Real Insights Qatar

Qatar's real estate sector performance in H1 2018

2018

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Contents

01 Partner’s message

It has been more than a year since the blockade began in Qatar and over this time, businesses have realigned their objectives and priorities to optimize performance based on the ‘new normal’. Undoubtedly, Qatar’s Real Estate market has been affected, given its direct relationship with business sentiments and people flow. KPMG’s Real Estate Index has indicated that there has been a downward trend over the past 10 quarters (with the exception of retail) however, the recent softening of real estate rental and leasing costs is likely to bring down the cost of doing business in Qatar, leading to an overall benefit to the economy.

Typically, real estate markets operate in cycles and the market in Qatar is no exception. Price correction has been a key theme across real estate asset classes over the last few quarters. However, an analysis of the market since 2015 would show that prices and rates are correcting in line with the wider economic cycle rather than it being a permanent decline.

Lower real estate prices and rentals are bringing new opportunities to the market. Property owners and landlords are increasingly presenting attractive offers and incentives to tenants such as rental-free months, free utility bills, better furnishing products and helping tenants with built to suit fit-outs. Additionally, as ownership becomes affordable, investors can be seen taking advantage of the reduced property prices and focusing more on long-term capital gains.

> The real estate market in Qatar is currently going through a correction phase, making it a good time to buy or rent for the medium- to long-term"

Venkat Krishnaswamy
Partner, Advisory
KPMG in Qatar

In addition to this, a series of Government decisions to support the sector such as the introduction of new draft law for foreign real estate ownership, is expected to have a positive impact on the real estate sector. Moreover, lower property prices and rentals can also be seen as an opportunity as it reduces the overall cost of doing business in Qatar, which could possibly improve wider market sentiment in Qatar.

The improvements in Doha's connectivity to other satellite towns and industrial cities like Al Khor and Dukhan, along with the Government's investment in developing healthcare, tourism, education and manufacturing is helping create further economic momentum.

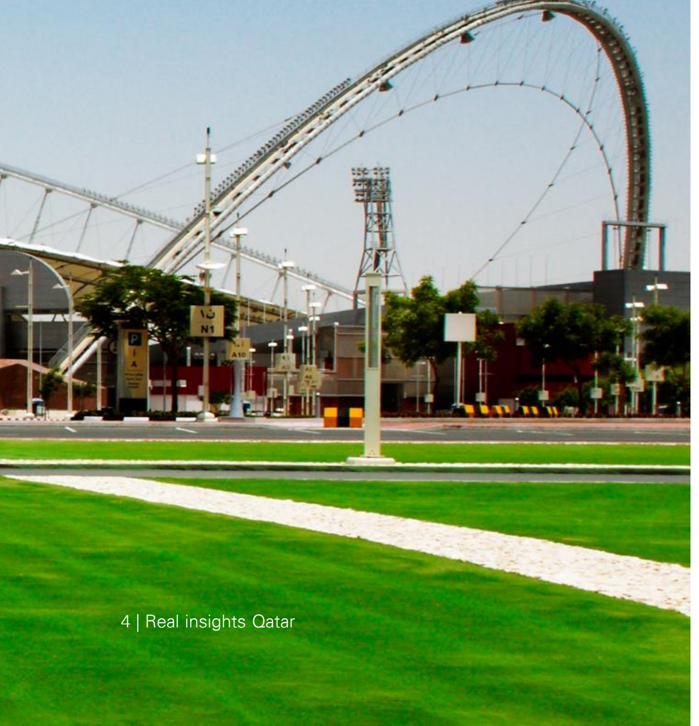
In this briefing – Real Insights Qatar, we have shared our observations on all aspects of Qatar's Real Estate market and drawn on market performance in H1 2018. We are also pleased to include our Real Estate Rental Index, which tracks the quarterly changes in the rental market covering three core real estate asset categories: office, residential and retail.

We hope that our regular updates will assist in making this sector more transparent and enable industry stakeholders take more informed decisions.

We welcome your feedback and the opportunity to discuss the contents of this edition and any other enquiries you may have about the sector, the market or our services.

Best wishes,

Venkat Krishnaswamy



02 What does VAT mean for the Real Estate and Construction sector in Qatar?

It is expected that in early 2019, Qatar will introduce a broad value-added tax (VAT) at a standard rate of 5%, according to the Gulf Cooperation Council VAT Framework (GCC Framework).

All businesses in Qatar will be affected by the introduction of VAT and for the real estate and construction (RE&C) sector, there are a variety of factors to consider, which will affect different parts of the business.

In this article, we have identified a number of considerations that businesses across the sector will have to make. Later, we have separated our analysis into two distinct categories; the supply of real estate and the construction of real estate properties.

Barbara Henzen
Partner,
Tax and Corporate Services
KPMG in Qatar

How will VAT be applied to the Real Estate and Construction sector?

General principle of VAT

Businesses can be required to pay VAT on goods and services (known as supplies) they procure (input VAT), and have to collect VAT from customers on supplies they deliver (output VAT). The collected output VAT has to be paid to the government.

In general, governments allow businesses to recover the input VAT they pay (usually by offsetting it against the output VAT that they collect).

Output VAT	**VAT charged on sale of goods and services**
–	
Input VAT	**VAT paid when procuring taxable supplies**
=	
Net tax	**Output VAT – Input VAT**

VAT legislation usually applies one of three treatments to the supply of goods and services:

- standard rate – in the GCC this is set at 5 percent
- zero-rate – output VAT is charged at zero percent and input VAT can be recovered against this
- exempt – no output VAT is charged and input VAT cannot be recovered.

For the Real Estate and Construction sectors, the GCC Framework agreement permits member states to decide which VAT treatment should be used.

The VAT treatment for the Real Estate sector varies around the world and includes:

- exemptions for most real estate transactions (usually combined with the option to tax)
- a combination of exemptions and charging for some transactions
- zero-rating certain supplies of land and/or residential property.

GCC countries which have already introduced VAT tax commercial real estate transactions at standard rate and exempt some residential real estate transactions.

Input tax recovery

Any non-recoverable input VAT constitutes a financial cost for real estate companies, which needs to be taken into consideration when pricing supplies (e.g. for the sale or rent of real estate). Many real estate businesses will likely sell taxable supplies (which allow input VAT recovery) and exempt supplies (which do not allow input VAT recovery). Since it is often not possible to clearly allocate expenditures to one particular activity, this can complicate how input VAT can be recovered.

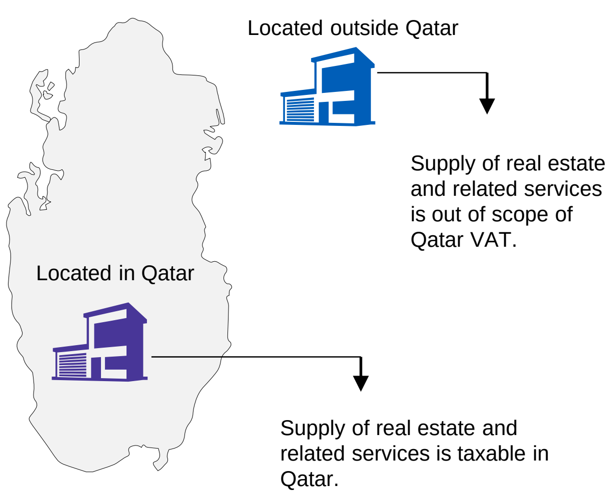
Input VAT incurred for		
Taxable supplies	Mixed supplies	Exempt supplies
Recoverable	Partially recoverable	Not recoverable

Place of supply of real estate and related services

Understanding where transactions take place (the place of supply) is crucial to ensuring that the correct VAT treatment is applied.

The GCC Framework agreement explicitly states that the place of supply for real estate transactions and related services will be where the real estate is located. Real estate related transactions are defined as services closely related to real estate.

This means that real estate transactions, and any services closely related to real estate, located outside of Qatar will be out of the scope of VAT in Qatar.



Key considerations for the real estate and construction sector

Long-term contracts
Long-term contracts are very common in the Real Estate sector. As a result, many construction companies and real estate owners in Qatar have entered long-term arrangements or leased their real estate properties with contracts which do not consider the potential impact of VAT. This could have a negative impact on businesses, leading to decreasing margins for the supplier or non-recoverable input VAT. Generally, tax authorities provide a grace period once VAT is implemented, allowing businesses to communicate with their vendors and customers about the impact on their contracts and take remedial action, if appropriate.

Tax exemptions for specific customers
Many construction companies and real estate owners supply goods or services to organizations, which could be exempt from paying VAT (such as government bodies and charities). It is likely that the Qatar Tax Department (QTD) will publish a list of exempt organizations and it is important that suppliers check this regularly to identify any customers who are exempt.

Sale or rent of real estate
Based on VAT laws in other GCC countries, it is likely that some supplies of residential real estate will be VAT exempt (or zero-rated) and that most commercial real estate will be taxable. Businesses will need to carry out a detailed analysis of the law to ensure that their properties are categorized correctly, as this is likely to impact how VAT is applied. Globally, properties are categorized based on certain principles, including but not limited to; parties involved in the transaction, use of property, duration of stay, contract requirements and additional services.

