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Real Estate Development Company

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

QATAR REAL ESTATE MARKET

1ST HALF | 2020 REVIEW

www.first-qatar.com

Introduction

During the first half of 2020, COVID-19 had infected 10.2 million people globally, as per the World Health Organisation (WHO). The global health crisis not only impacted the health of millions around the world but led to restrictions on travel, social mobility and closure of non-essential businesses.

Qatar experienced its first COVID-19 case on 29th February. The government of Qatar was quick to respond by enforcing a range of measures in an effort to restrict the spread of the virus. By the end of H1 2020, Qatar had approximately 95,000 confirmed cases of COVID-19. In terms of testing, Qatar was ranked in the top twenty countries to have the highest testing per million people and also had one of the lowest numbers of deaths in proportion to the number of confirmed COVID-19 cases. In addition to implementing efficient health strategies, the government also announced an economic stimulus package of QAR 75 billion in an attempt to counter the economic fallout and provide relief to those impacted the most by the constraints.

The real estate market, like all sectors in Qatar, was impacted by the pandemic and its resulting constraints on mobility, travel and businesses. The first quarter of 2020 had a good start, particularly January and February. However, lockdown measures were implemented in March, from where we saw regressing fundamentals. In June 2020, the government of Qatar introduced a plan to release the restrictions in four phases. By the end of H1 2020, phase 1 of easing of restrictions was completed.

This report provides an overview of the performance of all sectors in real estate during the first half of 2020. Hospitality Sector was directly impacted by the restrictive measures in place. While the remaining sectors were indirectly affected due to ensuing impact of the crisis on the economy. It will be some time before we know the full extent of the influence of COVID-19 on the economy and real estate of Qatar. However, it is evident that a new equilibrium has been established in all sectors as we have to adjust to this “new normal”.

Timeline

Measures

- With the advent of COVID-19 in Qatar by the end of February 2020, the Government of Qatar imposed restrictions on gathering, travel, outdoor & professional sports, education & health and business & leisure. The Supreme Committee for Crisis Management of Qatar announced on June 8th a controlled phased lifting of COVID-19 restrictions. The main premise of the plan was on the phasing of the lifting of restrictions, close monitoring of the impact of lifting restrictions and clear precautions. The four-phase plan was based on achieving target Key Performance Indicators (KPIs) and passing the minimum time required to move between phases.

Restrictions and Lifting of Measures

January – September 2020

H1 2020	January	February	March	April	May	June	July	August	September*
COVID 19 Active Cases		1	717	12,027	26,582	14,411	3,154	N/A	N/A
Phases	Advent of COVID - 19		Restrictions			Lifting of Restrictions			
Gatherings			Public events and gatherings are prohibited			Restricted mosque opening	Small scale (<10 People); restricted mosque opening	Medium scale only (<40 people); restricted mosque opening Friday prayers	All mosque opening and Friday prayers, business & entertainment related mass gatherings, theatres and cinemas with precautions
Travel			Suspension of inbound flights except for transit and cargo; public transport banned			Personal boats; Essential flights out of Doha. Upon return travellers will go to mandatory hotel quarantine allocated by the government for 2 weeks, paid for by the traveller		Low risk inbound flights for priority passenger (e.g. returning residents)	Expanding inbound flights as advised by MOPH; metro and bus restricted service
Outdoor & Professional sports			Closure of all parks and beaches; suspension of all sport activities			Restricted parks for outdoor sports; (1:1 and 1:5) professional training outdoor only/large open space	Parks, corniche and beaches (<10 people) professional training of small groups- outdoor only/large open spaces	Playground and skate parks; (<40 people) team trainings, amateurs sports/team competition	Sports-related Mass gatherings: local and international sports competitions (with spectators)
Education & Health			Suspension of all educational institutes, health clubs and non-emergency health services			40% Capacity selected private healthcare facilities	60% Capacity	80% Capacity	100% Capacity; new academic year commences
Business & Leisure			Closure of all retail stores in commercial complexes and shopping centres except pharmacies and food outlets; imposition of work from home for 80% of employees in Private Sector; closure of all restaurants (delivery and takeaway allowed); closure of museums and home services			Partial opening of shops in malls, shops with minimum area of 300 sq m will open, not exceeding 30% mall capacity	All malls, souqs, wholesale market, museums and libraries open (restricted hours and capacity); restricted restaurants opening with low capacity	All malls open (full hours); souks & wholesale markets (restricted hours and capacity) ; restricted restaurants opening with gradual increased capacity; 50% capacity of health clubs, gyms, pools, beauty and massage parlours and barbershops / hairdressers	All malls, souqs and wholesale markets fully open; gradual opening of restaurants; museums and libraries fully open to full hours; 100% capacity of health clubs, gyms, pools, beauty and massage parlours and barbershops / hairdressers

*Forecast – subject to change

Timeline

Restrictions, Recovery & Growth

Based on forecasts made by the International Monetary Fund (IMF) and our analysis, we have formulated a timeline to predict the recovery of the economy and various sectors of the real estate market of Qatar.

All sectors of real estate in Qatar were experiencing declining rents and sale prices before COVID-19. To fully evaluate the impact of the pandemic on rents and prices we have to understand the previous trend and see if sale prices or rents fell more than the historical trend.

