



Qatar Real Estate Market Review

Report | Q2 2020

SUMMARY

- On March 15th, the State of Qatar introduced lockdown measures to prevent the spread of the COVID-19 virus, with simultaneous support packages for business. By June 8th, details of the phased lifting of these restrictions had been announced. Qatar's plan to re-open the economy comprises of four phases.
- The first phase, which started on June 15th, permitted retail malls and parks to partially re-open with restricted hours and a limit of 20% of employees in the workplace. The second phase is scheduled for July 1st and will allow for the partial re-opening of museums, libraries and retail outlets with restricted hours. This includes F&B units opening at reduced capacity, while 50% of staff will be allowed to return to the workplace.
- The third and fourth phases are scheduled for August 1st and September 1st respectively, and will see a return of international travel, sports and leisure, hairdressers and salons, as well as the full re-opening of workplaces and education facilities.
- The impact of the restrictions introduced to combat COVID-19 has been felt throughout the real estate market in Qatar. According to the Planning and Statistics Authority overall transactional numbers fell by 42% with values reducing by 64% in April and May compared to the same period in 2019; however, the falls are expected to be offset somewhat by an increase in sales activity registered in June.
- Despite the enforced economic slowdown and workplace restrictions, real estate development continues apace. Q2 saw an agreement between Barwa, Ashghal and the Ministry of Education to develop 8 schools under a PPP model. UDC also awarded QAR 1.5bn worth of contracts for the development of Gewan Island on The Pearl-Qatar.
- In April, HH The Amir Sheikh Tamim Bin Hamad Al Thani approved Cabinet Decision No.10 of 2020 to establish a committee on real estate development strategy, which will oversee the strategic development of Qatar in the coming years.

ECONOMIC OVERVIEW

GDP is expected to fall by 4.5% in 2020 due to the decrease in oil and gas prices because of COVID19

Oxford Economics forecasts a second consecutive year of GDP contraction in 2020 as a result of decreased demand for oil and gas brought about by Global COVID-19 lockdown measures. Ongoing investment in the run-up to 2022 FIFA World Cup is still expected to boost growth to 4.3% in 2021; however, this is less certain given the unknown duration of the COVID-19 pandemic, the associated mitigation measures, and the knock-on effects.

As in other GCC countries, which heavily rely on expatriate labour force (approx. 90%), there is a higher risk of job losses, leading to the departure of qualified workers. Many migrant employees are working in affected industries such as travel, hospitality, tourism, and retail. The Labour Force Q1 Report shows that the rate of job creation has slowed down to 1.2%. The repatriation of laid-off staff has been protracted somewhat due to the existing flight restrictions; however, there to be a short-term impact on demand in the residential real estate sector.

The 2020 oil price forecast by Oxford Economics in May was \$ 37.8pb compared to the \$ 45.4pb budgeted. Oil GDP growth is projected to shrink by 3.1%, with the non-oil sector shrinking even further by 5.7% despite infrastructure spending. Phases 3 and 4 of the re-opening measures are expected to boost economic growth in H2, with a substantial rebound projected in 2021. A budget deficit of 6% is expected in 2020. Despite the lifting of the moratorium on North Field gas projects, a 65% LNG capacity increase to 126 million metric tonnes per annum by 2027 most probably will take longer, with Qatar scheduled to select international partners by the year-end.

The Purchasing Managers' Index (PMI) reached 36.6 in April, still above a historic low of 31.4 in the eurozone. May imports and exports data was more robust compared to April. The Consumer Price Index (CPI) inflation plunged by further 0.6% month-on-month in May, which is likely to continue in 2020 with a forecast of -2.5% for the year. The introduction of VAT is expected to be postponed until after 2021.

OFFICE MARKET OVERVIEW

The commercial office market is yet to feel the full impact of the pandemic.

At the end of Q2, prime office supply across West Bay, Lusail, and Msheireb reached 2.3 million square meters, an increase of almost 15% since the beginning of 2019, with occupancy rates in the region of 70%.

Relative to the initial downturn in March, enquiries for new office accommodation in Doha have shown some signs of improving, with increased activity towards the end of Q2.

