



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

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QATAR MARKET OUTLOOK FOR 2015

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SUMMARY

- ❑ Qatar's short-term political risk profile remains among the most stable in the region. Despite enjoying little in the way of democratic freedom, Qataris benefit from massive hydrocarbon wealth which is spread generously across the country's native population and enjoy the highest per capita GDP in the world.
- ❑ The Qatari economy will continue to expand at a rapid pace over the next few years, supported by accommodative fiscal policy - notably infrastructure spending and strong population increases. The non-hydrocarbons economy will propel growth, with construction activity and the services sector set to remain the dominant performers.
- ❑ We forecast real headline growth of 7.8% in 2015. Lower hydrocarbon prices present no immediate threat to Qatar's infrastructure investments and economic performance.
- ❑ The new Barzan gas development, which is scheduled to come on-stream in this year 2015, will shore up growth in the hydrocarbon sector throughout the coming quarters.

Key Risks To Outlook

- ❑ Given the economy's heavy reliance on the hydrocarbon sector, a pronounced global economic downturn - if it were to translate into a sustained drop-off in demand for oil and gas - could impact negatively on our forecasts for Qatar's external account position, budget and growth outlook. That said, we highlight that the country's US\$115bn sovereign wealth fund - as well as its continuing ability to tap international debt markets - provides the economy with significant bulwarks against these risks.
- ❑ The construction sector remains exposed to the potential for delays and cost overruns, a factor that is increasing and unlikely to improve over the medium term

Macroeconomic Forecasts (Qatar 2012-2015)

Indicator	2014	2015(f)
Real GDP growth %	6.3	7.8
Nominal GDP %	6.8	6.6
Consumer price inflation %	3.0	3.4
Exchange rate QR/USD	3.64	3.64
Budget balance, % of GDP	9.6	5.7
Current account balance % of GDP	23.9	18.4



LABOUR MARKET

- ❑ Qatar's labour market to be somewhat restricted, leading to several potential risks for investors. On the positive side, the country's high literacy rates, large migrant population, and low employment costs mean that it comes second in the MENA region in the Labour Market Risks Index, scoring 59.3 out of 100.
- ❑ A very high rate of urbanization, widespread literacy, and a large proportion of the working age population in employment mean that Qatar scores very highly in terms of the Availability of Labour.
- ❑ Moreover, the majority of the workforce has benefitted from a primary school education, and the female labour force participation rate is second only to Israel in the Middle East and North Africa.
- ❑ Qatar therefore has a good size labour force available in its cities which benefits from basic skills such as literacy and numeracy, and it accordingly scores 65.2 in the Availability of Labour category, placing it in second for the region.
- ❑ However, the size of the labour force in Qatar is distorted by the vast numbers of migrant workers in the country. These expatriates do not constitute an available pool of labour due to the sponsorship system used to employ them, which effectively binds them to one employer for the duration of their period of work in the country.
- ❑ The vast pool of migrant workers in Qatar is therefore effectively closed off to businesses moving into the country, leading to the need to bring in expatriates. This increases costs to businesses due to the bureaucratic obligations which have to be fulfilled in order to employ foreign workers.



- ❑ Consequently, Qatar's high score for Labour Costs, which at 68.5 places it third in the MENA region, is mostly explained by the fact that actual costs of employment in the country are low, due to the lack of minimum wage regulations and a favorable labour tax rate.
- ❑ This clearly reduces costs to businesses in Qatar, but is offset by the reality that the small and poorly educated local population, combined with the constrained pool of existing migrant workers, severely restricts the options for skilled labour in the country.