Restrictions, Recovery and Growth

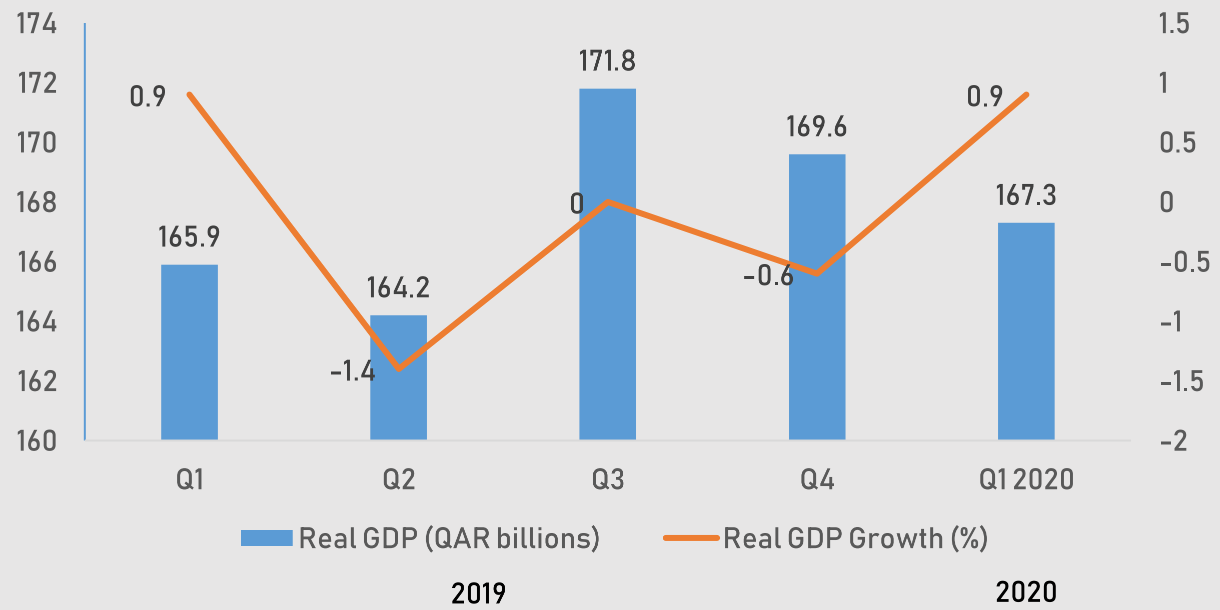
Sector	Short term level of impact	Lockdown (Q2 2020): Introduction of measures	Recovery (Q3 2020-Q2 2021) *: Removal of social mobility measures	Growth (Q2 2021) Onwards) *: COVID-19 manageable in population
Economy	Medium	Reduction in real GDP	Reduction in real GDP**	Growth in GDP**
Residential	Low	No significant decline in performance	Higher quarterly decline expected compared to 2019	Slowdown in quarterly decline in line with pre-COVID-19 level
Office	Medium	No significant decline in performance	Higher quarterly decline expected compared to 2019	Slowdown in quarterly decline in line with pre-COVID-19 level
Retail	High	Significant loss of revenue due to shut down of retail shops, however, no significant decline in asking rents and occupancy	Higher quarterly decline expected compared to 2019	Slowdown in quarterly decline but not predicted to reach pre-COVID-19 levels
Hospitality	High	Significant loss in RevPAR (Occupancy and ADRs)	Decline in occupancy and ADRs expected to continue compared to 2019	Recovery in occupancy and ADRs but not expected to reach pre-COVID-19 levels

*Forecast based on existing data
**Forecast based on International Monetary Fund (IMF) projections for the economy of Qatar.

Macroeconomic Overview

Economic Growth

Total GDP at Constant Prices (QAR Billions) & YOY GDP Growth at Constant Prices (%)



