplus narrowed to 4.3% of GDP in Q1, the lowest since September 2017, bringing the 12-month average down to 8% of GDP from 8.7% at end of 2018.

Companies are still optimistic regarding demand despite both industrial production (which saw -1.6% y/y decline despite an increase in April from March) and a PMI survey by Qatar Financial Centre (48.1 in May, down from 48.9 in April) showing lower values. The oil price projection for 2019 is still US$ 65pb; however, Qatar's base forecast of growth in oil production in 2019 is 0.3%.

The lifting of the moratorium on North Field gas projects is expected to have a positive medium-term impact, with capacity to grow by over 40% by 2024 with the addition of four LNG trains.

The economy remains in deflation, with consumer prices falling 0.3% y/y in June, weighed down by a fall in housing costs. Price growth has been in negative territory since September and averaged -0.9% in H1, prompting a downward revision to Oxford Economics' 2019 CPI forecast to -0.2%, from -0.1% in June.

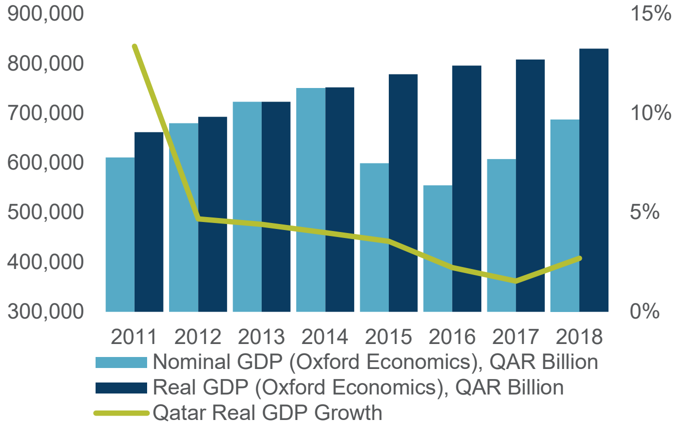
The budget surplus is forecast to widen to 3.3% of GDP in 2019 from 2.2% in 2018, supported by non-hydrocarbon growth.

While banks have been strong, reliance on foreign funding is increasing again; however, the overall FX liquidity has improved, despite the local equity market not retaining the gains having outperformed GCC and EM peers in 2018.

(Economics Overview insight provided by Oxford Economics)

Figure 2

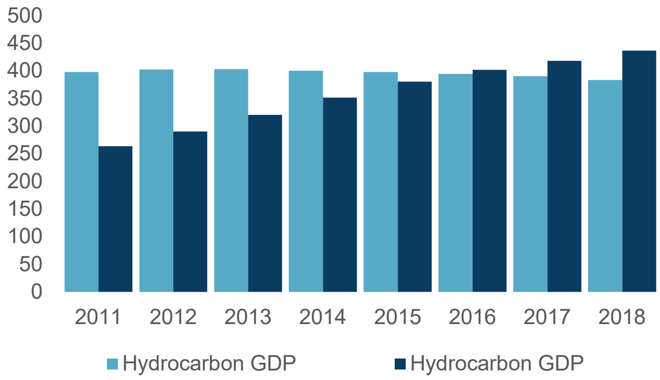
GDP (QAR Billion) and Real GDP Growth (%) 2011 – 2018



Source: MDPS/Oxford Economics

Figure 3

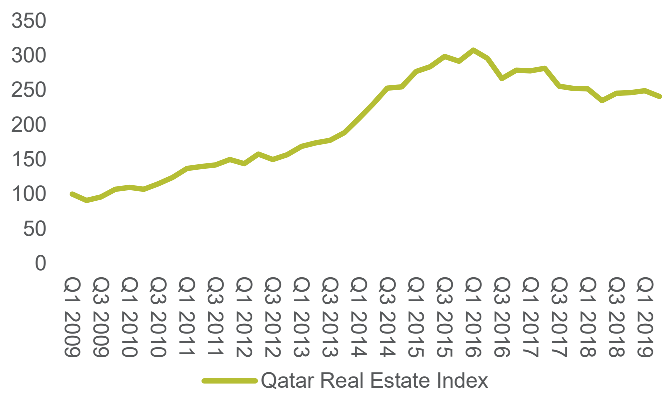
GDP Hydrocarbon v Non-Hydrocarbon (QAR Billion) 2011 – 2018



