DTZ Research

Property Times
Qatar Q1 2010
2010 brings a brighter outlook

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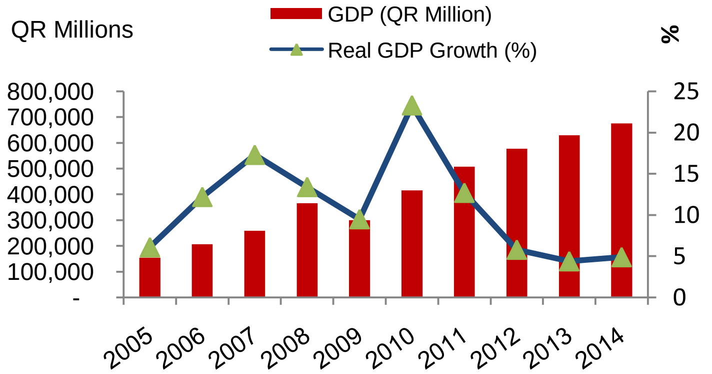
- A strong economic environment and performance will drive population growth over 2010 creating demand for all types of real estate.
- The office market, whilst continuing to suffer from a substantial over supply, has benefited from increased occupier confidence leading to a significant increase in demand in Q1 2010.
- Rents on prime commercial office properties have stabilised over the quarter but further rental reductions have been witnessed in the secondary markets with occupiers focusing on quality.
- Demand for residential property has shown signs of improvement since the start of the year; however high levels of availability continue to push rents for prime apartments and compound villas in a downward trend. Average rents for high end standalone villas have stabilised as availability of good quality stock remains limited.
- The retail market remains comparatively strong and does not suffer from the oversupply characteristics at this time, which prevail in the commercial office and residential markets. That market dynamic has led to increases in average rental levels.
- Demand for hotel accommodation remains strong in comparison to other international markets, driven by MICE tourism. There has been a sharp increase in the number of hotel rooms, which over time could impact on levels of occupancy and average room rates.
- As the real estate market continues to mature, it is vital that real estate developers and investors focus on the fundamental drivers of the market. Preparing and implementing proactive asset management strategies will be the basis for enhancing real estate values.



Economic overview

Qatar benefited from continued stable economic growth despite the global economic climate over 2009. That growth, coupled with a relatively small population, means that it continues to have one of the world's highest per capita GDP and is amongst the best performing economies in the GCC region. The oil and gas sector remains the main economic driver as Qatar continues to expand natural gas production to meet increasing export opportunities. Oil and gas revenue contributes significantly to the country's reserves and supports the Government's strategic plans for economic diversification by focusing on the development of the non-oil and gas sector such as real estate, tourism, education, medical and scientific research, professional and financial services, thereby stimulating domestic demand for residential, office and retail accommodation.

Qatar is forecast to achieve real GDP growth of 18%-23% over 2010. These forecasts are based on strong growth in LNG output and exports, which are expected to increase from 44 million tons in 2009 to over 70 million tons in 2010. The positive GDP growth figures have been achieved despite global economic uncertainty and portray the stable foundation of Qatar's economy.

The Qatari Government is expected to receive a budget surplus of QR 9.7 billion in the fiscal year 2010/11 despite a proposed 25% increase in public spending. In contrast they are expected to announce a deficit of QR 5.8 billion for 2009/10. The Government budget for 2010/11 is formulated based on an oil price of US$ 55 a barrel, which could be considered low with current prices exceeding US$ 80 a barrel.

Allocated expenditure for the non-oil and gas sector in 2009/2010 is estimated to take up about 40% or QR 37.9 billion of the total budget, reflecting strong commitment by the Government to invest in economic diversification through public spending on transportation projects such as the New Doha International Airport, Bahrain Causeway, Inter Gulf Rail Network and a local Metro System. Other areas identified for major investment include; healthcare, sports, education and housing projects.

Strong Government spending will create multiplier effects on the rest of the economy, contributing to increased consumption and demand for better quality housing, office and retail facilities. Per household consumption levels increased steadily by 15% per annum since 2008 and are expected to reach approximately US$ 33,000 by 2013.