Labour Market Risk Index - MENA

Country	Availability of Labour	Education	Labour Cost	Labour Market Risk
Israel	75.5	76.2	57.5	69.7
Qatar	65.2	44.2	68.5	59.3
Bahrain	59.7	45.6	71.0	58.7
Saudi Arabia	45.1	65.2	62.7	57.7
UAE	57.7	43.9	69.6	57.1
Kuwait	52.0	43.5	59.2	51.6
Oman	50.2	47.0	54.1	50.4
Iran	48.0	70.5	23.5	47.3



LOGISTICS

- ❑ Qatar is well-suited to meet its logistical needs in the short- to mid-term future. With one eye on the upcoming FIFA World Cup, and an overarching focus on achieving the 2030 Qatar National Vision objectives, the country's infrastructure is being overhauled and modernized.
- ❑ Combined with regionally relaxed and cost-efficient trading procedures, Qatar is well placed to ensure that its international trade is maintained at its required levels. For these reasons, Qatar scores 61.1 out of 100, placing it in sixth position regionally.
- ❑ At present, Qatar's international trading and logistical infrastructure largely caters for the exporting of fossil fuels and the importing of construction materials and food. With the world's largest LNG exporting facility, and several major airport and seaport refurbishment and development projects coming online imminently, Qatar looks set to increase its logistical capacity growth in line with the growing demands of its population.
- ❑ Qatar also holds reasonable attractiveness for foreign investment and businesses, in large part due to its high availability of cheap utilities, abundance of natural wealth, and clear openness to attracting foreign investment.
- ❑ Due to a current strong trade position, Qatar's export growth is predicted to slow. However, the high demand for its exports, the majority of which are fossil fuels, is likely to ensure it retains its wealth and trade surplus. Its burgeoning population and increasing international prestige are likely to drive trade growth over the medium-term



- ❑ In terms of utilities, Qatar enjoys cheap fuels and extensive domestic electrical production, with particular subsidies for foreign businesses, as well as one of the most developed IT sectors in the region. The major risk in this section is the availability of quality water, which is low, having mostly been produced through desalination plants.
- ❑ Qatar's transport infrastructure is sufficient to meet its current logistical demands. With heavy investment into upgrading the major Qatari airports and seaports, as well as the development of a parallel rail system to ease some of the pressure off of the road infrastructure, Qatar's logistical chain is improving its capacity to transport freight. The major risk is that until the rail system comes online, the road network is struggling with congestion and damage, severely increasing costs and delays.
- ❑ Finally, the Qatari trade governance and regulation is regionally efficient and cheap. With a lower average cost per container, fewer documents required, and a quicker average procedure time for both importing and exporting than the regional averages, trading internationally with Qatar appear relatively easy.
- ❑ This indicates an efficient bureaucracy and a government that seems to be seeking to attract investment and trade. The major risk in this section is Qatar's low shipping connectivity, which could be improved once the major port development projects have been completed.



IT

Qatar's high private consumption levels and bright economic growth outlook are generating good opportunities in the country's IT sector. Although Qatar's small population prevents it from becoming a major IT hub in the MENA region, the ICT (Information Communication Technology) sector has been a key beneficiary of the government's drive to diversify the economy away from the hydrocarbons, notably through its e-Government 2020 Strategy and strong support for the development of smart cities. We expect the government to remain committed to these goals, despite the sharp drop in oil prices in the year 2015. Indeed, lower oil prices further emphasize the importance of catalyzing growth in other sectors, and the government can rely on large fiscal reserves to continue enhancing IT systems across government agencies and state-owned companies, at least over the next two to three years.

Headline Expenditure Projections

- ❑ **Computer Hardware Sales:** QAR2.95bn in 2014 to QAR4.26bn in 2018, CAGR of 9.2% in local currency terms. Despite high PC penetration, high incomes will foster multiple device ownership as tablets and other new touch form factors make up a larger share of sales.
- ❑ **Software Sales:** QAR1.311bn in 2014 to QAR2.13bn in 2018, CAGR of 13.2% in local currency terms. Scope remains for growth in the enterprise software market over the medium term with low current penetration by international standards.
- ❑ **IT Services Sales:** QAR2.294bn in 2014 to QAR3.753bn in 2018, CAGR of 14.4% in local currency terms. Services are expected to perform well in the IT market in the medium term due to demand for cloud computing, smart systems and security services from the public and private sectors.