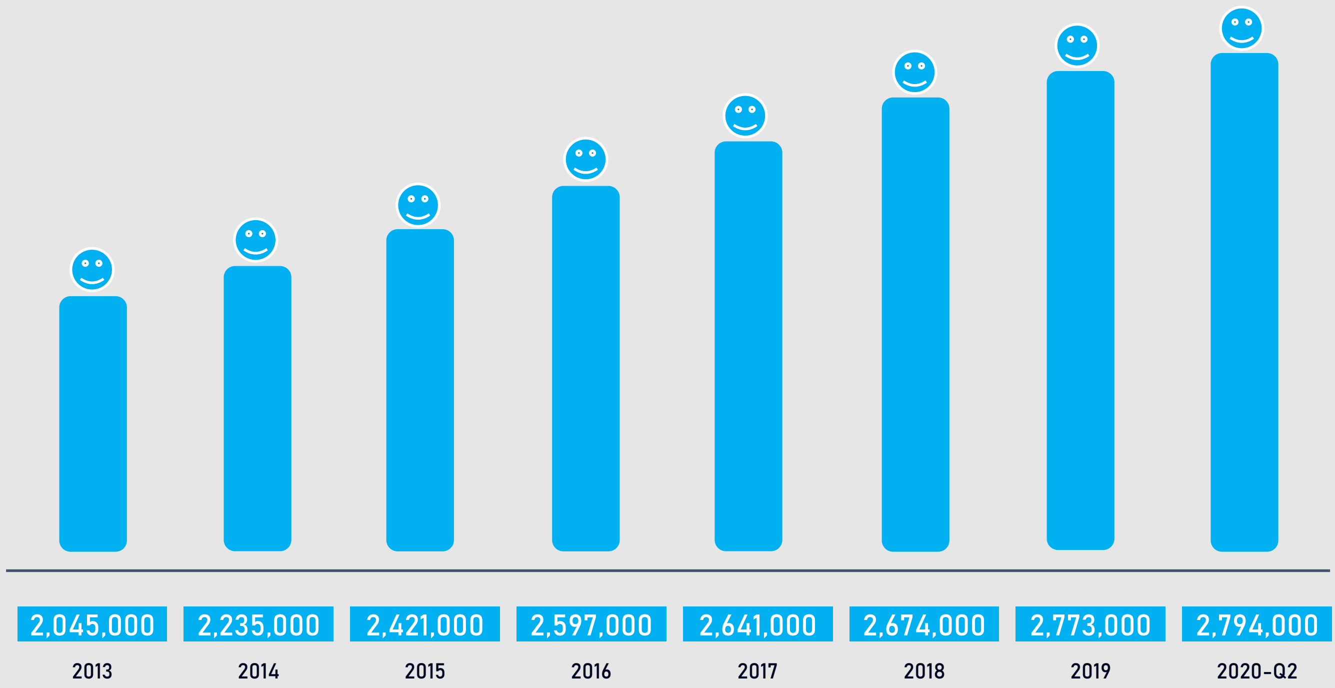
- The Gross Domestic Product (GDP) at constant prices with a revised base year of 2018, expanded by 0.9% YoY during Q1 2020, as per the latest statistics released by the Planning & Statistics Authority (PSA). The slowdown in economic growth can be attributed to the fall in real oil output, which remains unchanged compared to Q1 2019. On the other hand, the non-hydrocarbon sector, expanded by 1.4% YoY as of Q1 2020.
- Based on revised estimates of GDP with 2018 as the base year, the mining & quarrying sector (includes oil and gas sector) contributed an average 38.3% to real GDP as of Q1 2020. Over time, mining and quarrying sector sees reduction in its contribution to the GDP.
- Amongst the non-mining sector, manufacturing, construction, wholesale and retail trade, financial and insurance activities, real estate activities and public administration comprise 49.0% of the Financial and Insurance Services and Public Administration experienced more than 7.8% YoY growth as of Q1 2020.
- The International Monetary Fund (IMF) adjusted the forecast for Qatar's real GDP to an average of -4.3% for 2020 and then at 5.0% in 2021,this is above the Middle East and North Africa (MENA) average of 3.5%.
- A major global trend from the pandemic was a plunge in oil prices. In March 2020, the crude oil (Brent) average fell to $33 per barrel. The World Bank projected oil prices to average $35/barrel in 2020.
- International financial institutions projected oil prices to average in the range of $45-$65/barrel in the medium term. The 2020 national budget of Qatar of QAR 210.5 billion was approved in Q4 2019, representing a 2.0% increase over 2019. The government aimed to continue to consolidate fiscal policy emphasising on new tax measures, limited current expenditure and higher capital spend. QAR 90 billion was allocated for major projects, focusing on World-Cup related developments, infrastructure projects and sectors such as food security, tourism, SME's and economic free-zones. There was a projected surplus of QAR 500 million, based on forecasted oil prices for 2020 of above $60 per barrel. However after the pandemic, the forecasted surplus based on the higher oil prices might not materialise as the forecasted oil rate is below Qatar breakeven price of oil ($45 per barrel). The IMF projected Qatar current account balance to average at -1.9% in 2020.

Foreign Trade

- During 2017-2019 Qatar had one of the highest current account balances as a percentage of GDP in the region ranging from 3.8% to 8.7%.
- During H1 2020, export revenues contracted by 28.5% YoY with hydrocarbon related exports declining by 31.4%. Japan, India, United States of America and South Korea were the top export destinations.
- Imports fell 9.3% during the first six months of 2020. USA, China, United Kingdom, India, Turkey and Germany were the top destinations for imports.