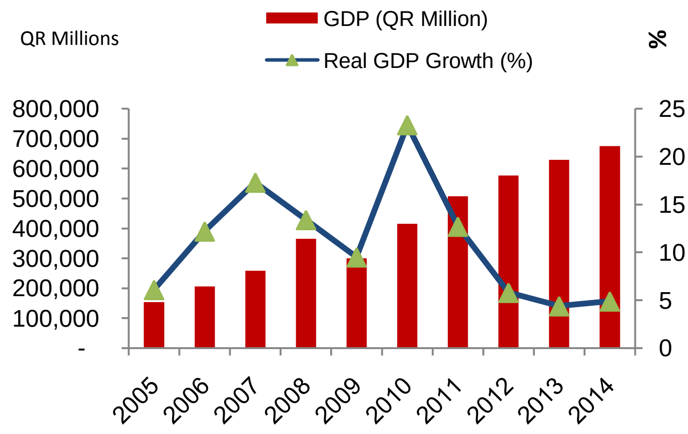
The Government continues to spearhead several initiatives to attract more business and investment opportunities beyond the oil and gas sector through the establishment of entities such as Qatar Financial Centre, Education City and Sidra Medical and Research Centre, as well as free trade areas such as Qatar Science and Technology Park and the Qatar Economic Zones.

Inflation, which peaked at 15% in 2008 and was perceived as a threat to the economy, has been brought under control and reduced to a more manageable level with inflation expected to average 4% per annum over the short to midterm, reflective of an emerging market economy. Increased supply of real estate and a global reduction in construction costs has been a key driver in achieving this goal.

The current total population of Qatar is estimated at approximately 1.67 million (31st March 2009: Source QSA). An updated census, due to be published in 2010 will enable accurate data on demographic trends to be analyzed. It is recognized that historically there has been a strong correlation between economic performance and population growth. Latest forecasts predict sustainable population growth of 3%-10% per annum over the next five years.

Figure 1

Real GDP



Source: EIU

Office market overview

Total current office stock in Doha is estimated at 3.2 million sq m of which 50% is considered as Grade A stock. The Diplomatic District, which is regarded as Doha's new central business district (CBD), accounts for just over 70% of the current Grade A stock. In comparative terms all other locations are considered secondary.

Office accommodation is also found in districts such as Grand Hamad Street, Airport Road, Al Sadd, Salwa Road and along the C and D Ring Roads.

At the end of 2008, there were 46 completed, high-rise commercial office towers within the Diplomatic District providing 680,000 sq m of leasable accommodation. That figure now stands at 1.1 million sq m, equating to a 60% increase in supply over 15 months. There is currently, approximately 158,000 sq m of space being marketed as available to lease, producing a vacancy rate of 14% in comparison with 22% recorded in December 2009 and less than 5% at the end of 2008.

A further five developments are under construction and scheduled for completion before the end of 2010, creating an additional 192,000 sq m available to lease. These will take total office stock in the Diplomatic District up to 1.3 million sq m if construction works are carried out according to schedule without any major delays.

In contrast, demand for office accommodation has reduced significantly since Q3 2008 in response to the global economic situation.

In Q3 2008, DTZ registered new demand for office space in excess of 180,000 sq m. As shown in Figure 1, over the whole of 2009, DTZ only registered new demand totalling 137,580 sq m which was 50% less than the recorded increase in supply.

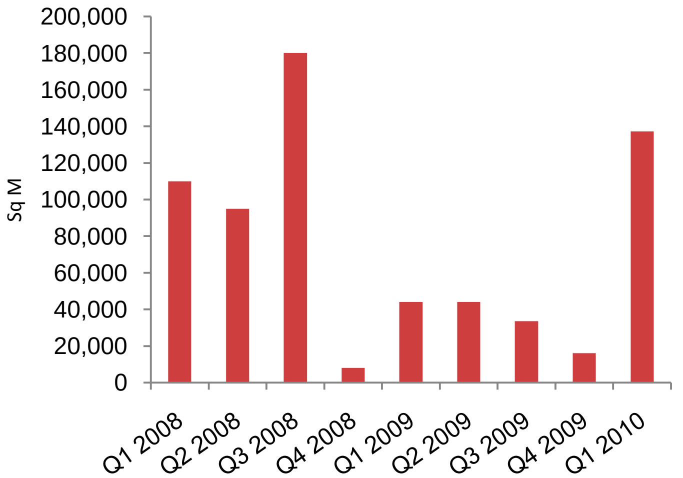
Q1 2010 has witnessed renewed occupier confidence with registered demand totalling 137,200 sq m. The highest level recorded for a single quarter since Q3 2008.

