FIRST QATAR REAL ESTATE DEVELOPMENT CO.

شركة قطر الأولى للتطوير العقاري

www.first-qatar.com

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REAL ESTATE MARKET OVERVIEW

CONTENTS

SUMMARY

Qatar's economic reliance on the hydrocarbon sector has resulted in further cuts to government spending in Q1 2016, as oil prices fluctuated between $38 and $42 per barrel in March. There has been a significant drop in demand for new office lettings as government departments, semi-state bodies and oil and gas companies have largely withdrawn from the office market. These bodies accounted for 65% of Grade A office lettings in West Bay between 2009 and 2014.

SUMMARY

Demand for office accommodation in the private sector is concentrated around requirements for less than 250 m², often from companies within Doha who are looking to downsize. The continued growth in population has maintained demand for residential property catering to the lower to middle income demographic, although signs of increasing vacancy have emerged in some areas.

The availability of prime residential accommodation has increased due to a combination of new apartment building completions and reduced demand, most notably on The Pearl-Qatar. The increase in vacancy has resulted in rents stabilizing, and in some cases decreasing for prime apartments, and villas in residential compounds.

The supply of leasable accommodation in 'organized' retail malls remains at 643,000 sq m, with high occupancy rates throughout the sector. There has been strong interest from retailers for units in the various retail malls, which are due to open in 2016 and 2017.

ECONOMIC OVERVIEW

Despite substantial government expenditure in recent years to help reduce the reliance on the hydrocarbon sector, and the recent fall in oil prices, the hydrocarbon sector still accounted for approximately 32% of total GDP in Q4 of 2015. The price of crude oil has fluctuated between $38 and $42 per barrel throughout March, having hit a 2016 low of $30 per barrel in mid-January. The extent of the drop in oil prices has resulted in cuts to various government budgets for 2016 as a fiscal deficit is forecast for the first time in 15 years.

Projected expenditure for 2016 is QAR202.5bn, a fall of QAR15.9bn from previous fiscal year. Projected revenues for 2016 are QAR150.6bn, down from QAR225.7bn estimated for 2015. The projections for 2016 are based on the assumption that the average oil price for the year is $48 per barrel.

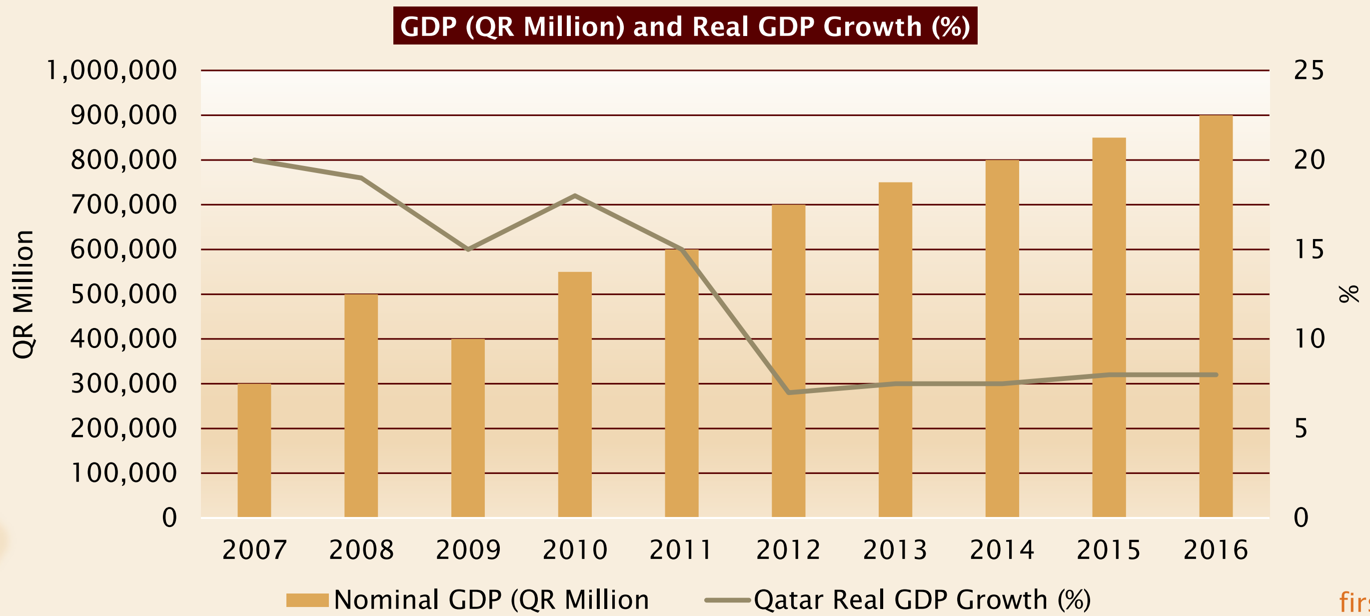
The Standard & Poor's (S&P) credit ratings agency recently confirmed Qatar's AA rating and stable outlook. S&P noted that Qatar's macroeconomic fundamentals remain solid despite the challenges the state is facing. The international credit rating agency warned however, that the government's balance sheet will deteriorate as long as oil prices remain subdued.