As the sale or lease of residential real estate will likely be exempt, this can complicate how and if input VAT can be recovered. This will be particularly complex for real estate which is classed as both residential and commercial, or if its use is likely to change over time (e.g. residential real estate which becomes used for commercial purposes).

Rent-free periods
As an incentive, many landlords in Qatar offer discounts on contracts in the form of rent-free periods. This is likely to be impacted by VAT, which will have to be considered separately from standard rent payments.

Owners associations
Often, landlords who own apartments in the same building agree to form an association to manage cleaning, maintenance, security and other communal activities. Although these associations do not generally have a legal status, there could be some form of VAT registration necessary as goods and/or services may be procured jointly.

Real estate related services
The GCC Framework references 'real estate related services', without defining their respective VAT treatments. It will be important for service providers and users to identify each service separately, since the VAT impact can differ.

Distinction of supplies
It is essential for businesses to distinguish between construction services (which, generally, will be taxable) and the sale of real estate (in which case, residential property is exempt). Globally, the distinction often depends on who the owner of the land was when the contract was established.

Volume of transactions
The construction sector is known for purchasing and providing a high volume of supplies. The application and impacts of VAT on the sector will vary considerably, depending on the activity being carried out, and at what point in the process output VAT will have to be paid and input VAT can be recovered.

Cross-border transactions
Many businesses in the construction sector in Qatar export supplies to, and import supplies from other countries, which can require complex VAT treatment. It is therefore important for businesses to fully understand the VAT impact on imports and exports to ensure efficiency and avoid tax penalties.

Retention fees
Most construction companies in Qatar have a 'retention fee' clause in their contracts with customers and suppliers. This means that a portion of the due payment is withheld until the agreed-upon services are completed. Once completed, the fee is released to the supplier. The VAT treatment of retention fees needs to be assessed separately to the remuneration for the goods or services provided.

Progress payments
Progress payments are regularly included in contracts, releasing partial payments for goods and services periodically. Depending the nature of transactions, it will have impacts on the determination of tax due date for the respective transactions in relation to progress payments.

Disbursements
Disbursements allow businesses to make payments (e.g. utility bills, state fees, courier fees) to a vendor on their customer's behalf. These are widely used by construction companies, who are required to keep records of these transactions. In global practice, disbursements are not classed as supplies for VAT purposes.

03

Market highlights

Although the real estate sector may be going through challenging times in the short-term, the various measures taken by the government such as ease on visa requirements, proposed modifications in exit permit regulations, investment pushes (particularly in the manufacturing and services sectors) should assist the sector and the wider economy in a positive way. We may start witnessing its impact on the real estate sector by H1 2019."

Anurag Gupta
Head – Real Estate Advisory and Valuations
Director, Advisory
KPMG in Qatar

Commercial office

— Prime commercial office space has witnessed a dip in rentals by an average of 10 percent in H1 2018.
— The average occupancy for the central business district has declined from 70 percent in 2017 to 55 percent in H1 2018. While secondary business districts exhibited a decline of 5 percent in overall occupancy levels and is averaged at 65 percent in H1 2018.

Residential

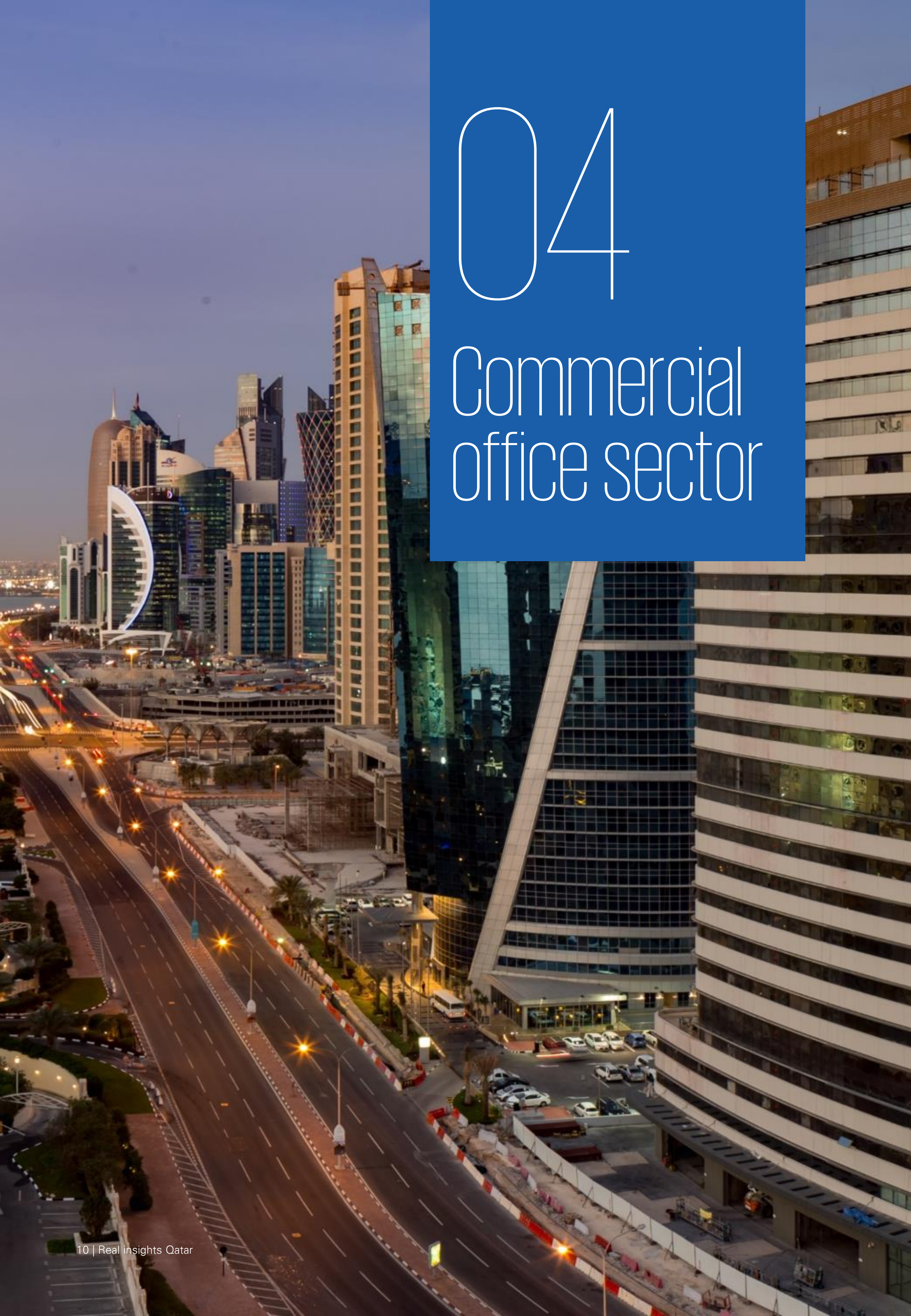
— The median asking rental rates for residential apartments and villas have experienced an overall fall of nearly 15 percent in H1 2018.
— H1 2018 saw the addition of approximately 7,000 residential units, with about 65 percent of the supply being apartments and the remainder compound and standalone villa units.

Retail

— Average rentals for established retail developments in Qatar are in the range of QAR 240 to QAR 300 per sqm per month. Rentals for smaller organized formats are lower and range between QAR 160 to QAR 220 per sqm per month.
— Overall occupancy for the organized retail segment in Qatar continues to be stable and averages at 80 percent.

Hospitality

— Average room rates (ARR) continued to experience decline across all hotels and hotel apartments and is averaged at QAR391 in H1 2018 compared to QAR464 in H1 2017, representing a decline of 15 percent.
— Overall occupancy declined to 60 percent in H1 2018 from 65 percent in H1 2017.



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Commercial office sector

Last year was challenging for Qatar's commercial office market. The surge in the supply of quality commercial spaces, with lower absorption, has affected overall occupancy levels. In addition, existing tenants are increasingly looking to consolidate their office footprint, which has led to property owners offering incentives such as rent-free periods of 2 to 6 months to attract and retain tenants. As a result, commercial office rentals in Qatar have continued to experience decline. According to KPMG's – Office Rental Index (K-ORI), the overall office rentals in Qatar witnessed a further drop from 81.7 index points in Q1 2018 to 78.0 index points in Q2 2018.

As of H1 2018, total leasable office supply in Qatar is estimated to be approximately 4.60 million sqm, of which approximately 50 percent of the cumulative office stock falls under the Grade A category. In addition, approximately 410,000 sqm of new commercial office space is likely to come online by the end of 2019, most notably in Lusail's Marina District, Energy City, West Bay, and Msheireb Downtown Doha.

H1 2018 saw an increase of approximately 160,000 sqm of commercial office space, mostly in the form of Grade B office developments reaching completion in areas such as Salwa Road, Fereej Bin Mahmoud, Al Muntazah and Al Mansoura. West Bay added approximately 25,000 sqm of commercial office space at the beginning of Q1 2018, while Energy City in Lusail saw two new Grade A commercial office projects being released to the market.