Historically the Government, Oil and Gas, and Financial Services are the top three sectors accounting for over 75% of the total demand. Since 2008, Government related requirements have been scaled back as an anti-inflationary measure.

The latest research, as shown in Figure 2, highlights that over Q1 2010, Government related bodies accounted for 59% of registered demand. These results are an indication that the Government sector is increasingly active now the threat of rental inflation has receded. Government Ministries leasing three towers in the Diplomatic District, equating to almost 100,000 sq m of supply, has been a key driver in the reduction of the office vacancy rates over the last three months.

Figure 1

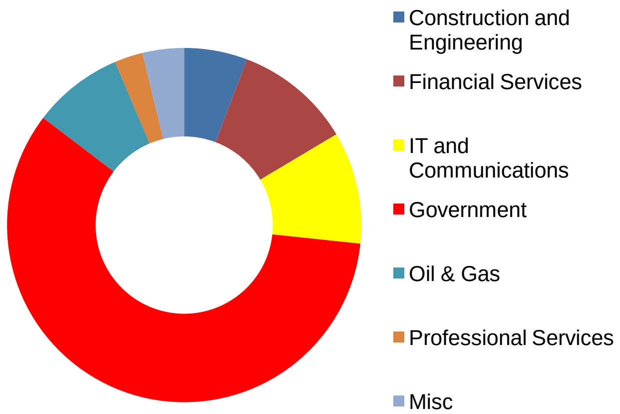
Registered office demand



Source: DTZ Research

Figure 2

Office demand by business sector



Source: DTZ Research

Office market overview

Financial Services and Technology companies are the most active private sector companies seeking new space. These sectors are supported by several Government backed initiatives, such as the Qatar Financial Centre Authority, Qatar Science and Technology Park and Qatar Foundation.

As shown in Table 1, the majority of companies registered in Q1 2010 are seeking accommodation under 500 sq m. On a positive note, increases in activity from large space users, are evident.

Rental growth over 2005 – 2008 was one of the key factors behind Qatar's high inflation rates. These were followed by declines of 20% to 30% in 2009. Rentals for the main commercial locations referred to above are highlighted in Figure 3.

Rates on prime accommodation have stabilised over Q1 2010, though further declines have been witnessed on secondary stock. Prime rates in the Diplomatic District reached QR 250 per sq m/month; however it is possible to secure new accommodation from rates as low as QR 180 per sq m/month.

As the market continues to mature, greater levels of stock have provided potential occupiers with a choice of accommodation and resulted in the development of a two-tier office market. High quality, modern offices, designed and built to meet occupier requirements are able to command the prime rates with secondary stock suffering from increasing levels of vacancy and reduced rentals to attract interest.

Landlords are prepared to offer discounts from prime rentals to occupiers with larger space requirements and to those which are prepared to commit to lease terms in excess of five years. Tenants benefiting from rent free periods of two to three months are now common place.

After location and rent, availability of sufficient car parking is generally considered as the most important criteria for occupiers evaluating property options.

Table 1

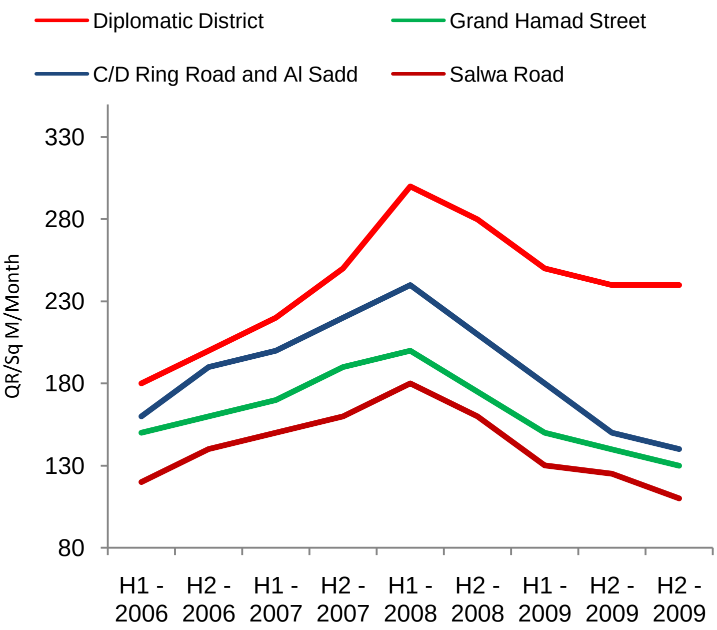
Office demand by size

Requirement (sq m)	No. Of enquires	Demand (sq m)
0-499	28	6,900
500-999	11	7,000
1,000 – 4,999	16	25,800
5,000 – 9,999	1	5,500
10,000 +	4	92,000

Source: DTZ Research

Figure 3

Prime office rental rates



Source: DTZ Research

Residential market overview

Population growth slowed over 2009 and as a result the level of new demand for residential accommodation has reduced considerably in comparison to the previous three years, during which the population doubled. In parallel with reduced demand, the level of supply in housing stock is increased at a faster rate as a number of developments started in response to the housing shortage reach completion.

