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Qatar

Infrastructure, Construction & Real Estate

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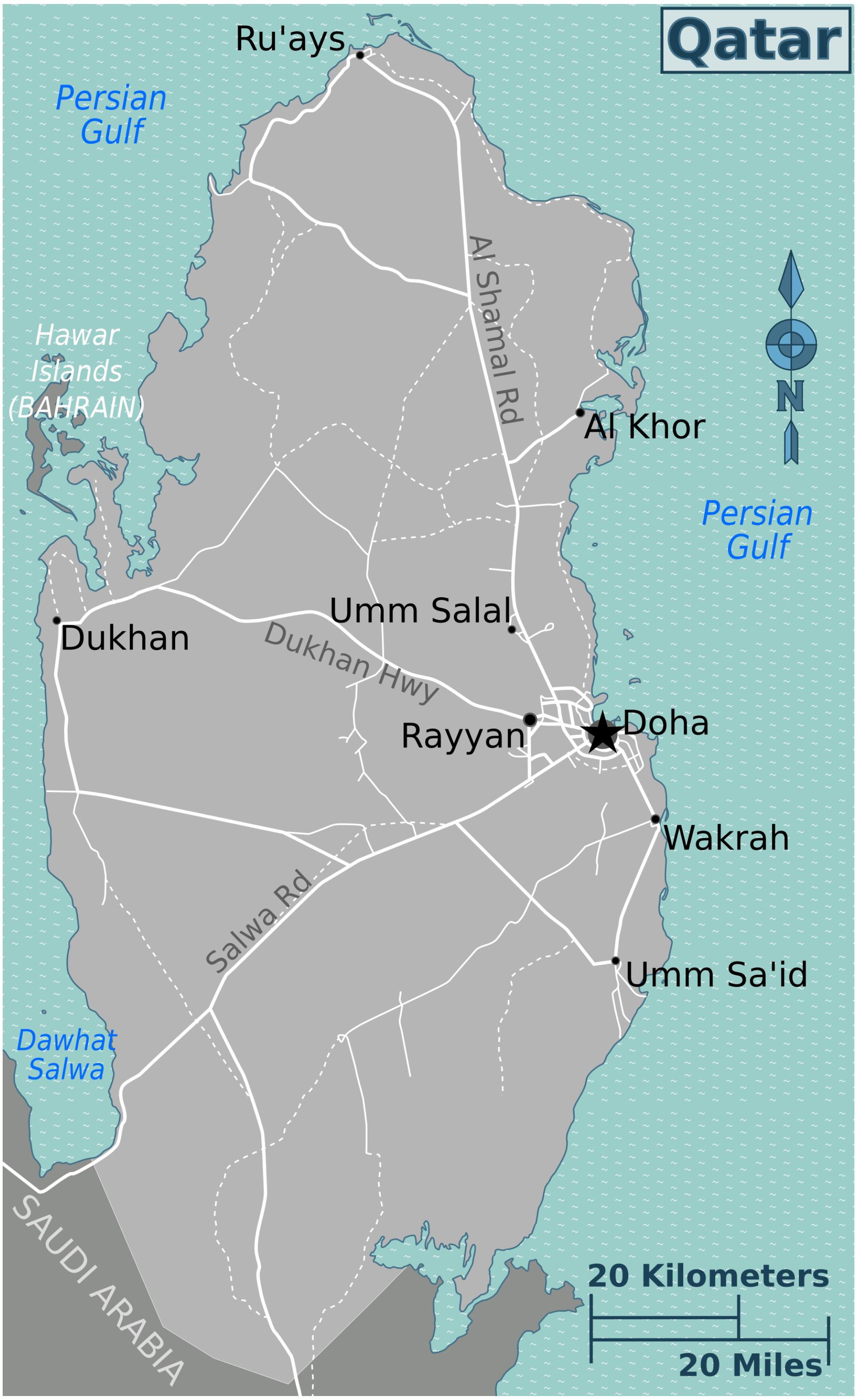
MAP OF QATAR



Source : PRS Group

EXECUTIVE SUMMARY

As one of the fastest growing economies in the world, Qatar has experienced rapid development across all industries, thanks to the huge revenues generated by the country's oil and gas exports. Qatar's infrastructure, construction and real estate industry has been no different, benefiting from increased demand across all segments from residential and office space to public transport and hydrocarbon developments. A growing interest in the country from foreign investors hoping to ride the wave of economic development that has seen Qatar achieve the world's highest per capita GDP has meant that the country has had to develop quickly to accommodate the influx of business tourists and new residents. Real estate developers and companies working in the construction industry have managed to capitalise on this growing real and speculative demand, rapidly planning and constructing new units. While oversupply is a growing concern in certain segments, Qatar's stable and continuous economic growth as well as its successful bid for the FIFA World Cup 2022 means that prospects for expansion in the infrastructure, construction and real estate sector remain high.

Qatar has announced plans to spend US$ 5.94 bn on infrastructure and development projects during 2018, including expressways and local roads projects besides sewage treatment plants and assets projects. Ashghal, Qatar's public works authority, will implement 19 infrastructure projects in 12 areas of the country. In 2018, Ashghal will complete expressway projects worth QAR 11.08 bn, infrastructure and local roads projects worth QAR 8.88 bn and sewage treatment projects valued at QAR 1.84 billion. In addition, 90% of World Cup-related projects are slated for completion this year.

Growth in the Qatari economy slumped to an eight-year low in the second quarter of 2017, according to official figures that highlighted the impact of the economic blockade that began in June. The economy grew just 0.6% year-on-year in the three months to June, following a 2.5% expansion in the previous period. It was the lowest rate since 2009 global crisis. The main driver was a 2.7% slump in the mining and quarrying as a result of a cut in output in December 2016 and disruption transport links thanks to sanctions. Non-oil growth eased 3.9% from 4.9% in the first quarter. Construction slowed to 15.3% from 15.7%, as did financial and insurance activities (4.8% from 10.1%), while it was flat for manufacturing at minus 1.4%. In October 2017 the International Monetary Fund used its biannual world economic outlook to cut its forecasts for GDP growth in the period through to through to 2020. The fund now expects Qatar to grow by 2.5% in 2017 rather than the 3.4% envisaged in its last report in April before the embargo took hold.

While Qatar benefits from a favourable business environment, vast natural resources, and a clear government vision for growth backed by strong levels of spending, all of which have contributed to rapid growth in the domestic infrastructure, construction and real estate sectors, some aspects of Qatar's current commercial environment pose important challenges to continued growth in the infrastructure and construction sector. These challenges include a difficult business environment, government corruption and issues related to sector oversupply and employment. In addition, the ongoing economic and political boycott of Qatar by its GCC neighbours has contributed to significant challenges, although Qatar has so far shown itself resilient in the face of these obstacles.

A total of US$ 4.3 tr is expected to be spent on construction in the MENA region over the next decade, representing growth of 80% to 2020. Experts anticipate a particular emphasis on the development of affordable housing. Following the global financial crisis and the Arab Spring, the market suffered throughout most of the region. US$ 1.6 tr worth of projects were cancelled around the region between 2009-2014, and US$ 23 bn worth of North African projects had been put on hold, including many in Libya, as of late 2015. Despite these initial setbacks, the infrastructure and construction sectors are poised for growth in the coming years.

INDUSTRY STRUCTURE

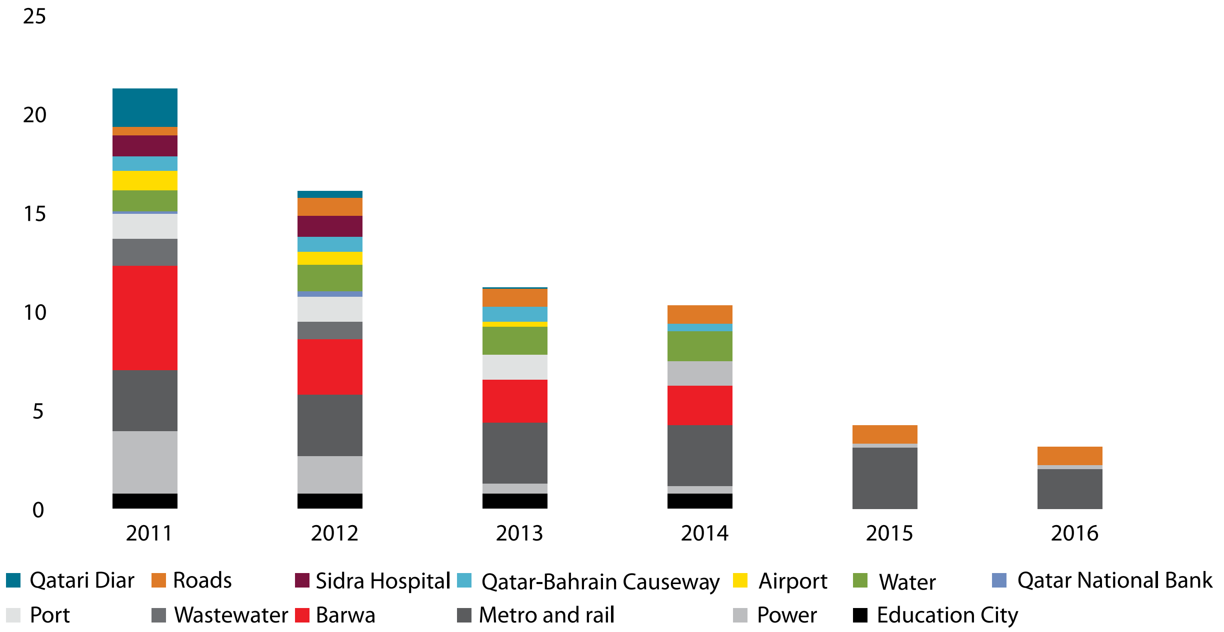
The infrastructure and construction industry encompasses a variety of products and services that together provide for the planning, architectural design, erection and finishing of modern structures. Structures may include residential and non-residential buildings, industrial plants and complexes and civil infrastructure such as roads, bridges and public transport lines. Infrastructure extends beyond the building of structures and into the foundational physical systems that construction is based upon. These systems are often, but not always, provided by the government, and include things like electrical grids, water and sewage systems, airports, and telecommunications networks. The real estate industry is based on the sale, ownership, development and marketing of physical space, such as land, or structure, such as a home or commercial space. The real estate sector's activities span the spectrum from land evaluation, surveying and zoning; the sale and purchase of land between buyer and seller, frequently paid for via mortgage financing, and often with the involvement of one or more intermediaries such as appraisers and real estate agents; the development of structures on the land by real estate development companies or individuals with the assistance of architects, engineers and construction professionals and with the use of raw materials such as cement and steel; and the provision of products and public goods to the site.

