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REAL ESTATE DEVELOPMENT COMPANY

FIRST QATAR REAL ESTATE DEVELOPMENT CO.
شركة قطر الأولى للتطوير العقاري

QATAR

# ECONOMY & TOURISM

OUTLOOK | 2019

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# HIGHLIGHTS

## ECONOMIC OUTLOOK POSITIVE AS CONFIDENCE RETURNS

- Economic growth is expected to gradually rise to 3.0% by 2020, supported by continued infrastructure investment, regulatory reforms and output gains in the gas sector.
- Public finances are on a firmer footing thanks to higher energy prices and restrained expenditures; both the fiscal and current accounts are expected to record a surplus in 2018, of 3.1% of GDP and 9% of GDP, respectively.
- Brent crude prices rose to average USD 71.6/b in April 2019.
- Non-resident deposit growth has recovered, while private sector credit growth should remain robust.
- FX reserves rose to reach USD 52.4 Bn in April 2019.
- Market sentiment is more positive, with the Qatar Exchange index's 21% rise in 2018 the region's best performance.

## HOSPITALITY - 2017 VS 2019


As Compared with Q1 2017

# ECONOMIC UPDATE

## ECONOMIC OUTLOOK POSITIVE AS CONFIDENCE RETURNS

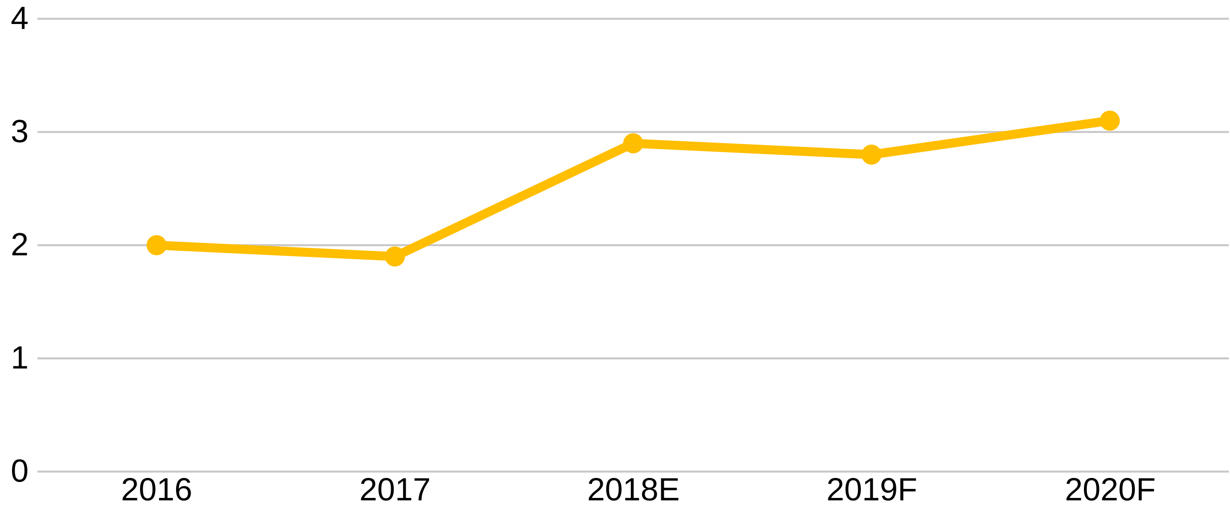
- Qatar's economy has been performing well, with output expected to increase by an annual average of 2.7% over 2018- 2020 from 1.6% in 2017 on the back of gains in the nonhydrocarbon sector, especially in manufacturing and construction, and in the gas sector, where the authorities are intent on expanding LNG capacity by 43% by 2024. Underpinning economic activity is the government's expansive public investment program, which is now reaching an advanced stage with the FIFA World Cup only three years away. Qatar's public finances are also on a firmer footing, with the country's first fiscal surplus in three years expected in 2018, at 3.1% of GDP, and its foreign reserves back on the rise, thanks to higher oil and gas prices and restrained public expenditure growth.
- Moreover, businesses and investors appear to have regained their confidence in Qatar's economy: non-resident deposits are returning, private sector credit growth, led by corporates, is in the double digits, and the stock market just ended 2018 posting the highest yearly gains in the region at 21%.
- Nevertheless, challenges remain, including continued dependence on the hydrocarbon sector, which is at the mercy of volatile energy prices, rising borrowing costs linked to tightening US monetary policy and regional geopolitical risks, with no sign yet of a resolution to the GCC boycott.

