PROPERTY TIMES

Q1 REAL ESTATE MARKET REVIEW

QATAR Q1 2023

CUSHMAN & WAKEFIELD

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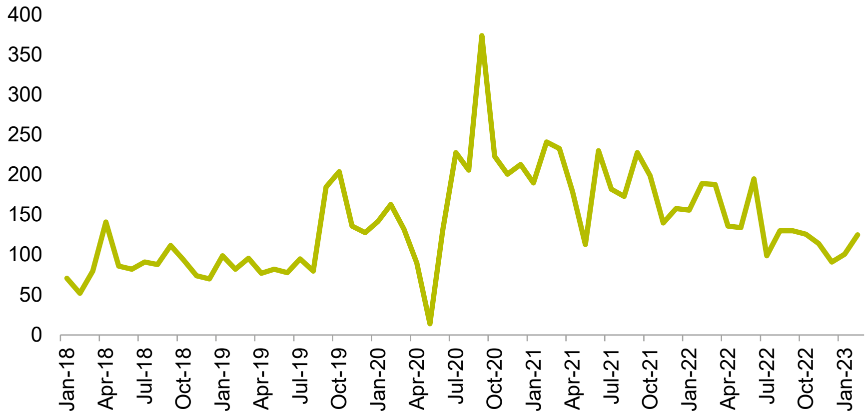
Contents

- Following Qatar's hosting of the FIFA World Cup in November and December of 2022 and the surge in demand for real estate that created, there was a return to more normal real estate market conditions in Q1 2023.
- Qatar's GDP grew to 4.1% in 2022, up from 1.5% in 2021, due in part to World Cup related activity. Reduced growth of 2.7% is expected in 2023.
- In March, the Ministry of Commerce and Industry issued a circular regulating the type of activity practiced in commercially licensed villas. The practice of splitting residential villas for multi-occupancy has also come under the spotlight, with stricter enforcement of regulations expected to come into force.
- The Ministry of Municipality launched the first phase of Qatar's Real Estate Platform in March, which will collect and store real estate data from various sources on a centralised platform. The platform will help to provide a transparent framework from which informed real estate policy decisions can be made.
- In February, the Shura Council approved a draft law that will update and amend Law No.(6) of 2014 – the main law governing the regulation of real estate development in Qatar.
- Following a sharp increase in residential rents in 2022, the increase in apartment availability saw downward pressure on rents in Q1. There was little sign of rents falling in January; however, most apartment developments saw a softening in rents and an increase in rent-free incentives return by March.
- According to the Planning and Statistics Authority, the number of real estate transactions in Qatar fell by 22.1% in 2022 compared to 2021. This downward trend continued in Q1 2023, with 28% fewer transactions recorded in January and February compared to the corresponding months last year.

Figure 1

No. of residential real estate sales transactions in Qatar, Jan 2018 – Feb 2023



Source: Planning and Statistics Authority

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Economic Overview

Expansion of the Oil and Gas sector will fuel GDP growth in 2023

Qatar's GDP grew to 4.1% in 2022, up from 1.5% in 2021. This was due in part to investment and economic activity driven by Qatar's hosting of the FIFA World Cup in November and December.

Oxford Economics' 2023 GDP forecast for Qatar remains unchanged at 2.7%, with economic activity sustaining this pace in 2024 as the government continues to support growth. The expected expansion of gas capacity and the pipeline of planned projects to draw foreign direct investment (FDI) will underpin average growth of 3.2% in the non-oil sector this year and next.

February's PMI showed business activity growing for the first time since September 2022, led by demand in the wholesale and retail sectors. Firms are optimistic about near-term growth prospects, with the 12-month outlook soaring to a 41-month high. While the outlook for the domestic economy is unaffected by losses incurred by Qatar Investment Authority on its Credit Suisse holdings, the fund is re-appraising its overseas investments.

