Qatar real estate rental index

Real estate rental movements

Q1 2024

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KPMG in Qatar

Introduction

KPMG in Qatar is pleased to release the Q1 2024 'Real Estate Rental Index', which tracks quarterly changes in the real estate rental market covering three core indices:

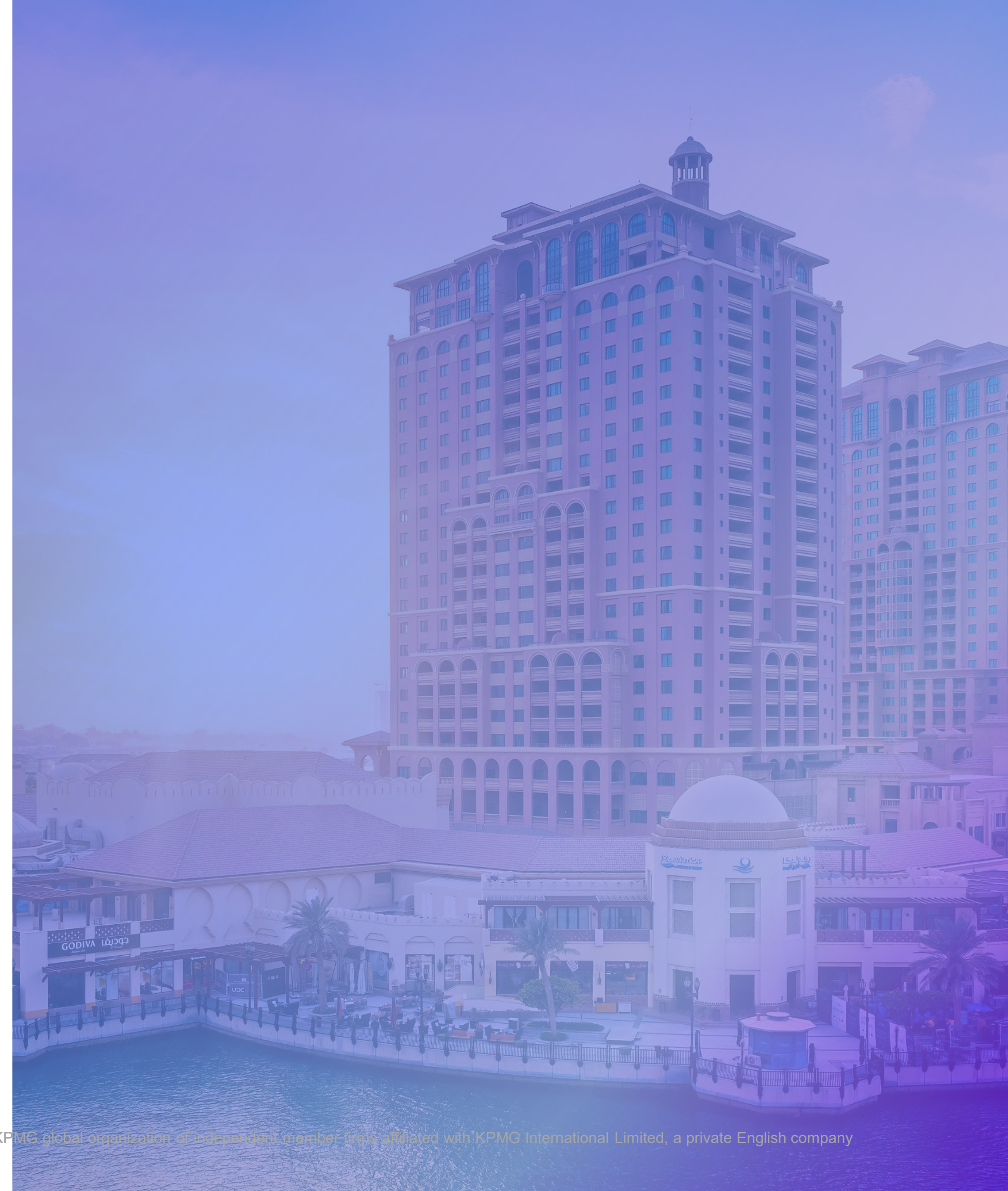
- KPMG Office Rental Index (K-ORI)
- KPMG Residential Rental Index (K-RRI)
- KPMG Mall Rental Index (K-MRI)