Qatar's infrastructure and construction sector is wholly dominated by the state. Consequently, a number of organisations have been established to represent the state at various levels of planning. These come in various forms. At one end is the Public Works Authority, which controls a wide scope of infrastructure projects. There are also a number of much smaller bodies, including those created to oversee specific projects. These state institutions and committees contract private companies to carry out projects, but the bidding process is skewed by two tendencies. First, when possible, Qatar companies are sought. Second, a foreign company cannot legally have a controlling stake in an infrastructure project. This does not mean that public-private partnerships (PPPs) do not exist; there are ample opportunities for foreign companies. Foreign companies must be aware, however, that they are builders of a Qatari vision, rather than stakeholders in a shared future. The government is currently the largest investor in real estate and the largest occupier of office space in the country. While luxury hospitality, residential and office space supply is reaching saturation point in the local market, retail space and affordable housing remain in short supply, suggesting key areas of opportunity looking forward.

MARKET OVERVIEW

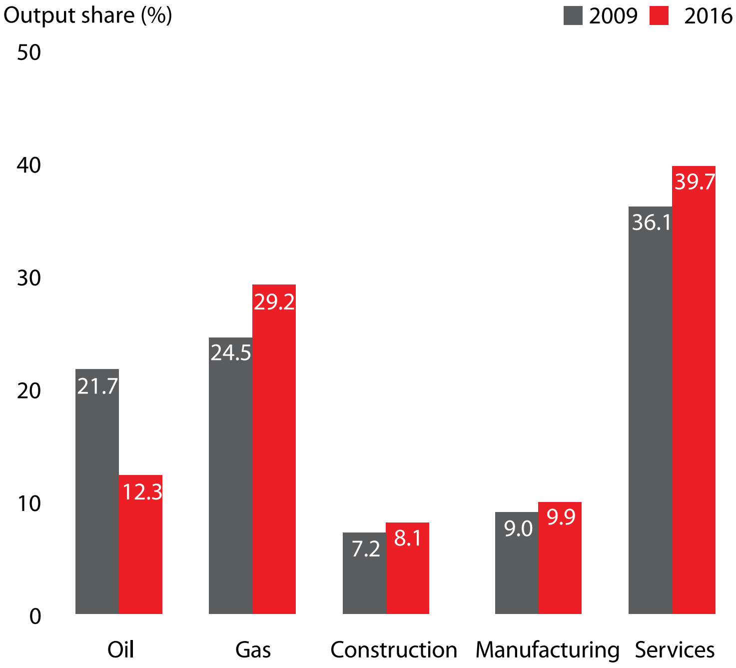
As one of the fastest growing economies in the world, Qatar has experienced rapid development across all industries, thanks to the huge revenues generated by the country's oil and gas exports. Qatar's infrastructure, construction and real estate industry has been no different, benefiting from increased demand across all segments from residential and office space to public transport and hydrocarbon developments. A growing interest in the country from foreign investors hoping to ride the wave of economic development that has seen Qatar achieve the world's highest per capita GDP has meant that the country has had to develop quickly to accommodate the influx of business tourists and new residents. Real estate developers and companies working in the construction industry have managed to capitalise on this growing real and speculative demand, rapidly planning and constructing new units. While oversupply is a growing concern in certain segments, Qatar's stable and continuous economic growth as well as its successful bid for the FIFA World Cup 2022 means that prospects for expansion in the infrastructure, construction and real estate sector remain high.

Planned Infrastructure Spending



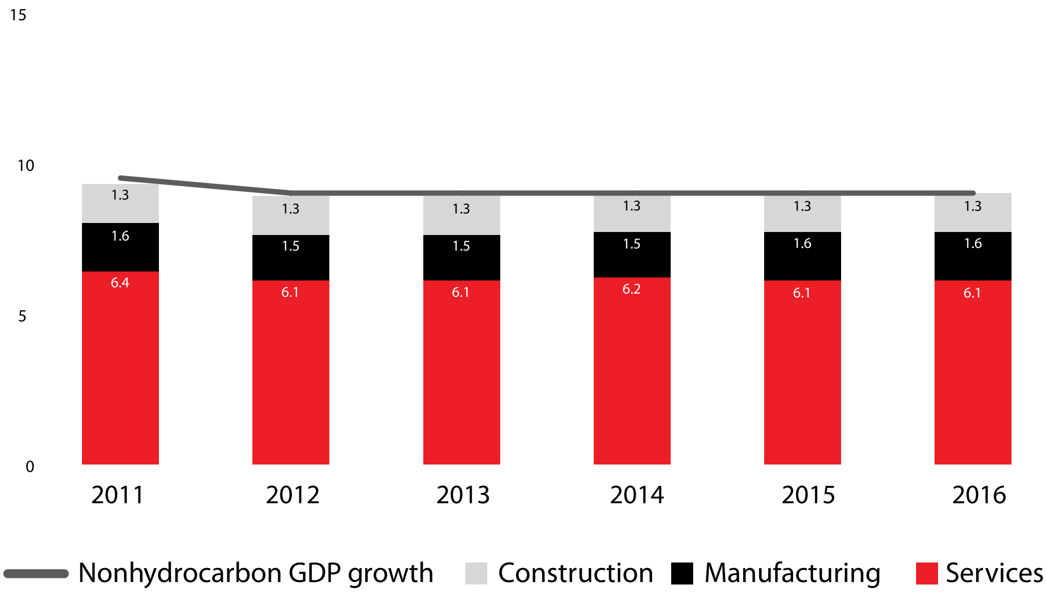
Source : MEED

Construction Share of Output



Source : NDS Estimates

Construction Contribution to GDP Growth



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The expansion of the infrastructure and construction sector began in 2005 with the establishment of the Qatar Investment Authority (QIA), which began to plan and implement the utilisation of Qatar's vast wealth for public development. The highest priorities have been infrastructure and the diversification of the economy, with the latter containing mixed projects, from science and technology to banking and agricultural development. Healthcare, education and other social programs have received considerable investment as well. Real estate has benefited considerably from this commitment to development with an estimated US$ 35.7 bn dedicated to residential and business construction projects between 2011 and 2016.

In 2004, Qatar opened up its real estate market after passing the Foreign Ownership of Real Estate Law, permitting foreign buyers and investors full ownership of land and property for 99 years. In 2006, Qatar also added a law that gives property owners permanent residency visas, further incentivising real estate investment. The high net worth of the average Qatari resident, both indigenous and expatriate, also has a large role to play in the development of the real estate market, driving demand for luxury, organised residential areas and retail space. Though the residential market has had issues with oversupply, the population growth rate, combined with a steady inflow of expatriate workers, will help to compensate for this and drive further demand in the medium to long term. Retail real estate, on the other hand, remains undersupplied, with strong demand predicted to drive the growth of organised selling space that has characterised the urban landscape of Gulf Cooperation Council (GCC) cities in recent years.

In response to heightened development activities within the domestic real estate sector, the Qatari government has passed a number of legal reforms in recent years aimed at safeguarding the rights of investors within the real estate sector. Implemented in 2014, Real Estate Development Law No. 6 requires developers to obtain an 'escrow account' for every project in development. Developers must open an account to hold investments, and withdrawals are not allowed until the developer can prove the project exceeds 20% completion. Providing additional security to investors, the bank holding the escrow account must hold funds equivalent to 10% of the total project value, with all transactions pending approval by the Ministry of Municipality and Urban Planning. The use of an escrow account aims to boost investor confidence, ensuring that developers do not re-allocate or misuse project funds.