The Ministry of Development Planning and Statistics confirmed in December 2015 that the country's economy was expanding at a lower rate than previously forecast. In June 2015 the Ministry had predicted GDP growth at 7.3% for the year, however, these forecasts were revised down to 3.7% by year end. Due to the performance of the Hydrocarbon sector, GDP growth is driven exclusively by the non-oil and gas sectors, which grew by 7.4% in Q4 2015.

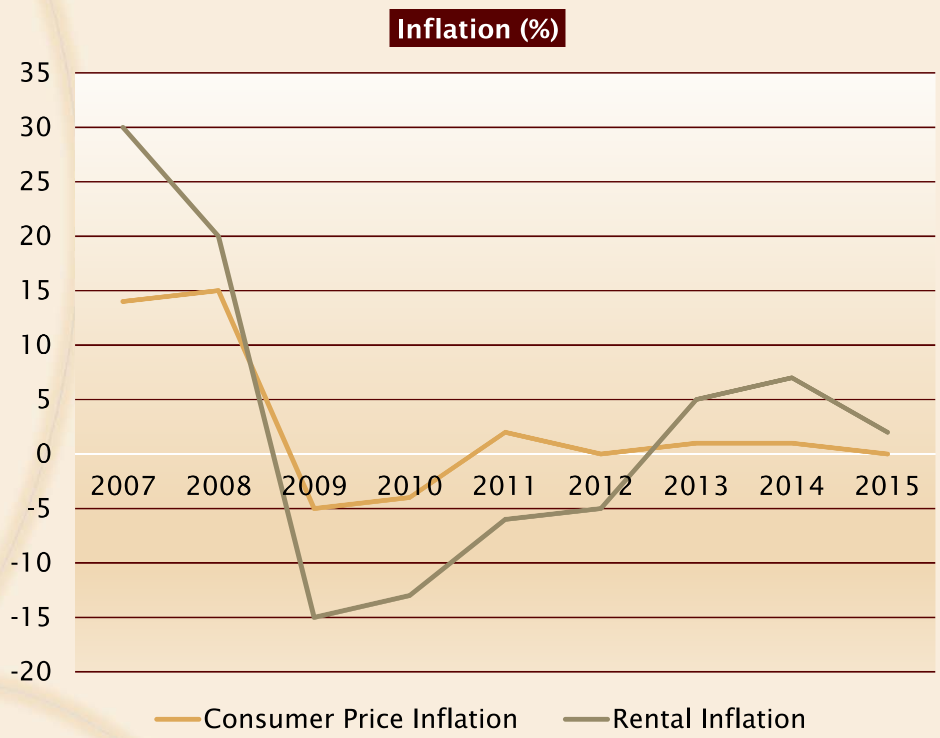
The governments of Qatar and other oil-producing nations such as Saudi Arabia and Russia agreed on 16 February to freeze production at January's levels of output, in an effort to halt the decline in oil prices. Whether the efforts of the various governments will be a success remains uncertain. Following the removal of international sanctions, Iran reiterated its pledge to increase oil production.