These indices have been developed using KPMG's internal real estate rental database and our in-depth understanding of the Qatar real estate market. The base quarter for the indices is Q1 2016 = 100 and this includes rental data collated and analyzed from more than 100 representative investable grade income generating real estate developments in Qatar.

KPMG Office Rental Index (K-ORI) derives its value from more than 50 investable grade office developments across the commercial districts of Qatar.

KPMG Residential Rental Index (K-RRI) derives its value from more than 30,000+ residential villas and apartments distributed across high, mid and affordable residential developments across Qatar.

KPMG Mall Rental Index (K-MRI) derives its value from 20+ malls (greater than 10,000 sqm of leasable area with multiple occupiers) across key municipalities in Qatar.



Foreword: Stability in investable grade asset categories

Sayantan Pande
Director
Head – Infrastructure, Financing & Real Estate Advisory
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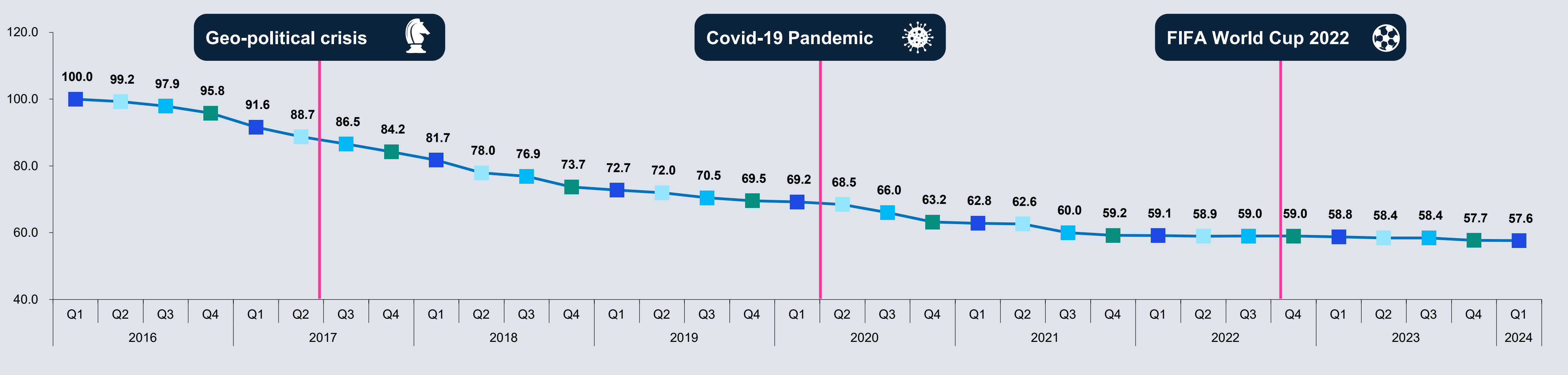
"We have observed a stabilization trend across investable grade residential, commercial, and retail mall asset categories over the past few quarters. The following insights are crucial for landlords, developers, asset managers, and investors.

- **Incremental Y-O-Y Supply Pressure** against market demand has been rationalized, resulting in limited downward pressure on current rental yields.
- **Integration of Value Added Services (VAS) for the purpose of sustainable pricing** competing solely on price point is not sustainable going forward. Hence, incorporating VAS is essential to enhance the attractiveness of offerings, thereby increasing potential rental yields in the near to mid term.
- **Strategic Asset Management** asset management strategies need to be designed or revisited in greater depth with sub-segment level customization, focusing on:
  - **Occupiers Type and Grade**
  - **Offering Type Basis VAS Integration**
  - **Fresh vs. Renewal Leasing Strategy**
  - **Price Differentiation at Sub-Segment Level** while integrating VAS bundling impact and contract tenor variance in commercial considerations.
  - **Holistic Technology Adoption for Performance Maximization.**

These strategies and insights are pivotal for navigating the evolving market landscape and optimizing asset performance."

