Doha, Qatar

REAL ESTATE MARKET OVERVIEW

Q2 2013

Accelerating success.
Introduction

Qatar has become one of the most vibrant economy in the Middle East, on the back of its hydrocarbon reserves. The World Economic Forum’s Global Competitiveness Report for 2011-2012, ranked Qatar at No. 14, on the list of the world’s fastest growing economies, overtaking other countries in the region including United Arab Emirates (UAE), Bahrain and Kuwait.

High GDP growth rates, the expected influx of expatriate population, together with government efforts to diversify the economy, are the primary drivers of growth in the real estate sector.

Qatar’s hosting of the 2022 World Cup is a further stimulus towards the country’s infrastructure and transportation networks, creating more value towards sustainable real estate assets.

A brief synopsis of Doha’s residential, office and retail markets are as presented below:

- **Residential Sector**
  - Currently an undersupplied market, although depressed consumer confidence post the global economic downturn have influenced a downward trend in prices
  - An influx of population, supported by economic growth and employment opportunities continue to remain the key drivers for residential demand
  - Quality units, in terms of build quality, finishes and facilities are performing significantly better than average units across the market and have seen early signs of recovery

- **Office Sector**
  - Currently an oversupplied market
  - After continuous price declines since 2008, a stabilisation of rentals, especially within primary grade commercial space has been observed during 2011-2012, mainly due to an increase in market confidence and improved economic opportunities
  - There has been notable tenant movement towards central areas such as West Bay, representing a flight to quality, as rentals have become more affordable

- **Retail Sector**
  - An undersupplied market, which is likely to move to an oversupply situation by 2014, provided construction timelines are met
  - Going forward, the oversupply will apply potential downward pressure on rental rates and may result in an increase in vacancy rates across shopping malls. As an outcome of these two scenarios, secondary/less leading malls are likely to reposition themselves with more tenant favourable terms such as rent free periods, capital contribution and other softer deals in order to encourage and/retain existing tenants

Colliers International Doha Real Estate Overview provides a brief snapshot of the key factors impacting the Qatar real estate market and the future outlook of the sectors.
2. Residential Sector Overview

2.1 SECTOR DEFINITION

Doha’s residential real estate market is represented by an acute housing shortage. This undersupply is primarily due to the influx in expatriate population, which has gradually exerted pressure on the local real estate market.

From a high-density city centre, Doha’s residential market has steadily moved away from the city into areas around the C, D and E Ring Roads. West Bay has now become a sought after location for high-end residential accommodation. The change in preference is the suburban quality of these neighbourhoods and the preference to live in close proximity to both commercial nodes and retail/leisure facilities. Similar to West Bay, the Pearl Qatar, has also gained popularity, especially among high income residents.

2.2 SUPPLY

According to the latest census, Doha’s residential market comprised of 23,185 villas and 74,370 apartments in 2010. The popularity for apartments follow the increasing number of expatriates migrating into Doha for employment (Refer Exhibits 1&2). A more detailed breakdown of apartment statistics reveals that the majority of apartments are two and three bedroom units. There are limited one bedroom and studio units in the existing market (Refer Exhibit 3).

Apartment living is popular only in Doha, and is limited across other municipalities, given the concentration of white collar expatriates in the capital (Refer Exhibit 4).

According to government projections, an additional 60,000 units will be completed by 2020. Considering government projections, along with the actual current construction pipeline in the city, Colliers estimates cumulative residential supply in Doha to reach 138,235 units by the end of 2017 (Refer Exhibit 6).
2. Residential Sector Overview Contd.

2.3 DEMAND

Demand for residential units in Doha continues to surge on the back of an increasing population. The global economic downturn in late 2008, however, was followed by more cautious market sentiments which resulted in a drop in both rentals and sales prices.

An upturn in demand was soon observed over the second half of 2010 and early 2011, mainly driven by increased economic activity and new employment opportunities attracting a considerable number of expatriates both from the MENA region and from other parts of the world. Currently average occupancy level across Doha exceeds 85%, with occupancy in high-end units in West-Bay and the Pearl reaching almost 90%. However, the 10% vacancy cannot be regarded as an oversupply situation, but instead a ‘floating’ vacancy rate, seen predominantly in newer developments.

A flight to quality is also being observed as tenants are taking advantage of competitive rentals offered by landlords, and are moving into better quality units. Upgrades from apartments to villas have also been observed during the past year. Today, the focus for new residential developments in Doha continues to be concentrated on two prime residential areas, namely the Diplomatic District/ West Bay and Al Waab/Ain Khalid.