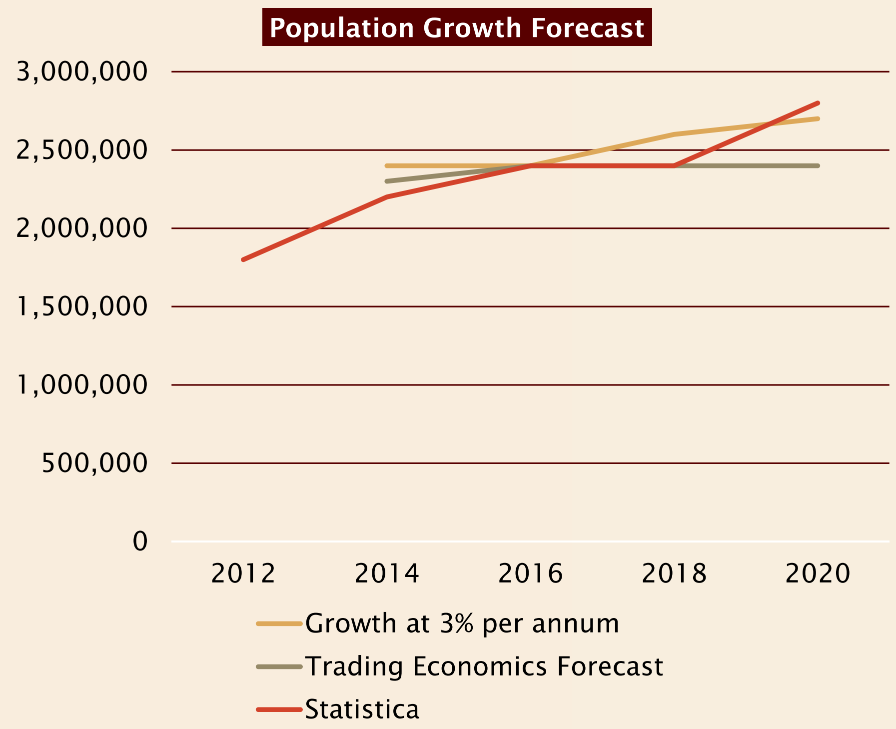
ECONOMIC OVERVIEW

Existing oil-producing nations also pumped oil at record levels in January, which suggests that a fall in supply will not be immediate. Despite the fall in oil & gas revenue, major infrastructural projects are progressing as planned, maintaining economic growth. The current cost of projects that are underway is QAR261bn, which excludes projects in the energy and private sectors. In anticipation of a budget deficit in 2016 the Finance Minister confirmed that Qatar will finance any shortcomings through debt instruments in local and international finance markets, rather than tapping into its national savings, or selling assets. The inflation rate in Qatar fell to 1.9% in 2015 , however it is anticipated that this will increase again, driven by the construction sector, as major projects get underway between 2016 and 2019 in preparation for the World Cup in 2022.



ECONOMIC OVERVIEW





OFFICE MARKET OVERVIEW

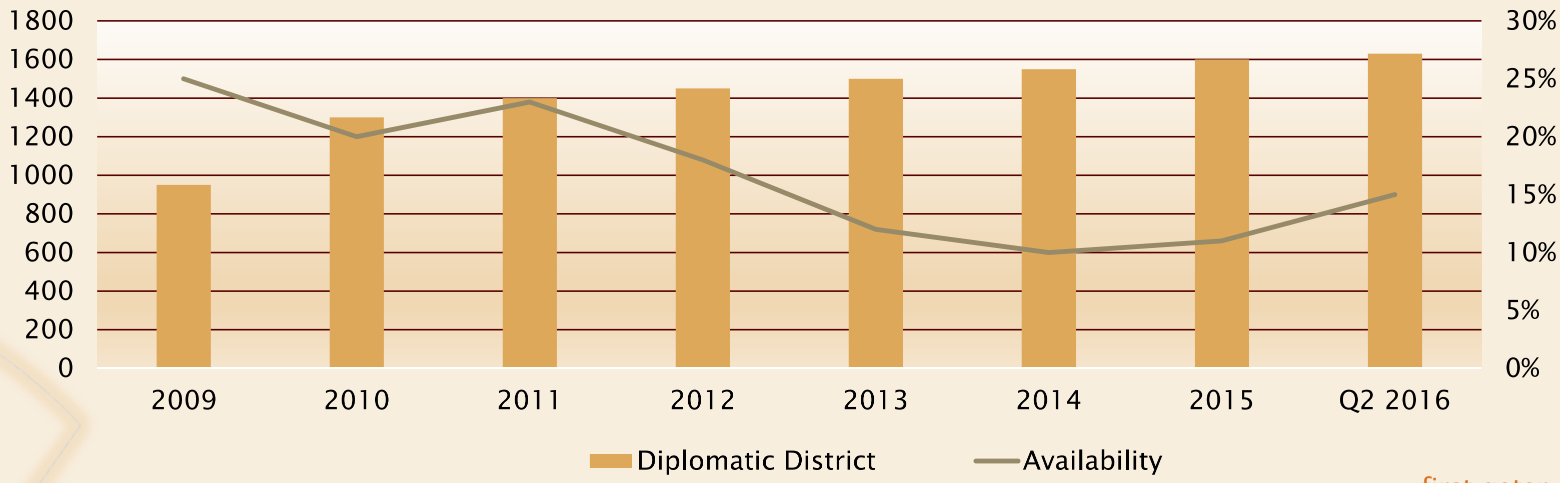
Following a sustained period of increasing occupancy rates in the prime office district of West Bay, the past 6 months has witnessed a reversal of this trend. The availability rates had dropped to below 10% by 2014, which was largely the result of government bodies reserving a large proportion of towers that completed construction between 2013 and 2015. Between 2008 and 2014, an estimated 65% of office lettings in West Bay were to government or hydrocarbon related companies. Recent government budget cuts, due to the prolonged period of low oil prices has resulted in a significant drop in the overall demand for office space since early 2015. The majority of enquiries for office accommodation in the private sector relates to requirements of less than 250 m², however this demand has also fallen since 2014.