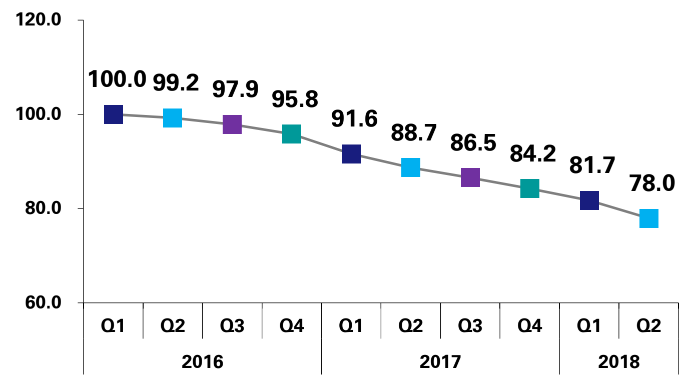
Central business district

West Bay, the prime commercial hub of Doha, continues to see an increase in the supply of Grade A office spaces. During H1 2018, Regency Group Holding completed the construction of Administrative Tower at West Bay. The project is a mixed-use development comprising of 32 floors and offers approximately 25,000 sqm of commercial office space.

As of H1 2018, occupancy across the West Bay micro-market averaged at 55 percent, with available vacant stock in excess of 600,000 sqm.

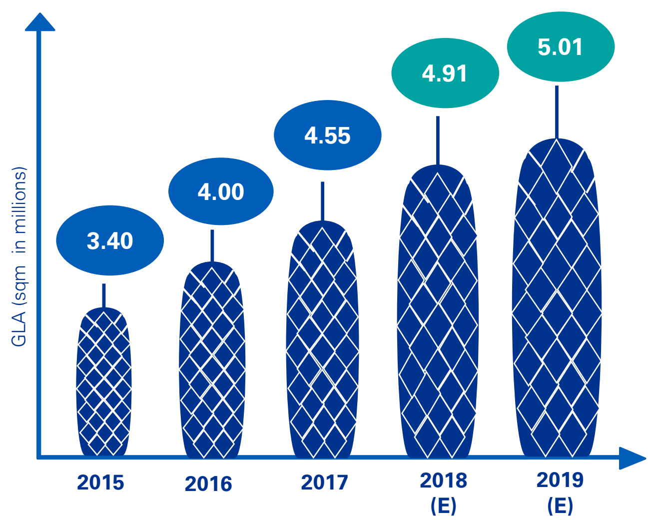
KPMG - Office Rental Index (K-ORI)

(Base: Q1 2016 = 100)



Source: KPMG Market Research and Assessment

Estimated current stock and future supply (2015 – 2019)



Source: KPMG Market Research and Assessment

Office sector median rental trends (H1 2018)

Source: KPMG Market Research and Assessment

Median office rentals in the West Bay micro-market range from QAR 120 to 140 per sqm per month for larger units and QAR 150 to 170 for smaller units.

Msheireb Downtown Doha project, considered as the world's first sustainable downtown regeneration project, is almost 88 percent complete and expected to be ready by 2020. The development will feature around 17 commercial buildings and up to 193,000 sqm of commercial office space.

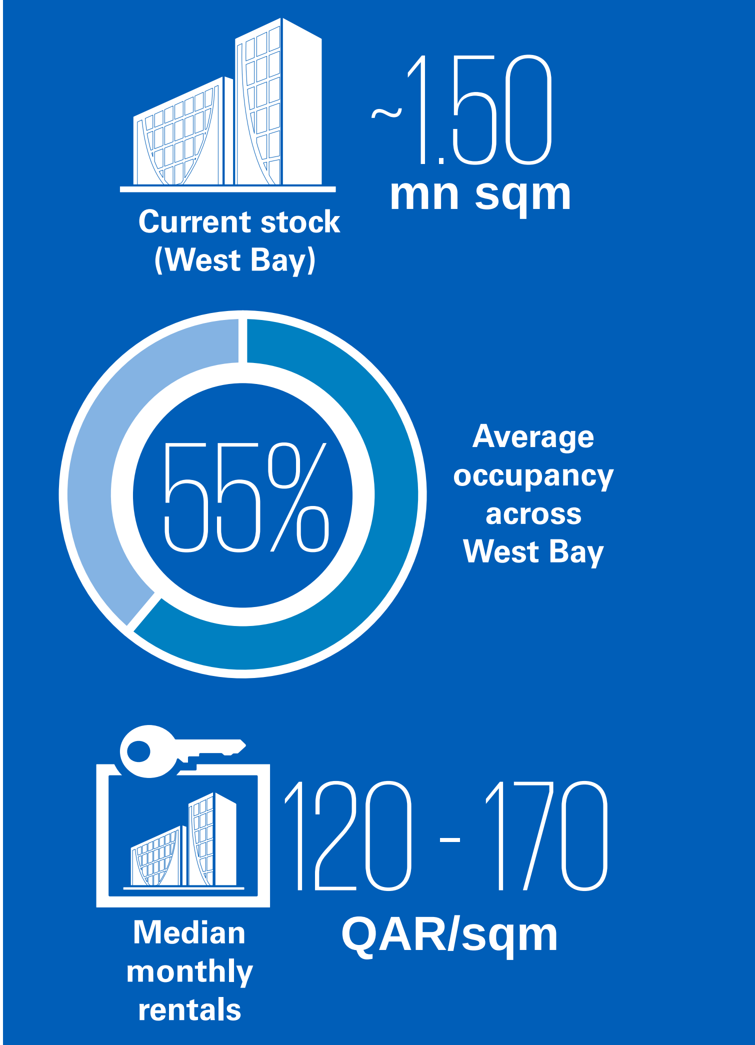
On the leasing front, there has been news that Qatar Financial Centre (QFC) is planning to move a part of its business to Msheireb Downtown Doha. Along with QFC, other brands such as Novo Cinemas and Al Meera have also revealed plans to relocate their corporate offices to Msheireb Downtown Doha.

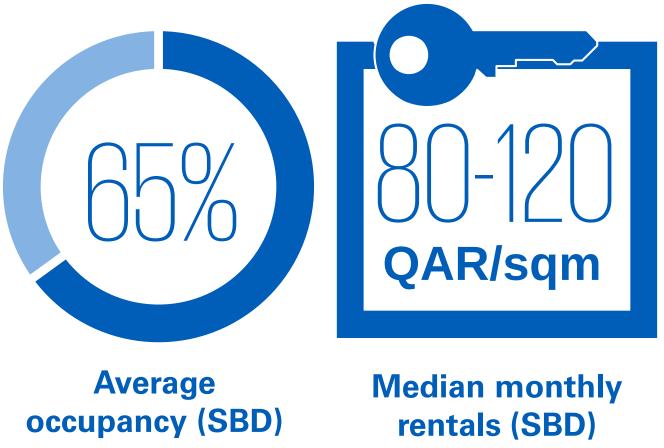
Secondary business districts

Qatar's secondary business districts, including B-Ring Road, C-Ring Road, Old Salata, Fereej Bin Mahmoud, Al Mansoura, Al Muntazah and Salwa Road, experienced an increase in supply of approximately 70,000 sqm, largely in the form of multi-tenant buildings offering office space for small to medium unit sizes, along with the option to lease entire buildings.

Occupancy levels in secondary business districts, such as Old Salata, Al Sadd, C and D Ring Roads and Salwa Road averaged at approximately 65 percent. However, with reduced demand from new occupiers, rentals in these areas have appeared to be softening with a decline of 10 percent in H1 2018.

As per our research, a majority of recent office leasing transactions reflect monthly rentals from QAR 80 to QAR 120 per sqm per month, along with attractive incentives of rent-free periods ranging between 3 to 6 months.





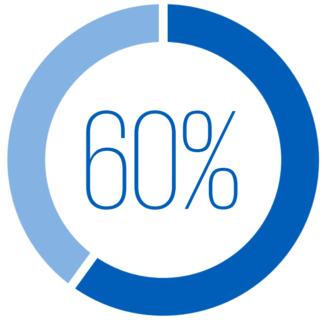
Peripheral business districts

Recent building completions in Lusail's Marina District have increased the overall office supply to more than 260,000 sqm, with occupancy levels averaging between 45 to 50 percent, and rentals in the range of QAR80 to QAR 130 per sqm per month. Around 1.30 million sqm of new office supply is expected to appear online in Lusail over the next decade, out of which approximately 100,000 sqm is in the pipeline for H2 2018. The majority of developments are planned in Energy City and Marina District.

Al Wakra, predominantly a Grade B commercial office location offering a combination of retail and commercial office spaces of smaller floor plates has witnessed a drop in the overall rentals by around 10 percent during H1 2018. Asking rentals are in the range of QAR 80 to QAR 90 per sqm per month with overall occupancy estimated to be at 70 percent.