Going forward, population in Qatar is expected to grow at a CAGR (compound annual growth rate) of 4% between 2011 and 2017 (IMF estimates). The increase in population is likely to be followed by a similar growth rate in demand for accommodation facilities. Doha however, being the business capital of the country, population is likely to grow at a higher rate than across Qatar. Colliers estimates residential demand to reach 242,000 units by 2017.

2.4 PRICING / MARKET PERFORMANCE

Rental rates and sales prices are subject to location, quality of finishes, unit sizes, onsite amenities as well as the quality of furniture used (where applicable).

- **Rental Rates**: Rental rates across apartments in Doha witnessed an overall drop of 27% since 2008 (Refer Exhibit 7). Rents in high end developments such as Pearl Qatar performed comparatively better, declining by 12% only since 2009.

- **Sales Prices**: Since 2008, residential sales prices have witnessed a 38% drop, with the largest decline seen in 2010 (year-on-year drop of 20%). Sales prices in 2012 however are witnessing an upward trend, although marginal, with average prices increasing by 2% from the previous year (Refer Exhibit 8).

2.5 OUTLOOK

- Colliers expects that Doha’s residential real estate market will continue to experience strong demand over the short to medium term as the economic and population growth continues.

- Developing residential units in close proximity to healthcare and education facilities are likely to attract more demand compared to residential communities that lack access to such essential social infrastructure facilities.
3. Commercial Sector Overview

3.1 SECTOR DEFINITION

The office sector in Doha has undergone dramatic changes since the year 2000. The growth in prominence of West Bay from the beginning of this decade and existing government measures of moving public departments to West Bay has resulted in a change in the market’s focus towards this area.

The essential difference between Doha and other Gulf centres is that government organisations in Doha tend to lease office space instead of occupying their own-dedicated office buildings. The relocation of government buildings to West Bay has, therefore, driven the creation of a new Central Business District (CBD).

Today, West Bay comprises of the majority of Grade A commercial space (Refer Exhibit 10)

3.2 SUPPLY

Existing Grade A office space in Doha (in terms of prime locations) reached 2.2 million m² NLA (Net Leasable Area) by the end of 2012. Although there are a number of dedicated office buildings in the city, current supply cannot be classified as primary grade quality in comparison to international standards. However, this is set to change with the provision of new office space currently under construction and in the planning stages.

A state sponsored modernisation programme is currently being carried out, replacing existing buildings in various parts of the city. This modernization programme is expected to enhance the cityscape of Doha and increase the quality of office developments. Moreover, in 2022, Qatar is positioned to become the first Middle East country to host the World Cup, exerting more pressure on upgrading infrastructure facilities, and transport networks, such as the new metro, across the country which will further enhance the cityscape of Doha.

Although it is too early to gauge the real impact on market performance and the overall effect on real estate demand in the region, World Cup 2022 nevertheless will have a significant impact on Qatar employment opportunities, tourism and hospitality, manufacturing, retail, and will certainly stimulate the economy resulting in more job opportunities.

Existing vacancy levels across Doha is currently 29%, signalling an oversupplied market. Having said this, it must be noted that West Bay in particular has witnessed an increase in demand levels lately, primarily due to government sector activity. Apart from the government sector, financial and professional service companies are the most active in seeking new office space. Furthermore, latest measures to relocate commercial units from residential localities have also resulted in an increase in demand for new office space, again, especially in West Bay.

Exhibit 12: Cumulative Grade A Office Supply Estimates
3. Commercial Sector Overview Contd.

3.3 DEMAND

Demand for office space in Doha is clearly delineated by quality, and is primarily dependant on two factors, namely, the number of office employees, and the floor space occupied per office employee.

When estimating demand for office space in Doha, Colliers has maintained the international benchmark for office space as specified by the Royal Institute Charted of Surveyors (RICS), of 10 m² – 12 m² per office worker. Applying the average benchmark suggested by the RICS (i.e. 11 m²) to the current number office employees in Doha, and then by determining the existing tenants occupying Grade A office space, the demand for office space in the city by the end of 2013 is likely to reach 1.9 million m².

Going forward, demand for office space will coincide with the increase in white collar workers. Considering the projected growth in employment by a number of international economic agencies, Colliers estimates cumulative office demand to reach 2.7 million m² by 2017. Given the demographic characteristics, with the majority of the labour force consisting of 20 to 30 year olds, there will be significant focus on flexibility in design and more open/social office spaces, also known as the “Generation Y” effect.

3.4 PRICING / MARKET PERFORMANCE

After continuous price declines since 2008, a stabilisation of rentals, especially within primary grade commercial space has been observed during 2011-2012. This is mainly due to an increase in market confidence and employment opportunities in Doha. There has been notable tenant movement towards central areas such as West Bay, as rentals have become more affordable.