Source: MDPS/Oxford Economics

Figure 4

Qatar Real Estate Index Q1 2007 – Q2 2019 (Base Q1 2009)



Source: QCB

Office Market Overview

The expansion of 'freehold zones' in Qatar under Law No. 16 of 2018 has provided an opportunity for non-Qatari investors to acquire real estate in the prime office districts of West Bay and Lusail's Marina District. Over time, this may result in the sale of small office units and office floors to investors and owner occupiers through strata titles, where previously office buildings were typically held by a single owner.

The addition of over 120,000 sq m of new Grade A office supply in Lusail in 2019 has increased the vacancy rate of Grade A offices to almost 30% across West Bay and Marina District.

Most office development in West Bay has now completed. The district now provides almost 1.6 million sq m of Grade A accommodation. QP District and the 'Twin Towers' development on Majlis Al Taawon Street are expected to increase supply to over 1.8 million sq m by 2020, while new development on the Corniche including Al Mana Tower and the QIMC mixed use development will eventually see total supply in West Bay approach 2 million sq m.

Overall, DTZ estimates that current supply of purpose built office accommodation in Doha is now in the region of 4.7 million sq m.

Most private sector companies have been consolidating or downsizing their office accommodation since 2016 translating into less demand for the new offices in Doha. Moreover, both oil and gas companies and government bodies have reduced their appetite for office accommodation since 2015

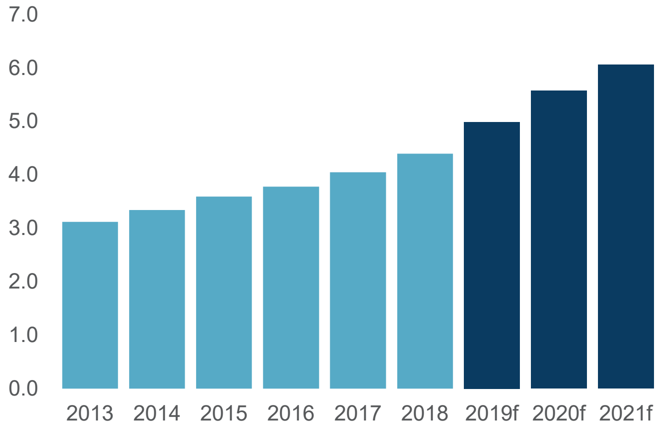
DTZ has recorded an increase in enquiries over Q2 for smaller office floorplates, predominantly from companies active in the IT and Technology sectors. There are also indications that companies in the Oil & Gas sectors are preparing for growth in anticipation of new hydrocarbon projects as mentioned in the Economic Overview. The establishment of the Free Zone Authority aims at increasing new company registrations in Qatar, which is expected to result in increased demand for offices from the private sector.

The increasing vacancy rates in Doha have seen rents continue to decrease in 2019. CAT A standard offices in West Bay are now available for between QAR 110 and QAR 140 per sq m per month. Discounted rents can be secured on shell and core office space; however demand for shell and core offices is extremely limited as budget sensitive tenants prefer to avoid the capital contributions required for office fit-outs.

Offices in areas such as Al Sadd, Old Salata and C-Ring Road are often now offered at monthly rates between QAR 70 and QAR 100 per sq m, depending on size, quality, fit-out and location.

Figure 5

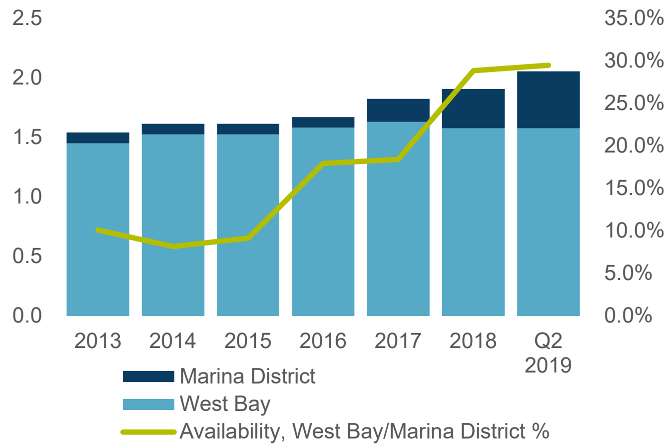
Estimated Office Supply, Doha 2013 – 2021f (Million sq m)