Key takeaway

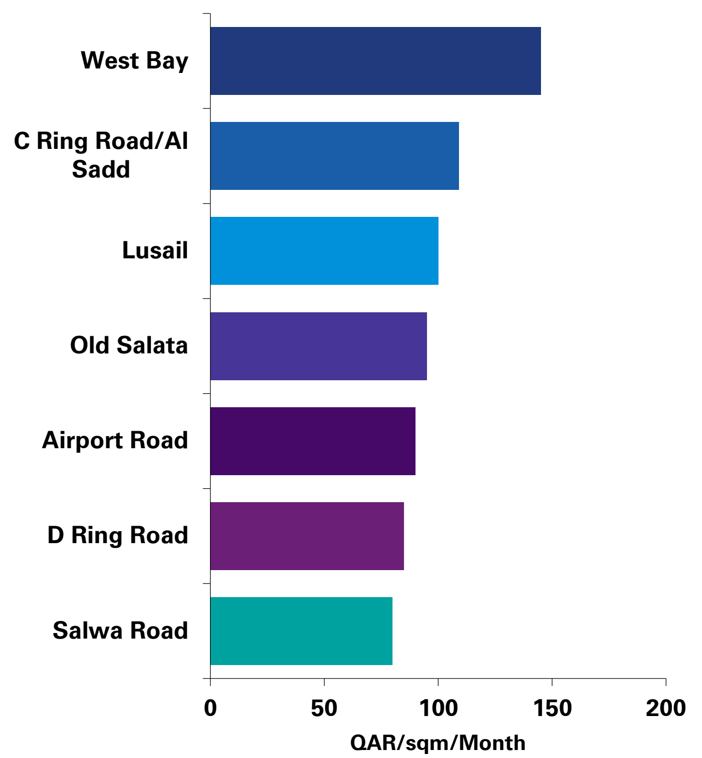
Lower than expected levels of office supply were delivered during H1 2018, which could be attributed to delays in construction. Market conditions have led to the double-digit decline in office rentals, which has led some developers to reconsider or postpone their plans. Demand from new occupiers has slowed down with some existing occupiers looking to consolidate their office footprint. Demand for small office spaces at attractive price points continue especially in the suburbs.



Average occupancy (PBD)

Average monthly rentals (PBD)

Median asking rentals for prime office districts



Source: KPMG Market Research and Assessment

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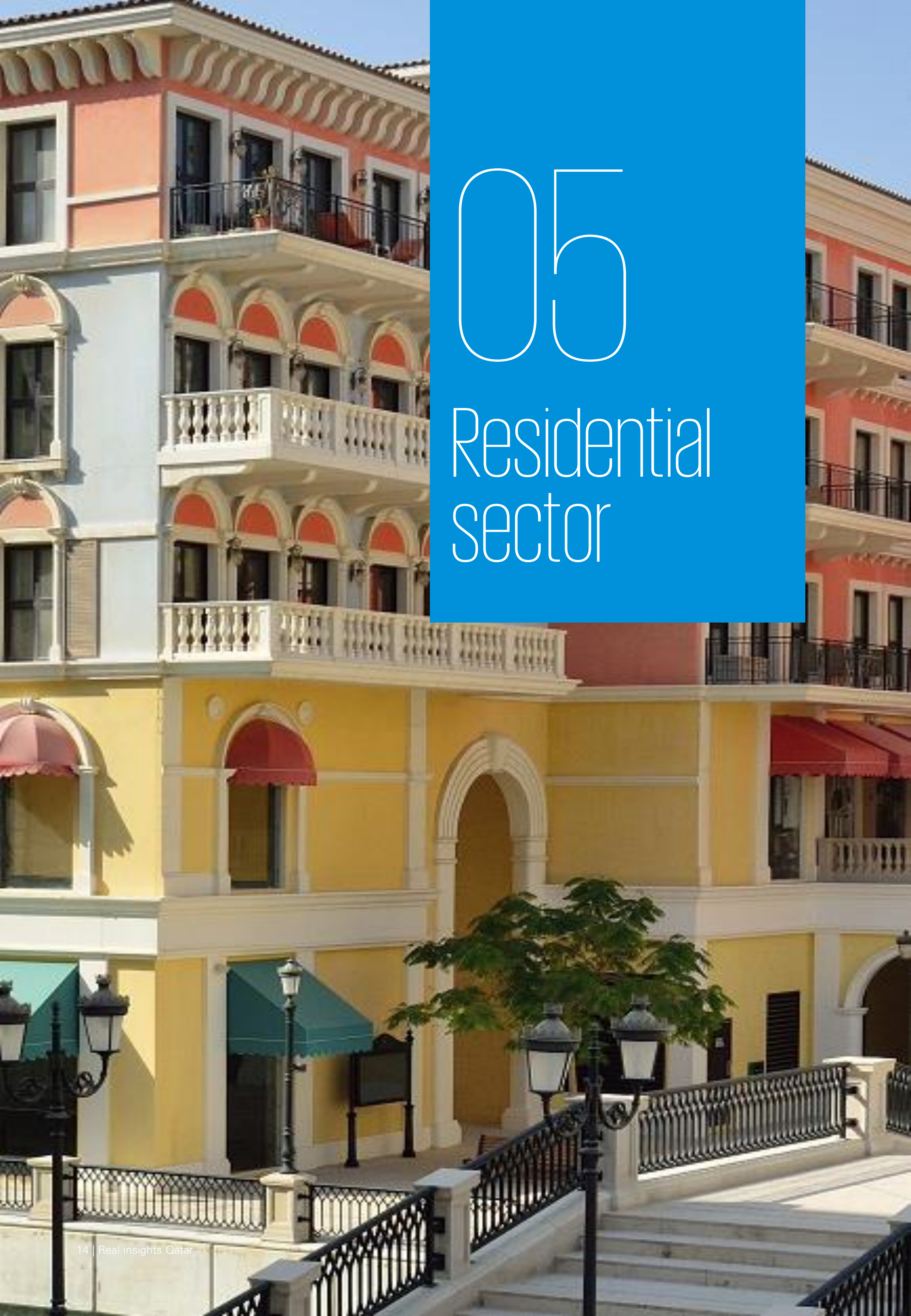
Residential sector



The first quarter of 2018 witnessed the KPMG – Residential Rental Index (K-RRI) falling by 2.7 index points from 86.0 and Q2 2018 saw a further decline by 3.7 index points reaching 79.6. With 8,000 additional units estimated to hit the market by the end of 2018, along with limited growth in population levels, both occupancy and rentals may continue to remain under pressure.

Residential supply

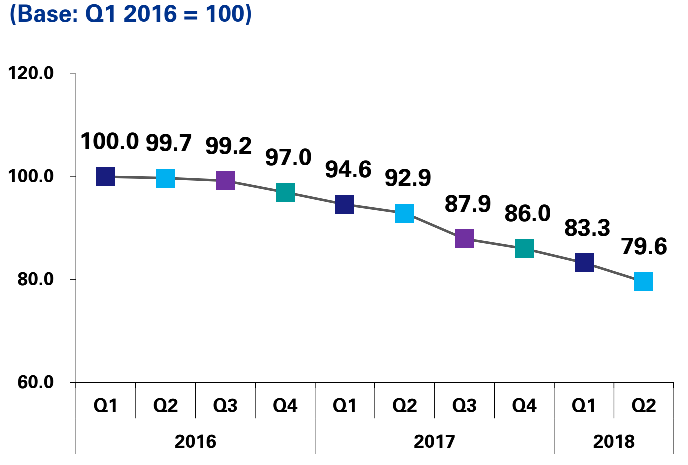
H1 2018 experienced an addition of approximately 7,000 residential units, with about 65 percent of the supply being apartments and the remainder compound and standalone villa units. A majority of the new residential projects were concentrated in areas including Lusail, The Pearl, Al Wakra, Al Khor, Ain Khalid, West Bay Lagoon and central parts of Doha.

One of the prime launches of H1 2018 was the addition of The Regency Pearl 3 Tower, located in the Viva Bahriya district of The Pearl-Qatar. The project comprises of 20 floors and offers 253 unfurnished units of varying sizes. In addition to this, a number of new residential apartment projects primarily catering to mid-income housing segment reached completion in areas such as Bin Mahmoud, Najma, Al Sadd and Lusail. Areas such as Al Mammoura, Umm Salal, Ain Khalid, West bay Lagoon and Al Wajba reinforced the supply of residential villas with the completion of several villa compound projects during H1 2018.

Major announcements

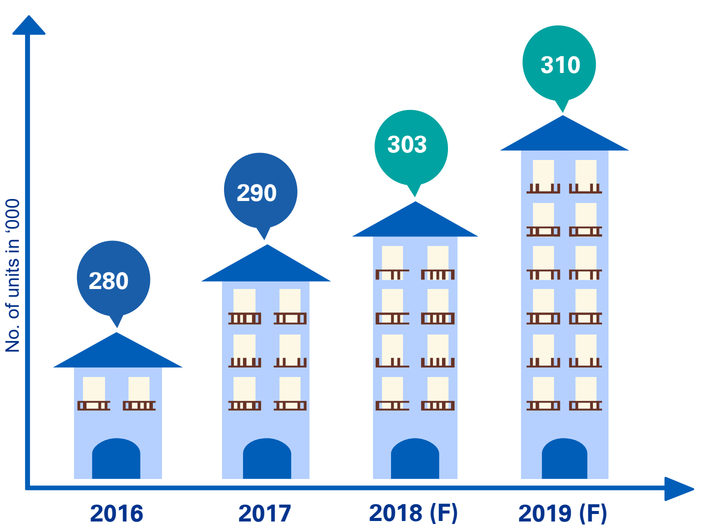
In H1 2018, United Development Company (UDC) unveiled its next mega-project, Gewan Island. The Gewan development is part of the UDC's 5-year QAR 5.5 billion growth and investment strategy, of which approximately QAR 2.5 billion will be invested into Gewan Island. The island is situated next to The Pearl-Qatar and spans 400,000sqm, with a total built-up area of 388,000sqm. The project is expected to be completed by the end of 2021 and will comprise of 611 units, including 558 apartments, 26 waterfront villas, 21 beachfront villas, and six island villas, along with various other amenities.