Key Trends And Developments

- ❑ The rapid growth of Qatar's IT sector is highlighted by the announcement in October 2014 that Doha's Qatar Science and Technology Park (QSTP) has reached 95% capacity in its first five years, and will expand with the addition of three new buildings. Current members of the park include Microsoft, iHorizons, Ooredoo, Siemens, Cisco Systems, and Meeza, among others.
- ❑ Major developments in Qatar's IT sector over the second half of 2014 include a strategic partnership between Qatar Petrochemical Company (QAPCO) and IBM and SAP for the implementation of an ERP solution, as well as the connection of several government ministries to a private network, as part of the ongoing Government Network Project. The latter was completed by a consortium led by Q.NBN and local IT firm Malomatia. Both of these contracts underscore BMI's view that the government and state-owned entities will be a key driver of growth in the IT sector.



INFRASTRUCTURE

- ❑ Qatar's construction industry has performed extremely strongly over 2014, causing us to upgrade our short and long-term forecasts for real growth. The numerous large scale infrastructure projects entered construction over 2014, such as the Doha Metro and further elements of Doha's new port, will keep growth rates elevated in 2015. The industry is navigating capacity constraints seemingly well, although we still believe price pressures will be felt over the medium term.
- ❑ After growing 18% in H114, Qatar has further extended its lead as the fastest growing market in the GCC and remains one of our favorite construction markets, buoyed by huge government investment and growing consumer demand.
- ❑ Ahead of the 2022 FIFA World Cup and in line with the country's 2030 Vision development plan, Qatar's spending on infrastructure is expected to reach about USD150bn over the next decade.
- ❑ A series of infrastructure projects are in the pipeline, including a USD20bn investment in roads; USD40bn to be invested in railways; USD4bn to be invested in stadiums; USD8bn to be spent on a deep-water seaport; tens of thousands of hotel rooms to be built and even a new city.
- ❑ We forecast average real growth in the construction sector between 2015 and 2023 of 9.8%.



- ❑ The energy and utilities sector has been a major target for investment by the Qatari government, with plans to invest USD22bn in its power and water infrastructure up to 2020, according to the Qatar Electricity & Water Company (Kahramaa).
- ❑ Qatar has budgeted for USD4.1bn to be spent up to 2015 on electricity and water projects. The planned upgrades include 140 electricity substations and the addition of more than 2,000MW of electricity generation capacity.
- ❑ It is the residential and non-residential building sector which will be the major driver of growth in Qatar's construction industry over the long-term. Leveraging off improved infrastructure and the World Cup, developers are building major residential projects and the social infrastructure to go with them.
- ❑ Coupled with the hotels and stadiums being prepared for the World Cup, we see strong average real growth of 13.4% over our forecast period from 2015-2023. We note growth will accelerate in the run-up to 2022, but will falter in the aftermath of the World Cup - although Qatar's Vision 2030 should keep growth positive.



INSURANCE

- ❑ The news flow from Qatar's insurance sector in late 2014 confirms our view that premiums have been growing steadily and should continue to do so through the forecast period. The sector faces a number of challenges, though, and the leading indigenous company is actively seeking opportunities elsewhere.
- ❑ Qatar's insurance sector has much in common with its peers in other countries that are members of the Gulf Cooperation Council (GCC). The sector is, and at the end of the forecast period will remain, underdeveloped by a number of important metrics such as penetration (premiums as a percentage of GDP). Most of the local companies are relatively small by most standards. The market is basically open to competition. Pressure on tariffs (prices) in most lines - and particularly basic motor and household property covers - is relentlessly downwards. Retention ratios (net premiums as a percentage of gross premiums are low).
- ❑ Nevertheless, there are a number of strengths. Qatar Insurance Company (QIC) is one of the largest insurers in the region, and is rapidly emerging as a substantial international reinsurer. The backers of the five main indigenous companies have large capital resources. The government is encouraging the development of financial services through the Qatar Financial Centre.
- ❑ The combination of volume growth (particularly in the motor vehicle insurance sub-sector) and downwards pressure on prices, suggests to us that premiums should rise by 5-7% annually through the forecast period - which is a respectable outcome by global standards.