Most real estate developments are centred in Qatar's capital of Doha, though more and more land transactions are taking place in lesser developed regions such as Al Wakra, Al Rayyan and Al Da'ayen, suggesting new real estate developments are being planned in these up-and-coming areas. A new planned city, Lusail, is also being constructed, 15 kilometres north of Doha, and will provide new residential supply for around 250,000 people, as well a football stadium, various leisure facilities and a commercial district. Being developed by government-controlled Qatari Diar Real Estate Investment Company, the scale of and level of investment in this project demonstrates the authorities' willingness to contribute to the development of the real estate industry. Up until the global credit crisis of 2008-2009, which had some impact on Qatar's real estate sector, the industry contributed nearly 6% of GDP, though lending for both developers and buyers soon resumed growth, pushing the sectors contribution to 7% in 2010/2011, with supply lines across all real estate segments continuing to deliver more space.

Infrastructure and construction is a pivotal sector that consistently outperforms its services counterpart. The primacy of the infrastructure and construction sector also has a social component. Since the mid-2000's, it has become the largest provider of employment, passing the 25% mark. This is compounded by employment opportunities in the state bureaucracy, required to monitor the ever-increasing network of national institutions that supervise the process. The sector expanded significantly from late 2005, when the QIA began its work in earnest, with the state investing 40% of GDP in 2008 and 50% in 2009. There was nevertheless a slow from late 2008. In the second part of 2010, Qatar pledged to increase spending by 25%, and sector output picked up once again thereafter. In 2016, the construction industry expanded by a projected 13.9% as investments continue to flow through the pipeline ahead of the World Cup, while the sector value is poised to exceed US$ 28 bn by 2020.

Energy Infrastructure

In 1996, Qatar's gas production surpassed the 500 bn cubic feet per year mark, in contrast with a rate of consumption that has only recently risen marginally, whilst production overall rose four-fold in ten years, giving the state ample financial capacity to formulate and execute decades of well-planned and multi-dimensional development projects. Qatar's energy infrastructure expansion plans encompass several components. Qatar cooperates with a number of regional and international partners, including Texas A&M, with whom a number of separate ventures exist, for the creation of new technologies to facilitate the marketing of LNG. These range from measures directly impacting the production process, such as the development of more effective extraction methods, to achievements indirectly improving the marketability of LNG, such as lowering environmental impact, which will make LNG more attractive to potential and current customers.

The expansion of Qatar's liquefied natural gas (LNG) export capacity has been a national priority for years. Ras Laffan, 80 kilometres north of Doha, is entirely controlled by Qatar Petroleum, the state arm under which a significant part of the nation's energy infrastructure falls. In 1997, before the concentrated export of LNG began in earnest, there were 39 total shipments. This number rose to 307 in 2004, and by 2009 an estimated 3,000 shipments left Ras Laffan, necessitating rapid capacity expansion.

Qatar has been a regional leader in the development of its electricity infrastructure. Qatar has experienced an annual growth in electricity consumption of over 10% in the last decade, far outpacing the regional average of 7%, yet maintaining consistent growth in output. Qatar has also seized upon the opportunity to assist its neighbours with their electricity needs, thereby creating an opportunity to expand the national electricity grid, while boosting its regional status.

The GCC electricity grid currently connects Qatar to Bahrain, Kuwait and Saudi Arabia, with Qatar being the net exporter of electricity to the other three since 2009, coinciding with the opening of a new power plant in 2009. The United Arab Emirates (UAE) and Oman are due to be connected to this grid as well, creating greater demand for Qatari electricity and allowing Qatar to correspondingly invest further sums in its own infrastructure to expand production. An estimated US$ 22 bn will be invested in energy and water projects to 2020, with US$ 4.1 bn invested for the 2015 year. The planned upgrades include 140 electricity substations and the addition of more than 2000 MW of electricity generation capacity.

Unless national policy changes, the expansion of electricity capacity in Qatar will not provide opportunities for investment or private sector collaboration for two reasons. First, the national electricity grid is entirely controlled by the state via the General Electricity and Water Company, known locally as Kahramaa, at a time when the regional trend is towards permitting private sector involvement in utilities. Second, although the state flirts with the idea of renewable energy, no projects have yet taken shape. The Qatar National Development Strategy 2011-2016, for example, states just one aim in the field of renewable energy: the creation of a renewable energy committee in the Ministry of Energy and Industry.

As the world's premier exporter of LNG and a country that is able to supply its population with the cheapest electricity in the region, second only to Iraq, while exporting to its neighbours, Qatar simply does not have the need to explore renewable energy options just yet. On the other hand, statistics show that 66% of electricity used in homes is for air-conditioning, and Qatar has launched public awareness campaigns and school lessons to help decrease energy use. Given Qatar's commitment to being at the cutting edge of new developments and promoting diversification in its economy, it can be expected that the country will begin thinking seriously about developing its renewable energy infrastructure in the medium term.

A significant development slated to come online by 2017 year-end is the US$ 10 bn Barzan gas production facility. Originally slated for commissioning in 2016, the development was delayed after the discovery of a gas leak in November 2016. Additionally, the Ras Laffan 2 condensate refinery was recently commissioned in February 2017, producing jet fuel and gas oil to be sold domestically and exported to Asian markets with a 146,000 bpd capacity. The refinery was developed by a consortium led by France-based Total at a cost of US$ 1.5 bn.

Maritime Infrastructure

With Qatar's logistical constraints already making themselves felt, the US$ 7.5 bn New Doha Port has emerged as one of Qatar's leading infrastructural programmes that will catapult the country into the 21st century as a regional leader in transport and logistics. The initial phase of the project is set was completed in November 2016, with full completion of the project slated for 2030. It was recently announced that contractors have sped up project timelines for an estimated completion date of 2020. With capacity expected to reach seven times that of the current Doha Port, the significantly more productive port will have the duel effect of both absorbing a larger percentage of the labour pool into the construction industry, which is vital to maintaining a booming sector, allowing for greater volumes of construction materials and heavy machinery to be imported into the country. The project comprises of three terminals with a combined capacity of 6 million containers. The New Doha Port is planned to be one of the primary focal points of the nation- and region-wide transportation system, linking passengers and freight travelling via sea to the railway network discussed below.

Al-Ruwais Port is another, albeit much smaller project. With the first phase completed in 2015, the primary infrastructural aspects of the port, such as dredging of the channel, are complete, along with the cargo berth. The buildings and port facilities are currently undergoing development and will provide a number of opportunities. Additionally, two other ports, Mesaieed Port and Ras Laffan Port, are experiencing expansions to increase their capacities to handle a larger volume of exports and material imports. As both facilities work with LNG, their expansion plans are under the authority of Qatar Petroleum. Although the main work in enlarging each port is complete, Qatar Petroleum – which has a good record in seeking foreign assistance – still releases tenders regularly for both Mesaieed and Ras Laffan Ports.

Transport Infrastructure

Total spending on transport infrastructure is expected to reach US$ 150 bn by 2025, with US$ 20 bn currently allocated for the creation of new and updating of old roadways and highways. One of Qatar's most important projects in this subsector is the US$ 5 bn Qatar-Bahrain Causeway. This particular effort, born out of a desire for international attention, has been dubbed the 'Friendship Bridge'. Although a 40 kilometre bridge, designed with four vehicle and two railway lanes, is not an simple feat of engineering, it is nevertheless expensive relative to its economic impact, which is less than that of a new port, and due to contested territorial issues, has experienced constant delays. Plans are moving forward and both nations have declared their intention to forge ahead with the bridge on numerous occasions. When the project does resume, foreign companies will have the opportunity to fill major roles. There is already a consortium in place that has significant French and German presence at the pivotal planning phases.

Alongside major expansions of highways and roads the creation of a rail and underground system connecting Qatar's main cities and urban hubs, linking the nation to its neighbours. The entire rail network will cost over US$ 24 bn and will involve the construction of over 350 kilometres of rail, connecting all candidate host cities for the 2022 World Cup to the Doha metro system, and then into Saudi Arabia and Bahrain. Total government investment in the rail network is expected to hit US$ 45 bn by 2030. The domestic Qatari network's construction will be an on going project for at least the current decade, with estimates suggesting 70% completion by the start of the tournament. The timetable for the completion of the railway was an aspect of the decision to name Qatar host, meaning that pressure to meet these targets will be considerable.

The metro system in Doha is currently being developed by Qatari Diar and Germany's Deutsche Bahn, and as it is only scheduled to be fully complete and operational in 2025, this will certainly be an access point for private foreign companies' involvement. Such companies should be aware that the metro programme may well experience delays because of the underlying doubts of the long-term financial feasibility of the metro. Nevertheless, due to the resources already invested into the concept, combined with the looming World Cup, a source of great international prestige, the metro will certainly be built in some form. The regional rail system will, likewise, provide contracts for years to come, with the 2,117 kilometre network expected to be completed around 2020.

Another major ongoing transport development is the US$ 13 bn Hamad International Airport. Recently opened in May 2014 with a budget of US$ 13 bn, Hamad International Airport covers just over 2,200 hectares of land and has a handling capacity of over 29 mn passengers per year, over three times its former handling volume. Upon opening the new airport, passenger figures jumped by 20% in 2015, already exceeding the airports annual capacity by 1 million. To meet further demand, a planned expansion to the airport is expected to commence in the second half of 2017. With a completion date in 2020, the expansion will increase the area of the passenger terminal to over 1 million sqm, while total capacity will increase to some 53 mn passengers annually. The old Doha International Airport will be demolished and redeveloped as a new urban project called Al Sahan City.