KPMG - Residential Rental Index (K-RRI)



Source: KPMG Market Research and Assessment

Qatar residential market (Current stock and future supply*) 2015 – 2018



Source: KPMG Market Research and Assessment

Residential sector median rental trends (H1 2018)

Source: KPMG Market Research and Assessment

F - Forecast*

Barwa Real Estate launched the Lusail Land Project. Spanning over 3.5 million sqm, the Lusail Land Project is an integrated residential city that will provide 15,000 housing units to accommodate more than 40,000 people, with full service facilities and vast green spaces of up to one million square meters.

Al Asmakh Real Estate Development Company is expected to release their Lusail 1 project to the market by Q4 2018. Located in Lusail City, the project consists of 110 housing units with a bedroom and lounge area and includes attractive features and advanced services with the latest technology.

The Beverly Hills Lusail project, which is the largest residential complex in Lusail with a 115,000sqm entertainment area is expected to be completed in H2 2018 and available for leasing in Q1 2019. The project consists of 114 villas, in addition to 20 residential buildings comprising of 320 housing units.

Msheireb Properties also announced the launch of their first residential tower with 72 apartments, 'Wadi One,' which is expected to be ready by the end of this year.

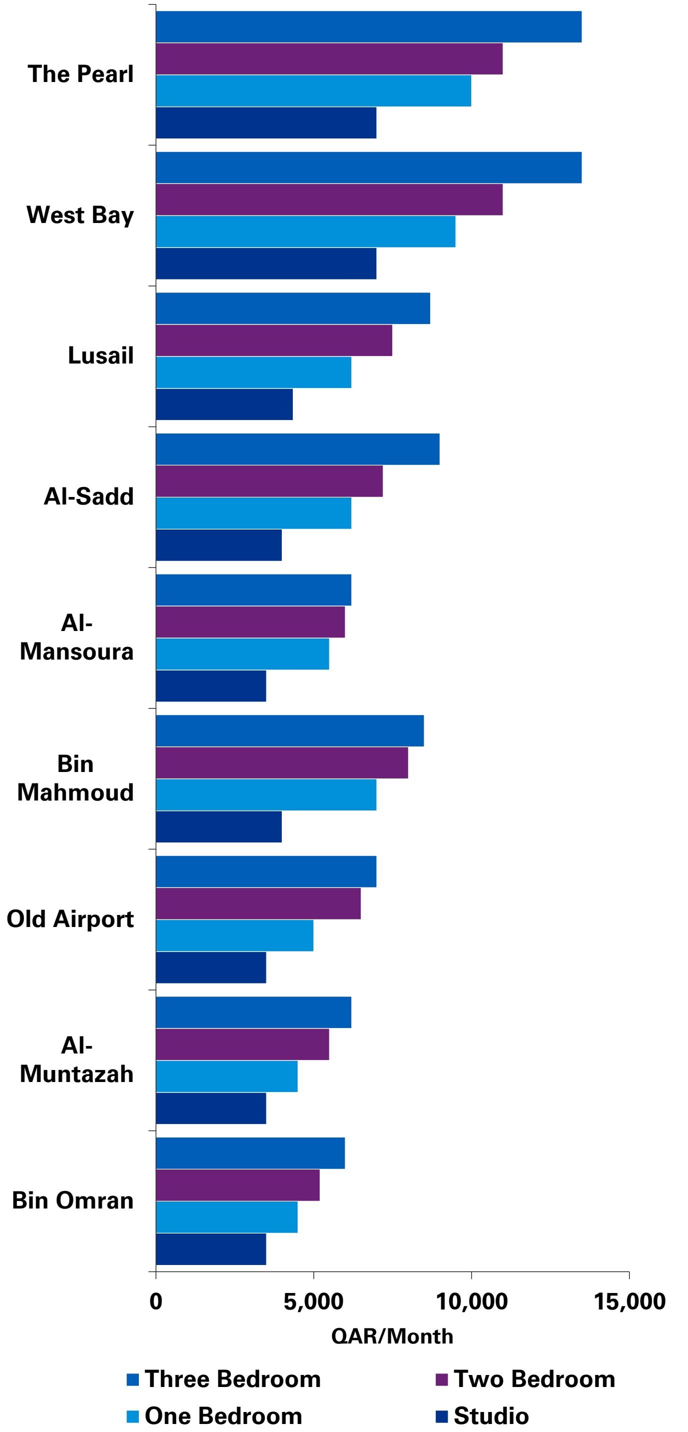
Rental trends

Average rental prices for residential properties in Qatar declined by approximately 10 percent in H1 2018. This was largely a result of declining household population, coupled with a significant increase in the supply of residential housing units.

A substantial reduction in new demand for housing has resulted in rising vacancy levels, especially in the prime residential markets of Qatar. Residential markets catering primarily to the high-end residential housing demand, such as West Bay, The Pearl, West Bay Lagoon, Al Waab, Al Baaya and Abu Hamour, witnessed considerable decline in the overall asking rentals by approximately 20 percent in H1 2018.

The popular mid-income housing areas of Central Doha such as Al Sadd, Al Hilal, Old Airport, Al Mansoura, Al Muntazah, Najma, Umm Ghuwailina and Legatifiya experienced a marginal fall in asking rentals by about 15 percent and appear to be stabilizing.

Median asking rentals for apartments



Source: KPMG Market Research and Assessment

While the affordable housing areas, primarily catering to the demand of low to mid-income housing segments such as Al Wakra, Muaither and Al Aziziya, continue to experience stable rental levels continuing the trend witnessed during Q4 2017.

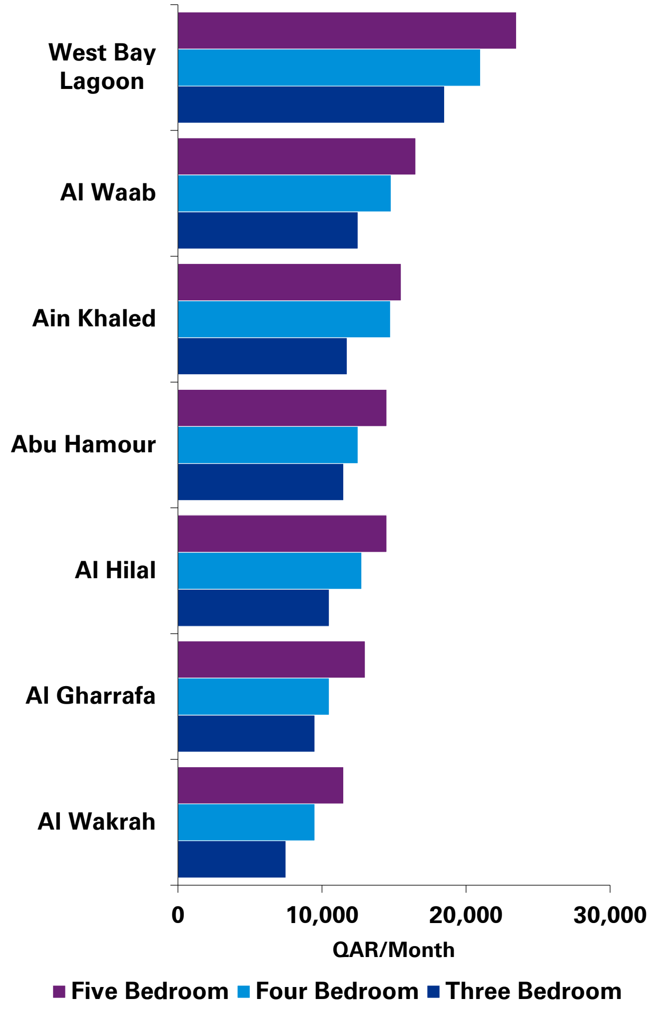
Major transactions

Transaction activity for the residential sector remains robust compared to all other asset categories. In H1 2018, there were a number of large transactions that were noted. A residential tower built on a plot area of 7,014 sqm offering approx. 190 – 200 units was sold in The Pearl Qatar at a price of QAR 475 million.

Key takeaway

In terms of residential performance, rents and sale prices in places such as The Pearl, West Bay, West Bay Lagoon, Al Waab and Al Baaya continue to soften, and at a faster rate for villas. Residential developers can be increasingly seen offering attractive incentives with competitive prices, owing to increased supply and reduced demand. Most of the residential developers remain committed to expanding in the price sensitive midscale segment, owing to relatively better demand with stabilizing rentals as witnessed during H1 2018.

Median asking rentals for villas



Source: KPMG Market Research and Assessment

06 Retail sector

The retail market in Qatar continues to witness a constant influx of both small and large malls. According to our research, the total cumulative retail stock in Doha is estimated to be approximately 2.80 million sqm (including malls and other retail formats, such as traditional souqs, high-street, stand-alone retail outlets). As per KPMG – Mall Retail Index (K-MRI), there has been a marginal increase in the trend from 92.9 as noted in Q4 2017 to 93.3 in Q2 2018, which is in line with Q2 2017. This increase is primarily due to the current leasing activity in the newly launched malls that are witnessing active demand for retail space.

