Building the Pearl of the Gulf
Real estate, hospitality and construction outlook
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Executive summary

Robust economic growth, strong market fundamentals and well thought-out national visions and strategies have helped set the stage for increased investment and development in an effort to propel Qatar forward. Qatar’s renewed focus has helped them win the competition to host the 2022 World Cup, which has accelerated the rate of construction and inflow of investments into infrastructure, healthcare, social housing and education – helping Qatar to accommodate future population growth.

As a result, a wide range of infrastructure projects – including rail and metro works, ports and airports are being planned or already underway. These projects will undoubtedly have a positive spill-over effect on the real estate, hospitality and construction (RHC) industry – helping to build a healthy pipeline for many years to come and enhance Qatar’s competitive position on both a regional and international level.

The primary purpose of the report is to provide the reader with a deeper understanding of some of Qatar’s visions and strategies, their potential impact on the RHC sector and the prominent role the RHC sector will play in helping make Qatar’s visions a reality.

We hope you enjoy the report and please direct any questions to the contacts at the back of the publication.

Sincerely,

Yousef Wahbah
MENA Real Estate, Hospitality and Construction Sector Leader
Qatar’s economy continues to grow and become more diverse

### Historic economic trends

- **Compounded Annual Growth Rate (CAGR) 15%** growth in the nominal GDP during 2007-14
- Double-digit growth (11.9%) in the non-hydrocarbon sector while hydrocarbon output fell (-1.3%) on lower oil production in 2014
- Non-hydrocarbon sector now accounts for over half of the nominal GDP

### Future economic outlook

- Strong real growth expected in the non-hydrocarbon economy through the coming years, despite lower oil prices
- Economic diversification aligned with key government initiatives including the Qatar National Development Strategy 2011-16, the Qatar National Tourism Sector Strategy 2030 and Qatar National Vision 2030
- Qatar’s non-hydrocarbon economy is one of the fastest growing in the world with a double-digit growth mainly backed by Qatar’s National Vision 2030, investment spending, population growth etc. and is expected to be the engine of growth in the economy

### Qatar 2014 GDP (percentage of total)

- Manufacturing: 10.1%
- Mining and quarrying: 51.1%
- Building and construction: 6.1%
- Others: 32.7%

Source: Ministry of Development Planning and Statistics (MDPS)

### Qatar Historical GDP, 2010-14

<table>
<thead>
<tr>
<th>Year</th>
<th>Nominal GDP, US$b</th>
<th>Real GDP growth, % y-o-y</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>190.2</td>
<td>6.0</td>
</tr>
<tr>
<td>2013</td>
<td>201.8</td>
<td>6.3</td>
</tr>
<tr>
<td>2014</td>
<td>210.0</td>
<td>6.2</td>
</tr>
<tr>
<td>2015E</td>
<td>188.6</td>
<td>5.9</td>
</tr>
<tr>
<td>2016F</td>
<td>204.9</td>
<td>6.0</td>
</tr>
</tbody>
</table>

Source: BMI

### Qatar population growth 2010-14

- Population grew by an estimated 10% to 2.21 million in 2014. This largely reflects the inflow of expatriate workers filling the 120,000 new jobs created yearly in Qatar.
- The growth of the non hydrocarbon sector and increased population helped support financial services, trade, restaurants, hotels and government services.
- Qatar National Vision 2030 aims to have a diversified knowledge economy, with expanded opportunities and human capabilities with an emphasis on sustainability.

Source: EY

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2. Qatar National Bank’s Qatar Economic Insight report - 2015
3. Ibid
4. Ibid
Qatar’s government initiatives are driving growth

Qatar Government initiatives

- Defines national values and long-term goals
- Defines national initiatives toward achieving Qatar National Vision 2030 goals
- Defines sectoral priorities to be integrated into the QNDS 2011-16
- Defines ministerial plans to support implementation of sectoral strategies

Sources: MDPS, General Secretariat for Development Planning (GSDP)

Qatar National Development Strategy 2011-16

- The Qatar National Development Strategy 2011-2016 was prepared to set a path towards achieving the goals of Qatar National Vision 2030. Qatar’s National Vision helps build a bridge from the present to the future. This should help transform Qatar into an advanced country, sustaining its development, and providing a high standard of living for its people.
- The broad Qatar National Development Strategy integrates a number of sector-specific strategies aligned to Qatar National Vision 2030, outlined below.