Population

Qatar Population 2013 - 2020

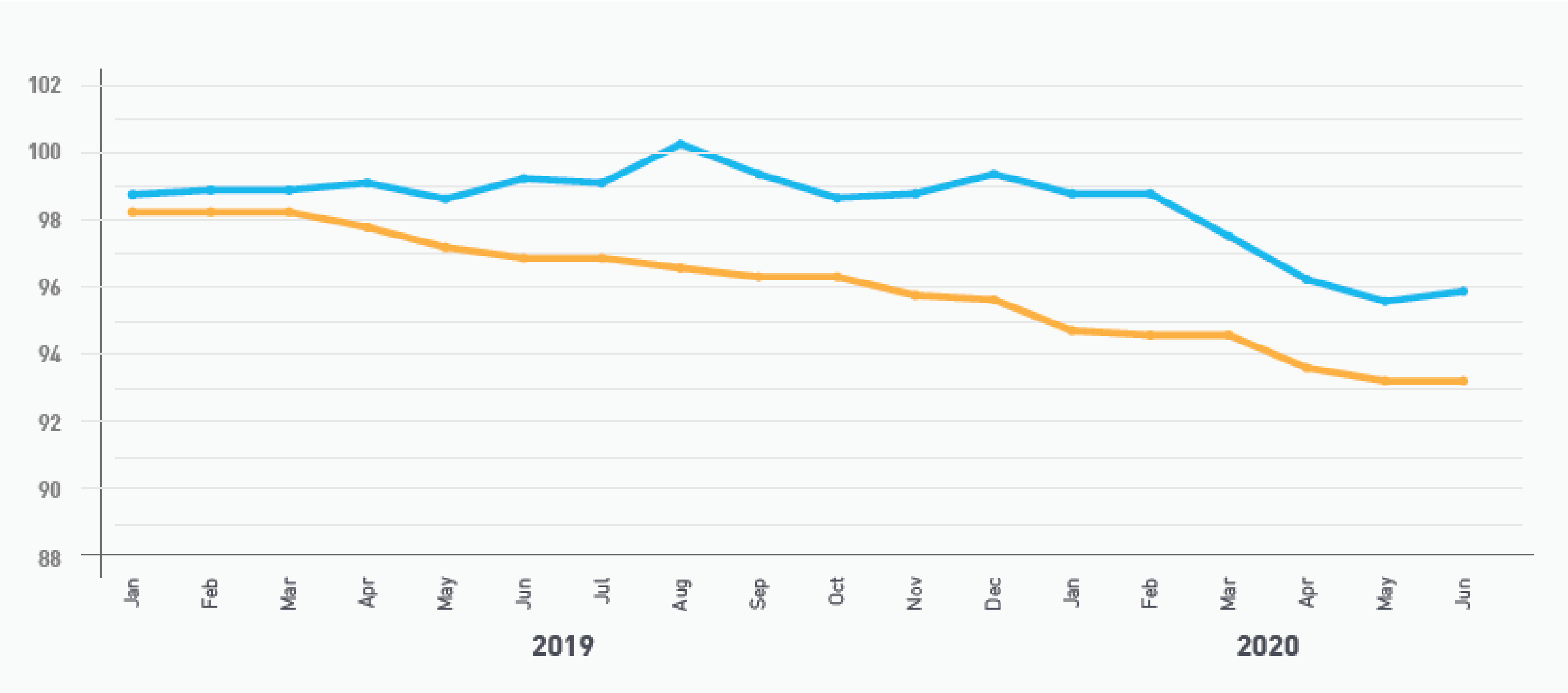


- As of June 2020, the population of Qatar was estimated at 2,794,000. 73.5% of the population consists of ages between 25-64. And 72.8% of the total population comprises of males.
- Based on repatriation figures announced by various embassies in Qatar, we estimated more than 35,000 expatriates were repatriated to their home countries during April-June 2020.
- As per the latest Labour Force Survey Q1 2020 published by the Planning & Statistics Authority (PSA), the economically active population reached 2.2 million, where males within the age group of 25-34 years represented the highest percentage of participation. Non-Qataris comprised 95% of the economically active population.

Inflation

Consumer price index Vs Housing Index

January 2019 - 2020

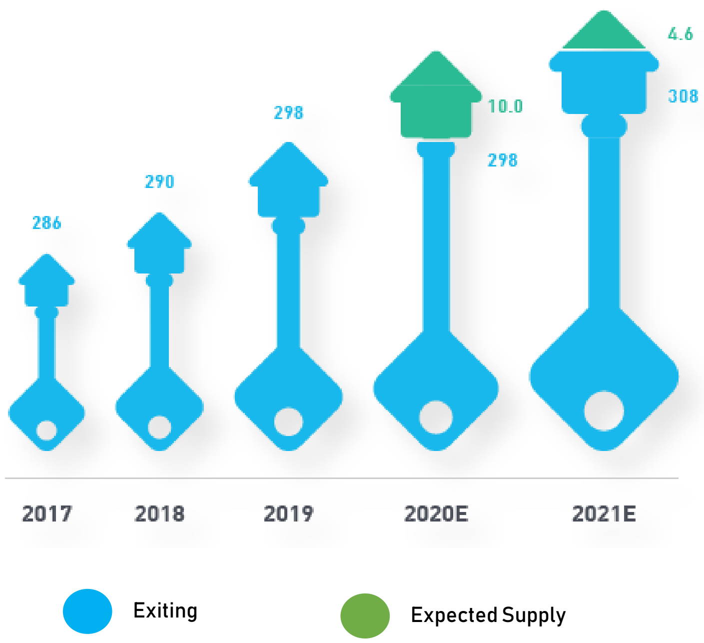


- The Planning & Statistics Authority (PSA) modified the Consumer Price Index, in 2019 making 2018 as the base year. As per PSA, the pattern of households did not change significantly during the previous five years and minor changes were observed in the basket of goods between 2013 and 2018. As per the new base year, Consumer Price Index declined by 3.2% annually and 2.2% quarterly during Q2 2020.
- As of Q2 2020, housing and utility expenses index declined 3.9% YoY and 1.0% QoQ.
- Qatar Petroleum decreased average fuel pump prices in Qatar in Q2 2020 by more than 47.9% YoY and 37.7% QoQ.
- The IMF forecasted inflation for Qatar to average at -1.2% for 2020 and 2.4% for 2021.