Source: DTZ Research

Figure 6

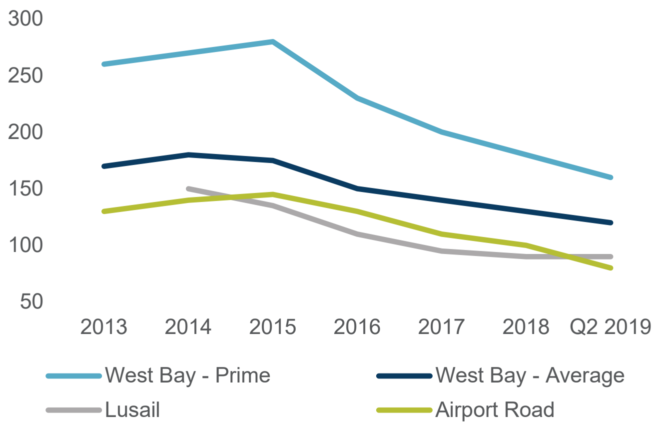
Grade A Office Supply (Million sq m) and Availability (%), 2013 – Q2 2019



Source: DTZ Research

Figure 7

Office Rents by District, (QAR/sq m/month) 2013 – Q2 2019



Source: DTZ Research

Residential Market Overview

As with the office sector, the potential market for residential sales has been expanded by Law No.16 of 2018. Its implementation will provide the opportunity for non-Qatari investors to purchase apartments in Lusail on a freehold title, where previously only Usufruct title (99 years) was available in this area.

According to the Ministry of Development Planning and Statistics' most recent reports, both the overall number of residential sales and the total value of transactions in Qatar in April and May decreased by 20% and 29% respectively compared to the corresponding months last year, whilst the average price per transaction has decreased by 10%.

Towers 6 and 7 in the Viva Bahriya district opened in Q2, with additional supply expected to be released in the coming year, including Towers 13 and 14 Viva Bahriya and Tower 21 in Porto Arabia. In addition, five residential towers are nearing completion in Abraj Quartier, which are expected to deliver more than 2,000 units in total.

Lusail's Marina District has now started to attract residents as it nears completion and the first residential towers have opened for occupation. DTZ expects the residential population of this area to grow substantially over the next 24 months as new buildings come on-line.

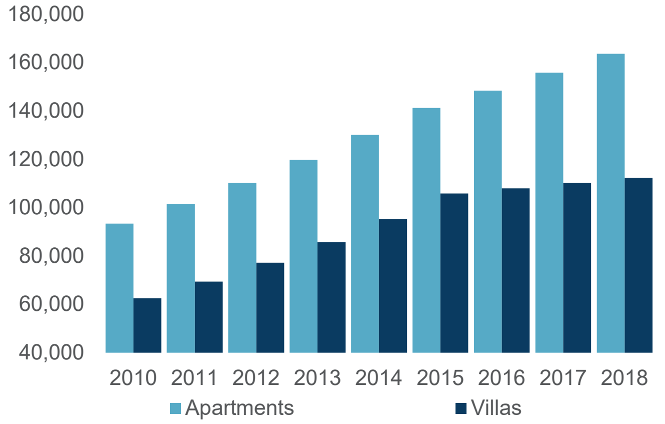
Following more than three years of decline, apartment rents have levelled off in Q2; however, the large pipeline of new supply means we are unlikely to see a return to rental growth in the near future. The greater affordability of apartments has seen an increase in people relocating to higher quality and better located apartments. DTZ expect demand to become more focused on areas such as The Pearl-Qatar and Lusail as new supply arrives to the market at 'affordable' rental levels.

Rental trends in the residential sector are likely to vary based on the type of units. Upcoming apartment supply will be dominated by smaller sized units (studios and one-beds). Fewer three-bedroom apartments are being constructed, which may result in less availability, and create an upward pressure on rents.