Development pillars

<table>
<thead>
<tr>
<th>Human development</th>
<th>Healthy and capable population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social development</td>
<td>Caring and cohesive society</td>
</tr>
<tr>
<td>Environmental development</td>
<td>Well-managed and sustainable environment</td>
</tr>
<tr>
<td>Economic development</td>
<td>Strong and resilient economy</td>
</tr>
<tr>
<td>Institutional development and modernization</td>
<td>Modern and citizen-centric government</td>
</tr>
</tbody>
</table>

Sector strategies

<table>
<thead>
<tr>
<th>Health</th>
<th>Employment</th>
<th>Education and training</th>
</tr>
</thead>
<tbody>
<tr>
<td>Culture</td>
<td>Social protection</td>
<td>Family cohesion and women empowerment</td>
</tr>
<tr>
<td>Economic management</td>
<td>Economic infrastructure</td>
<td>Natural resources</td>
</tr>
<tr>
<td>Modern government institutions</td>
<td>Efficient government services</td>
<td></td>
</tr>
</tbody>
</table>
Qatar will continue to place emphasis on sport, especially to meet the challenges presented by a rapidly increasing and youthful population, cultural change, and more affluent lifestyles.

Hosting of the FIFA 2022 World Cup in Qatar is considered as an enabler that will support achievement of some of the goals of Sports Sector Strategy.

The Sports Sector Strategy is based on, and advances, the Qatar Olympic Committee’s Strategic Plan 2008-12, which sets out six priority areas for sports, specifically:

- Improve participation levels of women and special needs athletes
- Raise awareness of sports benefits and the Olympic movement
- Strengthen sports education and culture in schools
- Maintain sports heritage
- Marketing and sponsorship
- Market Qatar as a sport tourism hub
- Highlight careers in sports administration and commercialize existing expertise
- Improve existing venue access and usage
- Construct and operate new facilities, including purpose-built venues
- Establish additional leagues
- Support athletes reaching elite levels
- Develop indigenous talent
- Improve options for retiring athletes
- Develop human resources
- Financial accountability
- Management support to clubs, committees and federations
- Support bid committees
- Event management strategy
- Deliver multi-sport tournaments and single-sport events in Doha

The Sports Sector Strategy plans to deliver three outcomes:

- Greater community participation in sports and physical activity
- Improved and integrated planning for community and elite sports facilities
- Increased and improved sports talent development, management, and performance

This will benefit future generations.

Source: Sports Sector Strategy report
Qatar National Tourism Sector Strategy 2030

- Qatar National Tourism Sector Strategy aims to position Qatar as a world class destination with deep cultural roots
- The Qatar National Tourism Sector Strategy 2030 is a long-term integrated effort to ensure the country’s sustainable development by reducing its reliance on its hydrocarbon resources, while also placing it on the world tourism map and helping promote and perpetuate its people’s culture, values and traditions
- In 2012, the purpose of travel to Qatar was 73% business and 27% leisure which is targeted to become 36% business and 64% leisure by 2030

Qatar National Tourism Sector
Strategy products and target segments

**Products**
- Culture
- Urban
- Meetings, incentives, conferences and exhibitions
- Sports
- Sun and beach
- Health and wellness
- Nature
- Education

**Target segments**
- Business and leisure tourists
- Arab tourists seeking comfort and well-being
- Arab families seeking leisure and entertainment
- Wealthy world travels
- Authentic discoverers
- Arab budget-conscious tourists seeking comfort

Source: Qatar National Tourism Sector Strategy 2030 and EY

5 Qatar Tourism Authority, Qatar National Tourism Sector Strategy 2030, February 2014
Implication and opportunities for Qatar’s RHC sector

Qatar’s RHC sector overview

<table>
<thead>
<tr>
<th>Key government initiatives and Qatar’s hosting of the 2020 World Cup should bode well for the RHC sector</th>
<th>Qatar’s real estate prices are expected to continue to grow, although at a more moderate pace</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sector open to international private sector involvement</td>
<td>Large-scale infrastructure projects are being planned or are underway — US$200b expected investment in infrastructure, tourism and sports projects</td>
</tr>
</tbody>
</table>

Source: MEED

Qatar construction/infrastructure market

- Qatar’s construction industry is performing above predictions, helping to alleviate concerns about the country’s ability to host the FIFA World Cup in 2022.
- Government spending and public sector firms are supporting Qatar’s infrastructure investments. The National Development Strategy has allotted 40% of the state budget for backing infrastructure projects for 2011–16.
- Qatar is on the expansion mode with sufficient budgets allocated for stadiums for the FIFA 2022 World Cup, medical centers and Qatar’s extensive roads program. The Government is keen to speed up its large infrastructure investment program, following a large number of project delays and poor execution.