Commercial and Industrial Infrastructure

The most high profile of Qatar's commercial construction projects is The Pearl, an artificial island reminiscent of the Côte d'Azur, which will feature an array of hotels, restaurants, shops and other entertainment facilities, and a range of residential options from apartments to villas. Design and development proposals for The Pearl are being handled by United Development Company PSC, one of Qatar's leading private companies. The company is particularly interesting given that it has opened of 25% of its shares to foreign shareholders. There are two similar projects in their initial stages in Qatar, Lusail and Al-Wa'ab City, and alongside The Pearl, show a Qatari state successfully accommodating a variety of tastes and needs.

Lusail is similar to The Pearl in its incorporation of the residential and commercial spaces; moreover, Lusail will possess all of the traits of a self-sufficient community of 200,000 with its own schools, hospitals and open communal spaces. Parsons Corporation, the multi-billion dollar American engineering and construction firm, is working alongside the Qatari Diar Real Estate Investment Company on the project, signalling the strong presence of foreign private sector involvement in the project. Lusail City is an important component of Qatar's 2020 World Cup bid, as it will host one of the twelve stadiums for the event, in addition to accommodating the residential and entertainment needs of guests. Al-Wa'ab City will also be its own, family-oriented, city.

Qatar has also made efforts to expand its industrial capacity and is now home to several industrial areas. Most are dedicated to the processing, storage and transportation of hydrocarbons, but there are two major sites for light and medium industries, and a number of smaller facilities for specific industries, such as cement making. Mesaieed Industrial City, built in 1996, undertakes a range of hydrocarbon and petrochemical works, but is also responsible for developing light, medium and support industries, including, iron and steel. The Doha Industrial Estate accommodates light and medium industries, ranging from dairy products and soft drinks to metal products.

There are other sites, such as the Um Bab cement plant. Although these sites are all complete, extensions, maintenance and enhancement projects continue. The Doha Industrial Estate, for example, will have over 600 housing units for workers, and the other major sites likewise have facilities for on-site staff, including swimming pools; consequently, there will continue to be a myriad of contracts for years to come. The rule is that for facilities that work in the processing of hydrocarbons, such as Mesaieed, the facility is ultimately under the authority of Qatar Petroleum. For other construction and maintenance projects, such as the housing facilities at the Doha Industrial Estate, the relevant authority is responsible, in this case the Public Works Authority.

Water and Sanitation Infrastructure

Securing water remains one of Qatar's major challenges. Desalination of seawater has emerged as the crux of the state's response to shortages, and in the two decades since 1990 the production of desalinated water has increased over three fold, now accounting for half of Qatar's water supply. This field will remain a key area where foreign companies may find contracts, as the search for improved technologies will be constant given that desalination is a complex and problematic process, and that the current Ras Abu Fontas plant is due to be decommissioned in 2020. The General Electricity and Water Company, Kahramaa, is due to invest in new piping to reduce water losses from a current level of 35% to 10% by 2016. US$ 22 bn will be invested in the creation and expansion of new and existing water and energy infrastructure, with US$ 4.1 bn allocated in 2015.

A second crucial provision of public infrastructure is sanitation. Exactly as with water, it is not the provision that is an issue, as Qatar accomplished 100% urban and rural drinking water and sanitation coverage in 1990; however, with a growing population, alongside limited land, new methods of coping with supply shortages are being sought. The recycling industry currently handles just 8% of Qatar's waste, and Qatar plans to make recycling a national priority to overcome the expansion of landfill sites, with a special focus on nondomestic waste, 91% of which is currently dumped.

Scientific, Technological, and Cultural Projects

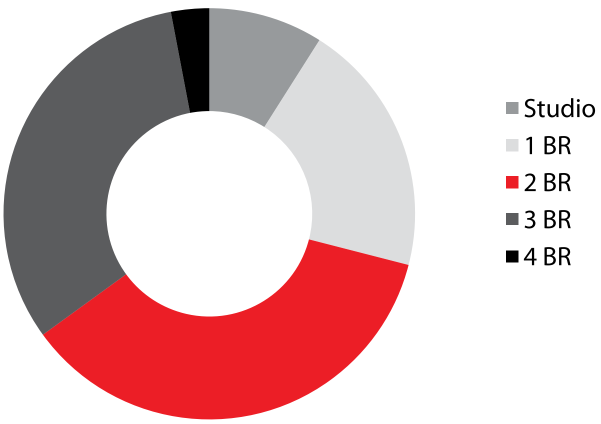
This subsector comprises a number of varied components, from natural parks to renewable energy, but all the projects have at least one of two fundamental concepts behind them. They are either scientific endeavours that will directly assist with the diversification of the economy, or socio-cultural initiatives to raise Qatar's profile on an international scale. The subsector's main state organ is the Qatar Foundation for Education, Science and Community Development, known as the Qatar Foundation, which seeks to guide the development of Qatar away from a hydrocarbon-based economy.

The most important national project is the Qatar Science and Technology Park, which has close ties to a range of top American higher education institutions, including Georgetown, Texas A&M, Cornell and Northwestern. Although the site itself is finished, it remains a sound investment option as it is classified as a free trade zone, allowing for 100% foreign ownership, trade without a local representative and the unfettered hiring of foreign employees. While tenants are required to make technological advancements a priority, they can also trade commercially. Education City, a 14 square kilometre area housing a variety of educational and research facilities, is another major project being developed by the Qatar Foundation.

Residential Real Estate

Though Qatar's population growth rates remained steady during 2010 and 2011, a significant influx of expatriates in recent years ahead of the World Cup has led to a an undersupply within the residential segment. This is in sharp contrast to recent years as a large number of finished projects that entered the market around 2009, many of which were planned during a period in the early 2000's, saw residential units command high prices during a time when demand outweighed supply. Most residential developments continue to be built in Doha's upscale districts, including the Diplomatic District, West Bay and Al Waab/Ain Khalid. This can be attributed to Qatar's expatriate population who have moved to the country for work purposes and tend to look for housing close to the city centre.

Residential Apartment Supply



Source : DTZ Research

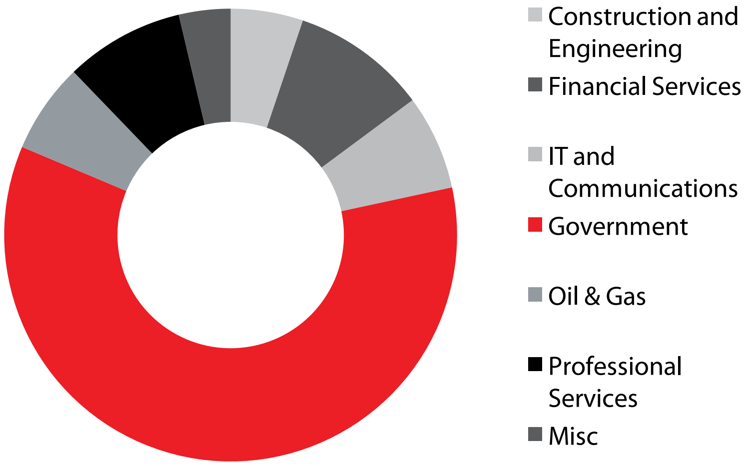
Demand for high-end properties remains high, and supply in this segment experienced significant growth in recent years. Supply of luxury apartments across Doha increased by 75% between 2010 and 2014; a new tower on the luxury The Pearl-Qatar development saw all of its properties sold out within an hour in early 2009. Apartments are generally in higher demand than houses and villas, with one and two bedroom apartments being most desirable, given the high numbers of single males and young couples travelling to Qatar for work purposes. However, most of the residential apartment supply falls into the three-bedroom category, suggesting a disparity between demand and supply.

Despite recent market saturation, Doha is currently experiencing a shortage of around 129,000 residential units, with demand rate expected to grow at a CAGR of 3% to 2020. Residential demand is expected to reach 266,000 units by 2018. The undersupply situation has caused rents to rise by 10% in 2013 and 4% in 2014, with an upward trend anticipated to continue through 2017. Upcoming residential developments include a US$ 4.8 bn mixed-use development in Valley City. Sponsored by SAK Holding Group, the project will include at least 5,000 residential units with a completion date in 2020. Additionally, phase one of the Msheireb Downtown Doha project is set for completion in 2017. The project is a mixed-use residential, retail and cultural development that will include over 100 buildings housing a cultural forum, a mosque, a number of hotels and shops, along with residential and commercial units.

Office Space

Total office space stock in the capital city of Doha reached an estimated 3.9 mn sqm in 2014, 50% of which is categorised as Grade A space. The Diplomatic District, which is considered the city's central business district, is home to around 70% of current Grade A stock, which is usually housed in high-rise commercial office towers. Office real estate is also found on major transport routes across the city. The Qatari government occupies the majority of office space in Qatar, accounting for 54% of recorded demand in 2014, showing a preference for leasing rather than constructing their own buildings, while financial and professional services companies are the largest occupiers in the private sector. Doha is currently facing a supply shortage of Grade A commercial space, particularly within the areas of Diplomatic City and West Bay. Occupants face high rents between US$ 41 and US$ 68 per sqm per month, and rental rates are expected to increase further in the short-term amid rising demand.