| KEY ECONOMIC INDICATORS | 2017 | 2018E | 2019F | 2020F |
|---|---|---|---|---|
| Nominal GDP ($bn) | 167 | 190 | 191 | 190 |
| Real GDP (%y/y) | 1.6 | 2.7 | 2.5 | 3.0 |
| Oil (%y/y) | -0.7 | 0.3 | 0.7 | 0.9 |
| Non Oil (%y/y) | 3.8 | 4.9 | 4.1 | 4.8 |
| Inflation (%y/y) | 2.7 | 0.3 | 1.2 | 2.3 |
| Budget Balance (%GDP) | -5.8 | 3.1 | 1.3 | 1.5 |

## GROWTH DRIVEN BY CONTINUED INFRASTRUCTURE INVESTMENT

- The non-hydrocarbon sector will continue to spearhead economic growth, rising by 4.1% y/y and 4.8% y/y in 2019 and 2020, respectively, and supported by the government's $200bn infrastructure investment program under the auspices of the Qatar National Vision 2030.

Real GDP(%y/y)




- Activity in 2018 was dominated by output gains in the manufacturing and construction sectors, with the Laffan refinery ramping up production and further progress made in relation to transportation, entertainment and real estate infrastructure projects ahead of the World Cup in 2022. The benefits resulting from regulatory reforms introduced over the last two years, such as allowing 100% foreign ownership across all sectors, accelerating the issuances of commercial and industrial licenses and offering long-term expatriates permanent residency in Qatar, should also accrue over the forecast period.
- In the gas sector, the authorities' intention to expand LNG production capacity by 43% to 110 million tonnes per annum (mtpa) by 2024 could see real output gains appear as early as 2020—Qatar Petroleum (QP) has already issued its first tender for drilling rigs. Hydrocarbon sector real GDP growth should, therefore, rise from 0.3% in 2018 to 0.9% by 2020.

## INFLATION SUBDUED ON CONTINUED REAL ESTATE WEAKNESS

- Inflation, which is expected to average 0.3% in 2018, has been weighed down by continued weakness in the real estate sector (due to oversupply and the moderation in population growth) and by base effects relating to the spike in food prices in 2017 in the aftermath of the GCC trade boycott. Both CPI components were in negative growth territory in November 2018, falling by 2.6% y/y and 2.4%, respectively. Inflation (avg.) should pick up slowly to 2.3% in 2020 (but to more than 3.5% if the VAT is introduced in 2020).

## FIRST FISCAL SURPLUS EXPECTED SINCE 2015

- Qatar's fiscal balance is expected to shift into a surplus of 3.1% of GDP in 2018, following three consecutive years of deficits. While this is due primarily to higher oil and gas revenues following the increase in energy prices, restrained expenditures (cuts to subsidies, merging of ministries etc.) and some increase in non-oil revenues are also responsible. The fiscal deficit has been financed primarily by domestic debt, although Qatar returned to the international bond markets in April 2018 with a successful $12bn sale. There were no shortage of takers.
- The external current account balance, which moved into a surplus in 2017, also improved. Looking ahead, while energy prices are expected to be softer in 2019-20, it is unlikely that either account will slip back into a deficit. Meanwhile, official FX reserves rose to reach $52.4 bn in April 2019.