Construction industry value (2012–16f) CAGR 14% during 2012-16f

<table>
<thead>
<tr>
<th>Year</th>
<th>Construction Industry Value, US$b</th>
<th>Construction Industry Value, % of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>8.5</td>
<td>4.4</td>
</tr>
<tr>
<td>2013</td>
<td>9.7</td>
<td>4.8</td>
</tr>
<tr>
<td>2014</td>
<td>11.9</td>
<td>5.7</td>
</tr>
<tr>
<td>2015E</td>
<td>14.0</td>
<td>7.4</td>
</tr>
<tr>
<td>2016F</td>
<td>16.4</td>
<td>8.0</td>
</tr>
</tbody>
</table>

Source: BMI

Key infrastructure projects

1. **Qatar’s national rail network**
   - 350 km
   - US$9.1b
   - Qatar’s main industrial and residential hubs will be connected via high-speed passenger rail and freight services through this link.
   - This project isn’t scheduled to be completed until 2029.

2. **Three tree-shaded corridors free of car traffic — Doha a greener city**
   - Two green infrastructure plans — a new residential area and a commercial zone.
   - A third parcel for mixed use which is expected to be completed by 2016.

Source: EY

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Qatar residential market

- It's been a dynamic year for the Qatar real estate market. The overall Qatari market felt inflationary pressures in addition to the volume of transactions and increased land values.

- The Qatar Statistics Authority stated that the population grew by 9.5% during the period from March 2014 to March 2015.

- Growth in population created a lot of jobs in the non-hydrocarbon sectors, which also resulted in an increase in demand for family accommodation, especially four and five bedroom villas. Currently occupancy rates are high according to DTZ’s Q1 2015 report.

- Colliers International estimated that the number of housing units will exceed 129,200 by the end of 2014 and an additional 8,200 units were expected to enter the market between 2015-2018. Despite annual increases in supply, high population growth rates are expected to result in an undersupplied market. Supply scarcity in Doha's housing market offers a strong foundation.

- Average rental rates in Doha increased over the last three years, increasing by 14% in 2014 according to Colliers International.

- Housing affordability is becoming an issue.

- The real estate sector was robust following heavy investment in infrastructure and property development. The new metro in Doha is one of the major infrastructure projects and some of the real estate development projects include Musheireb and Lusail City.

Key highlights: Government initiatives, vision and strategies positively affecting the Qatar residential market

1. **Qatar companies' investments**
   - Barwa and Qatari Diar made around US$274b investments in residential and business construction projects during 2011-16

2. **Permanent residency**
   - Plans to have a program of permanent residency for expatriates meeting predetermined criteria
   - To establish a tribunal for resolving labor disputes
Qatar commercial/office market

- Recent growth in the domestic economy should result in increased demand for office space.
- Local and multinational firms are authorized to find space given Doha’s importance as a business and financial center in the region. This has created long term demand for office space.
- In H1 2015, Doha has a vacancy rate of 18%.

Qatar office distribution (as of March 2015)

Key highlights: government initiatives, vision and strategies positively affecting Qatar’s commercial office market

1. Commercial real estate development as part of Vision 2030

   - Qatar is preparing for the World Cup through the ongoing infrastructure developments. Its Vision 2030 project is forecasted to bring in commendable growth in the real estate front, particularly in key areas such as Doha.
   - Major engineering and financial service players, having a foothold in the country, have benefited the office sub-sector.

2. Sustainable building

   - Commercial building owners should be aware of sustainability aspects and prioritize energy conservation practices.
   - All government buildings have to abide by the green building standards to be established by The Qatar Sustainability Assessment System for Green Buildings by 2016; subsequently, all new commercial buildings and residential buildings will come under the new regime.

3. Amendments in the labor law

   - In compliance with Qatar National Vision 2030, both the interior and labour ministries have confirmed that Qatar has begun a series of wide ranging reforms in the job market to guarantee the workers’ rights and improve their standard of living and working conditions in the country.
Qatar retail market

- Luxury good outlets among modern retail facilities are in strong demand following growth in tourists and affluent population.
- New shopping mall construction, including Mall of Qatar which is to open in 2016, is the result of strong demand for retail space.
- Huge government investments are made into infrastructure in order to host the 2022 FIFA World Cup. There are planned projects with many underway, including hotels, restaurants, retail spaces, transport facilities and football stadiums.
- Due to the scenario where supply will exceed demand, vacancy rates are expected to increase, thus forcing landlords to cut down rental rates.

Supply 2014–18: CAGR 16%

Gross leasable area (GLA) m²

<table>
<thead>
<tr>
<th>Year</th>
<th>Existing supply</th>
<th>Additional supply</th>
<th>Demand</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>200,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td>800,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td>1,000,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td>1,200,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td>1,400,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2018</td>
<td>1,600,000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Colliers
Qatar tourism market

- The country’s tourism sector depends on business travelers and visitors from Gulf Cooperation Council (GCC) countries, mainly from the Kingdom of Saudi Arabia. Qatar National Tourism Sector Strategy 2030 focuses on diversification of tourists centered on a plan to have visitors from outside the GCC increase by 64% by 2030.

- The hotel supply category reached 15,760 in 2015 growing at a CAGR of 9% between 2010-2015.