A number of office buildings in West Bay, that were completed between 2013 and 2015 were not released to the market in anticipation of leasing deals to government bodies. As activity in this sector dried up, the available space has now been put on the market, increasing the supply of available accommodation. The total supply of office buildings in West Bay currently stands at approximately 1.63 million m², of which approximately 0.24 million sq m is available to rent.

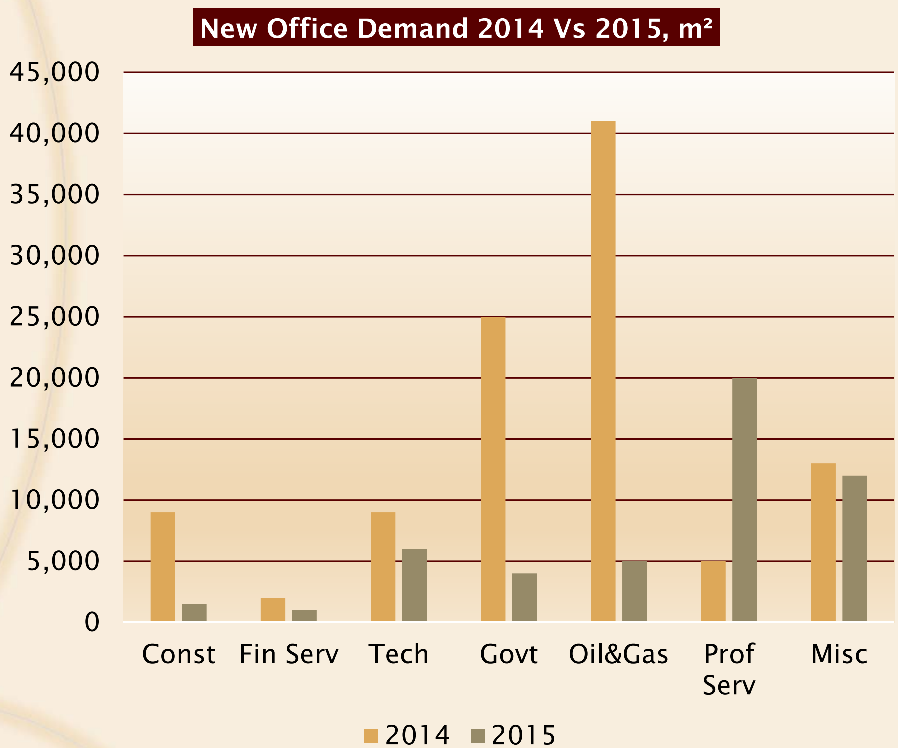
OFFICE MARKET OVERVIEW

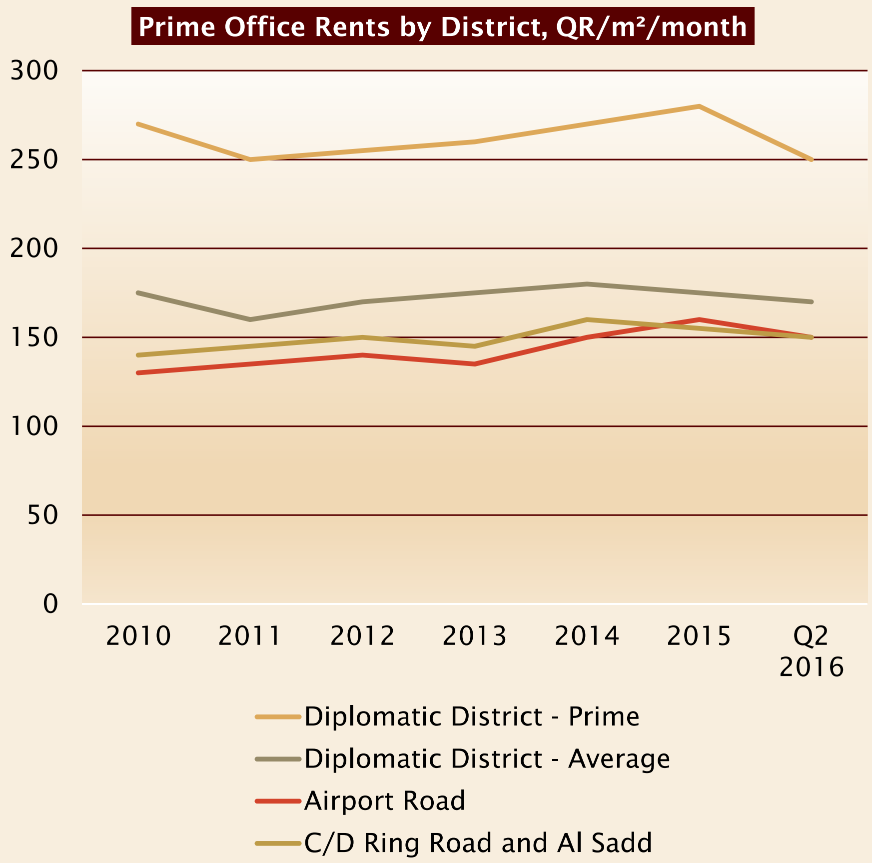
Research reports anticipates that approximately 300,000 sq m of new office accommodation is likely to complete in West Bay within the next 12-18 months, however over more than 200,000 sq m of this is at the QP District, which may not be available to the market. The increase in availability, and reduced demand has started to impact the quoted rents for offices in Doha. This is likely to be compounded in the next 2-3 years due to the large pipeline of new supply, both in West Bay and Lusail. Grade A offices in West Bay currently command between QAR 150 and QAR250 per sq m per month depending on the size of units and quality of the building. Typically the higher rents are only achievable for small units in prime buildings. More typically, rents of between QAR150 and QAR180 per sq m are being quoted for larger office floorplates. Rents in areas such as Old Salata, Al Sadd, Airport Road, and C/D Ring Roads typically command between QAR120 and QAR170 per m² per month, depending on the age and the standard of finish of the building.