The impact of these shifts in supply and demand has seen rental levels drop 20% - 30% over 2009.

Demand for residential property has shown signs of improvement over Q1 2010 with increased economic activity creating new jobs and attracting people to Qatar seeking employment.

The focus for new residential development in Doha continues to be the three prime residential districts of the Diplomatic District, West Bay and Al Wa'ab/Ain Khalid.

Regarded as the new city centre of Doha, the Diplomatic District is an area which predominantly comprises luxury, high-rise apartment developments with recreational facilities. The majority of developments in this district are owned by local developers and investors who subsequently lease them to international companies and expatriates. DTZ estimates that there are approximately 6,100 residential apartments in the Diplomatic District. Figure 1 illustrates that approximately 60% of the existing residential stock consists of two and three bedroom units.

The majority of demand is for one and two bedroom units with requirements for three bedroom apartments being limited.

The West Bay area incorporates the districts of New Doha and West Bay Lagoon. The latter being one of three areas designated for freehold property ownership by expatriates. It predominately comprises large, high-end, standalone villas whose target market includes high-income expatriates and wealthy Qataris.

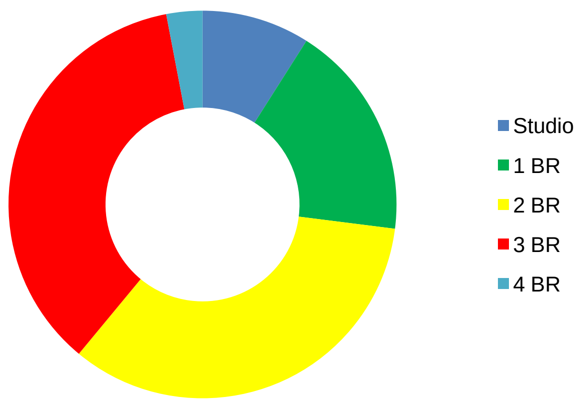
The most recent addition to the West Bay Lagoon area is the Lagoon Plaza "Zig Zag" Towers, which incorporates 750 apartments offering one, two and three bedroom units. Units commenced handover to purchasers in the latter half of 2009.

Adjacent to Lagoon Plaza is The Pearl, a mixed-use development, built on 4 million sq m of reclaimed land off the eastern coast close to West Bay Lagoon. The final project will comprise 16,000 residential units accommodating approximately 40,000 residents. Apartments, villas and townhouses in the two main phases of Porto Arabia and Viva Bahriya have gradually been launched since 2004. To date, four towers or approximately 800 apartments have been handed over to purchasers.

The residential district of Al Wa'ab mainly comprises villa compound developments typically leased to professional expatriate families. The popularity of this residential district can be attributed to its proximity to major international schools, Villaggio shopping mall and access via Doha's main arterial roads of Salwa Road and Al Wa'ab Street.

Figure 1

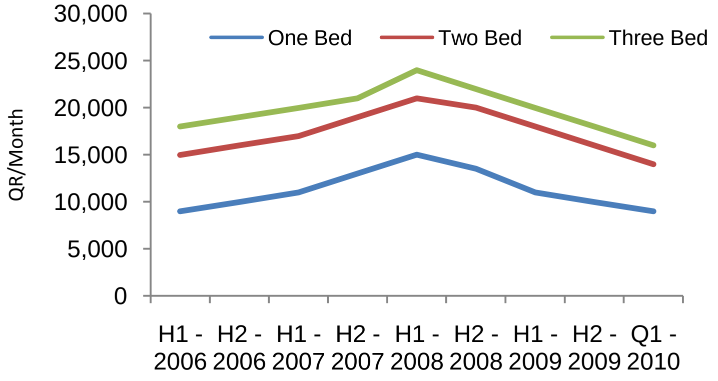
Residential apartment supply



Source: DTZ Research

Figure 2

Residential apartment rents – Diplomatic District



Source: DTZ Research

Residential market overview

Average rental prices for luxury apartments in Doha have reduced further, by 10 - 15%, over the first quarter of the year with supply continuing to outstrip demand. We expect this trend to continue over the year as the levels of supply increase and new developments come to the market at The Pearl and in the Diplomatic District.