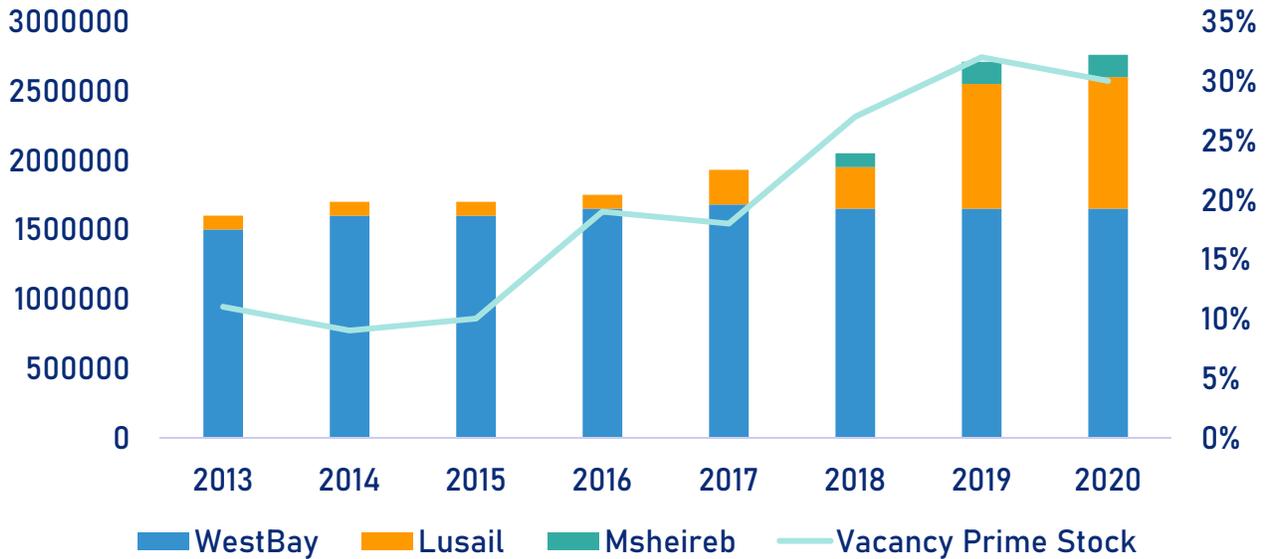
In terms of general demand trends, Cushman & Wakefield are witnessing an increased level of interest in Lusail Marina District as the area becomes more established, with a critical mass of public sector tenants. Private sector occupiers are being attracted to Lusail by lower occupation costs, compared to West Bay and Msheireb, along with good accessibility and better car parking provision. They progressively view Lusail as the future hub of commercial activity in Qatar, with the only downside being the lack of nearby amenities currently operational.

Another rising trend is occupiers seeking fully fitted space and, in some cases, offices that are furnished by the landlord. In the current economic climate this trend is driven by companies, trying to reduce their capital expenditure when relocating.

The full effect of COVID-19 on the office sector is likely to play out over a prolonged period. Internationally, many companies are reporting that working from home has generally proved to be much more successful than anticipated and expect the trend of working from home and other non-office-based locations to be accelerated.



Grade A office supply (million sqm) and availability (%),
2013 – Q2 2020



These trends are less likely to be maintained in Qatar on a large scale when offices re-open at full capacity, due to a combination of local cultural practices and that most employees in Qatar do not face lengthy commutes on public transport into the office. While an increase in flexibility, allowing more staff to work from home periodically, is likely, this could be offset by office fit-outs that allow for greater social distancing, private space, and break out areas.

There has been limited evidence to date of COVID-19's impact on rental rates, due to a lack of transactional evidence. In part, this is due to the uncertainty generated by COVID-19, leading to occupiers adopting a wait and see approach before making financial commitments to new space. As more office space comes to the market, we expect further downward pressure on rents, which may manifest itself through generous rent-free incentives or fit-out allowances.

CAT A and fitted office space in West Bay is typically available for between QAR 100 and QAR 140 per sqm per month exclusive of service charges. Prime accommodation in Lusail is available for QAR 90 to QAR 120 per sqm per month, reflecting the fact that it is a new district is trying to attract tenants and build occupancy rates.

RESIDENTIAL MARKET OVERVIEW

The residential sector is still active despite COVID19 restrictions.

Based on statistics released by the Planning and Statistics Authority, the overall number and value of residential sales in April and May fell by approximately 61% on the equivalent period last year, while the average deal value only dropped by 2%. While official figures for June have not been released, Ministry of Justice (MoJ) statistics indicate that a sharp increase in transactions has been registered.