Office Demand by Business Sector



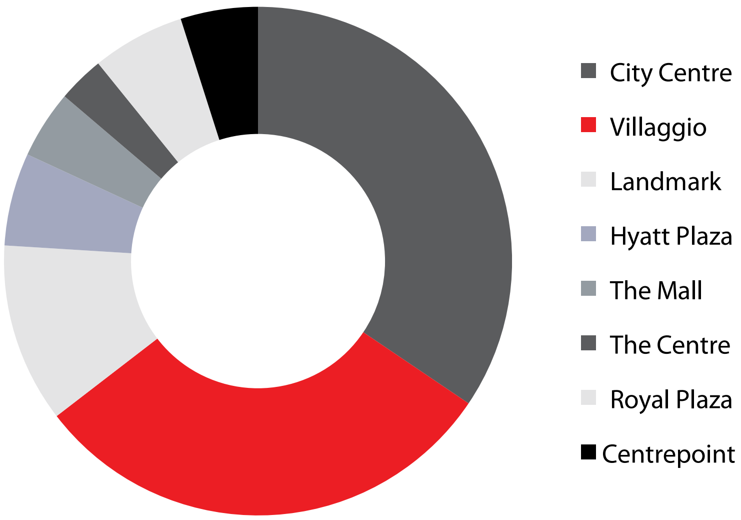
Source : DTZ Research

For Grade B and Grade C commercial space, Qatar's office sector is mired in oversupply challenges, with limited demand for office spaces in Doha. As current vacancy levels stand at a high 29.0% (in case of Grade B and Grade C space), Doha's office market remains largely in favor of occupiers. Current commercial projects in development include the mixed-use Lusail development sponsored by Qatari Diar. At an estimated cost of US$ 45 bn, Lusail City is comprised of 37 sqkm of waterfront, along with 19 integrated mixed-use districts, including a commercial and financial district. The project is set for completion in 2019.

Retail

Qatar accounted for the largest share of projects completed in the retail segment in 2014, across the GCC region. The cumulative retail space in Qatar currently amounts to approximately 773,000 sqm of gross leasable area (GLA) across 14 major developments. In 2014, Qatar had the capacity to absorb the supply of retail space and Qatar is expected to continue its aggressive expansion into 2017 to benefit from an increase in tourist and expatriate inflow in light of the World Cup. In 2017, the supply of retail space is expected to reach 1.5 million sqm of GLA. Although there is still demand for retail space in established malls, going forward, given the competitive environment, demand may remain concentrated on destination and niche shopping malls as these developments have gained significant popularity in recent years amid limited entertainment options

Distribution of Retail Space



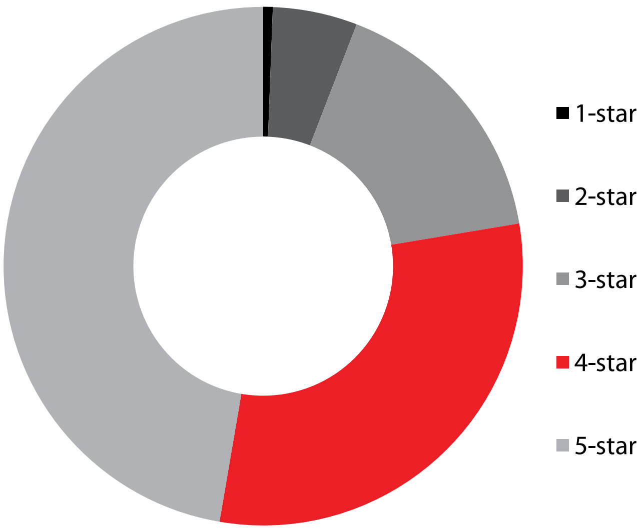
Source : DTZ Research

Unlike other real estate segments, retail rent prices remained stable over the past decade. Thanks to a limited supply and an eager consumer base, most malls are benefitting from almost total occupancy, with many even boasting waiting lists for retail space, driving rents up. Though rental rates have suffered a slight downturn since 2015, Doha's retail segment still commands some of the highest prices in the MENA region. Current projects undergoing development include the Mall of Qatar in Al Rayyan near the capital of Doha. The US$ 824 mn project will be adjacent to Ahmed bin Ali Stadium, a host stadium in the 2022 World Cup. With an estimated completion date in 2017, the mall will house over 500 stores, 100 food and beverage options, a five star luxury hotel and an IMAX theatre. Additionally, Doha Festival City, located in Umm Salal Muhammed, is a US$ 1.65 bn development that began construction in 2011. With an expected completion date in 2017, Doha Festival City will house 263,923 sqm of GLA and leading retail groups such as Azadea, Landmark and Alshaya have committed to bringing their outlets to the development.

Hospitality

Historically, Qatar's tourism industry has been overwhelmingly reliant on business travellers, which make up the majority of all arrivals, at around 95%, according to the Qatar Tourism Authority (QTA). Many of these visitors originate from the Far East and Western Europe, and given the nature of the business environment in Doha, they are often high spenders when it comes to hotel accommodation. Thus, the capital's hotel room stock is dominated by four and five-star establishments, with recent data showing just one one-star hotel in the market. However, following its successful bid to host the FIFA World Cup in 2022, Qatar is directing high levels of investment to provide accommodation facilities for the high numbers of visitors expected during the tournament.

Existing Hotel Room Supply



Source : DTZ Research

Qatar's demand for hotel rooms is increasing, with a recorded growth of approximately 12.1% annually between 2009 and 2014. . The QTA has announced that there are 77 new hotels and 42 serviced apartment buildings currently under construction that will deliver 21,107 new rooms into the market, while their goal is to reach a total of 90,000 rooms by the start of the World Cup in 2022. Many properties are being developed in cooperation with the Qatari government. It is worth noting that the Qatari authorities are also strong investors in the hotel sector outside of Qatar, holding shares in luxury Canadian hotel group Fairmont Raffles and fully owning some of the company's properties in Egypt, France and Singapore. However, occupancy rates in hotels rarely exceed 70%, and though Qatar has seen spikes in tourism arrivals during other international sporting events, these figures suggest that oversupply is already an issue that will only be exacerbated with the conclusion of the World Cup.

Current hospitality projects undergoing development in Qatar include the Silver Pearl Hotel. Designed by New York-based firm M. Castedo Architects and with a project value of US$ 1.6 bn, the Silver Pearl will feature 1,000 hotel rooms and a conference centre, all housed in two half moon shaped towers. The hotel is bring built a mile off of the Doha coast, and will be completed in 2022 ahead of the World Cup. Additionally, Mozoon Real Estate has recently completed design work for the upcoming Mozoon Towers. The project is comprised of four hotels and apartment towers, along with retail space and Oberoi and Marriot will operate the hotels and serviced apartments in the complex. With an estimated project cost of US$ 687 mn, Mozoon Towers will be completed in 2019. Another significant project undergoing development is the Amphibious 1000 floating resort. Sponsored by Giancarlo Zema Design Group (GZDG), the development will be a semi-submerged island of the coast of Qatar. At an estimated cost of US$ 500 mn, the futuristic resort features 80 "jelly fish" floating suites. The rooms feature five floors and submersed panoramic views three metres below sea level. Currently in the construction phase, the Amphibious 1000 had an initial completion date of 2016, although the project has experienced a series of delays.

KEY PLAYERS

Qatari Diar Real Estate Investment Company

Qatar Diar was created in 2004 to coordinate the country's real estate development priorities. Established in 2004 to promote growth in the domestic real estate sector, Qatari Diar is a real estate investment company wholly owned by the Qatar Investment Authority, the country's sovereign wealth fund. Qatari Diar is deeply involved in the domestic real estate industry with projects such as The Pearl and Lusail City and various projects for the World Cup, including stadiums, of which nine are yet to be built; training facilities, of which Qatar Diar is responsible for the majority; and residential quarters required as part of the bid. Qatari Diar owns 51% of QDVC, the company managing the construction of the Qatar-Bahrain Causeway. The company also has interests in regional and international real estate, with investments in Khartoum, Cairo, Syria, Morocco, Djibouti, Cuba, Tajikistan, the United States and the United Kingdom. The company has been beset with some difficulties as a result of the financial crisis. Barwa and Qatari Diar both announced staff cuts in mid-2011, and several international projects have been put on hold pending improvements in the global economic environment.

Consolidated Contractors Company (CCC)

One of the oldest and most established Arab construction companies, Consolidated Contractors Company works in markets across the Arab world and in Africa. In Qatar, CCC was the winner of the Ras Laffan port expansion, and is also involved in a number of smaller projects. CCC currently has estimated total revenues of over US$ 4 bn, and consistently ranks among the top 20 international contractors in terms of revenues.

United Development Company PSC

United Development Company PSC is one of Qatar's leading private companies. The company is particularly interesting given that it has opened of 25% of its shares to foreign shareholders. United Development Company PSC has assets of over US$ 3.5 bn and its remit has duly expanded to include infrastructure, energy-intensive industries, hydrocarbon downstream manufacturing, real estate, maritime and environment-related businesses, urban development and utilities, hospitality, retail and fashion, information technology, media and communications, insurance and other services. The company's major project is The Pearl, a man-made island comprising retail, residential, cultural and leisure venues.