- ❑ Life insurance is something of a wildcard. As is the case in the UAE and Bahrain, for instance, the segment is dominated by large international companies who are providing protection, wealth/savings and health solutions to expatriates. As yet, we have not been able to compile any hard data on the activity that is being undertaken in Qatar. We would be surprised if it is growing more slowly than overall premiums.
- ❑ One area that is not growing is basic health insurance. The government is in the process of nationalising basic health insurance under Seha, the national health insurance scheme. Private sector insurers will only be able to offer health insurance products and covers that have not been officially reserved to Seha.

Key Forecasts

- ❑ Total (and Non-Life) premiums written are expected to rise by 8.6% to USD1.79bn in 2015.
- ❑ Within this total, motor vehicle insurance premiums should grow by 20.2% to USD327mn.
- ❑ Property insurance premiums should grow by 6.6% to USD517mn.
- ❑ Transport insurance premiums are expected to increase by 3.1% to USD176mn.



OIL & GAS

Fuelled by the world's third largest proven conventional gas reserves, Qatar has positioned itself as the leading global exporter of liquefied natural gas (LNG). Rising competition, led by liquefaction growth in Australia and potentially the US and East Africa, will pose a challenge to Qatar's hold on the global gas market later in the decade. Qatar is responding by making increasing efforts to diversify its economy through expanding its downstream and petrochemical sectors. The country is growing the international presence of Qatar Petroleum International to offset slowing growth in domestic oil and gas projects, given the absence of plans for an expansion of LNG and GTL export capacity.

Forecasts (Qatar 2012-2018)

	2012e	2013e	2014f	2015f	2016f	2017f	2018f
Crude, NGPL & other liquids prod, 000b/d	1568.9	1567.4	1561.1	1572.5	1585.3	1581.2	1581.6
Dry natural gas production, bcm	142.6	143.7	144.0	150.5	153.5	154.5	156.1
Dry natural gas consumption, bcm	20.5	21.5	22.6	23.5	24.9	26.4	27.2
Refined products, production & ethanol, 000b/d	307.7	429.1	431.7	434.1	638.6	638.4	638.6
Refined products, consumption & ethanol, 000b/d	189.7	198.9	209.9	220.4	230.3	240.7	250.3



- ❑ The first phase of the Barzan natural gas project has reached 96% completion and is due to begin production in early 2015. We have adjusted our forecast to represent this delay.
- ❑ We have also postponed the second phase of the Barzan project which is due to begin production one year after the first phase. This will be the last upstream project on the North Field until the moratorium is lifted.
- ❑ Qatar's state-run oil marketing firm Tasweeq reported plans to cut condensates exports by 150,000 barrels per day (b/d) over the next two years in November 2014. This is in line with the country's strategy to process larger volumes domestically, displacing condensates exports with exports of naphtha and other higher value-added, light-end products.
- ❑ Gas production in Qatar will remain relatively flat as LNG exports continue at strong levels and domestic gas consumption increases are catered for by the Barzan project.
- ❑ Qatar is expected to see reduced investment in its oil and gas sector over the coming quarters as it attempts to diversify its economy. The majority of upstream investment in the next three years will focus on oil field redevelopments.
- ❑ In May 2013 Qatar gas awarded the EPC contract for the Laffan Refinery Phase II to Chiyoda Corporation. The second phase will double capacity at the refinery and allow for a greater volume of condensate to be processed into higher-end products. The 146,000 barrel per day (b/d) facility is due to be operational in 2016.



- ❑ Oil production will follow a flat pattern, with growing investment in field redevelopment and enhanced oil recovery offsetting production declines and maintaining a consistent output level. We forecast oil production of 1.71mn b/d in 2013 to rise slightly over the forecast before dropping to the same level in 2023.
- ❑ Occidental Petroleum will enter the fifth phase of the Idd El Shargi field development after signing an agreement with QP in mid-2013. The USD3bn project will stretch over six years and adding 200 new production and injection wells in an effort to sustain oil production at around 100,000b/d.
- ❑ Qatar Petroleum (QP) is budgeting USD13bn for the redevelopment of the Bul Hanine oil field. While the project is only expected to add 50,000b/d of oil output to the field, it will extend production life for 25 years.