Supply scenario

Approximately 0.90 million sqm of organized retail space is estimated to be in the pipeline and likely to be introduced to the market over the next 2 to 3 years, of which approximately 0.22 million sqm of organized retail space is expected to come online by the end of 2018.

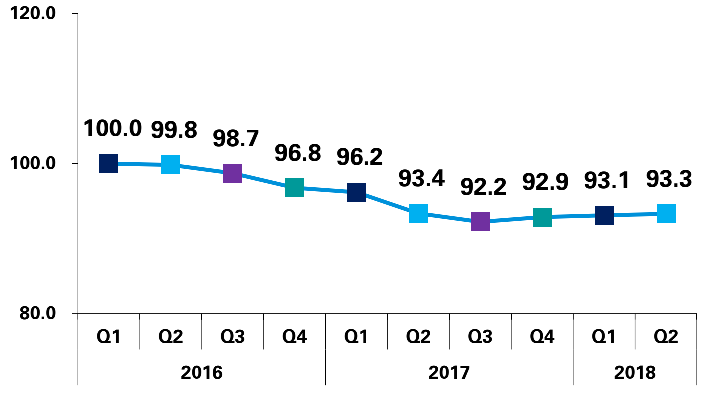
H1 2018 experienced the official launch of Tawar Mall in Al Duhail, adding approximately 80,000 sqm of leasable area. The mall features more than 300 stores, including a range of luxury retailers, along with a number of food and beverage options.

Another major retail development to appear online was Ali Bin Ali Group's Katara Plaza at Katara Cultural Village. Adding approximately 38,500sqm of leasable area, this mixed-use development features a unique mall for children, and a number of stores, along with office spaces, serviced apartments and a world-class spa facility.

In addition to these, other mega retail developments such as Doha Mall at Abu Hamour and Northgate Mall at Umm Salal are expected to be completed by the end of 2018, which will further increase retail supply in Qatar.

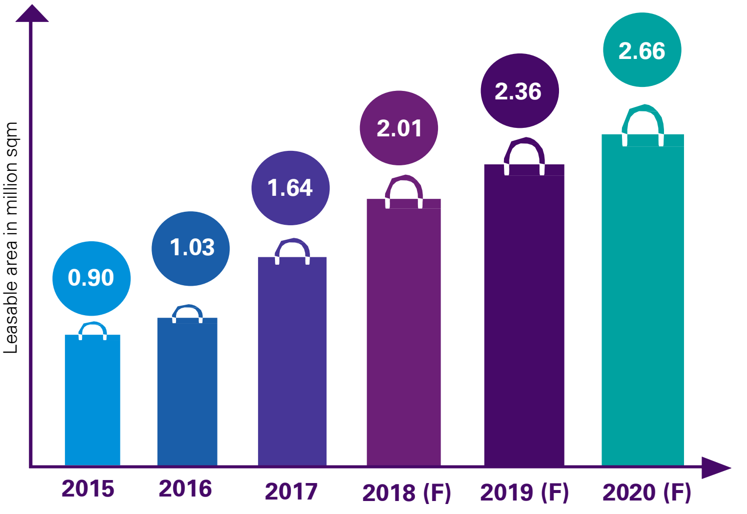
KPMG - Mall Rental Index (K-MRI)

(Base: Q1 2016 = 100)



Source: KPMG Market Research and Assessment

Total organized retail mall supply (2015 – 2020)



Source: KPMG Market Research and Assessment

Retail sector median rental trends (2018)

Source: KPMG Market Research and Assessment

F - Forecast*

Entertainment-centric developments

Doha Festival City opened its much-awaited theme park, offering first-of-its-kind facilities to the residents in Qatar. Based on the iconic Angry Birds game and movie, the Angry Birds theme park features a combination of indoor and outdoor park space, with more than 35 rides spread across an area of 12,000sqm. In addition to this, the entertainment park will also feature Snow Dunes, Virtuocity – a digital gaming arena and Juniverse – world's first city in space is expected to come online by next year.

KidZania, the famous Mexican chain of family indoor entertainment centers, is expected to open its doors during the last quarter of 2018. Located at the heart of Aspire Zone in Doha, this project spreads over 5,500sqm and will provide a unique educational and entertainment experience, offering 42 establishments where children aged between 4-14 years will be able to role play 'adult jobs' in up to 60 pretend roles.

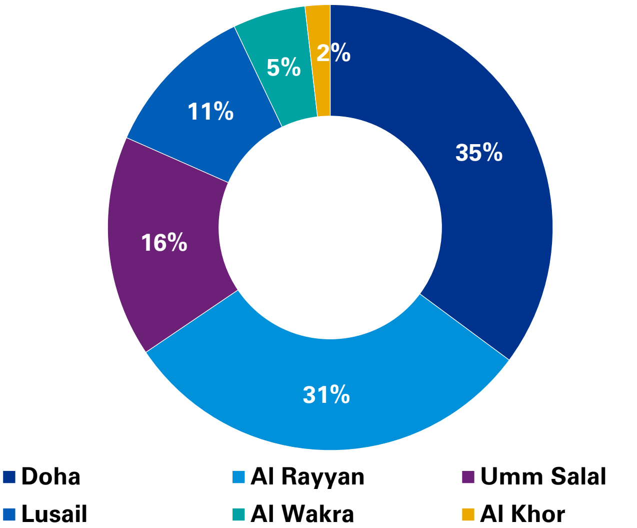
Recent activity

Construction work on the Phase II of the Al Furjan Markets began in Q1 2018. Al Furjan Markets is an initiative led by Qatar Development Bank, which aims to build trading markets on different plots owned by Qatar Government in diverse residential areas. As a part of the second phase, QDB will build 32 markets in remote corners of Qatar, including Muaither South, Umm Qarn, Jerian Jenihat, Kharaitiyat and Al Khor.

Following the successful launch of retail space opportunities at the Red Line Doha Metro stations, Qatar Rail announced the availability of the Green Line retail spaces at the stations between Al Mansoura and Al Riffa (near Rayyan Stadium), offering around 2,150 sqm across 45 units, across eight stations. Based on market interactions, these retail spaces are attracting active demand from retailers and retail investors.

Harvey Nichols opened its first store in partnership with Saleh Al Hamad Al Mana group at Doha Festival City in Qatar. The 80,000sqm store is spread across three floors and features men, women and childrenswear, accessories, beauty and lifestyle products.

Distribution of organized retail malls across municipalities



Source: KPMG Market Research and Assessment

Another entrant is the home improvement and lifestyle store, ACE. Spread across a GLA of 3,690sqm and offering retail space of 2,350sqm, ACE opened its first store in Qatar at Doha Festival City.

Rental trends

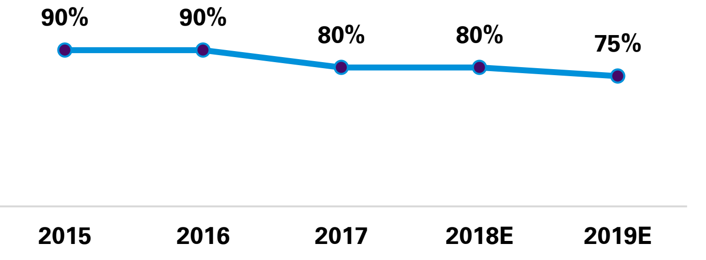
The overall occupancy for the organized retail segment in Qatar currently averages at 80 percent. The average rentals for some of the established retail developments in Qatar such as City Center at West Bay, Landmark in Al Gharaffa, Villaggio in Al Waab, Mall of Qatar in Al Rayyan, Doha Festival City in Umm Salal Mohammed and Lagoona Mall in West Bay Lagoon range between QAR 240 to QAR 300 per sqm per month.

While that of smaller organized formats such as The Mall along the D-Ring Road, Al Sadd Mall and Royal Plaza in Al Sadd, Al Khor Mall in Al Khor, Dar Al Salam Mall in Abu Hamour range between QAR 160 to QAR 220 per sqm per month.

Key takeaway

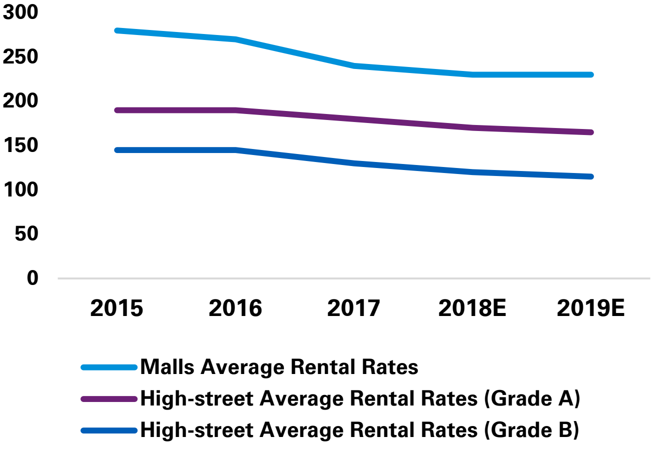
The retail market continues to experience additional supply. After a marginal decline in the performance over Q3 and Q4 2017, retail rentals across the board have started to show signs of improvement with rentals at par with the Q2 2017 figures. There is an increased activity, particularly, in the F&B segment. Many new-age entrepreneurs are combining other options such as sports and entertainment with F&B and are creating unique value propositions.