West Bay Office Vs Availability, 2009-2016, (000m²)



OFFICE MARKET OVERVIEW





RESIDENTIAL MARKET OVERVIEW

The supply of residential real estate in Qatar struggled to meet demand between 2011 and 2015 as the population during that period increased from 1.7 million to 2.4 million. The shortage of available accommodation created upward pressure on rents in both the apartment and villa markets, with annual growth of between 5% and 10% per annum evident throughout the Doha market.

Overall the population increased by 9% in the 12 month period up to the end of May 2016, however this is largely attributed to an influx of lower paid construction workers. Over the same period there has been extensive redundancies in the hydrocarbon and government sectors, and a subsequent knock on effect in the private sector.

This has resulted in reduced demand for good quality residential accommodation throughout Doha. The supply of new residential accommodation has increased in recent months and this trend will continue throughout the year as a significant number of apartment projects reach completion.

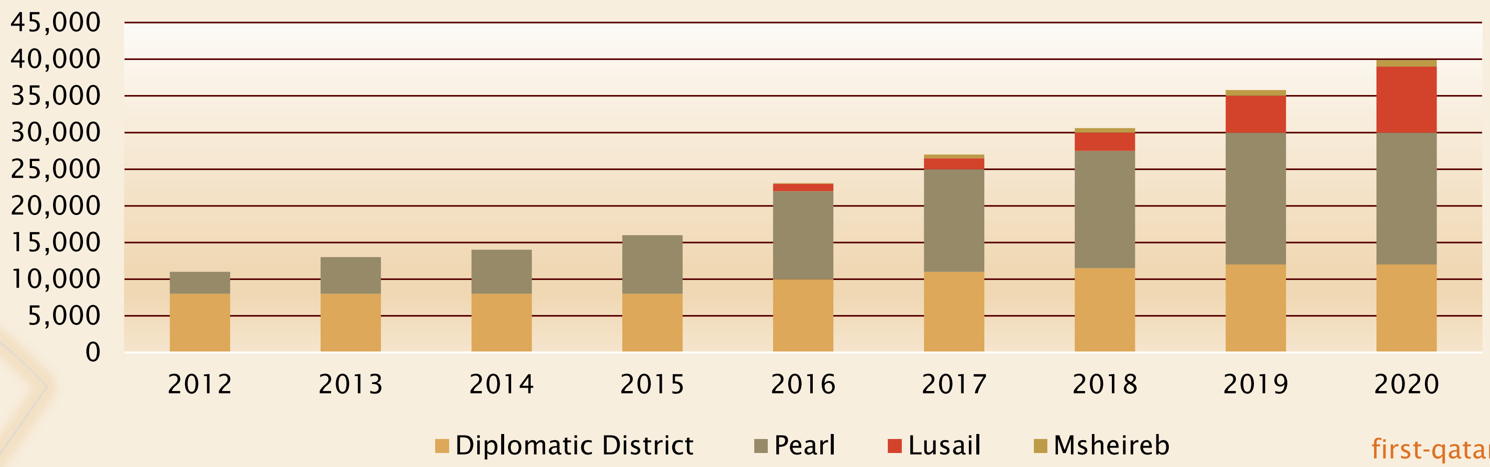
This has resulted in increasing vacancy levels for primary and secondary apartment market. The changing dynamics in the market suggest that recent signs of falling rents in the apartment sectors may continue throughout 2016. Construction of new villa compounds throughout Doha has been limited in comparison to apartment buildings.