Weaker global growth and softer commodity prices are dampening exports and the budget revenue outlook. That said, Oxford Economics' baseline sees spending growth easing, leading to a budget surplus of 10.3% of GDP this year. The government ran a surplus of QAR89bn (10.7% of GDP) in 2022, the strongest outcome since 2014. Expectations of sustained fiscal surpluses have triggered a positive credit outlook change from Fitch.

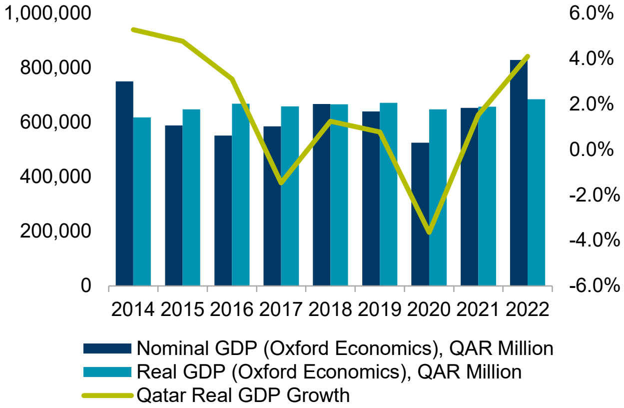
Prices rose by 0.2% m/m in February, raising annual inflation to 4.4%, from 4.2% in January. The recreation and culture category, 11% of the CPI basket, drove the increase, with the sub-index rising 5.2% m/m, offsetting declines in other categories. Oxford Economics expect annual inflation rates to be on a downtrend in the coming months and continue to forecast average inflation at 2.3% this year before stabilising around 2% in the medium term.

Qatar's central bank tracked the US Fed in hiking 25bps in March. More tightening is likely in the coming months, which will weigh on lending and non-oil growth before rates are cut in 2024.

(Economics Overview insight provided by Oxford Economics Country Economic Forecast as of February 2023).

Figure 2

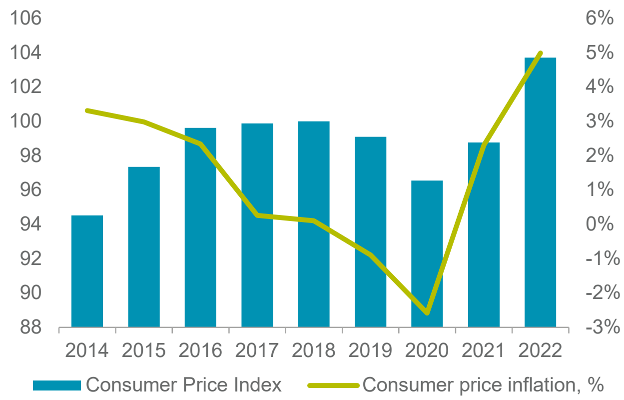
GDP (QAR million) and Real GDP growth (%), 2014 – 2022



Source: PSA/Oxford Economics

Figure 3

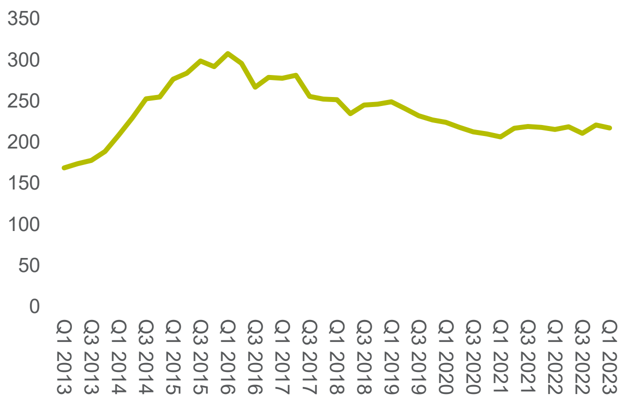
Consumer Price Index & Consumer Price Inflation (%), 2014 – 2022 (2018=100)



Source: PSA/Oxford Economics

Figure 4

Real Estate Pricing Index, Q1 2013– Q1 2023 (base 100 – Q1 2009)



Source: Qatar Central Bank

Office Market Overview

Financial sector companies start committing to Lusail relocations

Following a COVID-19-related downturn in office activity in 2020 and 2021, office leasing transactions increased significantly in 2022; however, leasing activity has been relatively subdued in the first quarter of 2023.