Rentals for the best compound villas have also decreased due to oversupply in the market; albeit the average reductions have been less than 10%. In comparative terms, large stand alone, high end villas have performed better with rates for good quality stock stabilising due to restricted availability. Rentals start at QR 23,000 rising up to QR 40,000 per month.

To date, residential sales at The Pearl dominate the freehold market. Average apartment sales prices peaked at rates of QR 18,000 – QR 20,000 per sq m in Q2 2008. Since then, the global economic situation and delays in handover of units has resulted in lower market confidence among property investors with stricter bank lending requirements discouraging off-plan purchases. The result is a difference in pricing expectations between vendors, particularly developers and purchasers, which has led to a limited number of transactions making it difficult to benchmark current pricing.

There are a growing number of vendors that purchased units at pre 2008 prices, who are now seeking to sell these units on the secondary market. The majority of these vendors are seeking prices that equate to QR 10,000 – QR 13,000 per sq m. Evidence of distressed vendors agreeing to lower rates, less than QR 10,000 per sq m remains limited and typically only applies to multiple unit sales.

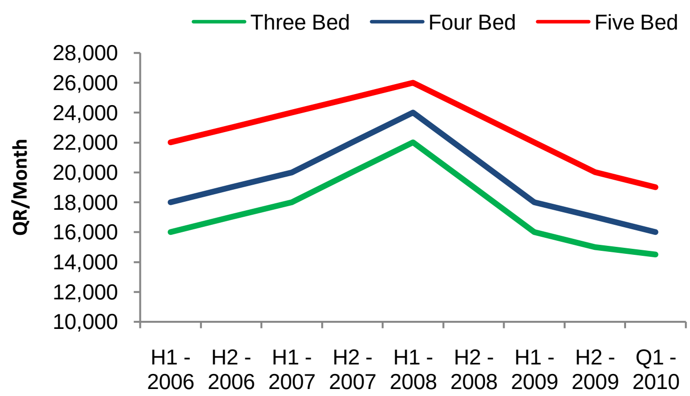
The banks continue to be more cautious than at the height of the market and have put provisions in place to protect themselves. These include being more selective on the developments which they are prepared to lend on. The mortgage products are also becoming more sophisticated with preferential interest rates being offered to investors/purchasers prepared to invest a higher percentage of equity. Qatari's typically benefit from preferential rates and Loan to Value (LTV) ratios in comparison to non-residents.

There is a more positive outlook for the freehold market in 2010 with signs that investor confidence is returning. Secondary market sales of completed product available at the rates mentioned above are expected to lead the recovery. That outlook is reflected by more banks starting to offer retail mortgage products and existing lenders promoting their products.

We expect that Doha will continue to experience relatively strong residential demand over the short to medium term as the economy remains stable and the population growth continues on a positive track.

Figure 3

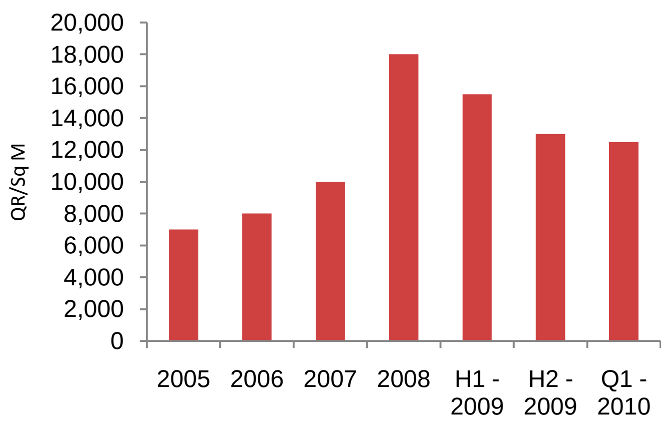
Residential villa rents – Al Wa'ab



Source: DTZ Research

Figure 4

Freehold prices - The Pearl



Source: DTZ Research

Hotel market overview

The hotel industry has witnessed significant capital investment and growth in recent years as tourism development plans are undertaken to diversify and expand the local economy.