Rents have also stabilized for villa compounds throughout Doha after a period of decline between 2016 and 2018. Occupancy rates for prime, well located compounds have increased due to a flight to quality by tenants. A few select compounds have waiting lists in place again. High land prices over recent years has resulted in fewer low-density villa compounds being built. Pipeline supply of compound villas is significantly lower than that of apartments, which may result in rental increases if demand for these rises.

Figure 8

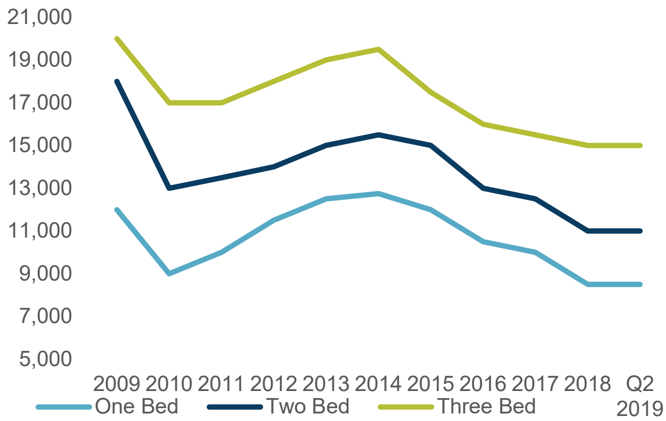
Estimated Apartment and Villa Supply, Qatar 2010 – 2018



Source: MDPS & DTZ Research

Figure 9

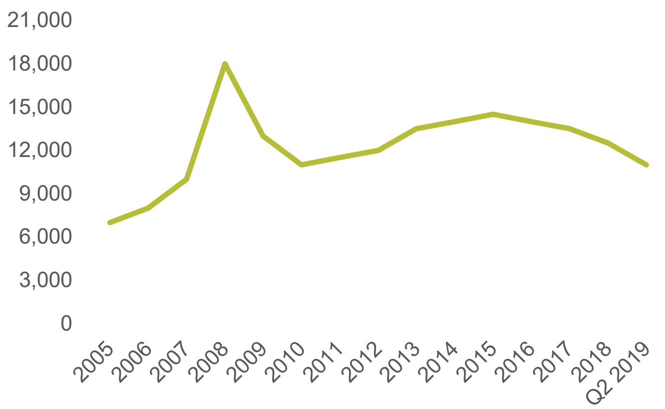
Average Apartment Rents, Porto Arabia, (QAR/Month) 2009 – Q2 2019 (semi-furnished)



Source: DTZ Research

Figure 10

Average Apartment Value Porto Arabia 2005 – Q2 2019 (QAR per sq m)



Source: DTZ Research

Hospitality Market Overview

While H1 figures are not yet available, tourist arrivals into Qatar increased by 10% in Q1 2019, compared to the same period in 2018, as per the latest official statistics released by the National Tourism Council (NTC). Arrivals in March 2019 were the highest number seen since the introduction of the blockade in June 2017, illustrating that the measures taken to improve the tourism market are succeeding.

According to the NTC's Q1 2019 report the total number of available rooms in Qatar was 26,890, contained in 129 hotel and hotel apartment establishments. 1,079 rooms were added in Q1 across six hotels, which translates into 7% increase on the total stock in Q1 2018. The Dusit Thani in West Bay opened in April, while the rebrand of the former Shangri-La to a0JW Marriott Marquis also took place in Q2.

Luxury accommodation still dominates the market with more than 90% of overall supply currently categorized as either 4-Star or 5-Star. According to NTC's estimates, approximately 23,000 hotel keys at various stages of planning and construction are to be completed prior to the 2022 FIFA World Cup.