Office activity in 2022 was driven by the government sector and the oil and gas sector. Most activity over the past 12 months has occurred in Lusail. QIA, QNB and Qatar Central Bank will all take up occupation of Lusail Towers on their completion. In February, the QFC and Qatari Diar announced that the former has acquired more than 6,000 sq m of office space in Lusail Boulevard, joining Qatar Chamber, which is due to relocate to the same street shortly. These upcoming office relocations could potentially see the Lusail downtown area become Qatar's de-facto financial district in the coming years.

The buoyant oil and gas sector has spurred expansion and relocation activity in the past year. As a result, three office deals over 3,000 sq m have been confirmed in West Bay and The Pearl Qatar.

Msheireb Downtown Doha is also gaining recognition as a commercial destination. Msheireb Properties has secured several commercial office lettings in the first quarter of 2023 with international companies from the oil & gas and financial services sectors. There are also several other transactions in the pipeline, which are expected to complete during Q2 2023.

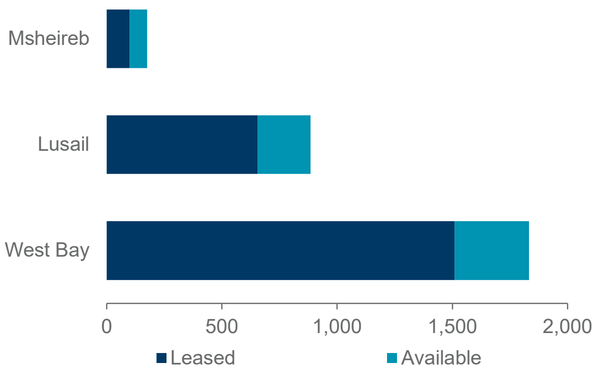
The supply of purpose-built office accommodation in Qatar has now reached approximately 5.3 million sq m. The Al Dafna/West Bay district has the largest concentration of supply with approx. 1.8 million sq m of gross leasable area, while the expanding supply of office accommodation in Lusail has surpassed 800,000 sq m.

Despite an increasing office supply, there currently needs to be more options available for companies looking for premium-quality fitted space. Most available office space in Doha is either of basic quality or is available on a shell and core basis. While increasingly attractive lease terms are available for shell-and-core space, demand is weak due to the requirements for tenants to undertake costly internal fit-outs.

Grade A stock is now typically available to lease for between QAR 100 and QAR 120 per sqm per month, exclusive of service charges. Office spaces leased as 'shell and core' can be secured for QAR 55 – 60 per sq m per month in some of Doha's main office districts.

Figure 5

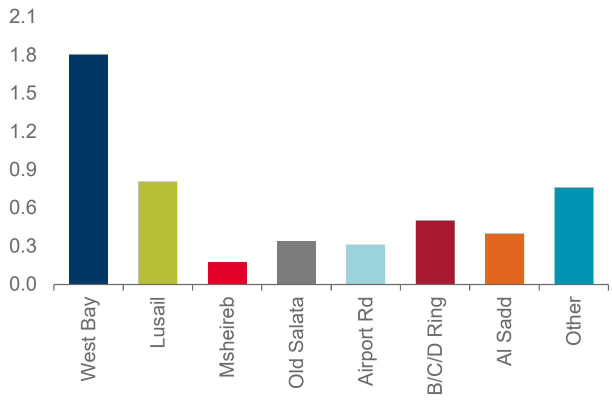
Grade A office supply available to lease – selected districts (sq m thousands) (Q1 2023)