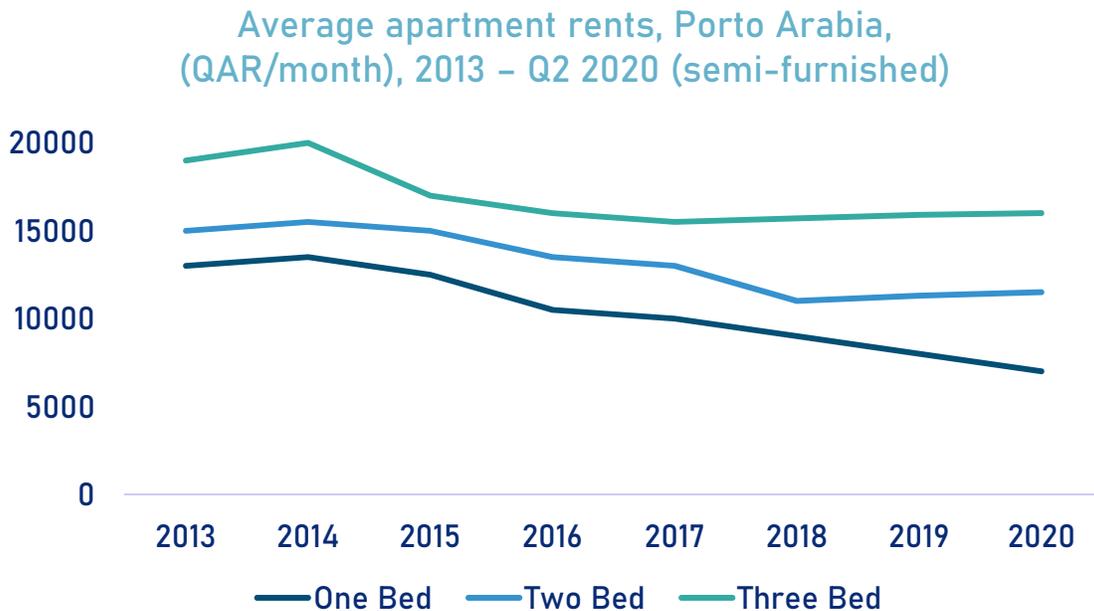
The COVID-19 lockdown measures have resulted in government cutbacks in Qatar, which have included redundancies throughout the public sector in Q2. These measures are likely to result in an increase in residential vacancy rates in the short term.

While the recent cutbacks are based on tackling the immediate impact of the COVID-19 epidemic, a V-shaped recovery is unlikely in the residential real estate market. The restoration of the wider economy and the associated job market performance will drive new demand. At the same time, a general caution about global travel may delay any immediate bounce in expatriate job numbers.

Estimated apartment and villa supply, Qatar, 2013 – 2020



Occupancy rates in Q2 have generally remained stable or increased in prime districts, such as The Pearl-Qatar, as an increase in affordability has seen a general trend in people upgrading to these locations. Areas such as Fereej Bin Mahmoud, Al Mansoura, and Umm Ghuwailina have all seen vacancy rates increase in recent months. We expect vacancy in some villa compounds to rise temporarily in Q3 as the results of the COVID-19 cutbacks come into effect.



New residential supply in Q2 has included Paramount Tower (Porto Arabia Tower 12) and 12 Viva Bahriya on The Pearl Qatar. In Lusail, Les Maisons Blanches, a compound of villas and apartments next to Place Vendome, started leasing in May. Supply in Lusail’s Marina district has now surpassed 1,500 units.

A number of new developments have delayed opening in recent months due to the COVID-19 pandemic; however, significant new supply will reach the market before the end of the year. Abraj Bay, on The Pearl-Qatar, comprises almost 1,500 residential units in four towers and associated townhouses and adds substantial residential supply in the district. While temporary rent reliefs have been available in some developments, headline rents have remained relatively stable in recent months, despite the turbulent market conditions.

As supply increases, we expect to see downward pressure on rent, especially in secondary locations; however, this is likely to be tempered by a sharp rise in demand in 2022 with the hosting of the 2022 FIFA World Cup.