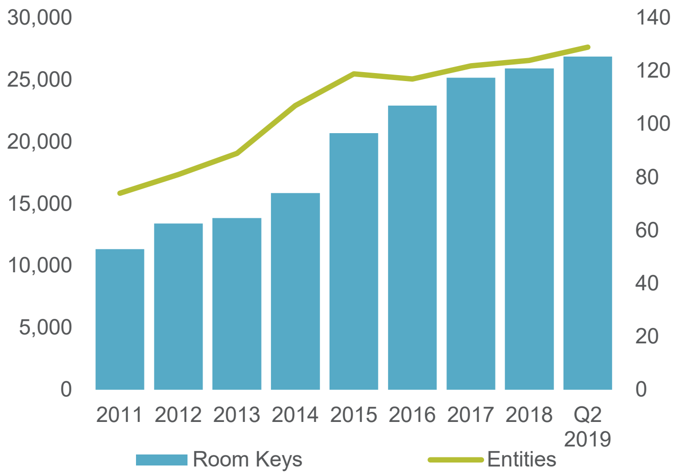
Occupancy rates in hotels have increased over the first half of the year compared to the corresponding period in 2018. According to the MDPS, the overall occupancy rate in May 2019 was 66%, which is 6% higher than the 2017's figure, despite the overall increase in the supply of room numbers. Anecdotal evidence suggests that occupancy rates are being boosted by domestic tourism as residents take advantage of hotels' lower prices and special offers. Midweek occupancy rates are supported by the additional demands from business travelers in the region, due to the enforced increase in travel times to the UAE, Bahrain and Saudi Arabia.

Despite the recovery in occupancy rates, hotel revenues have continued to decline overall, reflecting increasing competition between hotels. The overall Average Daily Rate (ADR) dropped by 6% for Q1 2019 compared to the same period last year. The decline continued in April and May as overall ADR's fell to QAR 373 according to the Ministry of Development Planning and Statistics.

The NTC has continued to introduced measures to boost tourist numbers, following the introduction of visa-free travel for 80 countries. The 'Summer in Qatar' initiative taking place between Eid al-Fitr and Eid al-Adha, has been underway and aims to increase hotel occupancy and retail spending, in what is traditionally the quietest time of year.

Figure 11

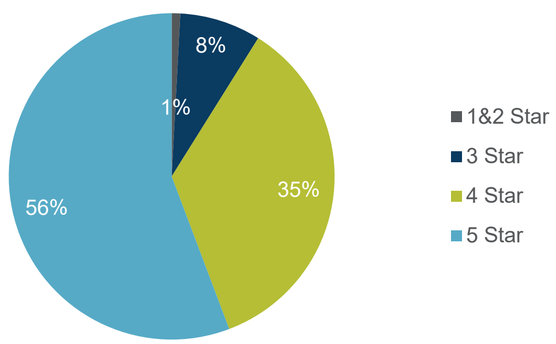
No. of Hotel/Hotel Entities and Room Keys 2011 – Q2 2019



Source: DTZ Research

Figure 12

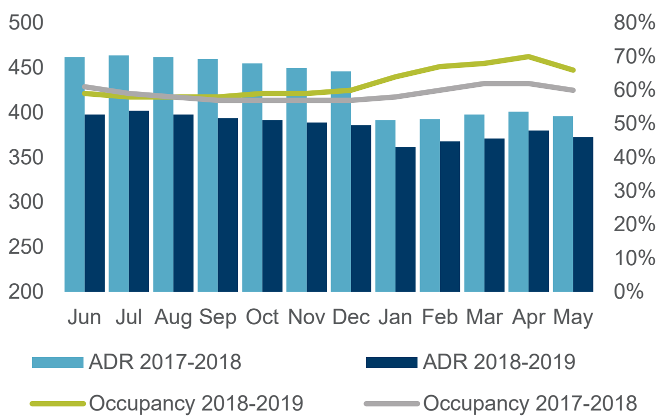
Keys by Star Rating, Q2 2019 (Total 26,890)



Source: DTZ Research

Figure 13

Rolling 12 months' Hotel Performance Indicators (Mar – Feb): ADR, Occupancy in %



Source: MDPS

Retail Market Overview

There is now almost 1.4 million sq m of retail accommodation in 21 purpose-built malls across Qatar. This reflects a 120% increase in just four years, and is due largely to the opening of Qatar's two largest 'super-regional' shopping centres, Mall of Qatar and Doha Festival City.