Currently, the demand for hotel rooms in Doha is generated primarily by business and Meeting, Incentives, Conventions and Exhibitions (MICE) visitors account for 95% of the total tourist arrivals in Qatar with only 5% visiting for other purposes. Based on anecdotal evidence, the majority of the hotel occupants on business trips or attending seminars/conferences in Doha come from developed countries in Europe, United States and the Far East.

Qatar Tourism Authority (QTA) continues to promote Qatar as a destination for MICE in the GCC region. Strategic plans are in place to grow the tourism sector and attract over 1.4 million international tourists to Qatar by 2012 for business, conferences, education, sports and culture.

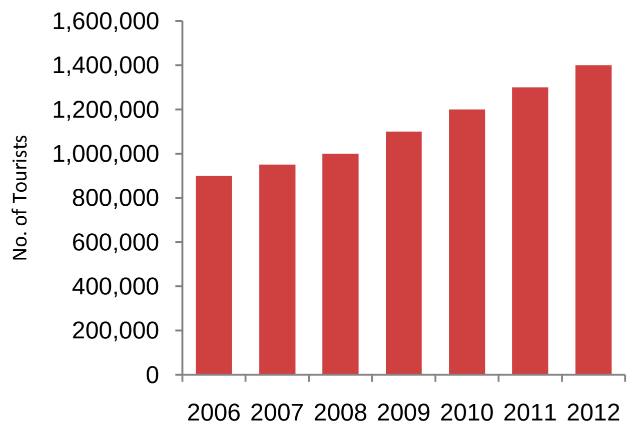
Although business and MICE visitors are expected to continue to represent the majority of travellers to Qatar, QTA intends to encourage more leisure tourism and increase this segment of the tourist market to 30% thereby creating additional demand for hotel rooms in the future.

Some of the existing and planned major projects include:

- The New Doha International Airport (NDIA) which is expected to begin operations by 2012 and handle an estimated 50 million visitors per annum. QTA's target is to attract 5% or 2.5 million visitors to stay an extra 48 hours in the country for leisure activities under a new tourism scheme called 'Qatar 48'.
- Doha plays host to international sports events throughout the year such as the Tennis Open, Lusail Moto Grand Prix, Qatar Masters Golf Tournament and the upcoming Asian Football Confederation (AFC) Asian Cup in 2011.
- The Museum of Islamic Art which is the world's first museum dedicated exclusively to the collection and display of Islamic art. Within its initial two weeks of public opening in December 2008, the new tourist attraction had attracted over 30,000 visitors and currently registers an average footfall of about 1,500 on weekdays and over 7,000 on weekends and public holidays.
- Souk Waqif has recently undergone restoration works to preserve its old world charm and is regarded as an important cultural and heritage destination in Doha.

Figure 1

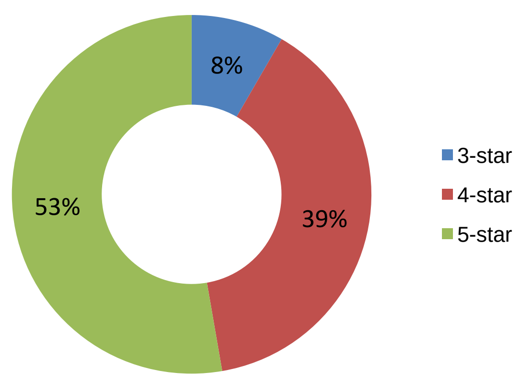
Predicted and projected tourist arrivals 2006 – 2012



Source: QTA

Figure 2

Existing hotel room supply



Source: DTZ Research

Hotel market overview

In contrast to the strategic plans to promote tourism, the recent announcement to withdraw the ability to purchase visit visas upon arrival for 33 countries has drawn concerns from a number of hotel operators. They believe this will have a detrimental effect on demand by creating an additional barrier for people planning to visit Qatar for either tourism or MICE. At this time, the proposal to withdraw visa services on arrival has been postponed and it is not clear whether it will be reinstated.

The number of hotels in Qatar has continued to expand despite the general downturn in global travel. QTA reported that 58 hotels were operating in Qatar by the end of 2009 with seven new hotels opening over the year. The total number of rooms provided, increased by 25% from 6,750 to 8,495.