Residential Supply & Demand

- As of H1 2020, total residential supply totalled 300,550 units. The first six months of 2020 saw the completion of 2,250 apartments and 700 villas scheduled to be handed over this year.
- An estimated 2,000 units were concentrated in Lusail, The Pearl and West Bay. Al Bandary Real Estate launched Al Shahed Tower with individual units for sale. Tower 13 and 15 of Viva Bahriya, The Pearl started leasing. Phase 1B in Musheireb Downtown also completed constructioncomprising 157 apartments.
- Approximately, 7,250 units are projected to be added during the remaining quarters of 2020. Some notable developments in the pipeline are: Abraj Bay Towers in Abraj Quartier in The Pearl, Al Mutahida Towers and Tower 24 in Viva Bahriya The Pearl, Al Darwish and Arwa tower in West Bay and Amwaj Tower in Waterfront district, Lusail.
- A significant amount of existing supply is being delivered in the form of medium to large size projects targeting upper-middle to high-income families. Demand is being generated by lower-middle income segments. Moreover, as per our estimates, the overall growth of demand isn't matching the growth of supply. As of H1 2020, we estimate an oversupply of approximately 80,000 units.

Residential Supply 2017-2021
('000 UNITS)



Residential Capital Values

- As of Q2 2020, as per ValuStrat Price Index (VPI), average residential capital values was QAR 718 per sq ft (QAR 7,731 per sq m), fell by 1.4% QoQ, 1.9% compared to Q4 2019 and 4.1% compared to Q2 2019.
- The average capital value for apartments was QAR 1,036 per sq ft (QAR 11,152 per sq m), reduced by 2.3% QoQ, 2.5% compared to the first six months of 2019 and 6% YoY.
- The average capital value for villas was QAR 560 per sq ft (QAR 6,052 per sq m), declined by 1.2% QoQ, 1.8% compared to Q4 2019 and 3.6% YoY.
- Amongst freehold apartments, Lusail witnessed the highest fall in capital values followed by West Bay Lagoon and The Pearl during H1 2020, compared to Q4 2019.
- For villas, eight locations out of thirteen clusters (The Pearl, West Bay Lagoon, Ain Khaled, Old Airport, Al Dafna, Umm Salal Muhammad, Umm Salal Ali and Al Khor) saw a quarterly marginal change of less than 1% in capital values. Five locations such as Al Waab, Muaither, Al Thumama, Duhail and Al Wakrah saw a quarterly fall of 1.5% to 3.7%.
- As per VPI, capital values of residential units have not declined significantly during H1 2020, the QoQ and YoY fall in values during Q2 2020 were less compared to Q2 2019.
- Gross yields for residential units averaged at an overall 5.1%, adjusted by 6.2% for apartments and 4.6% for villas.

Capital value is the price that would have been paid for a given asset or group of assets if they had been purchased at the time of their evaluation. So, it does not matter how much was paid for an asset 10 years ago, its' capital value is bound up with how much would be paid for it today. In other words, capital value is equivalent to market value.

Residential Rents

As of Q2 2020, ValuStrat Price Index for residential rental values softened 2.2% compared to Q1 2020, 2.6% compared to Q4 2019 and 5.2% compared to Q2 2019. Over a period of two years, residential rents fell 14%.

As of Q2 2020, the median monthly asking rent for apartments was QAR 6,560, down 2.6% QoQ, 2.8% compared to last six months and 5.4% compared to Q2 2019. Three-bedroom apartments experienced the highest asking rental declines during H1 2020 compared to Q4 2019 and Q2 2019.

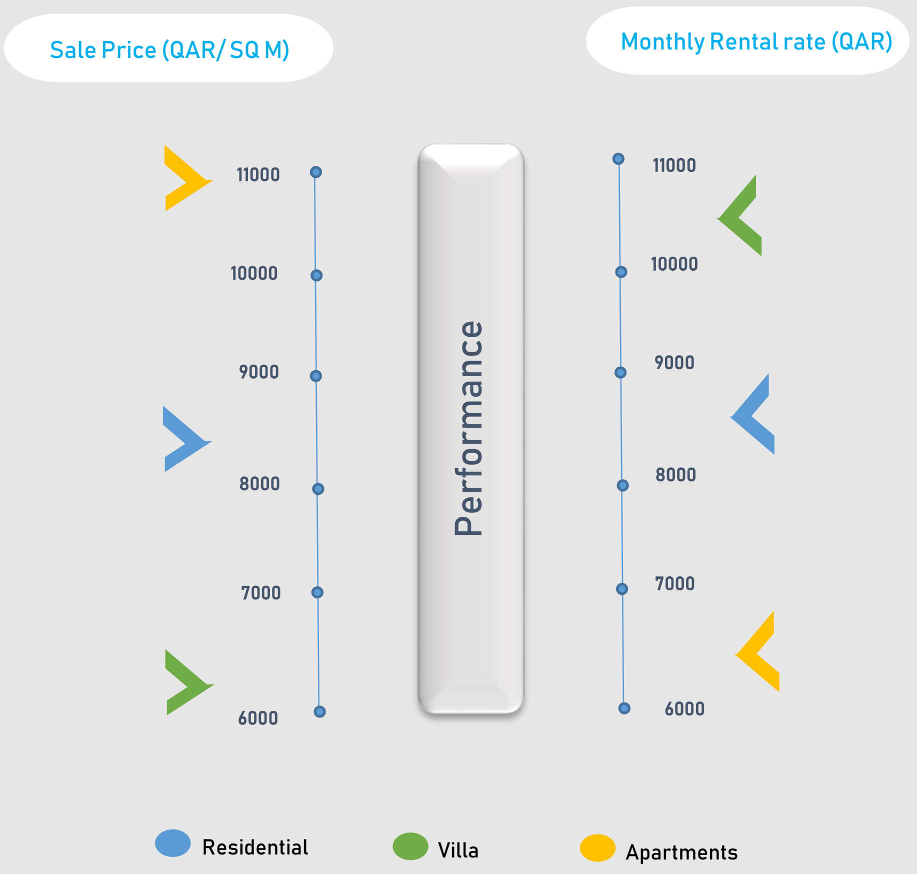
The median monthly asking rent for villas was QAR 10,890 as of Q2 2020, softening 0.5% QoQ 1.0% compared to last six months and 3.7% compared to Q2 2019. Five-bedroom villas experienced the highest fall in asking rents compared to Q4 2019 and Q2 2019.