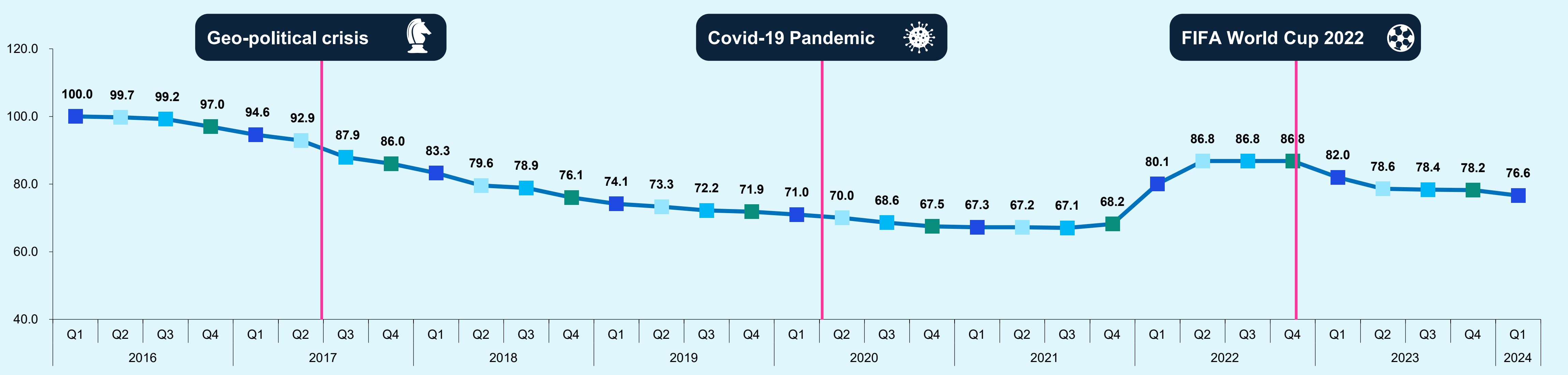
KPMG Office Rental Index (K-ORI)



Office Rental Impact – Low to Moderate

- On top of the 1 percent decline during first two quarters (Q1 and Q2) of 2023, the rental index for the investable grade commercial offices experienced a further decline of 1.3 percent during Q3 and Q4 2023. The first quarter of 2024 has also depicted a similar trend i.e. a decline of 2.0 percent compared to the same period last year (Q1 of 2023).
- Decline in the rental index up to Q1 2024 is primarily attributed towards the ongoing adjustment in rental rates across the Business Districts. Peripheral Business District (PBD) observed double digit decline in rental rates percentage as compared to Q4 2023, while offices in the Central Business District (CBD) & Secondary Business District (SBD) have sustained the momentum observed in Q4 2023 i.e. the reflection of stability.
- As additional office developments have been completed recently, particularly in micro market like Lusail, West Bay & Al Wakra, we anticipate the sense of stability in the index will persist in near to mid term. Additionally, government’s consistent effort to stimulate the private sector and the introduction of the 100 percent foreign ownership law are expected to act as a positive catalyst to potentially alleviate the sector performance in the mid to long term.
- As per our interactions with the industry stakeholders, demand for the high quality investable grade offices has been stable against the incremental y-o-y supply thereby resulting a reasonably stable near term outlook.