Source: Cushman & Wakefield

Figure 6

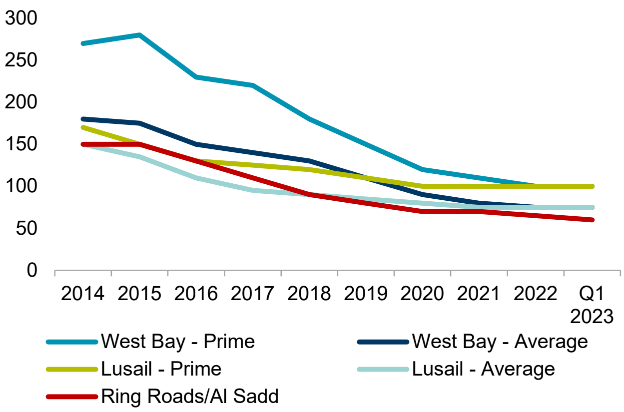
Overall supply by district (2023) (Sqm Millions)



Source: Cushman & Wakefield

Figure 7

Average office rents by district (QAR/sqm/month), 2014 – Q1 2023



Source: Cushman & Wakefield

Residential Market Overview

Apartment rents start to fall in February and March, following the strong increases in 2022

Hosting the FIFA World Cup in 2022 resulted in a temporary shortage of available accommodation in Qatar over the past year, which saw rents spike throughout the market – particularly in the apartment sector.

The early months of 2023 have seen a return to the market conditions of 2020 and 2021, with a significant increase in the number of apartments available to lease.

Despite predictions of apartment rents falling significantly in January, there was little evidence of softening rents until mid-February. Apartment rents have, by and large, started to return to pre-2022 levels, with incentives such as one-month rent-free periods and all-inclusive deals now commonplace once again. Without an increase in new demand in the coming months, apartment rents should continue to soften throughout the year.

Supply has been boosted in Q1 by developments reserved for the World Cup, which have now been released to the market. The Madinatna development on G-Ring Road between Doha and Al Wakra has increased supply in the area by almost 7,000 units. It will provide direct competition to Ezdan Oasis and Mesaimeer City. Furnished apartments have also been released in Msheireb Downtown Doha, with strong take-up over the first three months of the year. On the Pearl-Qatar, UDC and other private developers have released a major development of apartment towers and villas at Floresta Gardens, with strong take-up reported in recent months.

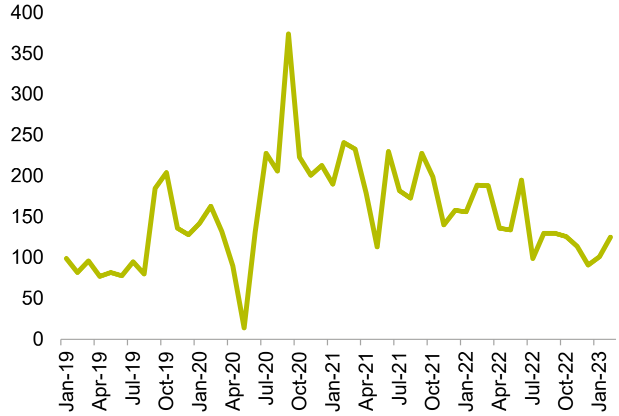
While vacancy rates have increased in the apartment sector, there is limited availability by comparison in the villa market – particularly in prime compounds.

Villa rents typically increased by 3% - 8% last year; however, there have been no signs of significant rental reductions in Q1 due to high occupancy rates being maintained. Therefore, we expect current rents to be sustained over the coming months until there is a change in supply and demand dynamics.

According to the latest statistics released by the Planning and Statistics Authority, the number of residential sales transactions fell by 25.5% in 2022 compared to 2021. This trend continued in Q1 2023, with the number of residential sales transactions falling by 34% in January and February compared to the corresponding months last year. These statistics confirm that the pace of residential property sales has slowed since an initial surge in activity following the introduction of Law No.16 of 2018, which saw non-Qataris take advantage of the changes to ownership laws in areas such as Lusail.