QTA forecasts that an additional 70 hotels and 48 hotel apartments will have opened by the end of 2012 offering an additional 12,981 hotel rooms and 8,763 hotel apartment units. It is expected that 23 hotels will open in 2010, increasing the number of rooms offered by 55% to in excess of 13,000.

Figure 2 highlights the current distribution of hotel rooms according to three, four and five-star ratings. Approximately 50% of the current hotel rooms are rated as five-star and another 40% are categorised as a four-star rating. The number of budget three-star hotel rooms is relatively low at 8% of the total supply.

QTA forecasts that 90% of the future supply outlined above will provide four and five star accommodation.

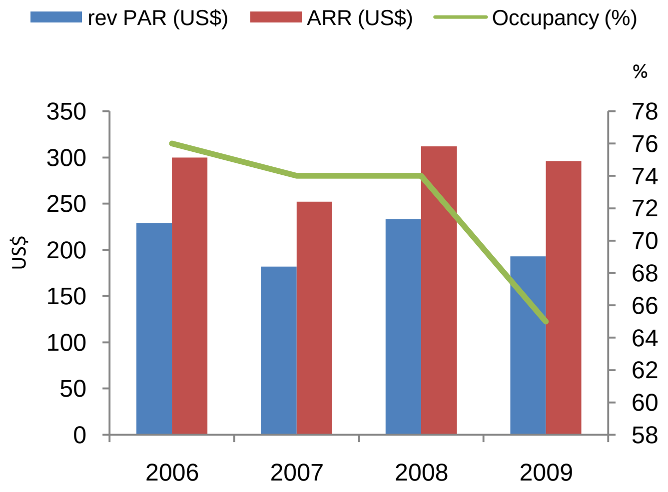
Qatar's hotel industry has performed comparatively well despite the current economic climate which slowed down growth for the industry internationally. Due to substantial increases in the level of supply there have still been declines in a number of key hotel economic measures.

Doha's revenue per available room (revPAR) fell 17% to US$ 193 in 2009 though Qatar has maintained the second highest revPAR in the GCC region after Abu Dhabi.

Average Room Rates (ARR) fell 5% from US$ 312 in 2008 to US$ 296 in 2009 with average occupancy rates also in decline from 74% in 2008 to 65% in 2009.

Figure 3

Market indicators



Source: Ernst & Young Middle East Hotel Benchmark Survey

Retail market overview

Qatar's retail market has grown considerably in recent years, reflecting the change in demographics created by an expanding population with greater affluence and disposable income.

The current offer is dominated by organised retail, comprising large scale retail mall developments, serving as one-stop shopping, recreational, leisure and entertainment hubs for visitors. Organised retail stock of this type extends to approximately 500,000 sq m of gross leasable area (GLA) distributed across eight main shopping malls dominated by Villaggio and City Centre, which account for over 60% of the total retail supply. That figure has remained constant since the opening of the extension at Landmark in early 2009.

Within the malls, tenant mix is similar with a number of the international brands having a presence in at least two of the main malls. As an example; Landmark, City Centre and Villaggio are all anchored by Carrefour hypermarkets. Among recent developments, Villaggio has opened a 13-screen multiplex and an exclusive high-end luxury retail section within the mall, increasing its total GLA to 153,000 sq m. Average monthly footfall at Villaggio has increased to in excess of 1.2 million people per month.

City Centre has been extended to incorporate 5 new luxury hotels, Marriott Courtyard and Marriott Renaissance Tower, Shangri-La, Rotana Tower and Merweb Hotel which will provide a total of 1,300 hotel rooms and serviced apartments, which are scheduled to open later this year.

Another upcoming retail development expected to open in 2010 is Lagoona Mall set beneath the "Zig-Zag" West Bay Lagoon Plaza which will offer 53,000 sq m of high-end luxury shopping.

The retail component of Porto Arabia at The Pearl was opened to the public in late 2008 and continues to expand as new units open. The development is expected to be fully open by the end of 2010 and on completion Porto Arabia will offer 90,000 sq m of retail GLA.

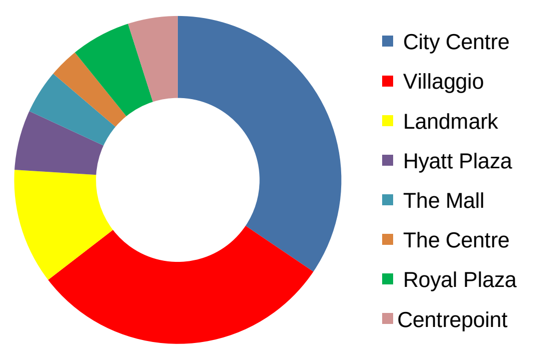
The Gate, situated in the Diplomatic District, providing approximately 24,000 sq m of luxury fashion, F&B and lifestyle retail is also scheduled to open later this year and will be anchored by the existing Salam Department store.