## QATARI EQUITIES OUTPERFORMED REGIONAL PEERS IN 2018

- The benchmark Qatar Exchange (QE) index rose 21% in 2018, outperforming regional stock indices. Starting from a lower base compared to its GCC neighbors following 2017's negative performance, Qatari equities benefitted from sizeable portfolio inflows linked to the MSCI rebalancing and generally positive sentiment linked to higher energy prices. The authorities' relaxation of foreign ownership limits and the rating agency Moody's affirmation of the sovereign's Aa3 rating and its revision of the outlook on the government's long-term issuer ratings from negative to stable also helped to instill confidence in Qatar's economy

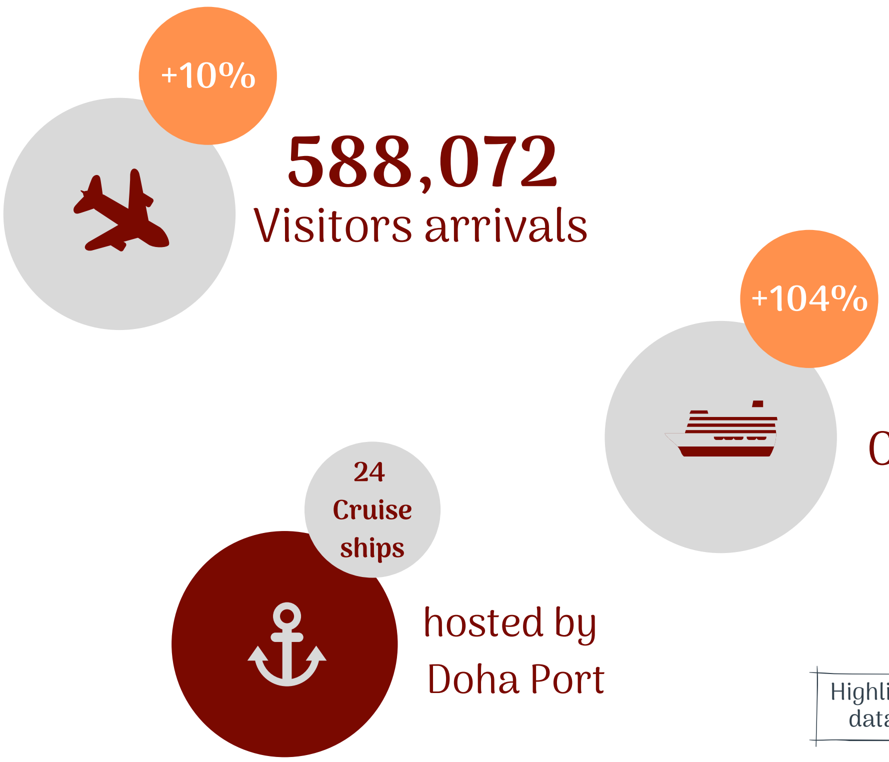
## BANKING SECTOR HAS RECOVERED FROM POST-BLOCKADE CAPITAL FLIGHT, WHILE CREDIT GROWTH CONTINUES TO BE ROBUST

- Furthermore, thanks to timely injections of liquidity by the Qatari sovereign wealth fund, the QIA, the government was able to offset the outflows of non-resident deposits that followed the dispute. Overall, foreign bank liabilities—deposits from overseas banks, non-residents and debt securities—have increased by about 20%, as of October 2018, with non-resident inflows in particular recovering after bottoming out at QR135bn in November 2017, a drop of 27% from pre-embargo levels. Growth in the overall and private sector deposit base has been weak, though, running at 1.5% y/y and 0.5% y/y in October 2018, respectively. Base effects relating to 2017's sizeable government deposit placements are also at play, though.
- Private sector credit growth, on the other hand, has outpaced deposit growth (+11.4% y/y), thanks to increased demand from the services, general trade and real estate sectors. This is positive for the broader economy, coming against a backdrop of rising borrowing costs—the Qatar Central Bank (QCB) raised its benchmark QMR deposit rates four times in 2018 (25 bps each time) in line with the US Fed's monetary tightening schedule.