- Airport City, where 200,000 people live and work is due to complete the first phase of the 30-year master plan by 2022, having four districts along a “green spine” running parallel with the airports runways.

- The districts comprise:
  - Business district
  - Aviation district
  - Logistics district
  - Residential district

- This development will be linking the city of Doha to Hamad International Airport.

Source: EY

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Qatar tourism aligned with Vision 2030

- Qatar National Tourism Sector Strategy 2030 implementation
- FIFA World Cup 2022
- Qatar Airways’ 120 destinations worldwide
- Public and private investment of US$45b during 2013-30
- Qatar Tourism Authority initiatives like taking part in International Tourism Bourse Berlin 2015
- Airport city and Hamad International Airport

Source: EY
In summary

With Qatar being one of the fastest-growing economies in the world and having a population that earns some of the world's largest disposable income, investors have focused on Qatar. The country is determined to embark on its National Vision 2030, to help diversify its economy from oil and gas dependency. Efforts would be made to route its rich gas surplus into investments to expand and diversify its key sectors, upgrade its infrastructure and thus place the country on the world map as a leading destination for tourists and investors.

This has created significant opportunities for the RHC sector. Construction of required infrastructure to accommodate the future population growth has been carefully planned to provide necessary residential, commercial, hotel and retail buildings with necessary power and energy framework. This ensures projects are completed without any bottlenecks or shortages.

This, combined with Qatar’s commitment to implementing its key government visions and strategies, should positively impact the RHC sector going forward.

Future outlook

Tourism and Hospitality:
Tourism product diversification is a primary consideration for the QTA which is also looking to expand the hospitality and tourism offering outside of Doha. Current hotel supply remains skewed towards the five-star segment despite recent price sensitivity witnessed among regional travelers. Five-star hotels have experienced rate pressure over the past two-year period as the macro-economic environment shifted consumer preferences making it difficult for 5-star hotels to command a significant premium over their 4-star counterparts. Over the short to medium-term, the demand for business, budget and economy hotels is expected to continue to outpace supply.

Concerns remain in regards to oversupply of hotel accommodation post FIFA 2022 prompting the QTA to explore temporary accommodation models. However, practical challenges remain in implementing such models particularly within the legal and time frame constraints present.

Retail:
Historically, Doha was a significantly under-supplied retail market leading to significant investment in organized retail over the last decade. Traditionally residential focused developers benefited from diversification while meeting the needs of a rapidly rising population. Looking ahead, the retail sector is expected to see significant supply additions in the medium to long term far outpacing population growth leading to risks of oversupply. With the threat of new supply, current landlords are looking at capital improvement plans to mitigate the competitive risk and maintain market share. By 2020 when the last of the current proposed supply is expected to enter the market Doha’s GLA per capita will rival that of established tourism destinations such as Manhattan and Dubai.

Office:
Despite the expectation that infrastructure and tourism investment would drive demand for office space within Qatar, the office market performance remains subdued. The primary cause is ostensibly related to rental rates sought by landlords and a lack of well-priced quality office space resulting in tenants delaying the decision to move. The current office pipeline is heavily skewed towards Grade A office space which is expected to place price pressure on landlords and induce a flight to quality by tenants bringing the office market in Doha towards equilibrium. Despite a tendency among key developers to delay new supply in order to retain pricing power, the inevitable delivery pressures from lenders, government authorities, and investors will likely mean that all current supply under development will be completed in the short- to medium-term.

Residential:
Traditionally considered a safe bet thanks to a rapidly growing population base and chronic under-supply developers have historically favored quantity over quality. Going forward, tapering population growth, reduced affordability and a larger share of the population identifying towards the upper tier income strata is expected to drive a shift towards quality. Layered within this dynamic is the anticipated delivery of significant residential supply to market over the next three years placing added pressure on landlords and reducing their pricing power whilst also driving tenants towards better quality housing.
Today's real estate sector must adopt new approaches to address regulatory requirements and financial risks while meeting the challenges of expanding globally and achieving sustainable growth. EY's Global Real Estate Sector brings together a worldwide team of professionals to help you succeed – a team with deep technical experience in providing assurance, tax, transaction and advisory services. The Sector team works to anticipate market trends, identify their implications and develop points of view on relevant sector issues. Ultimately, this team enables us to help you meet your goals and compete more effectively.

EY role
EY's real estate, hospitality and construction sector has been helping clients with development advisory services for the last two decades, including the development of West Bay in the early 2000's and Lusail at present. Owners, developers, investors and lenders have sought our services for highest-and-best-use studies, master plan reviews, valuations, operator search and selection and strategic support around transactions or internal restructurings. In addition, EY's real estate, hospitality and construction sector added project management to its services offering across MENA to ensure we can support you throughout your development life cycle.