Ezdan Real Estate Company

One of Qatar's biggest real estate developers by market value, Ezdan Real Estate Company was established in 1960 and engages in real estate ownership, development and trade. Specialising in residential real estate development, Ezdan is the master developer and contractor for several high-rise apartment buildings as well as gated compounds consisting of villas in Doha, Gharaffa, Al Wakra and Wukayr. However, Ezdan is in talks with a Malaysian real estate fund for the sale of its property for an estimated US$ 275 mn. Ezdan Real Estate Company's market capitalisation stands at US$ 14.4 bn.

Al Madar Group

Established and headquartered in Doha in 1992, Al Madar Group is one of Qatar's biggest real estate development companies, having handed over more than 130 buildings and 14 large-scale projects in the country as well as in the United Arab Emirates. Operating as both a master developer and contractor, Al Madar Group's portfolio covers several residential and commercial projects, including luxury apartment buildings, gated villa compounds, banks, office complexes, schools and public parks. Certified by Lloyd's Register Quality Assurance, Al Madar Group also has infrastructural specialities including water connection and waste management.

Midmac Contracting Company (MIDMAC)

Midmac Contracting Company (MIDMAC) is one of the largest Qatari contracting organizations, with a workforce of over 6,000 skilled employees. Established in 1975, the Qatar Investment and Project Development Company (QIPCO) acquired a majority stake in the company in 2002, with MIDMAC currently operating as a wholly owned subsidiary of QIPCO. Specialising in general contracting, the company works on a wide range of projects including residential and commercial buildings, hospitals, universities, stadiums, hotels, road works, heavy infrastructure works, utilities projects and more.

Gulf Contracting Company

Gulf Contracting is a Qatar-based company offering investment, construction and support services to the country's key sectors including construction, infrastructure, healthcare and real estate. The company is a key supporter of the country's National Vision 2030 and is involved in a large number of key infrastructure and real estate projects including the Bionest wastewater treatment, Qatar International Court, Bilal Tower and the Commercial Bank of Qatar at the Pearl.

Marriott International

Based in Maryland, USA, Marriott International has an impressive portfolio of hotels in Qatar, covering a wide range of budgets. With six hotels under the Marriott, Ritz Carlton, Renaissance and Courtyard brands, as well as an unbranded spa resort and executive serviced apartments, the company attracts high-spending business, leisure and domestic tourists. Marriott Executive Apartments and the moderately priced Courtyard by Marriott are situated in the heart of the Doha City Centre business district, are designed to target foreign business tourists as well as budget travellers from both inside and outside the country. Marriott International has a market capitalisation of nearly US$ 10.3 bn.

Starwood Hotels and Resorts

One of the world's biggest hospitality companies, New York-based Starwood Hotels and Resort is the parent company of some of the most recognisable hotel brands including Aloft, Westin, Sheraton, W, St. Regis and Le Méridien. In Qatar, Starwood currently owns two properties: a luxury boutique W Hotel and a Sheraton, while an ultra-luxury St. Regis hotel will open its doors in February 2012. Starwood is also constructing Le Méridien Doha, scheduled to enter the market in 2014. The global company is listed on the New York Stock Exchange with a market capitalisation of US$ 9.5 bn.

Barwa Brokerage and Investment Holding Company

Founded 2005, Barwa Brokerage and Investment Holding Company is a diversified holding group that has focused on commercial and residential real estate development. The largest development company in terms of number of developments, Barwa is in the process of developing several residential compounds including Barwa City, while it has already completed and handed over Barwa Village and affordable housing development Masaken Barwa. Many of these developments include leisure and retail outlets, and the company is also currently developing Barwa Commercial Avenue, a dedicated retail development that is planned to add around 500,00 sqm of retail space. According to local reports 60% of the first phase is complete, with the rest planned for completion in 2012, while Al Baraya Mall is scheduled to add 271,000 sqm of retail space by 2015. Barwa recently merged with Alaqaria, a public shareholding company that specialises in commercial and governmental projects. Listed on the Doha Stock Exchange, Barwa has a market capitalisation of US$ 3.2 bn.

Qatar Sport and Environment Council

The Qatar Sport and Environment Council will implement the Green Qatar 2022 plan as stipulated in the country's successful bid to host the 2022 World Cup. The plan calls for a variety of educational and community programmes, including water and waste management, and minimising carbon concentration with energy and transport procurement projects, among others.

ECONOMIC OVERVIEW

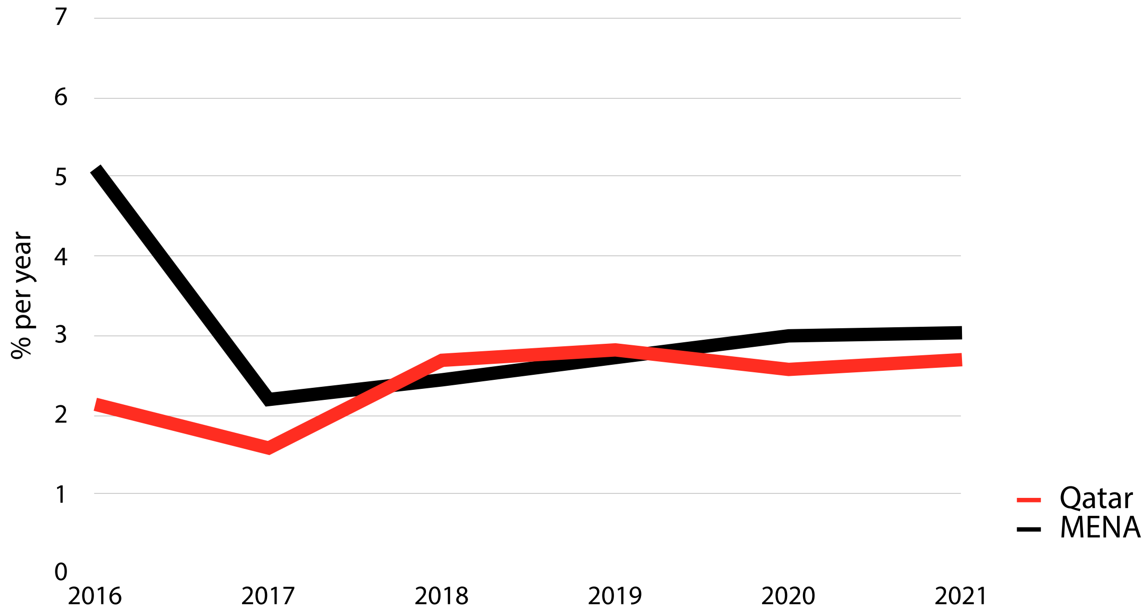
Economic Forecasts

Subject Descriptor	Units	2016	2017	2018	2019	2020	2021
GDP, constant prices	% change	2.1	1.6	2.7	2.8	2.6	2.7
GDP, current prices	US dollars, billions	151.7	166.9	188.3	204.3	211.2	217.5
GDP per capita, current prices	US dollars	57,965	61,024	67,818	72,676	74,934	76,996
Total investment	%, GDP	29.5	34.2	45.0	46.7	45.9	45.2
Inflation, average consumer prices	% change	2.6	0.4	3.7	3.5	2.2	2.1
Volume of imports of goods and services	% change	10.9	-7.1	5.9	-3.0	-4.5	-2.9
Volume of Imports of goods	% change	17.2	-7.8	17.6	-5.1	-9.2	-7.3
Volume of exports of goods and services	% change	2.1	2.2	-1.3	-1.4	-0.0	0.7
Volume of exports of goods	% change	2.2	0.8	0.5	-0.4	0.8	0.8
Unemployment rate	%, total labour force	n/a	n/a	n/a	n/a	n/a	n/a
Population	Millions	2.6	2.7	2.8	2.8	2.8	2.8
General government net lending	%, GDP	-4.7	-1.6	3.6	10.5	11.5	10.4
General government gross debt	%, GDP	46.7	53.8	53.40	48.7	44.778	41.9
Current account balance	%, GDP	-5.5	3.8	4.8	6.6	6.8	6.5

Source: IMF, World Economic Outlook database, October 2018

Growth in the Qatari economy slumped to an eight-year low in the second quarter of 2017, according to official figures that highlighted the impact of the economic blockade that began in June. The economy grew just 0.6% year-on-year in the three months to June, following a 2.5% expansion in the previous period. It was the lowest rate since 2009 global crisis. The main driver was a 2.7% slump in the mining and quarrying as a result of a cut in output in December 2016 and disruption transport links thanks to sanctions. Non-oil growth eased 3.9% from 4.9% in the first quarter. Construction slowed to 15.3% from 15.7%, as did financial and insurance activities (4.8% from 10.1%), while it was flat for manufacturing at minus 1.4%. In October 2017 the International Monetary Fund used its biannual world economic outlook to cut its forecasts for GDP growth in the period through to through to 2020. The fund now expects Qatar to grow by 2.5% in 2017 rather than the 3.4% envisaged in its last report in April before the embargo took hold. It then expects growth of 3.1% (2.8%), 2.7% (2.3%) and 2.8% (2.0%) in 2018, 2019 and 2020 respectively. Fitch, the credit agency that cut its rating of Qatar to AA- from AA in August, said it expected GDP growth to slow to 2.0% in 2017 and 1.3% in 2018-2019, with the dispute adding to the challenges facing Qatar's development programme and weighing on its growth outlook. The diplomatic rift could weaken confidence and reduce investment and growth, both in Qatar and possibly in other GCC countries as well, the International Monetary Fund warned at the end of August 2017. Following an eight-day visit to the emirate, mission chief Mohammed El Qorchi said the measures led to a 40% year-on-year contraction in imports in June. The blockade by Saudi Arabia, the UAE, and Bahrain and other states including Egypt began on 5 June. Analysts will be looking to see the impact of the embargo on growth in the three months to September, the first quarter to fully embrace it. Since the hydrocarbon phase of Qatar's economic growth development plateaued in 2001 when the government ordered a moratorium on further gas export developments in the North Field, Qatar has embraced a new more diversified phase of growth driven by the development of the non-oil sector.