RESIDENTIAL MARKET OVERVIEW

While there has been an increase in vacancy levels, Research reports believe that occupancy rates for compound villas will remain relatively high, with less downward pressure on rental levels.

A fall in demand for corporate residential lettings of entire residential blocks and compounds. It is becoming increasingly common for companies to provide a rental allowance rather than employee accommodation. On The Pearl-Qatar, the supply of apartments may increase by more than 30% in 2016 as new towers in both Porto Arabia and Viva Bahriya near completion. Incentives such as rent free periods, and rents inclusive of utility bills became common in 2015.Freehold prices on The Pearl Qatar increased steadily between 2011 and 2015, however recent months has seen a fall in sales activity and prices have stabilized. Local investors make up the majority of purchasers, where second hand units typically trade at between QAR13,000 and QAR15,000 per sq m, and new units can achieve in excess of QAR17,000/m².

Prime Apartment Supply by District, No. of Apartments



RESIDENTIAL MARKET OVERVIEW

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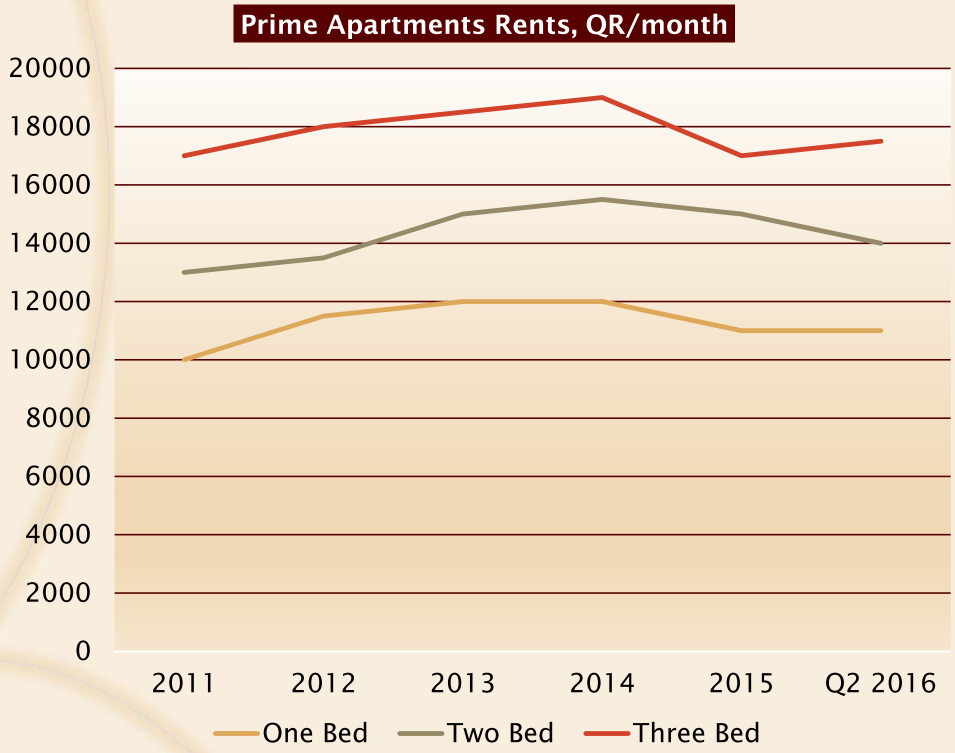
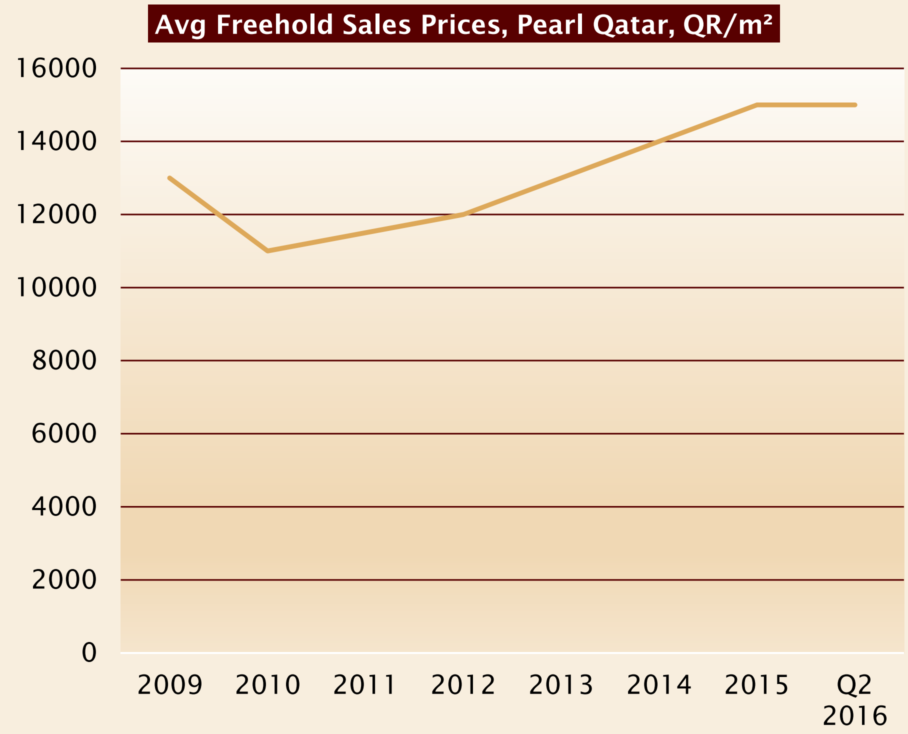