# TOURISM PERFORMANCE

## VISITOR ARRIVALS

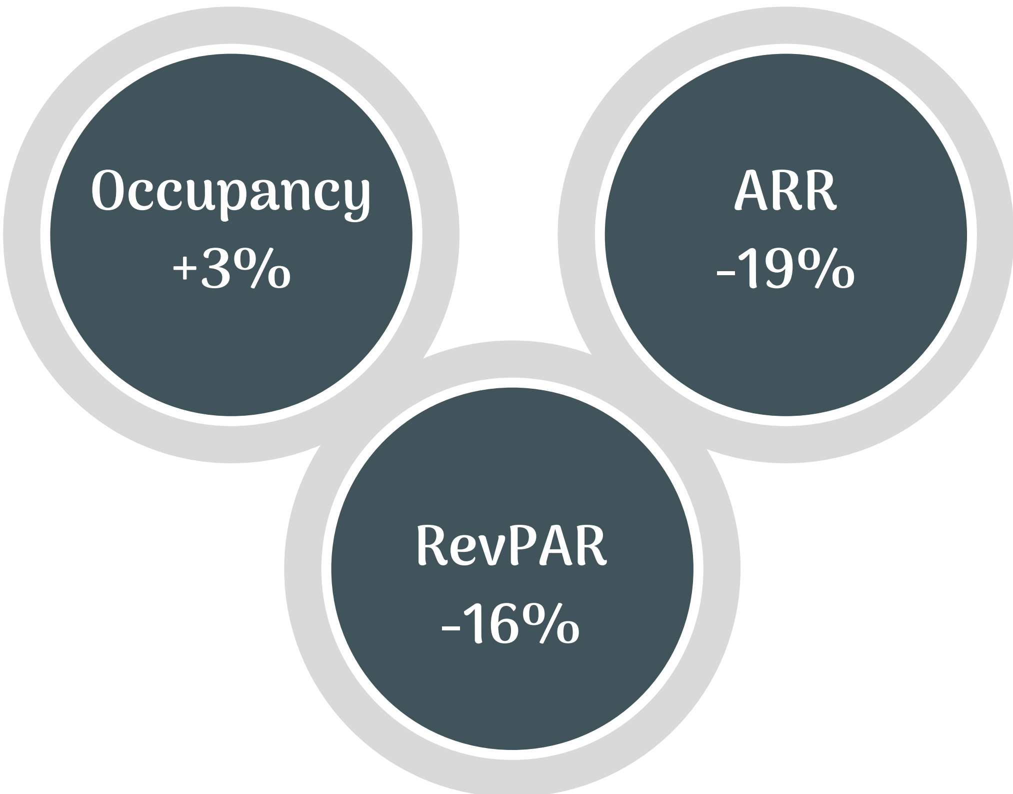
- Qatar welcomed 588,072 visitors* in the first quarter of 2019, representing a 10% increase compared to the same quarter in 2018. Visitor arrivals peaked in March with over 200,000 visitors – the highest monthly total arrivals since the beginning of the blockade.
- This could be attributed to a range of events which occurred in that month, attracting international visitors. These events included the opening of the National Museum of Qatar, the launch of the retail quarter of Katara Cultural Village, and the milestone 10th Anniversary edition of the Qatar International Food Festival.
- Significant growth was seen across visitors from nearly all regions in Q1 2019, the only exception being Other African nationals, whose numbers dropped.
- Cruise visitor arrivals continued to show growth, in Q1 2019. Doha Port hosted 24 ships with 62,145 passengers (up 104% from Q1 2018). This provided a great boost in visitor arrivals, particularly among German nationals (up 64% in Q1 2019 compared to Q1 2018), who have now replaced UK nationals as Qatar's second largest market after India. In Q1, cruise ships alone brought in over 28,000 German visitors, representing over half of all German visitors to the country.




Highlights above represent Q1 2019 data, with growth from Q1 2018

## HOSPITALITY ACCOMODATION

- This sector witnessed an overall increase - in demand, supply and occupancy rates (up across all hotel and hotel apartment classes.) Q1 saw a 15% increase in accommodation room supply, compared with the same period in 2017. Demand grew by 16%, resulting in an overall 3% increase in occupancy during Q1 2019. It is worth mentioning that occupancy was up across all hotel and hotel apartment classes in the first quarter of 2019 compared to the same quarter in 2017.
- Overall, Average Room Rate (ARR) and Revenue Per Available Room (RevPAR)was down by 19% and 16% across all hotels and hotel apartments respectively in Q1 2019, in comparison to Q1 2017.
- The Average Length of Stay (ALOS) for visitors in Qatar across all hotels and hotel apartments (3.87 nights per trip) has remained virtually the same in the first three months of 2019 as Q1 last year; however, it increased amongst the hotels segment (up 2%) and decreased in the hotel apartments segment (down 24%).