As per VPI for residential rental values, rents have not declined significantly during H1 2020 and the fall in rents is in line with historical trend. The highest fall in rents up to 2.5% for apartments during H1 2020, was experienced in prime locations: Al Sadd, The Pearl and West Bay compared to Q4 2019.

The highest fall in rents for villas, up to 3% during H1 2020, was experienced in prime locations: Abu Hamour, Al Duhail, Al Gharrafa and Al Waab.

Typical incentives offered in the market were in the form of furnishing and utilities included in the rents or one/two month rent free periods (differing contract period).

Residential Performance Tree



Residential Median Asking Rents

-14.0%	-5.2%	-2.6%	-2.2%
Last 2 years	Last year	Last 6 months	Last Quarter

Residential Transaction Volume

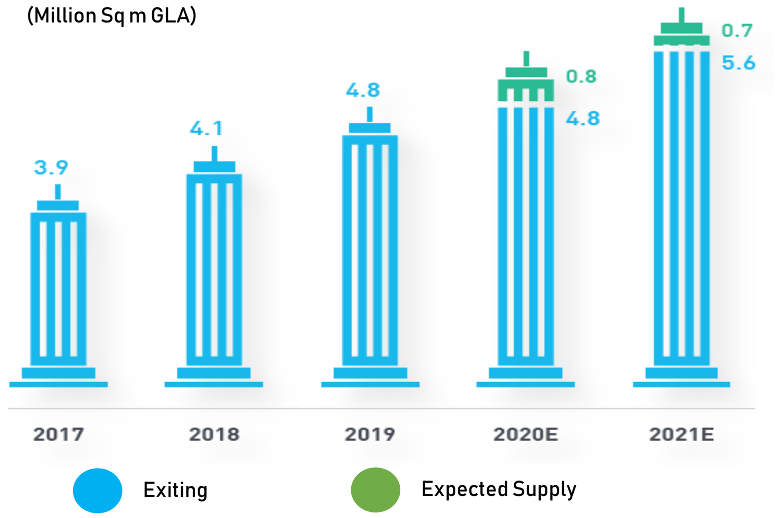
-36.6%	-26.2%	-36.7%	-36.7%
Last 2 years	Last year	Last 6 months	Last Quarter

Office Supply & Demand

- As of H1 2020, the supply of office space was 5,060,000 sq m Gross Leasable Area (GLA). As per ValuStrat research, 60% of existing office space is of Grade-A.
- There was an addition of seven office buildings and four mixed-use buildings during H1 2020 in Lusail (Marina and Energy City), Najma, Fereej Bin Omran, Abu Hamour, Al Wakrah, Al Wukair and Umm Salal comprising 220,000 sq m GLA.
- Upcoming projects in 2020, currently under development totalled 580,000 GLA, 48% of which are located in Lusail (Fox Hills, Energy District and Marina District) and Al Dafna and whereas the remaining projects are located in Duhail, Nuaija, Al Hitmi, Al Sadd, Umm Ghuwailina and Al Muntazah. Approximately 60% of the upcoming office space is of Grade-A.
- During H1 2020, we observed an increase in launches of companies working in e-commerce, finance and technology.

Office Supply 2017-2021

(Million Sq m GLA)



Over time, oversupply in the office sector has been increasing, as observed by increasing vacancy rates in office buildings witnessed since 2016. Due to falling rental rates across office buildings in prime districts such as West Bay and Lusail Marina, there has a been shift in demand from secondary locations to prime districts. However, the influx of supply is more than an increase in demand. As per ValuStrat research, the gap between demand and supply of office space may amount to more than 1 million sq m GLA.

Office Rents

As of Q2 2020, the median asking rent for office space fell by 1.2% QoQ, 4.7% over six months and 12.8% YoY.

The highest fall in office rents during H1 2020 was experienced in office buildings across C/D-Ring roads. Offices along C-Ring road quoted rents ranging from QAR 60-110 per sq m while offices along D-Ring road have asking rents ranging from QAR 70-130 per sq m depending on size, quality and furnishing of the commercial spaces offered. Rent-free periods of up to 2 months (differing contract periods) were commonplace in the area.