Overall, rental rates across Doha witnessed a drop of 33% since 2008 (Refer Exhibit 14), while rents in West Bay witnessed a drop on 28% during the same period (Refer Exhibit 15).

West Bay, accounting for the majority of primary grade office stock, attracts the highest rental rates in Doha. Currently the average rental rate in West Bay is QAR 2,160/m²/annum (Refer Exhibit 16).

3.5 OUTLOOK

- Despite the current oversupply in the Doha market, demand for quality office space (notably Grade A developments in West Bay/Diplomatic District) remains considerably high, reaching an average occupancy of 95%. Demand for this location is further highlighted with rentals remaining stable during 2011 – 2012, while rentals across Doha have witnessed a marginal decline.

- With a number of existing commercial buildings being demolished, or planned for demolition, along with government measures to increase economic growth, it is Colliers opinion that demand for quality commercial space in prime locations will remain high.
4. Retail Sector Overview

4.1 SECTOR DEFINITION

The market is currently dominated by formal retail destinations such as the Villaggio, City Centre and Porto Arabia in the Pearl, which together accounts for the majority of the total organised retail supply in Doha. Established malls such as the City Centre, Landmark and Villaggio are fully occupied, and also have long waiting lists for potential tenants, signalling high demand for the “best” malls in town. Ezdan Mall is the most recent retail development to open in Doha.

Qatar’s relatively high demand for retail facilities is currently maintained by the country’s high per capita income. However, given the magnitude of forthcoming supply, retailers are expressing concern that supply will soon outstrip demand.

4.2 SUPPLY

Organised retail space in Doha reached 504,000 m² GLA (Gross Leasable Area) by the end of 2012 (Refer Exhibit 19). Doha City Centre, Villagio and Porto Arabia alone account for 65% of total retail supply. Analysing total footfall volume alone, Villagio appears to be the most popular shopping mall in Doha, successfully attracting 16.8 million visitors (Refer Exhibit 17). However, when establishing a better comparison between the malls, the footfall per m² of GLA is the highest at The Gate (Refer Exhibit 18).

Additional supply of approximately 1.48 million m² of GLA (provided construction schedules are met) is expected to enter the market between 2013 and 2020, which represents an increase of 294% from the current supply. Ezdan Mall, the most recent to open in Doha, was initially scheduled to open in 2012 but was delayed until 2013. The new mall offers 40,000 m² of retail space, across three floors. Adjacent to Ezdan Mall is Gulf Mall (approximately 80,000 m² GLA), which was also initially scheduled for 2012, but delayed to 2013.
4. Retail Sector Overview Contd.

4.3 DEMAND

Assessing demand for retail space in a community relies on a number of factors which include the general affluent of the community and levels of discretionary disposable income.

Whilst the aftermath of the global economic downturn has undoubtedly had a negative effect on the overall spending power and consumer confidence, the impact thereof is less severe in Qatar than other countries. This can be attributed to the following factors:

- The retail market in Qatar is less dependent on tourists, and is supported by the proportionately strong spending power of Qatari nationals
- Qatar had the highest GDP per Capita in the world in 2010. In 2011 Qatar secured the number two position after Luxembourg, and according to the IMF, it will continue to occupy its ranking as the second largest per capita GDP in the world until 2016 - which directly supports retail demand

Population is a key driver for retail demand. An analysis of the characteristics of the population reveals that more than 61% of Qatari residents are under the age of 35. For this age group shopping and dining out is considered part of the leisure and entertainment activities, especially in this part of the world. This demographic group has a higher propensity to consume, and has a higher dwelling time, which form the main contributors to demand.

The International Council of Shopping Centres (ICSC) has published a guideline suggesting that developed communities can absorb a supply of 1.1 m² GLA per head of population for formal retail space. Given the high levels of disposable income, and the general affluence of the Qatari society, there can be little doubt that the ICSC guideline could very safely be applied to assess demand for retail space in Doha.

Keeping in line with the international benchmark (ICSC) of 1.1 m² per population, Colliers estimates demand for organised retail space to reach approximately 986,000 m²/GLA in 2013 and 1.1 million m²/GLA in 2017.

4.4 PRICING / MARKET PERFORMANCE

Average rentals in shopping malls in Doha range between QAR 140 and QAR 250 per m² per month.

4.5 OUTLOOK

- The high demand for retail space in Doha has prompted the development of numerous new shopping malls, which, provided construction timelines are met, will transform the market to an oversupplied retail sector by 2014.
- Going forward, the oversupply will apply potential downward pressure on rental rates and may result in an increase in vacancy rates across shopping malls. As an outcome of these two scenarios, secondary/ less leading malls are likely to reposition themselves with more tenant favourable terms such as rent free periods, capital contribution and other softer deals in order to encourage and/ retain existing tenants.
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