REAL ESTATE

- ❑ The real estate market in Qatar continues to prosper with the massive growth occurred in the end of 2014. As we look into 2015 our positive outlook for the economy over 2015 supports our view that investment will remain strong in the real estate sect, which should only increase in the longer term as the country is advanced in real estate expenditure as it prepares for the world cup in 2022.
- ❑ While Qatar's real estate sectors falls in the shadow of some of its more prosperous neighbours such as UAE, developments such as the 2022 world cup and 2030 vision programme auger well for the real estate market in Qatar. For the most part commercial real estate in Qatar relate to its main cities Al Khor Al Wakra and Doha, however there has been significant plans from the Qatar government to improve real estate in other areas of the country. For example, they plan to spend 45BnUSD on real estate development in Lusail city.
- ❑ In term of its actual population Qatar is quite small recording just over 2mn people last year. However the population is incredibly wealthy and in terms of per capita income it is one of the richest countries in the world. The affluent nature of the population along with a growing tourist sector has seen a growth in demand for modern retail facilities, particularly for luxury good outlets.
- ❑ This has led to the development to many shopping malls including mall Qatar which will open in this year 2015 at a cost of 84mn USD. This demand for retail properties will more than likely continue in the mid to long term and it should remain the fastest growing of all real estate sub sectors.

Along with the ongoing infrastructure developments in preparation for the World Cup, the vision 2030 project should result in a large growth for commercial real estate going forward especially in the key commercial regions such as Doha. Doha has now become a key financial hub in the Gulf and this has seen a surge in demand for commercial office space in the city. The office sub-sector has also benefited from a number of major engineering, financial services players establishing themselves in the country. The growth of Doha as one of the premier financial centres in the Gulf coast could lead to significant real estate hikes in the longer term.

2014 Developments

- ❑ Two towers in Al Dafna area in West Bay, Doha were sold in late July 2014 for QAR1.5bn (USD411.94mn), recording a total value of real estate transactions in a week to QAR2.76bn (USD 757.97mn) which is an all-time high. The first tower covers 3,126 square metres (sq m) and was sold for QAR1bn (USD274.68mn), while the second tower covers 4,056sq m and was sold for QAR500mn (USD137.31mn).
- ❑ Ezdan Holding Group reported a 58.9% growth in rental income to QAR641.3mn, a significant turnaround in performance after recording an increase in liabilities to nearly QAR37bn (USD10.16bn) by the end of 2012 as a result of overexpansion.

Key Forecasts

- ❑ Rental rates in the office sectors of Doha and Al Ware are expected to grow in this year while in Al Khor rents will remain stable.
- ❑ Retail rental rates in Doha will increase by 10-12% in 2015, while those in the other two cities will remain flat. Doha's industrial real estate rental rates will rise by 5% in this year.



TOURISM

- ❑ Qatar's national tourism strategy involves boosting the number of international and non-regional inbound travel as well as promoting sustainable tourism. Giving priority to promoting tourism in combination with hosting the FIFA World Cup in 2022 should see a significant rise in inbound tourism over our forecast period, increasing the value of the hotel industry.
- ❑ Qatar's tourism sector has grown substantially in recent years, owing partly to the surge seen in regional travel across the Middle East and the development of international tourism.
- ❑ The Middle East, particularly the Gulf Cooperation Council (GCC) region, represents the largest market for inbound travel and is expected to continue to do so. This is mainly due to Qatar's geographical proximity and easy accessibility via air and road travel in the Middle East region, which is why arrivals from the Middle East are forecast to grow at a faster pace than overall tourist arrivals.
- ❑ Underlining the Qatari authorities' commitment to boosting tourism flows over the long term, the first quarter of 2014 saw the launch of Qatar National Tourism Strategy 2030. The stated aim of the strategy is to make Qatar 'a world-class destination with deep cultural roots', acknowledging that tourism can bring Qatar forward.
- ❑ The strategy involves boosting the number of international (non-regional) inbound travel and promoting sustainable tourism.