Highlights above represent Q1 2019 data for the entire hospitaity accomodation sector (hotels and hotel apartments), with growth from Q1 2017

## VISITORS ARRIVALS - ARRIVALS BY NATIONALITY, GROUPED BY REGION

- In Q1 2019, a total of 588,072 visitors came to Qatar, an increase of 10% compared to the same period in 2018. This is due to a collective positive performance from visitors across all regions, except for Other Africa. Arrivals from nationals of the Other Africa region dropped by 18%, but only representing a small number in level terms (-2,462 visitors in total). Visitor arrivals from all other regions showed significant growth; Other Arab nationals were up 26%, GCC nationals were up 16%, European visitors were up 17%, nationals from the Americas were up 8%, and nationals from Other Asia, including Oceania, were up 1%.

### ARRIVALS TO QATAR BY NATIONALITY. JAN-MAR 2017 - 2019

| NATIONALITY | 2017 | 2018 | 2019 |
|---|---|---|---|
| Total | 864,444 | 535,302 | 588,072 |
| GCC | 394,557 | 54,329 | 62,909 |
| Other Arab | 64,958 | 31,378 | 39,634 |
| Other Africa | 8,274 | 12,924 | 10,561 |
| Other Asia inc. Oceania | 189,292 | 203,311 | 206,203 |
| Europe | 160,533 | 185,348 | 216,818 |
| Americas | 46,830 | 48,012 | 51,947 |

## HOSPITALITY ACCOMMODATION - HOTEL AND HOTEL APARTMENT PERFORMANCE

- Six new properties opened in Q1 2019, adding 1,079 new rooms and representing a 15% increase in the market supply compared to Q1 2017. Qatar now boasts a total of 26,890 rooms across 129 properties.
- The occupancy rate across all hotels and hotel apartments was 69% in Q1 2019, representing a 3% increase compared to Q1 2017. It is worth noting that all hotel and hotel apartment classifications achieved an increase in occupancy.

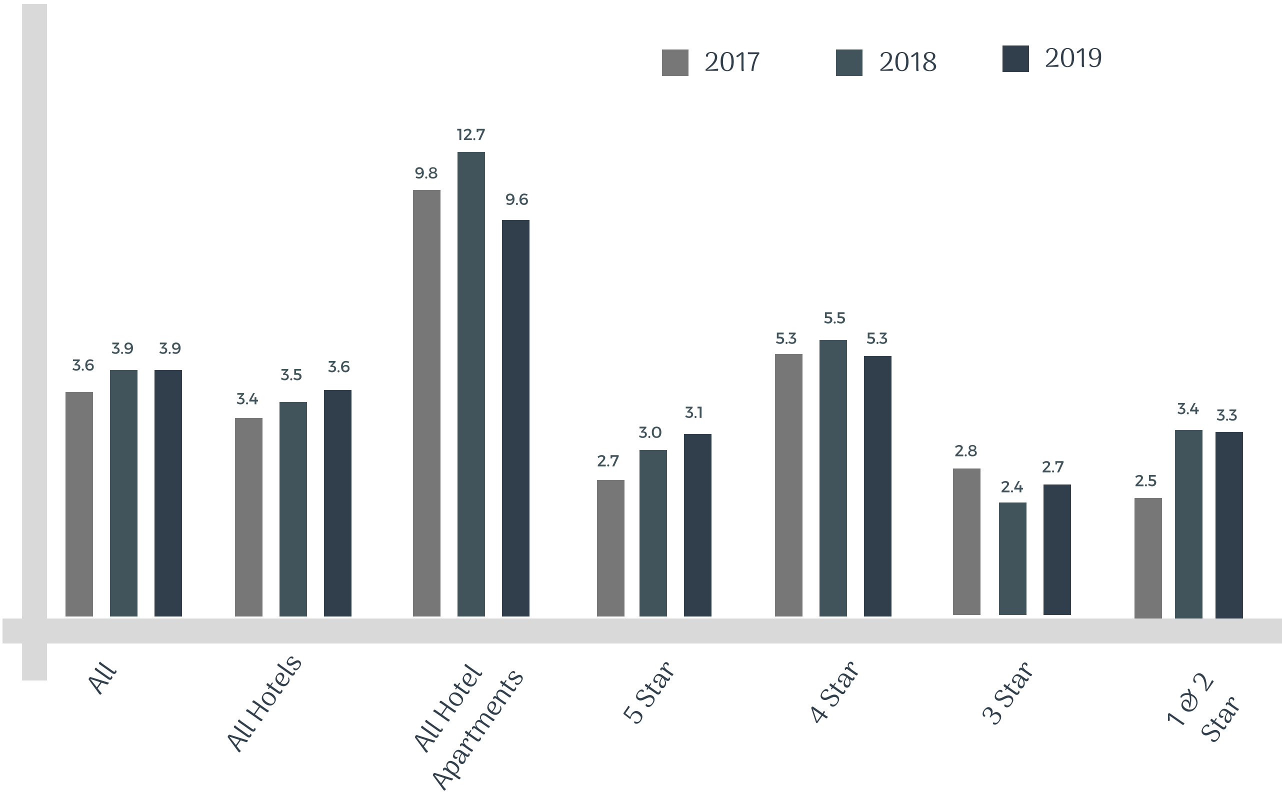
- The Average Room Rate (ARR) across all hotels and hotel apartments was down 19% (at 366 QAR) in Q1 2019 compared to the same period in 2017. The slight drop in ARR paired with a significant increase in demand (up 16%), allowed for a positive increase in Revenue per Available Room (RevPAR), which was up 3% (at 253 QAR) across all hotels and hotel apartments, compared to Q1 2018.