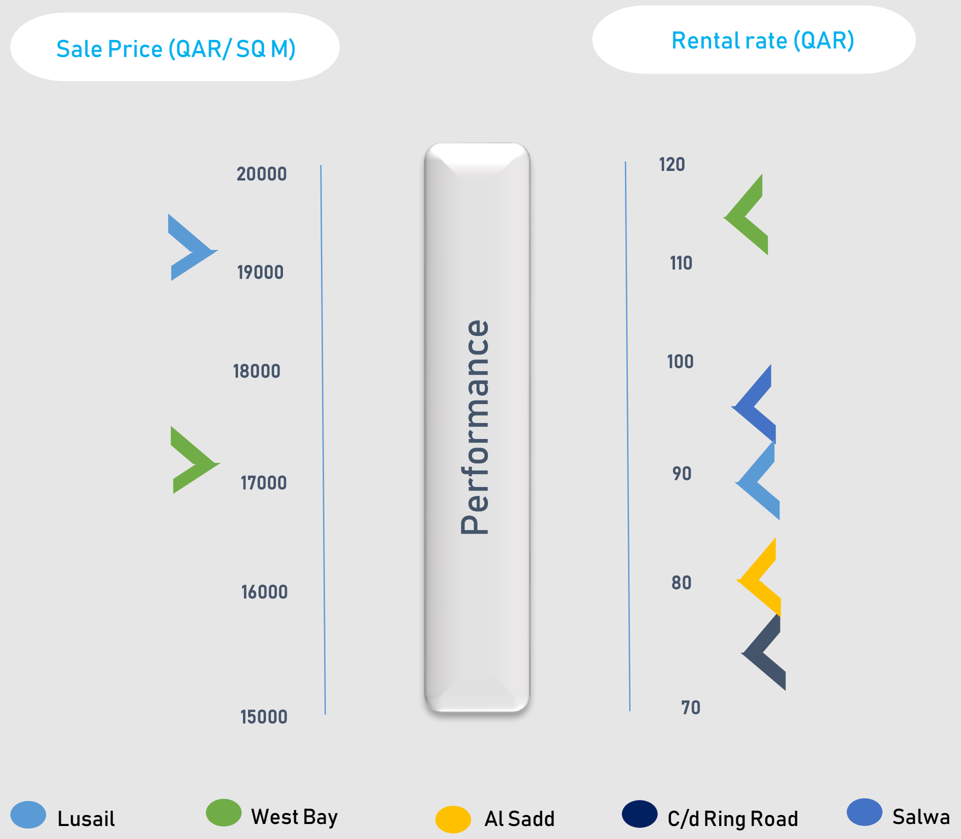
We observed a trend of more significant declines in rents within secondary locations (despite no significant supply additions in the area) compared to prime locations.

Al Sadd also experienced an estimated 5% fall in average rents over six months during H1 2020. The majority of the office space in Al Sadd had asking rents ranging from QAR 55-90 per sq m, although some buildings also quoted rents of up to QAR 140 per sq m. Rent-free periods of up to 3 months (differing contract periods) were commonplace in the area.

We observed some offices in Al Mansoura and along Al Nasr street offering up to six months rent-free periods with a minimum 3-6-year contract. Smaller office spaces were readily available everywhere except in West Bay, where the option was available, however, in lower quality relatively older office buildings.

Offices offered for sale in Lusail at an average rate of QAR 20,000 per sq m (QAR 1,858 per sq ft) and in West Bay at QAR 16,250 per sq m (QAR 1,510 per sq ft).

Office Performance Tree



Office Median Asking Rents

-24.8%
Last 2 years

-12.8%
Last year

-4.7%
Last 6 months

-1.2%
Last Quarter

Hospitality Supply & Demand

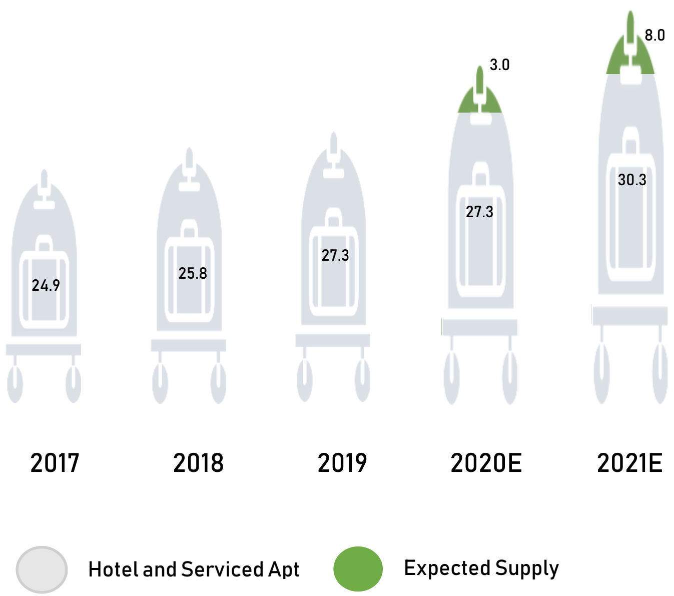
As per Qatar National Tourism Council (QNTC), the total stock by end of 2019 was 27,261 keys (130 hotels and hotel apartments). 24,562 keys are hotel rooms and 2,699 are hotel apartments. The five-star segment is the largest in size and encompassed 12,900 rooms across 49 properties at the close of 2019.

As per ValuStrat research, 988 keys were added during H1 2020 with the opening of Pullman Hotel in West Bay, Imperium Residences in Najma, Dusit D2 Salwa Doha in Muraikh and Al Liwan Suites in Rawdat Al Khail and Diyafa Hotel Suites in Al Sadd.