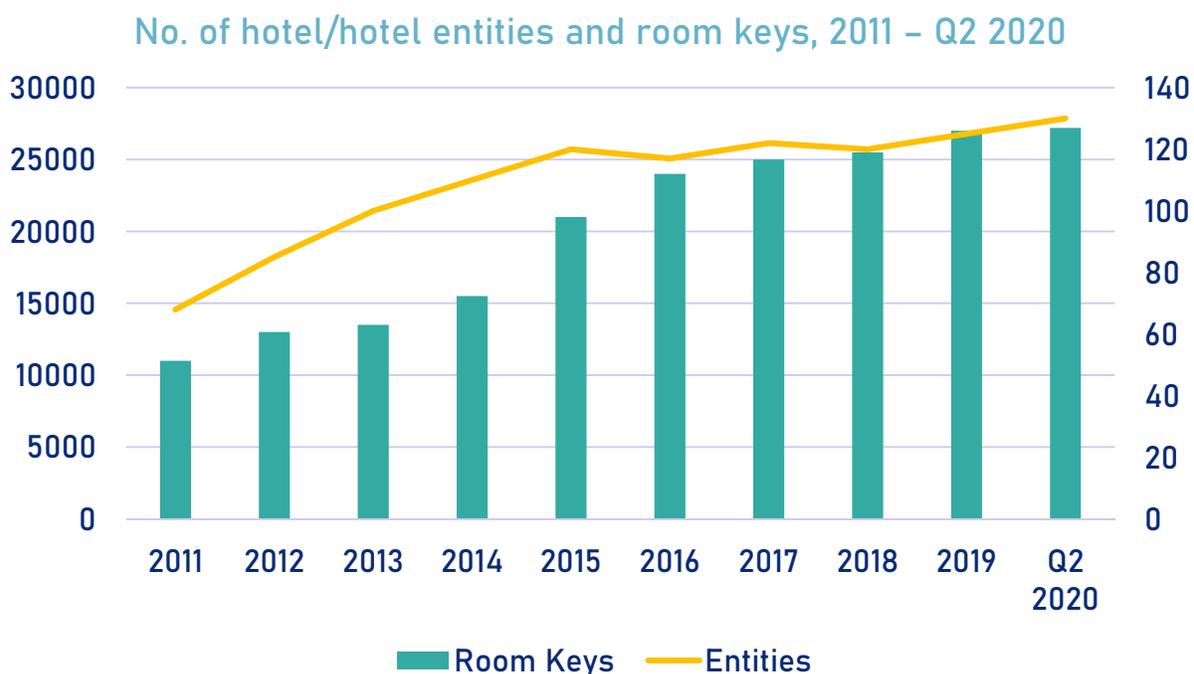
HOSPITALITY MARKET OVERVIEW

The COVID-19 outbreak has severely impacted the hospitality sector with the majority of business suspended for the duration of Q2.

According to the Planning and Statistics Authority (PSA), YTD tourist arrivals (by air) in May 2020 showed a 49% decline compared to 2019, due to the enforced government restrictions on international travel into Qatar. YTD May arrivals by sea showed an increase of 23%, due to substantial growth of the cruise industry in the Gulf (pre-COVID-19). Overall, the YTD May drop in visitor numbers reached 41%.

Ramadan, which took place between April 23rd and May 23rd this year, is usually a busy time for hotel F&B outlets, serving Iftar and Suhoor meals for companies and families until late at night. This loss of revenue compounded the downturn in visitor numbers; however, from July 1st, many hotels are re-opening their restaurants, albeit with reduced capacities.

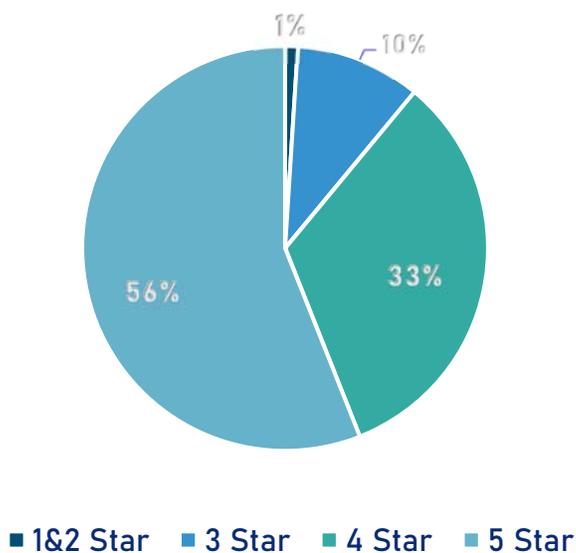
Phase 3 of the 'post-COVID-19 re-opening' of Qatar will include a mandatory two weeks' stay at designated quarantine hotels for anyone entering the country. This may provide a small boost to occupancy numbers in Q3; however, we don't expect signs of a real recovery in the sector before Q4.