## ACCOMMODATION SECTOR SUMMARY PERFORMANCE INDICATORS YTD JAN-MAR 2017 - 2019

| | 2017 | | | 2018 | | | 2019 | | |
|---|---|---|---|---|---|---|---|---|---|
| NATIONALITY | OCC | ARR | REV PAR | OCC | ARR | REV PAR | OCC | ARR | REV PAR |
| All | 67% | 453 | 302 | 63% | 391 | 246 | 69% | 366 | 253 |
| All Hotels | 67% | 458 | 305 | 62% | 397 | 246 | 68% | 371 | 254 |
| All Hotel Apartments | 68% | 407 | 276 | 73% | 343 | 252 | 75% | 327 | 246 |
| 5 Star | 66% | 630 | 414 | 60% | 569 | 344 | 65% | 523 | 342 |
| 4 Star | 68% | 303 | 206 | 62% | 251 | 156 | 69% | 235 | 163 |
| 3 Star | 66% | 264 | 174 | 69% | 185 | 127 | 80% | 179 | 144 |
| 1 & 2 Star | 55% | 202 | 110 | 55% | 151 | 84 | 72% | 147 | 106 |
| Deluxe Apartments | 65% | 472 | 307 | 75% | 366 | 274 | 76% | 352 | 266 |
| Standard Apartments | 72% | 297 | 215 | 67% | 233 | 156 | 74% | 202 | 149 |

- At 3.87 nights per trip in Q1 2019, Average Length of Stay (ALOS) across all hotels and hotel apartments remained on par with Q1 2018 (3.86 nights per trip). However, it was up 2% in the hotels segment at 3.60 nights per trip (highest in 4-Star hotels at 5.28 nights per trip), and down 24% in the hotel apartments segment at 9.62 nights per trip.