- ❑ While we expect inbound tourism numbers to increase substantially over the remainder of our forecast period - mainly due to Qatar's efforts to develop the tourism industry further - it is still expected to lag behind its regional peers.
- ❑ Qatar remains one of favoured tourism markets, with good growth prospects in both arrivals and revenues over our forecast period.
- ❑ In 2015, we expect 2.97mn tourist arrivals to Qatar - up by 8.41%.
- ❑ Accordingly, tourism receipts are forecast to reach USD8.72bn in 2015 - an increase of 8.41%.
- ❑ Outbound travel is also expected to grow substantially to reach 1.70mn in 2015 - up by 11.97%.
- ❑ The hotel and restaurant industry is also forecast to grow - by 13.92% in USD terms to reach USD1.6bn.



Recent Developments

- ❑ Starwood Hotels & Resorts announced plans to open hotels in Qatar over the coming years: the 365-room Westin Doha Hotel & Spa (due in April 2015) and the Le Meridian Doha (due in January 2017).
- ❑ Marriott International announced plans to open a new property under its JW Marriott Hotels & Resorts brand in Qatar in 2017. The property will be the first JW Marriott property in Doha.
- ❑ In October 2014, Melia Hotels International signed an agreement with Tanmiyat Real Estate Investment Company to open a 280-room five-star hotel in West Bay.



PHARMACEUTICAL & HEALTHCARE

- ❑ With Qatar's Supreme Council of Health announcing the completion of its master plan for healthcare facilities in Qatar covering the period 2013-2033, the country is poised to invest in healthcare infrastructure. Meanwhile, the Qatari government has decided to make health insurance compulsory for non-nationals.
- ❑ The new law will ensure more competitive pricing of services among healthcare providers in the country, as it will enable residents to choose between private and public hospitals. Moreover, it will reduce government spending for maintaining its healthcare system on non-nationals. Economic and political stability, in addition to projected growth in the pharmaceutical and healthcare markets, will ensure that Qatar remains a small but attractive market.

Headline Expenditure Projections

- ❑ **Pharmaceuticals:** QAR1.67bn (USD459mn) in 2013 to QAR1.88bn (USD516mn) in 2014.
- ❑ **Healthcare:** QAR16.49bn (USD4.53bn) in 2013 to QAR18.20bn (USD5.00bn) in 2014.



POWER

- ❑ The Qatari power sector is set for strong growth over the coming decade as the government continues to spend heavily on new infrastructure projects, while domestic energy consumption continues to grow. With no sign of a let-up in government spending on the horizon, particularly as the emirate gears up for the FIFA World Cup in 2022, and the economy in good shape, demand for power is likely to continue rising over the next few years, leaving the electricity sector in good stead.
- ❑ The outlook for the domestic power sector in Qatar remains bright. Government plans to build a huge USD3bn power plant, known as Ras Laffan D, coupled with the recent announcement of USD2.1bn in investments in the country's electricity transmission and distribution network, underline our positive outlook for the sector.
- ❑ Although Qatar is attempting to reorient its power sector towards the use of solar power and other renewable sources, for the time being the emirate remains almost entirely dependent on natural gas for its energy. With the economy continuing to grow at a robust pace, and the government anxious to ensure that the country is ready for the 2022 World Cup, this is likely to remain the case for the foreseeable future.
- ❑ Although such dependence on a single source of fuel for electricity generation would typically be a concern, given the emirate's vast supplies of natural gas and the government's deep pockets, it is difficult to envisage a scenario where this dependence translates into any serious risks for the sector's outlook any time soon.



TELECOMMUNICATIONS

- ❑ Despite Qatar's small population, it is one of the highest mobile penetration rates in the region, there remain considerable subscriptions and revenue growth opportunities for the country's two telecoms operators, Ooredoo and Vodafone Qatar.
- ❑ On one hand, the influx of migrant workers to support the construction boom will sustain subscriptions growth, while on the other, high spending power among Qataris will underpin strong demand for 4G and converged wire line telecoms services.
- ❑ Competition between the two operators for these high value segments of the market will drive network expansion and the development of new data-focused services for enterprises and consumers.
- ❑ The mobile market grew 10.7% year-on-year (y-o-y) and 1.7% quarter-on-quarter (q-o-q) in Q314.



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Thank You...!