Figure 8

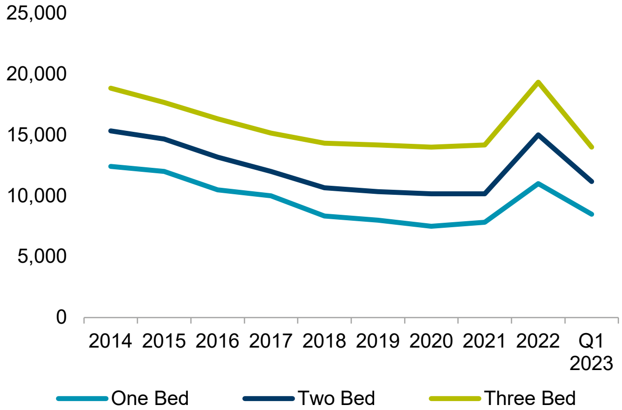
Residential house sales, Qatar, Jan 2019 – Feb 2023



Source: Planning and Statistics Authority

Figure 9

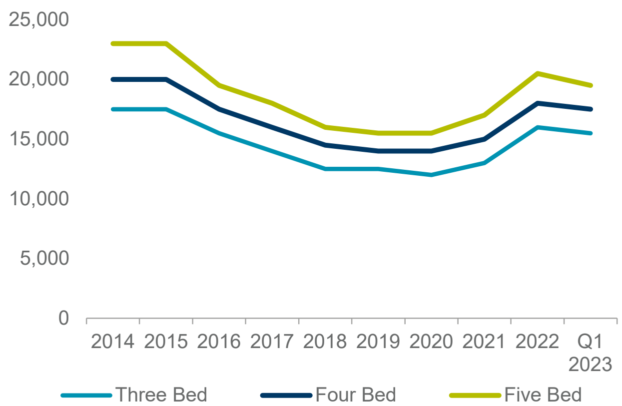
Prime apartment rental trend, Pearl Qatar, 2014 – Q1 2023



Source: Cushman & Wakefield

Figure 10

Average compound villa rental trends, Al Waab (QAR/month), 2014 – Q1 2023



Source: Cushman & Wakefield

Hospitality Market Overview

Boost in tourist arrival numbers in January and February supports the expanding hotel sector

The supply of hotel rooms has continued to increase in Qatar over the first three months of 2023, with more than 700 keys added to the market between January and March. This followed an unprecedented boost in room numbers in 2022, when more than 7,000 hotel keys were delivered. The total supply in March is approx. 38,500, which reflects an increase of more than 30% in 15 months. New hotels to launch in recent months include The Velero in Lusail, Mina Hotel and Residences in Doha Port, and the Grand Lux in Al Sadd.

Official National Tourism Council (NTC) statistics for hotel performance in 2022 have yet to be released; however, the Planning and Statistics Authority has made performance indicators available for the sector. The first nine months of the year saw average occupancy fall from 63% to 55% compared to the previous year, despite increasing tourist arrivals. This can be explained mainly by the significant increase in supply throughout the year.

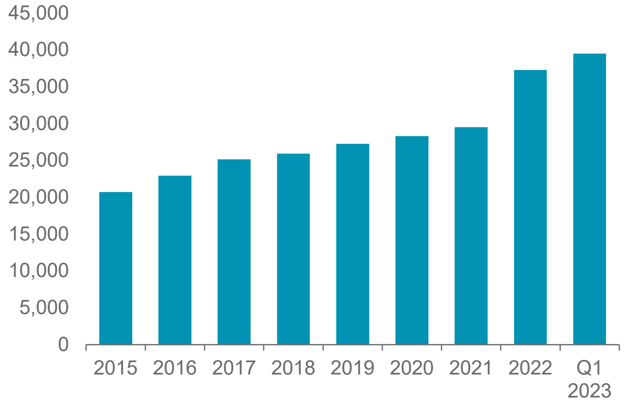
Perhaps surprisingly, hotel occupancy for November and December did not see the expected increase from World Cup visitors. While Average Daily Rates increased four-fold, November's occupancy rate was just 56%, increasing to 61% in December. C&W understand that some of the vacancy is due to most visitors securing accommodation in residential properties ahead of the late release of unused hotel rooms that had initially been reserved for the World Cup.