GDP growth

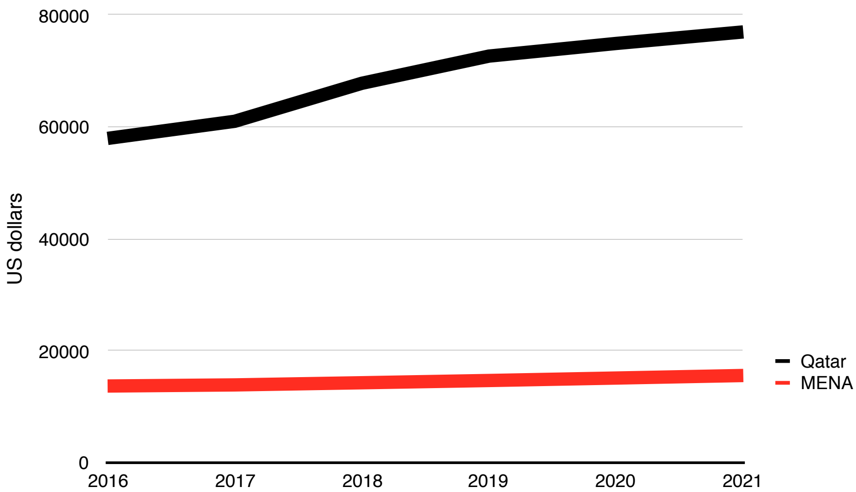


Source: IMF, World Economic Outlook database, October 2018

The outlook for growth will depend on the success of the country's diversification away from hydrocarbons to offset the significant decline in oil prices that has now been exacerbated by the impact of the embargo. Having fallen by more than 30% y/y in both June and July, imports fell by a more modest 7.6% y/y in August – broadly in line with their performance in the 12-18 months prior to the blockade. The blockade has perhaps accelerated that diversification as the IMF says that efforts to diversify sources of imports and external financing and enhance domestic food processing have speeded up. Some trade has been re-routed and alternative sources of food supply have been established, allaying fears of potential shortages. One area to monitor will be non-oil growth: it grew 3.9% y/y in the second quarter, down from 5.2% y/y in Q1. While that appear to be a fairly modest slowdown the data only cover the first month of the blockade. An initial concern that trade disruptions would impact the implementation of key infrastructure projects has also been mitigated by the availability of an inventory of construction materials and of alternative sources of imports. The blockade had raised concerns over Qatar's ability to bring in supplies to build eight new stadiums and other football facilities, plus a metro system linking Doha to a new city for 250,000 residents north of the capital, where the final is to be played in a stadium designed by architects Foster + Partners.

Qatar is implementing an ambitious diversification strategy via a large public investment programme that is forecast to sustain growth over the coming four years. However an austerity drive to combat the impact of declining oil activity has seen Qatar impose substantial financial cuts. Growth is expected to slow in the medium term, as public investment growth tapers off and hydrocarbon output continues to slow down. Development projects, cultural schemes, education, transport and its 2022 football World Cup — which has been reduced to eight from 12 stadia — will face spending cuts. Construction will continue to expand through to 2018, though its pace of growth will ebb as existing projects are completed and no additional new assets are built. In the short-term growth will still be supported by the hydrocarbon economy, which is expected to grow over the three years to 2019. The economy should start to see the benefits of the US$ 10 bn Barzan gas project that is expected to move into full production in 2017. However a leak discovered in a gas pipeline in October 2017 has pushed back the start date that had been planned to take place in November. The economy is also benefitting from infrastructure spending such as the development of Lusail, Barwa City and Education City ahead of the 2022 FIFA football World Cup. Oil and gas accounted for 75% of goods exports and more than 50% of GDP during 2010-2014. However, the scope for a sharp pick-up will be limited by a likely surge in LNG supply from Australia. The new Ras Laffan II condensates refinery, is set to become operational in 2017, after an initial target of late 2016 was delayed after a leak was discovered in a pipeline. Qatar is the wealthiest country in the MENA region with a GDP per capita nudging US$ 80,000 a year.

GDP per capita, current prices

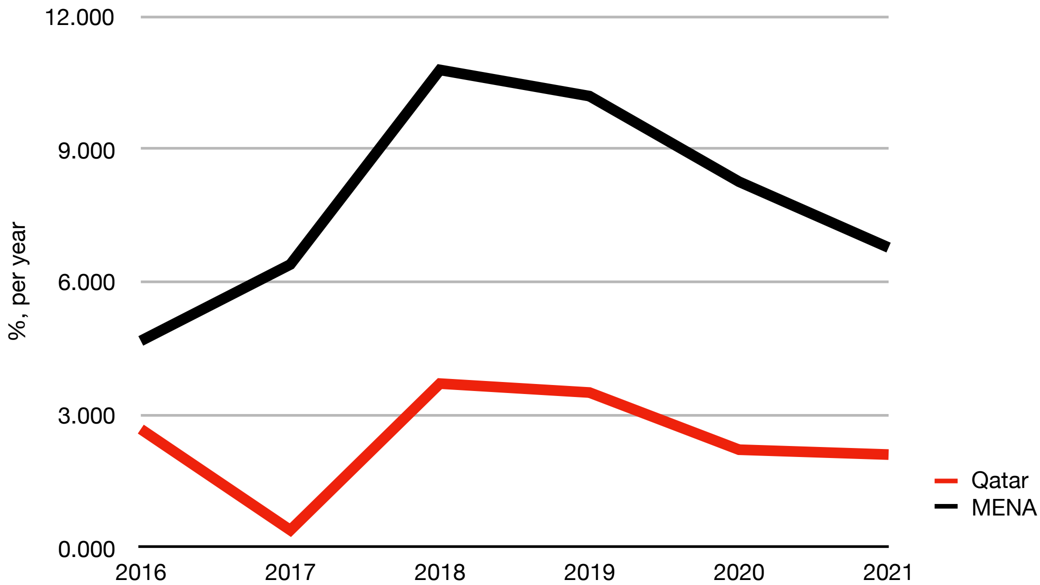


Source: IMF, World Economic Outlook database, October 2018

The annual rate of inflation fell for the second month in a row in September 2017, dropping to minus 0.5% from minus 0.4% in the previous month. These were the first negative reading for almost six years. Housing and utility prices dropped 4.7%, following a 4% drop in the previous month, while transport prices rose at a softer pace (6.1% versus 6.3%). Meanwhile, food inflation rose to 3.6% from 2.8% in August indicating that the blockade by causing shortages that are pushing up prices. Food and beverage prices jumped 4.5% in July, their fastest increase since at least 2014, and climbed 4.2% from the previous month. In August they rose 2.8%. Inflation has been on a persistent downward path since hitting a recent peak of 3.4% in April 2016. Inflation is expected to spike up sharply in 2018 to 4.8% according to the latest forecasts by the IMF after troughing at 0.9% in 2017, as an expected recovery in international food prices in 2016 and in oil prices in 2017. Population growth will fuel increases in aggregate demand, which will exert domestic inflation pressures. However it is then scheduled to fall back to 2.1% by 2020.

One key factor behind the decline in inflation pressures is the real estate market in Qatar. The real estate index produced by the Qatar Central Bank (QCB) shows that the index fell by 3.3% in the year to September 2017, and to its lowest level since 2015. According to the QCB, the index has been on a downward trend since January 2017. However, the downturn may be exacerbated by the impact of the diplomatic row leading to Gulf expatriates returning home, and ending leases or selling up. Following an increase in sales prices between 2011 and 2015, prices stabilised in the first half of 2016 as demand from buyers was impacted by lack of confidence in the economy, according to DTZ Qatar. In a June 2017 update DTZ Qatar said landlords had largely become more willing to accept rent-free periods or drop rental expectations in vacant properties. This has been due to additional supply and an increased in vacancy rates following a five-year period of undersupply and strong rental growth. It said it was unlikely that there will be a return to the strong rental increase witnessed between 2011 and 2015, due to the continuing development of new residential buildings, and the lower demand from higher earning expatriate workers. However the impact of the recent blockade of Qatar has yet to translate into lower rents or house prices, however this may become more evident in time. Activity in the residential sales investment market has reduced since the peak of the market in 2015, due largely to reduced confidence, both from investors and financial institutions. The outlook for real estate prices is uncertain, as they are likely to be caught between the negative impact of declining hydrocarbon wealth, the positive effects of the continued infrastructure expenditure and the impact of the diplomatic embargo.