Most existing malls boast full occupancy with waiting lists of potential tenants. Average monthly rental rates are highlighted in Figure 2.

Landmark, City Centre and Villaggio shopping malls command the highest average rental rates ranging from QR 180 to QR 225 per sq m per month for standard units due to their location and popularity among the residents. There has been little change to these rental levels, with limited transactional evidence to benchmark rents, as no new space has been released to the market and existing units are rarely transferred between retailers.

Figure 1

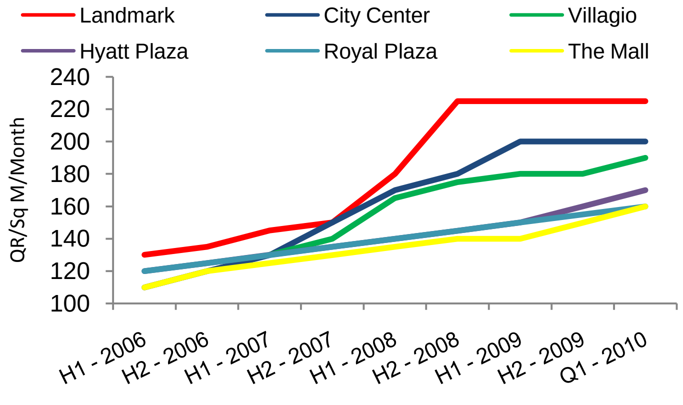
Distribution of retail space



Source: DTZ Research

Figure 2

Retail rents



Source: DTZ Research

Retail market overview

In the future, there is potentially an additional 230,000 sq m of organised retail stock coming onto the market before the end of 2011 if all planned developments are realised and delivered on time. That will equate to a 45% increase in supply. The GLA per capita is also estimated to increase from the current 0.6 to 1.0 sq m per capita by the end of 2010. Table 1 below highlights the major retail mall developments currently in the pipeline by location, size and expected completion date.

In the short to medium term, the organised retail market outlook remains fundamentally sound with demand continuing to outstrip supply and the growing tourism demand giving a boost to the retail market. As a result, vacancy rates are expected to remain low even as retail stock increases and rental growth on new developments which can add diversity, exclusivity and depth to the retail market will remain strong. Retail showroom space has seen new units released to the market over the last six months on Salwa Road, TV Roundabout and Airport Road. Demand for these larger showroom retail units has decreased. Typical retailers for this type of unit sell bulkier goods including; cars, construction materials, household finishes and furniture and have seen reduced demand for their products. The impact of reduced demand has seen a fall in prime rentals from QR 220 per sq m per month to QR 170 – QR 190 per sq m per month. Barwa Commercial Avenue, which is scheduled for completion in 2012, will increase retail showroom supply significantly.

There is an emerging demand for convenience retail with a number of the larger supermarket operators seeking smaller stores to service local communities.

Table 1

Retail future supply 2010 - 2015

Project	Location	GLA (s qm)	Estimated completion date
The Pearl – Phase 1	West Bay Lagoon	90,000	2010
Lagoona Mall	West Bay Lagoon	53,000	2010
The Gate	West Bay Lagoon	24,000	2010
The Pearl – Phase 2	West Bay Lagoon	60,000	2011
Al Wa'ab Mall	Al Wa'ab City	79,000	2012
Gulf Mall	Duhail	80,000	2012
Barwa Commercial Avenue	Mesaimeer	250,000	2012
Dubai Towers, Doha	West Bay	8,000	2013
Northgate	North Doha	215,000	2013
New Doha International Airport	Airport	25,000	2013
Mirqab Mall	Al Mirqab Street	36,000	2013
Heart of Doha	Mohammed Bin Jassim	85,000	2014
Barwa Al Doha	Muntazah	55,000	2014
Commercial Boulevard and Towers	Lusail	143,000	2015
Waterfront	Lusail	244,000	2015
Marina District	Lusail	214,000	2015
Tarfeeh City	Lusail	182,000	2015
Foxhills	Lusail	82,000	2015
Qetaifan Islands	Lusail	210,000	2015

Source: DTZ Research

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