Following a spike in hotel revenue metrics at the end of last year, PSA statistics for January and February show that Average Daily Rates returned to the levels seen in Q1 2022. The overall Average Daily Rates for January and February were QAR 424 and QAR 433, respectively, reflecting RevPARs of QAR 200 and QAR 247

The recent increase in supply will place pressure on occupancy rates throughout 2023. According to the Planning and Statistics Authority, however, there has been a substantial year-on-year rise in tourist arrivals to Qatar in January and February. Year-to-date figures indicate a 348% increase in visitor arrivals to Qatar compared to 2022, with approx. 40% of tourists coming from other GCC countries. The recent rise in arrivals provides encouraging signs for growth in the tourism sector, which will be required to support the expansion of the hotel real estate market. In addition, Qatar hopes to utilise the success of the FIFA World Cup and associated tourist infrastructure projects to increase annual visitor numbers to six million by 2030.

Figure 11

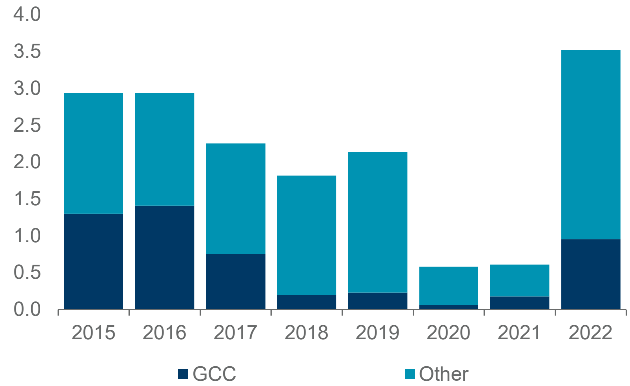
Supply of hotel keys (incl. hotel apartments) 2015 – Q1 2023



Source: NTC & STR Global

Figure 12

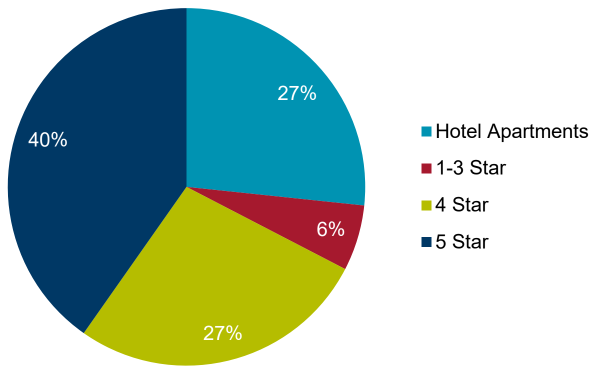
Arrivals to Qatar, total and GCC 2015 - 2022 (millions)



Source: NTC & PSA

Figure 13

Hotel key supply by star classification Q1 2023



Source: NTC & STR Global

Retail Market Overview

Retail rents continue to fall as new supply puts pressure on occupancy levels

Cushman and Wakefield's research shows that Qatar's organised retail malls provide more than 1.7 million sq m of leasable floor space (excluding supermarket buildings with ancillary units). This is supplemented by more than 400,000 sq m of leasable space in 'outdoor' retail/F&B destinations, including The Pearl, Souq Waqif, Souq Al Wakra, Msheireb Downtown, Katara, Doha Port, And Lusail Boulevard.

The most recently opened super-regional mall in Qatar, Place Vendome, which opened in April 2022, has seen occupancy increase steadily over recent months. While several projects continue to attract the interest of retail tenants, the increase in supply over the past decade has put pressure on the sector, with many older malls or recently opened projects struggling to build and maintain high occupancy rates. Despite some prime developments enjoying full occupancy, the overall vacancy rate across Qatar's main retail malls has fallen below 80%.