While there were no new hotel openings in Q2, the Gloria Hotel in Al Mirqab district of Doha sold at a price that reflected approx. QAR 680,000 per key (169 rooms). Following a positive start to the year, which saw a year on year increase in occupancy in January and February, performance metrics tumbled in March after the introduction of lockdown measures. The industry focus will be to reinstate and build on the pre-COVID-19 figures in 2021.

There were 27,598 keys in 132 establishments by July 2020. While construction has continued on the pipeline supply of approx. 20,000 new keys, we expect the launch of several establishments, planned for 2020, to be pushed back to 2021. One of the larger hospitality development projects in Qatar, Qetaifan Projects, recently awarded all the main work contracts for the Qetaifan Island North project, with an anticipated completion date of November 2021. Meanwhile, one of Qatar's other leading tourism projects, Salwa Beach Resort, is expected to open in the coming months. By November 2022, we expect that approx. 48,000 permanent hotel keys will be delivered, to help provide the accommodation required for the FIFA World Cup.

Keys by star rating, Q2 2020



Hamad International Airport (HIA) expansion contracts were awarded before the COVID-19 measures. While the future of the travel business is uncertain, an increase in capacity will undoubtedly help Qatar prepare for the rebound in tourism, especially with the 2022 FIFA World Cup on the horizon.

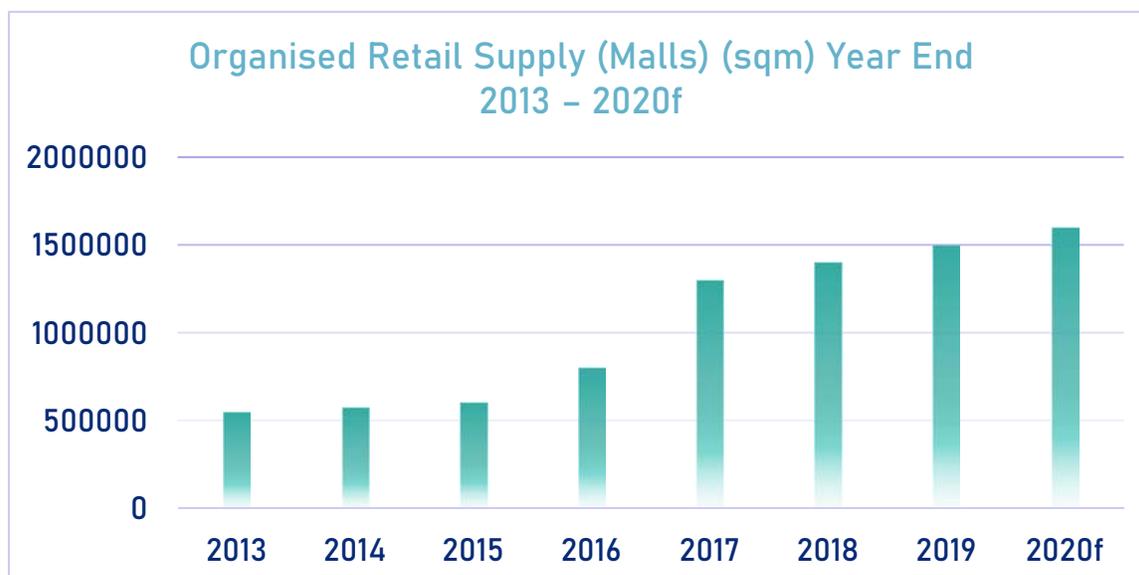
RETAIL MARKET OVERVIEW

Some landlords continue extending rent relief to their tenants as retail outlets start to re-open

The COVID-19 pandemic had an immediate and severe impact on the retail real estate sector in Qatar in Q2. At the beginning of the quarter, most retail outlets were closed, with only supermarkets and pharmacies allowed to operate. By May, currency exchanges had also been allowed to re-open due to the critical role they play in allowing foreign workers to send cash remittances home.