As per Valustrat research, 10,000 keys are in pipeline till 2021. There were reported delays in the launch of hotels in 2020 due to uncertainty caused by the advent of COVID-19. As per the latest statistics released by QNTC, a total of 21,500 rooms across 107 projects are under construction at various stages of development.

2020 began with increasing visitor arrivals, up till February 2020 there were 498,528 arrivals, up by 32% compared to the same period in 2019. In March 2020 with the advent of the pandemic, government of Qatar imposed a ban on inbound tourists causing the volume of tourists to plunge. Moreover, all recreation facilities and F&B outlets in hotel properties were also mandated to close.

Hotel Room Supply
2017-2021
('000 KEYS)



Since March 2020, hotels had to rely on local residents for turnover. Hotel apartments were reported to fare well compared to hotel segment as they relied on long term leasing tenants. YTD June 2020 tourist arrivals totalled 548,812, down by 48% compared to the same period 2019.

As per ValuStrat research, the gap between demand and supply at the end of 2019 was estimated at 9,000 keys. This is projected to increase by the end of 2020 depending on the recovery of tourist arrivals and influx of new properties. As per the plan of the lifting of restrictions in July 2020, hotels will be allowed to re-open their F&B outlets. In addition, once inbound travel will re-open in Phase 3, the government of Qatar mandated two weeks stay at designated quarantine hotels for particular inbound traffic.

Hospitality Performance

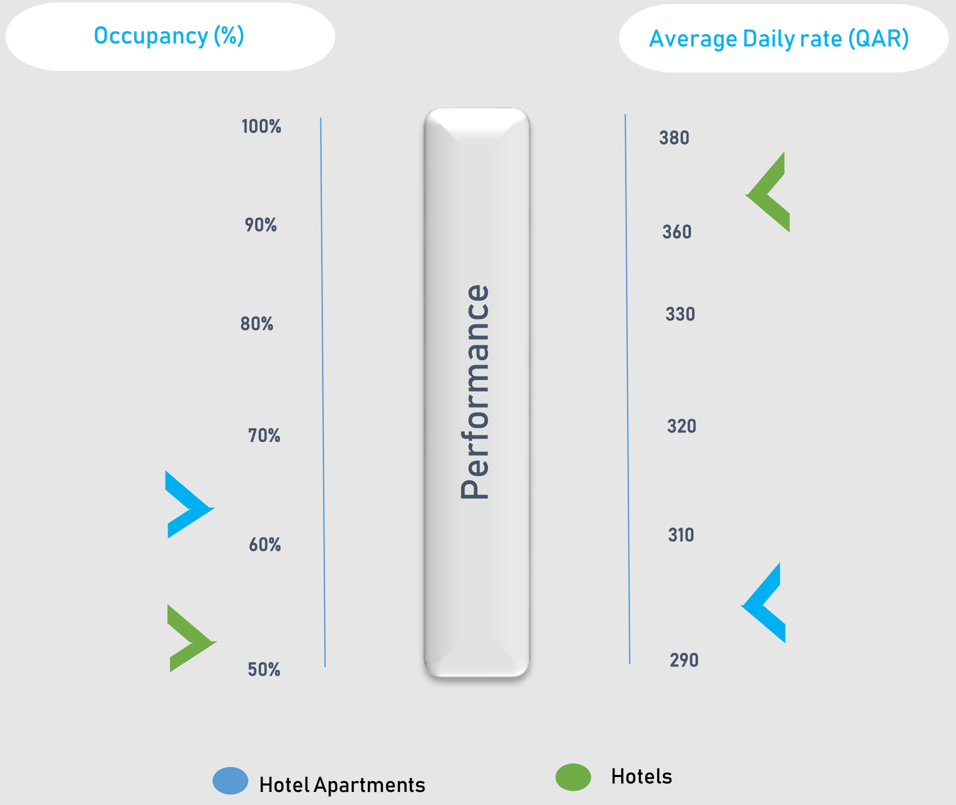
YTD June 2020, occupancy of hotels and hotel apartments fell 13% and 12% respectively, compared to the same period in 2019. Occupancy declined the most for 1-2-star hotels followed by the five-star and four-star segment.

The highest occupancy of 66% was recorded for 3-star hotels amongst all hotel properties as of H1 2020. Hotel apartments had an average occupancy of 61% YTD June 2020.

Average Daily Rates (ADR) of hotels declined 2.4%, whereas for hotel apartments the decline was 9.3% as of H1 2020, compared to H1 2019. ADRs fell the most for 1-2-star hotels followed by 5-star segment and 3-star segment.

Revenue per Available Room (RevPAR) was recorded at QAR 192 per night for hotels and QAR 180 per night for hotel apartments, down on average by 22% annually during the first six months of 2020.

Hotel Performance Tree



Occupancy Hotel and Hotel Apartments

-7.6%	-12.9%	-13.6%	-10.4 %
Last 2 years	Last year	Last 6 months	Last Quarter

ADR Hotel and Hotel Apartments

-8.3%	-3.1 %	-4.1%	3.8%
Last 2 years	Last year	Last 6 months	Last Quarter

SOURCE AND REFERENCES

- Ministry of Development Planning and Statistics
- ValuStrat
- Ministry of Justice
- Zawya
- Oxford Economics
- QNB Economic Forecast
- Qatar Tourism Authority