Average occupancy assessment of retail malls



Source: KPMG Market Research and Assessment

Median retail rentals (QAR per sqm per month of Leasable Area)



Source: KPMG Market Research and Assessment

E - Estimate*

07

Tourism and hospitality sector

Visitor arrivals and passenger movement

According to MDPS, total number of visitor arrivals to Qatar reached nearly 1 million (992,689) by the end of H1 2018, representing a decline of around 7 percent from 1.37 million, as recorded in H1 2017. Hamad International Airport served 16.52 million passengers during H1 2018, of which 8.72 million passengers arrived in Q1 2018 and about 7.8 million passengers in Q2 2018. June has been particularly busy for Qatar's international airport, registering y-o-y growth of 12.56 percent in overall passenger movement.

Concurrently, Qatar is fast emerging as a popular tourist destination for cruise passengers. According to figures released by Mwani Qatar, more than 66,200 cruise passengers came to Qatar during the first 6 months of 2018, which is 42 percent higher than the total cruise passenger arrivals (46,500) as recorded in 2017.

Hospitality sector performance

The hospitality industry in Qatar is rapidly growing. Gearing up to host the 2022 FIFA World Cup, the Government has earmarked approximately QAR62 billion to bolster the nation's tourism sector, which is just a part of the QAR200 billion investment plan.

As per KPMG research, approximately 600 hotel rooms were added during H1 2018, taking the overall stock to approximately 25,800 hotel rooms across 125 hotel establishments, representing approximately 6 percent increase in room supply compared to H1 2017 (24,293 hotel rooms).

Luxury hotels continue to dominate the hospitality market in Qatar. Around 50 percent of the total hotel rooms in the country fall under the 5-Star and 4-Star hotels category. H1 2018 experienced launch of two new 5-Star properties. Ezdan Group opened its first fully owned 5-Star hotel 'Ezdan Palace' at Al Shamal Road in Umm Salal Muhammed. The hotel comprises of 195 hotel rooms and suites with the state of the art architecture.

Visitor arrivals to Qatar (H1 2018)

~926,500

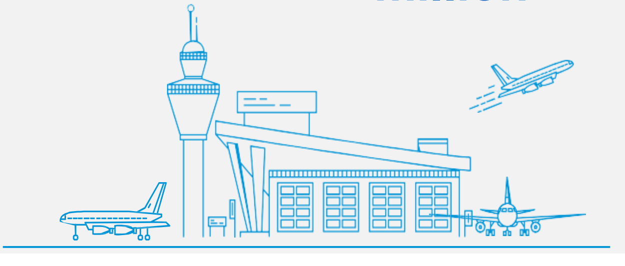
Air passengers

~66,200

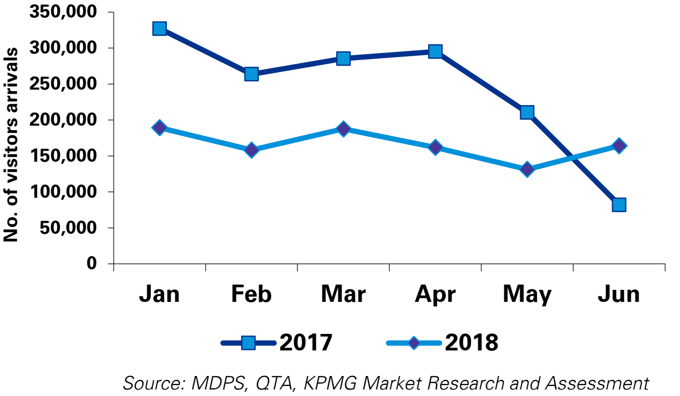
Cruise passengers

Total passenger movement at Hamad International Airport (H1 2018)

~16.52 million



Monthly visitor arrivals to Qatar (H1 2017 vs H1 2018)



Source: MDPS, QTA, KPMG Market Research and Assessment

The new Vichy Célestins Spa Resort - Retaj Salwa officially opened for guests in June 2018. Located near to Aqua Park Qatar on Salwa Road, the resort spans a record 211,000sqm and is the largest therapeutic tourism project in Qatar.

The resort comprises of 168 units divided into 78 rooms and suites and 90 villas, each of which consists of one to three rooms.

In addition, Alfardan Group announced the launch of Marsa Arabia Resort luxury development project located in the central island of Porto Arabia at The Pearl Qatar. The project is valued at QAR3.5 billion and is expected to commence operation by 2021.

The leading Thailand-based hotel developer, Dusit International, also has plans to foray into Qatar with a 5-Star development.

Major transactions

After a robust hotel transactions activity in 2017, the market remained largely subdued in H1 2018 with some re-branding activity of two upscale hotels in West Bay and Al Aziziya.

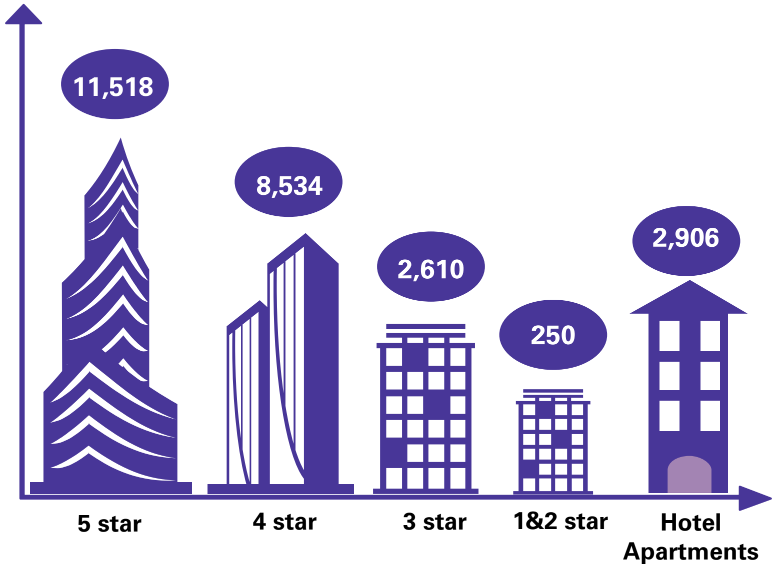
As per our research, Al Sadd witnessed the sale of medium-ticket sized hotel development built on an area of 1,808 sqm for an estimated QAR 360 million, at a per sqm cost of QAR 18,498.

Occupancy, average room rate (ARR), Revenue per available room (RevPAR) and average length of stay (ALOS)

Hotel performance in H1 2018 witnessed a considerable slowdown in the activity across all categories. The slowdown was due to a combination of new hotels becoming operational along with the reduction in overall tourists arrivals to Qatar.

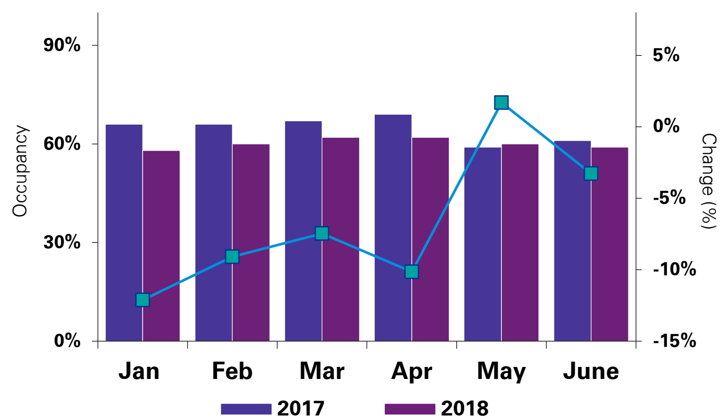
As per data published by the MDPS, occupancy rate was 60 percent across all hotels and hotel apartments in H1 2018, representing a drop of approximately 5 percent compared to H1 2017, primarily owing to drop in the overall number of visitor arrivals coupled with increased room supply.

Distribution of hotel keys in Qatar (H1 2018)



Source: MDPS, QTA, KPMG Market Research and Assessment

Occupancy across hotels and hotel apartments (H1 2017 vs H1 2018)



Source: MDPS, QTA, KPMG Market Research and Assessment

Overall Average Room Rate trends across Hotel Categories (H1 2018)

Source: MDPS, QTA, KPMG Market Research and Assessment

The lowest occupancy was recorded for 1 and 2-Star category hotels, averaging at 54 percent. The highest occupancy rates were in the 3-Star category at 68 percent and the deluxe apartment category, witnessing considerable growth in the overall occupancy by almost 9 percent and averaged at 74 percent.

The ARR experienced a declining trend across all hotels and hotel apartments and averaged at QAR 396 compared to QAR 464 recorded in H1 2017, representing a significant decline of 14.7 percent. The largest drop in ARR was witnessed in the 3-Star segment followed by the 5 and 4-Star categories.

The average length of stay has started to show signs of resilience, continuing the trend witnessed during Q4 2017. According to Qatar Tourism Authority, the average length of stay for visitors in Qatar during Q1 2018 was 3.9 nights per trip, representing an increase from 3.6 nights per trip during the same period in 2017.