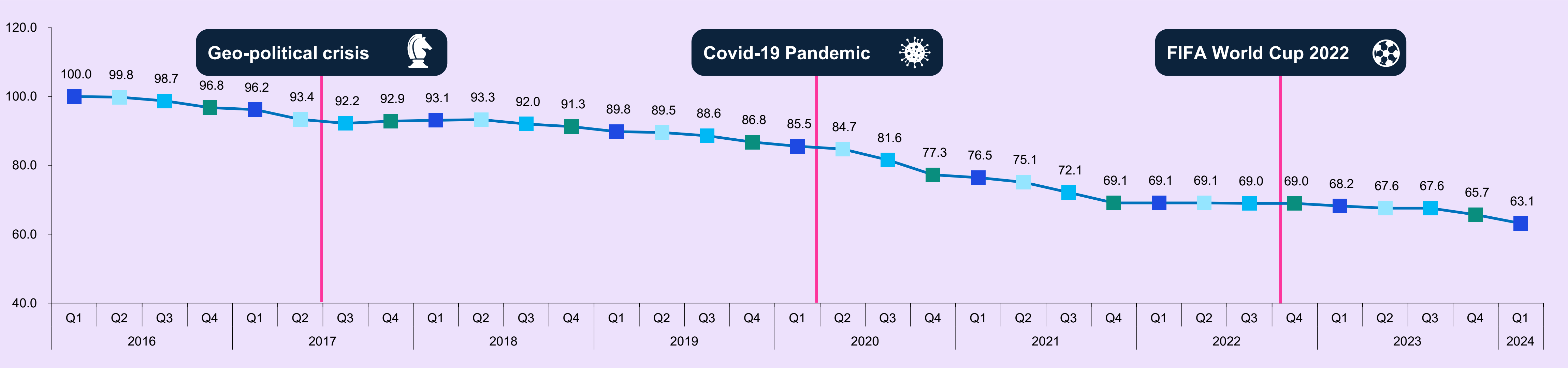
KPMG Residential Rental Index (K-RRI)



Residential Rental Impact - Moderate

- Contrary to expectations of a substantial decline in residential rentals segment post the World Cup event, there was minimal evidence of rent reductions during the last three quarters of 2023 reflecting higher stability in the market. Residential rentals have been predominantly stable with marginal drop in current quarter.
- Residential rental index have experienced a decline of 9.4 percent during the first two quarters of 2023. The last two quarter of 2023 also experienced a further decline of 0.5 percent. First quarter of 2024 also experienced a decline of 6.5 percent compared to the same period last year (Q1 of 2023).
- Decline in the rental index observed in Q1 2024 is mainly from ongoing adjustment in rental rates for the affordable category residential areas such as Al Wakra, Al Wukair, Al Thumama and Mesaimeer where there was a 13.0 percent decline in rental index during the first quarter (Q1) of 2024 compared to the same period last year (Q1 2023).
- As per our interactions with the landlords/developers and real estate agents, it has been observed that incentives, such as rent-free periods, have once again been extended to tenants for both new as well as renewed contracts.

KPMG Mall Rental Index (K-MRI)



Mall Rental Impact – Moderate to High

- Organized retail mall rental index experienced marginal drop of 2 percent over the first two quarters of 2023. Similarly, the last two quarters of 2023 also experienced a decline of 2.8 percent. The first quarter of 2024 also experienced a decline of 7.4 percent compared to the same period last year (Q1 of 2023).
- Over the past five years, the retail landscape has witnessed a notable shift, largely due to the growing influx of new retail spaces into the market. This surge in supply has had a significant influence on retail rental rates.
- Rentals remain in favor of the retailers, as major developers/mall operators continue to offer incentives such as rent-free periods and extended fit-out periods to attract and retain tenants.
- Based on our interactions with prominent retailers, the retail sector in Qatar has started witnessing matured market commercial arrangement such as revenue-sharing or minimum fixed floor rental, whichever is higher. Such commercial arrangement are beneficial for anchor occupiers considering the market risk being shared with landlord however may impact the projected Net Operating Income (NOI) of the landlord thereby potential increase in pressure on Cash Flow Available for Debt Services (CFADS).

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