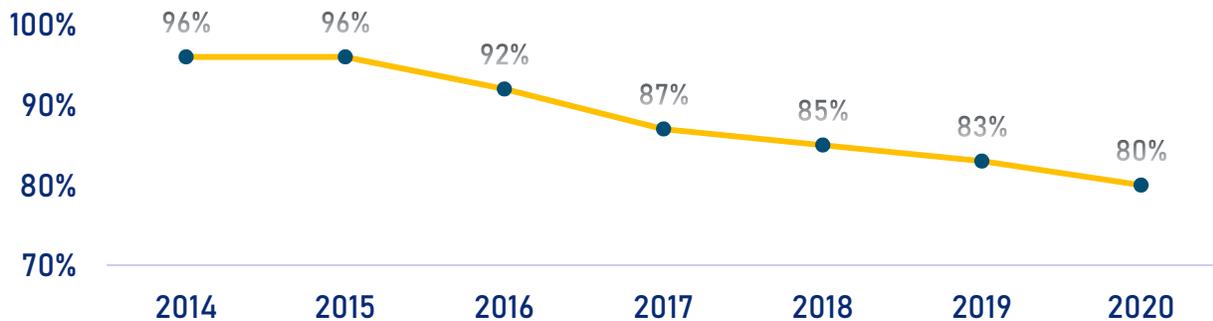
The phased re-opening of the retail sector started on June 15th. The initial phase of re-opening was restricted to non-F&B units above 300 sq m, which were permitted to operate on weekdays. Food and beverage operators re-opened for take-away only. The second phase of re-opening, beginning on July 1st, permits the re-opening of other retail outlets, excluding leisure and entertainment operators, while restaurants throughout Qatar will re-open at a reduced capacity and with social distancing measures in place.

The third phase of re-opening, started on August 1st, will see a return to full operation hours in malls, while gyms and pools will re-open at reduced capacity. The fourth phase, scheduled to start by September, will allow for 'gatherings' and the opening of entertainment areas such as cinemas and indoor recreation zones.



Unfortunately, the enforced closure throughout Q2 is expected to take its toll throughout the sector, with some retail and F&B operations not expected to re-open. The overall average occupancy rate in Qatar’s retail malls was approximately 83% before the COVID-19 lockdown; however, we expect this to fall in the coming months with the inevitable closure of some retail operations. The full impact on occupancy will become clear once the entertainment and leisure tenants re-open under the final phase of re-opening.

Average retail mall occupancy (%), Doha 2013 – Q2 2020



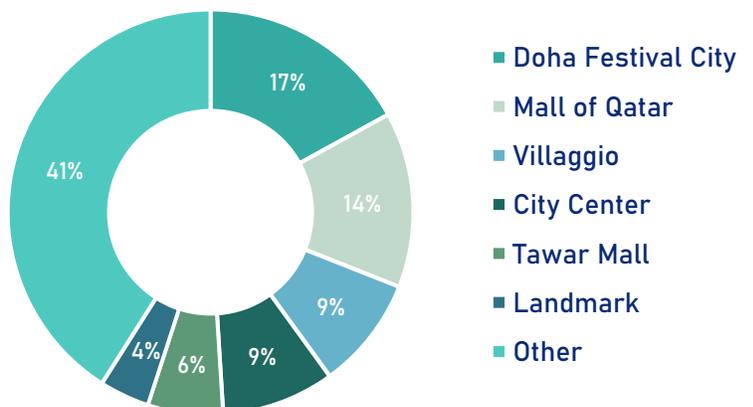
The impact on retailers has seen unprecedented relief measures granted to tenants, often through government support schemes. We expect landlords will continue to work with tenants in the coming months to help them remain open and maintain occupancy rates throughout Qatar’s malls.

Rental relief will have reduced the net-effective retail rents for 2020. Whether headline rents are to be maintained into 2021 remains to be seen. Turnover rent may become more prevalent in situations where landlords and tenants work together to recover from the pandemic.

Several retail malls had been scheduled to open this year; however, it now appears unlikely there will be any significant increase in retail supply before 2021. In total, there is currently approximately 1.4

million sq meters of organised retail supply in Qatar.

Organised Supply by Retail Mall Q2 2020



SOURCE AND REFERENCE

- Oxford Economics
- Bloomberg
- Cushman & Wakefield
- Qatar Central Bank (QCB)
- Planning and Statistics Authority
- Reuters
- KPMG International Analysis
- Hospitalitynet
- Congressional Research
- Trading Economics