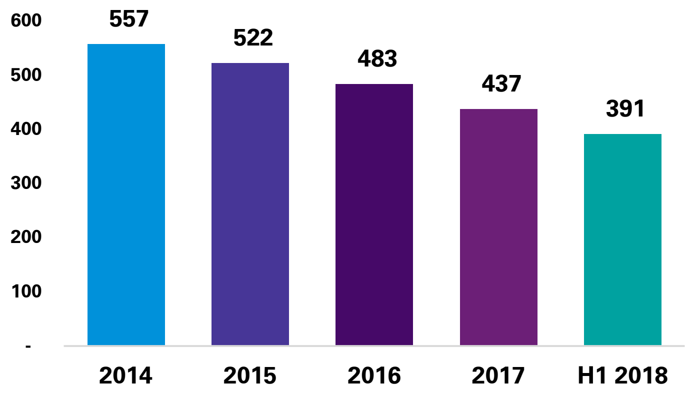
The average length of stay was higher in deluxe and standard apartments, as this segment typically attracts corporates who prefer slightly longer stays than leisure tourists. The shortest stays was observed particularly in the 5-Star hotel properties at 3 nights per trip.

Key takeaway

The luxury hospitality sector continue to expand its footprint across the city. The highest occupancy rates were in the 3-Star category at 68 percent and the deluxe apartment category, witnessing considerable growth in the overall occupancy by almost 9 percent and averaged at 74 percent.

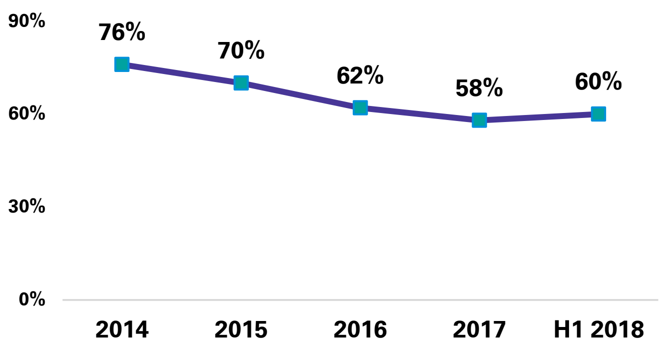
While the overall occupancy and average room rates (ARRs) continue to decline, it is expected that hotels, typically in the upper segment, will start to show signs of rate stabilization as operators will be unwilling to further dilute their brands' market perception.

Average Room Rate across Hotels and Hotel Apartments (2014 - H1 2018)



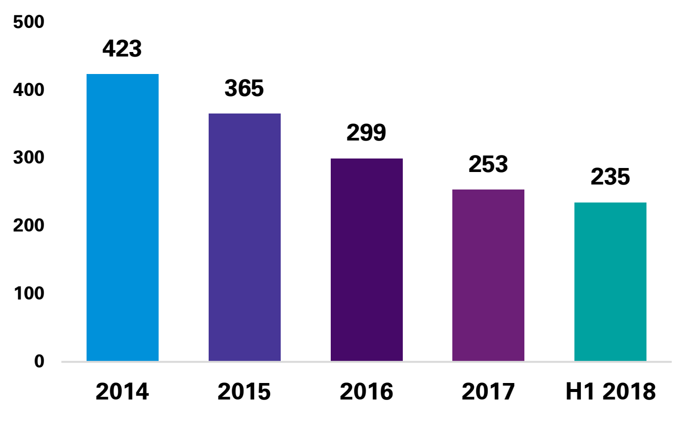
Source: MDPS, QTA, KPMG Market Research and Assessment

Occupancy across hotels and hotel apartments (2014 - H1 2018)



Source: MDPS, QTA, KPMG Market Research and Assessment

Revenue per available room (RevPAR) (2014 - H1 2018)



Source: MDPS, QTA, KPMG Market Research and Assessment

KPMG in Qatar

Local lead, global reach

KPMG has had a presence in Qatar for 40 years. We opened for business here in 1978 and are now one of the largest and most established professional services firms in the country. Our 300-strong team are led by 10 Qatar-based partners. We recruit the best and brightest from around the world and currently employ over 28 different nationalities.

Our professionals in Qatar work with some of the country's biggest and most prestigious organizations, often forming long-term partnerships to help them to enhance and transform their business, in a sustainable way.

KPMG in Qatar belongs to a network of independent member firms affiliated with KPMG International. With over 200,000 professionals, led by nearly 9,850 partners worldwide, our network allows us to bring together subject matter experts from around the globe to form international teams, with deep insight to tackle your most complex challenges.

By choosing KPMG, our clients can be confident that they will be working with professionals who combine global insight with local knowledge to develop custom-designed services that deliver real value.

"We have an experienced team based in Qatar, with proven track record of providing customized solutions to clients across sectors and operating situations."

Venkat Krishnaswamy
Partner, Advisory
KPMG in Qatar

KPMG's Real Estate practice

KPMG advises owners, managers, developers, lenders, intermediaries, construction and engineering firms, and investors in effectively executing complex transactions ranging from acquisitions and dispositions to securitization of real estate assets for individual properties and portfolios to entity-level mergers and acquisitions. We believe that our experience and knowledge can help you successfully address today's challenges while preparing for tomorrow's opportunities.

KPMG's Building, Construction & Real Estate professionals strive to provide strategic insights and relevant guidance wherever our clients operate. The Global KPMG Building, Construction & Real Estate (BC&RE) Network is serviced by 333 Partners and 4,761 Practitioners providing a broad range of professional services.

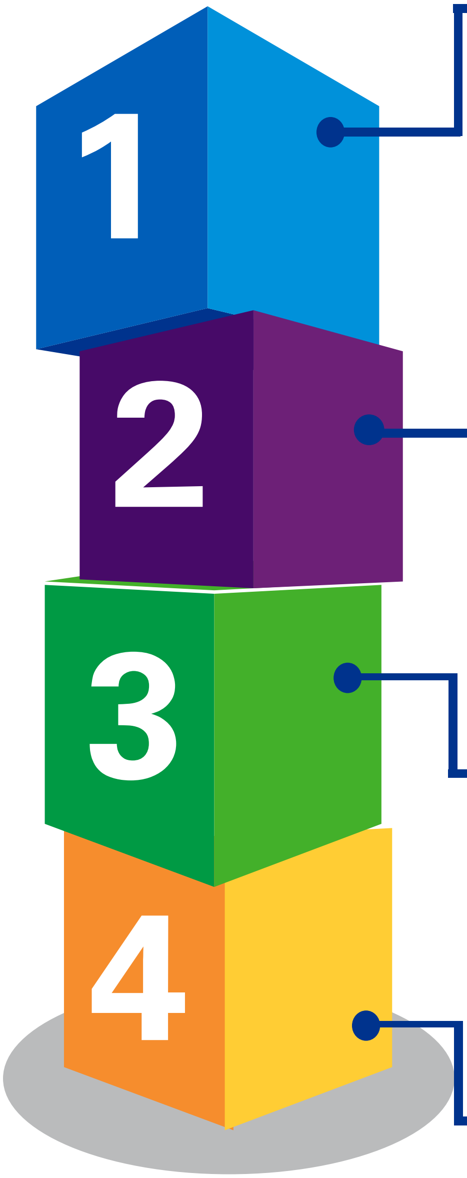
The Global BC&RE Network was set up within KPMG to assist the specific needs of clients active in the Real Estate business. KPMG is well positioned to advise on all aspects of the business of Real Estate – providing global coverage and experience as it has done on numerous engagements.

Through our extensive local and global network of member firms, KPMG is involved in every stage of the asset and investment lifecycle, and offers experience in working with all levels of stakeholders throughout the real estate industry. Whether your focus is local, national, regional or global, we can provide you with the right mix of experience to support and enhance your needs and ambitions. Our knowledgeable real estate professionals focus on providing informed perspectives and clear solutions, drawing experience from a variety of backgrounds.

Our client focus, our commitment to excellence, our global mindset and consistent delivery build trusted relationships that are at the core of our business and reputation.

Delivering value across Qatar

At KPMG, we believe in taking quality initiatives that build public trust and inspire confidence in the overall industry. Through our constant updates on the market we strive to assist in making this sector more transparent and enable industry stakeholders to take more informed decisions.



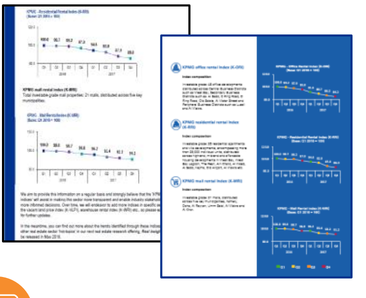
Research reports

Our research reports 'Real Insights' provides a deep insight into the real estate market in Qatar. We provide quarterly, half-yearly and annual updates on the performance of the Real Estate sector in Qatar.

Monthly Pulse

We introduced KPMG Monthly News Pulse, which captures all the happenings from the real estate and infrastructure space. It is mailed to more than 500 readers which are CEOs, CFOs, Development Managers, etc. in the leading companies of Qatar.

Real Estate Rental Indices



The launch of KPMG Real Estate Rental Index asserts our leadership in Real Estate Sector. The index is updated on a quarterly basis and circulated to all industry stakeholders.

Featuring in the news

The team constantly appears in the leading International and national publications across GCC. Giving our views on the current market trends and keeping the public at large informed about the market happenings, is yet another effort towards making the market more transparent.

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