The most recent addition to the retail landscape in Qatar is the mall at Katara Plaza, which is anchored by the luxury department store Galeries Lafayette. Four additional major destinations are also expected to open their doors in the next 12 months, including Doha Mall, Doha Souq, La Galleria at Msheireb and Northgate Mall.

The increase in supply has had an impact on occupancy rates and revenue metrics in most retail developments. The oversupply has become evident in some developments, where significant rent-holidays, fit-out contributions have been used to entice tenants. Co-tenancy clauses are also becoming a feature of the new retail landscape in Qatar. These clauses are used to build occupancy in new malls, by offering rental incentives to new tenants until an occupancy threshold has been surpassed.

As the retail market evolves, new developments have been increasingly concentrating on the family leisure and entertainment components. New developments have been placing increased importance on the shopping experience and on customer conveniences and newer malls have been largely successful in drawing customers from some of Qatar's older retail malls. As competition increases, some of the established malls, such as City Centre have been undertaking major refurbishment to increase and diversify their offerings.

Prime retail rents are still in the region of QAR 250 – QAR 300 per sq m per month. Malls that attract the highest footfall, including Doha Festival City and Villaggio continue to command the strongest rent for their line-stores.

Outside of the main retail malls, high street showroom units usually command rents of between QAR 120 and QAR 160 per sq m per month; however, some larger units in secondary locations are now available for less than QAR 100 per sq m per month.

The supply of outdoor retail and F&B accommodation has been increasing in Qatar. Destinations such as Medina Centrale and La Croisette in The Pearl Qatar, Katara Cultural Village and Souq Waqif now generate strong weekend footfall. The success of these developments has been supplemented by 'pop-up' F&B venues such as those at Qatar Sports Club, Duhail Sports club and Katara. The increasing popularity of outdoor F&B/leisure destinations has resulted in development proposals for a number of new projects in Lusail and Doha, as well as the expansion of Katara Cultural Village's retail and F&B offering, which is expected to open soon.

Figure 14

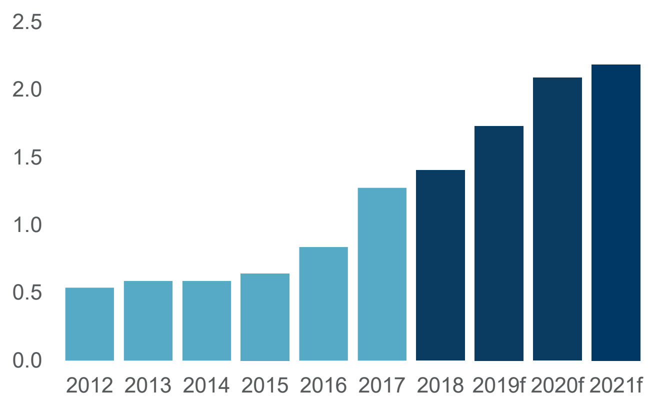
Proposed New Retail Malls for 2019

Project	Location	Estimated Completion Date
Doha Mall	Abu Hamour	2019
Northgate Mall	North Doha	2019
La Galleria + other retail	Msheireb	2019
Doha Souq	Al Mirqab	2019

Source: DTZ Research

Figure 15

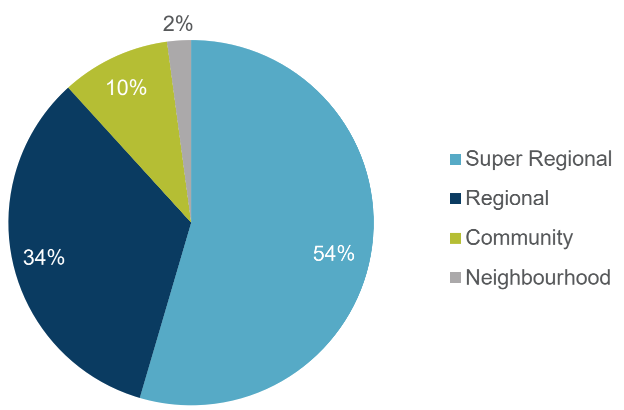
Organised Retail Supply, 2010 – 2021, (GLA, Million sq m)



Source: DTZ Research

Figure 16

Organised Supply by Mall Category, Qatar Q2 2019



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.dtzqatar.com or visit our Facebook page at

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