RETAIL MARKET OVERVIEW

Qatar is about to enter a period of strong growth in retail supply with a number of new retail malls nearing completion Despite the large number of retail malls under construction, no new malls have opened since Gulf Mall in early 2015. The overall supply of purpose built, retail mall accommodation in Qatar is 643,000 sq m, contained in 14 purpose built malls. The two largest shopping centres, Villaggio Mall and City Centre Mall, account for 39% of the current supply. In excess of 1.3 million square meters of retail space is currently at various stages of construction and is scheduled to open by 2019.This represents a 220% increase on current supply, and if completed as planned will have a major impact on the dynamics of the retail market in Qatar.

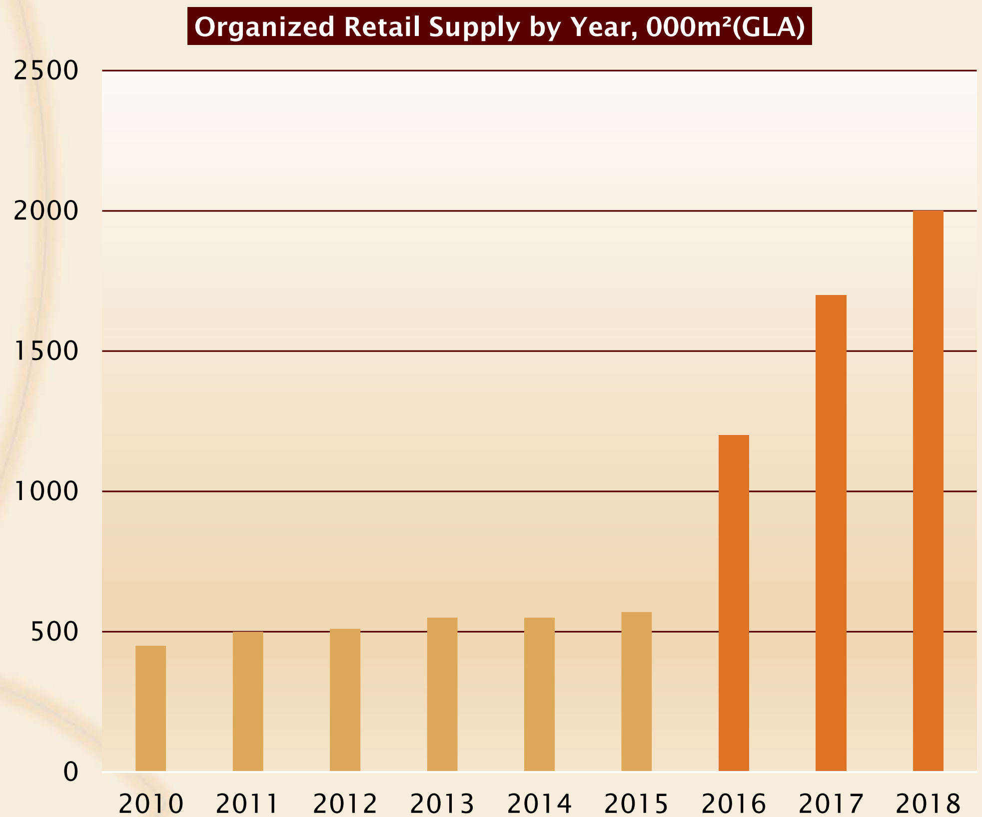
Qatar has benefitted from strong growth in retail trade in recent years, which has been driven by the increasing population as well as high disposable income. In 2014 the World Bank estimated that the GDP per capita (PPP) reached $145,894, representing the highest level of disposable income per capita in the world. Demand remains strong from retailers looking to either enter the Qatar market, or expand their existing presence. New demand, coupled with the high occupancy levels in all of the existing malls has resulted in strong rental growth in the past 12 months. Rents in prime malls currently range from QAR260 to QAR300 per sq m per month for the standard line units, while larger stores can secure rents of between QAR170 and QAR220 per sq m per month.