Generous rent-free incentives, fit-out contributions, and turnover rent arrangements remain available to retailers in many developments looking to increase their occupancy rates. Demand for F&B units remains relatively healthy; however, a significant amount of this demand is coming from start-ups or operators who don't have a track record of trading in Qatar.

The increasing supply of new retail space has impacted retail rents over the past five years. This often manifests in generous rent-free incentives or fit-out contributions rather than reductions in headline rents in prime locations; however, rental levels in secondary developments have fallen considerably over the past three years.

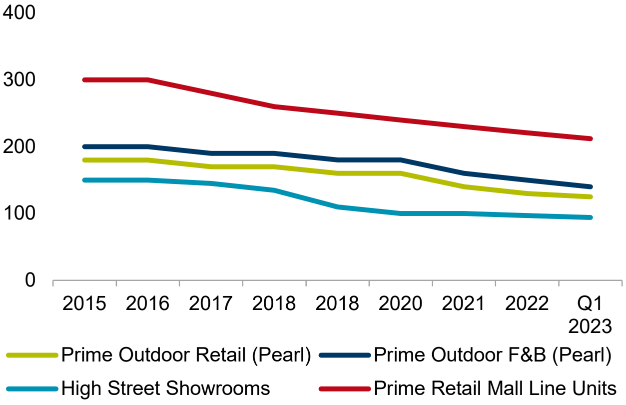
Headline rents for line units in Doha's prime malls remain between QAR 200 and QAR 250 per sq m per month, exclusive of service charges. Line unit rental in many secondary malls is usually below QAR 200 per sq m per month. Anchor units and entertainment provisions in malls typically benefit from lower rents of between QAR 60 and QAR 150 per sq m per month, depending on the size and use category.

Outside of the organised retail malls, retail showrooms are typically available to lease for between QAR 80 and QAR 150 per sq m per month. Restaurants and cafés in some of Qatar's most popular outdoor destinations typically generate rental incomes between QAR 130 and QAR 180 per sq m per month.

Small convenience retail outlets in secondary locations such as strip-malls are increasingly leased based on a sustainable rent of between QAR 5,000 and QAR 10,000 per month, depending on the unit size.

Figure 14

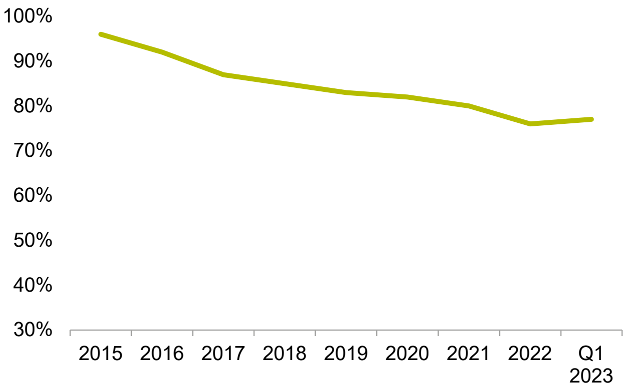
Retail rental trends QAR per sq m 2015 – Q1 2023



Source: Cushman & Wakefield

Figure 15

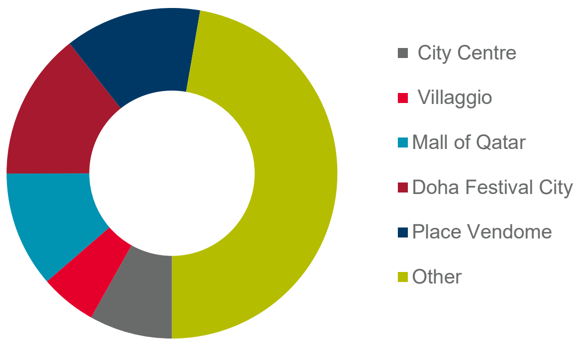
Average retail mall occupancy (%), Qatar 2015 – Q1 2023



Source: Cushman & Wakefield

Figure 16

Organised supply by retail mall Q4 2022



Source: Cushman & Wakefield

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