AVERAGE LENGTH OF STAY BY HOTEL CLASSIFICATION, JAN-MAR 2019 VS JAN-MAR 2018

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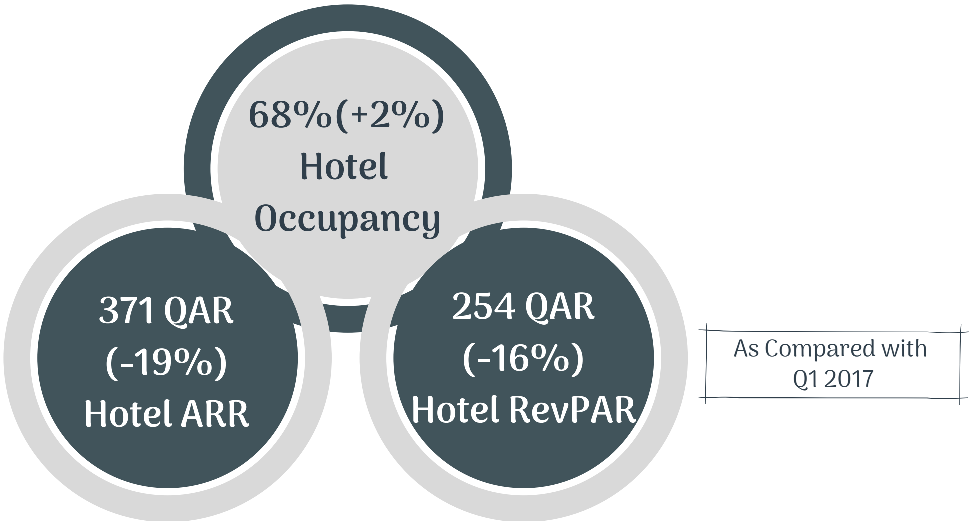
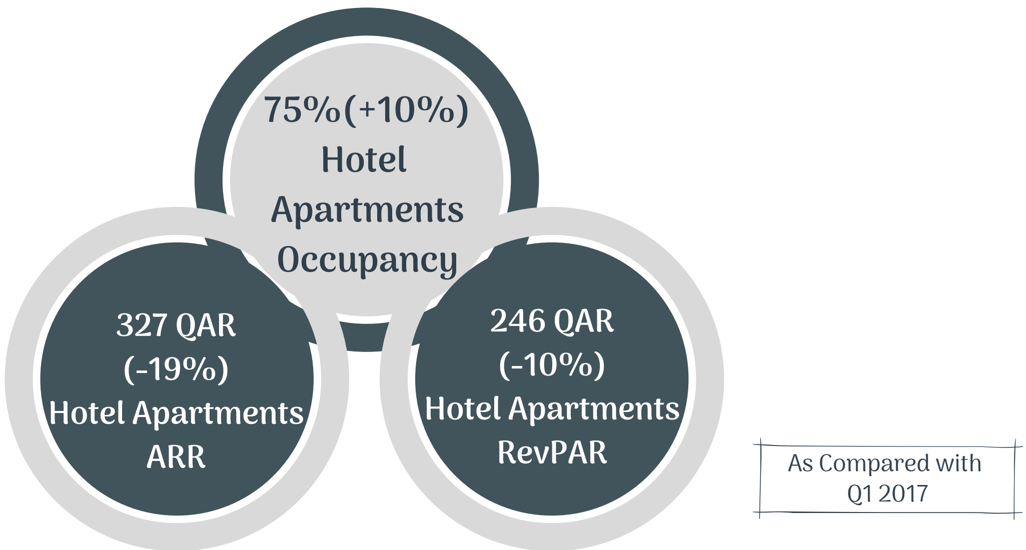
## HOTEL PERFORMANCE - Q1 2017 VS Q1 2019

- The occupancy rate across all hotel classifications in Q1 2019 was 68%, up 2% compared to Q1 2017. The occupancy rate in 1 &2 and 3-Star hotels was most robust at 72% and 80% respectively, while 5-Star hotels had the lowest occupancy rate, at 65%.
- ARR and RevPAR across all hotels were 371 QAR (-19% compared to Q1 2017) and 254 QAR (-16% compared to Q1 2017) respectively. The highest average room rate continues to be observed in the 5-Star classification at 523 QAR.




## HOTEL APARTMENT PERFORMANCE - Q1 2017 VS Q1 2019

- The occupancy rate across all hotel apartments in Q1 2019 was 75%, up 10% compared to Q1 2017. Deluxe Apartments achieving a higher occupancy rate of 75%, compared to 65% in Q1 2017.
- ARR and RevPAR across the hotel apartments segment was 327 (down 19% compared to Q1 2017) and 246 QAR (down 10% compared to Q1 2017) respectively. The highest average room rate continues to be seen in Deluxe Apartments at 352 QAR.



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