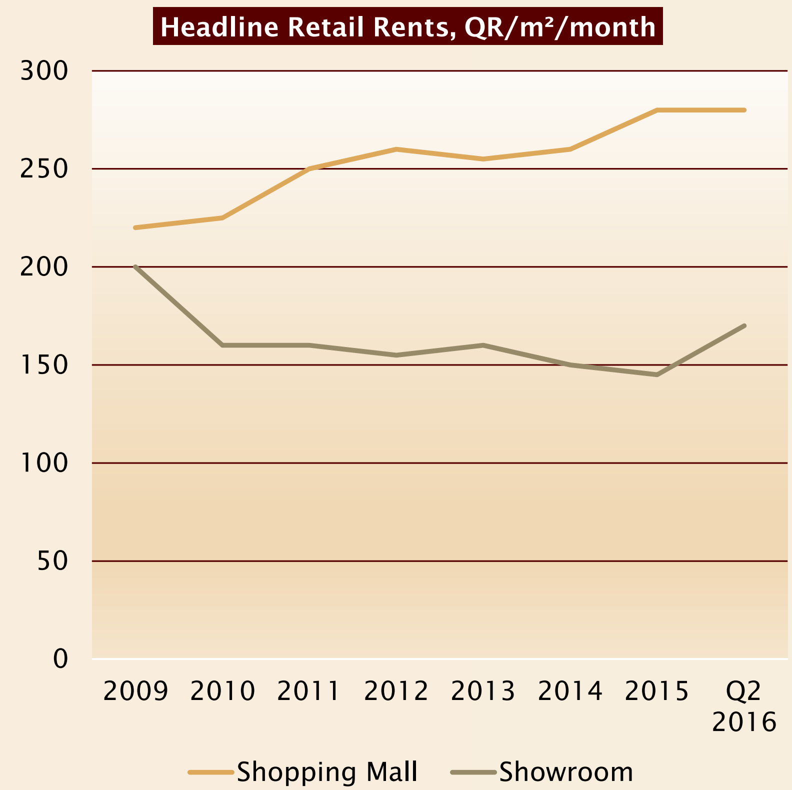
RETAIL MARKET OVERVIEW

A large number of international brands have agreed lease terms on various new developments including Mall of Qatar, Doha Mall, Doha Festival City and Place Vendome, and strong occupancy rates are expected on these malls when they open in the next 12 -24 months. The showroom retail market is estimated to comprise more than 800,000 m² of leasable area in Salwa Road and Barwa Commercial Avenue. Rental levels in these locations typically range from QAR120 to QAR170 per m². Elsewhere, on The Pearl Qatar, Medina Central opened in 2015, and following a period of tenant fit-outs, the majority of retail units have now opened for business. Porto Arabia has also seen an increase in activity with a number of new arrivals on the retail promenade in recent months.

Project	Location	Estimated Completion Date
Mirqab Mall	Al Mirqab Street	2016
Al Hazm Mall	Markhiya	2016
Doha Mall	Abu Hamour	2016
Katara Mall	Al Qassar	2016
Tawar Mall	Duhail	2016
Mall of Qatar	Al Rayyan	2016
Katara Mall	Katara	2016
Doha Festival City	Umm Salal	2017
Northgate	North Doha	2017
Place Vendome	Lusail	2017
Marina Mall	Lusail	2018

RETAIL MARKET OVERVIEW





SOURCE & REFERENCE

- DTZ
- STR GLOBAL
- MINISTRY OF DEVELOPMENT PLANNING & STATISTICS
- TRADING ECONOMICS
- EURO MONITOR INTERNATIONAL

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Thank You…!