CPI inflation

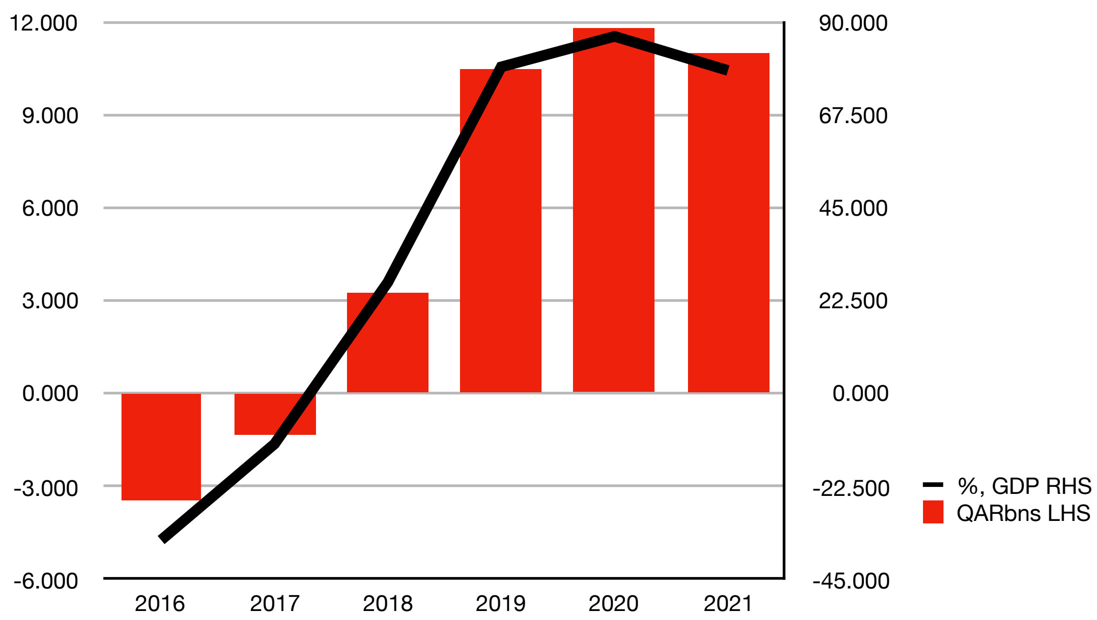


Source: IMF, World Economic Outlook database, October 2018

Determination to push through consolidation should ensure that Qatar's budget deficit narrows in 2017. The IMF said in August 2017 that central government deficit was projected to decline to 5.9% in 2017 from 8.8% in 2016, underpinned by current expenditure cuts and an increase in non-oil revenues. Fitch Ratings said in September the fiscal deficit would narrow to 3.2% of GDP in 2017 from 4.9% of GDP in 2016 as an uptick in oil prices and restraint in public sector pay offset higher spending on goods and services, transfers and development projects. Its figures are lower because it includes estimated Qatar Investment Authority (QIA) income of around 4% of GDP. Qatar is expected to fund its fiscal deficit through debt rather than drawing down its sovereign wealth fund. Qatar National Bank, a private lender, expects the deficit will turn into a surplus from 2018 onwards thanks to an increase in oil prices boosting the government's revenues, and in turn easing financial constraints. This is more optimistic than the government's own projection in December 2016 when it said it expected to run a budget deficit for at least the next three years as low natural gas and oil prices weigh on its revenues. Its baseline fiscal projection sees the central government deficit narrow to 3.1% of GDP by 2021 from 9.0% in 2016. The 2017 budget projects a budget deficit of US$ 7.8 bn based on spending QAR 198.4 bn (US$ 54.5 bn) in 2017 and revenues of around QAR 170.1 bn (US$ 46.7 bn). The 2018 budget is expected to continue with gradual fiscal consolidation, focusing on the introduction of key tax policy and administration measures, including the introduction of a VAT and excises during the first half of 2018 and further rationalisation of recurrent expenditures. The government ran its first budget deficit for 17 years in 2016, amassing an estimated fiscal shortfall of QAR 46.5 bn (US$ 12.8 bn), the country's first deficit since 1999, the government has said. It has raised its forecast for the deficit as a share of GDP to 7.8% rather than the 4.8% it envisaged in December 2015.

The IMF is forecasting that Qatar's net lending position, a different measure, will move into a surplus of 0.5% of GDP by 2019 and then 2.0% in 2020. The emirate has taken a number of measure to improve the fiscal situation, including taxes on goods deemed harmful to human health, including on tobacco and sugary drinks, or the environment in 2017, and a 5% GCC value-added tax due to be introduced in 2018. The likelihood that the government will choose to fund fiscal deficits via debt issuance rather than by drawing down the sovereign wealth fund assets of the QIA, which Moody's estimates at close to US$ 300 bn (around 180% of GDP) at the end of 2015, will help keep the country's very strong net creditor position intact. However the medium-term debt trajectory is quite sensitive to different nominal growth and budgetary outcomes. Relatively small cuts in growth and increases in the average deficit position would cause the debt burden to diverge still further. The fall in oil prices has had a dramatic impact on the government's finances, as more than 80% of its budget revenues are derived from the activities of the hydrocarbon sector. Until recently the government has continued to post large surpluses thanks to strong revenues and expenditure restraint. Qatar's oil break-even point for its budget and current accounts is close to the baseline forecast of US$ 50 a barrel in the IMF's World Economic Outlook, which is below the current US$ 58 world price. This will leave it greater room for manoeuvre than all of its Gulf neighbours in terms of the ability to raise government spending to counteract any economic slowdown. In its June 2016 forecasts, the government projected an 8% deficit. Breakeven oil prices for the fiscal balance are estimated at US$ 61.5 per barrel for 2016, and above US$ 65 for both 2017 and 2018. External debt is forecast to stabilise at around 55.5% of GDP.

Government net lending



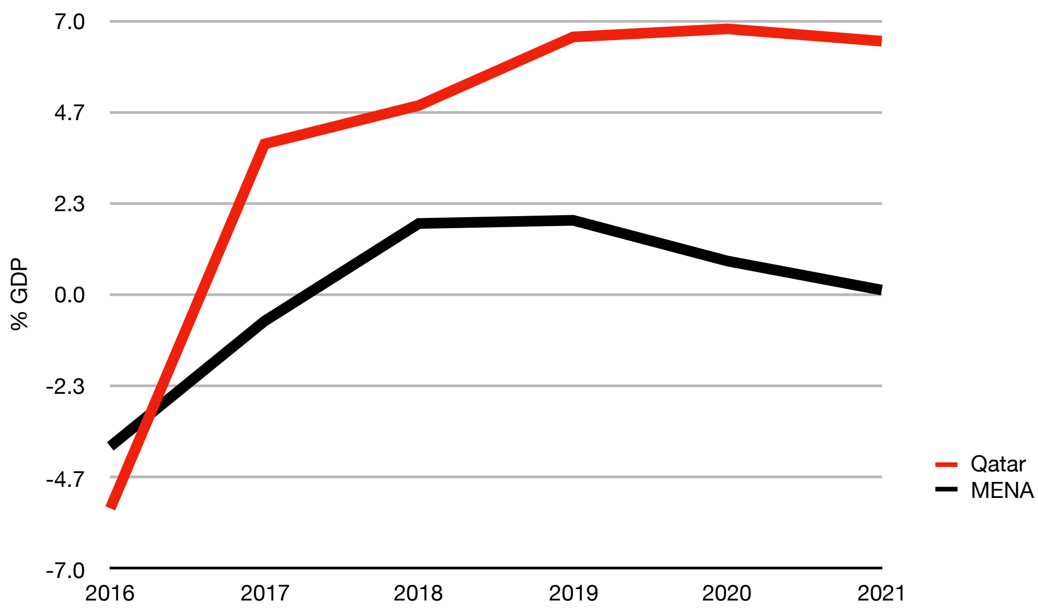
Source: IMF, World Economic Outlook database, October 2018

Qatar is expected to return to a current account surplus in 2017 thanks to the measures it has taken to offset the blow to its external balance sheet. It will end the year on a surplus of 2.5% of GDP after falling into a deficit of 4.9% in 2016 after enjoying a surplus of 8.9% in the previous year, according to the October 2017 forecasts by the IMF. Fitch Ratings expects net sovereign foreign assets to fall to 146% of GDP in 2017 from 185% of GDP in 2016 as the public sector, including the QIA, continues to move deposits into Qatar's banks, offsetting the outflow of non-resident deposits. The government placed deposits of more than US$ 18 bn in Qatar's banks in June and July, a figure forecast to rise to US$ 35 bn by the end of 2017. Fitch expects central bank reserves to fall to US$ 20 bn by end-2017, from US$ 25 bn at end-June and US$ 32 bn at end-2016. Moody's rating agency followed its downgrade of Qatari debt in June with a cut to its outlook In July in the wake of the diplomatic row. It changed its outlook to negative from stable but affirmed the long-term issuer and senior unsecured debt ratings at Aa3. Depending on the duration and potential further escalation of tensions, the dispute could negatively affect Qatar's economic and fiscal strength. Absent a swift resolution, economic activity will likely be hampered by the measures imposed so far. A prolonged period of uncertainty will negatively affect business and foreign investor sentiment and could also weigh on the government's long-term diversification plans to position the country as a hub for air traffic, tourism, medical services, education, and sports through a higher risk perception among foreign investors.

Net exports continued to fall on a year-on-year basis, although at a slowing pace; net exports fell 42.1% in the last quarter of 2016 compared to 71.4% in Q3. The current account moved into surplus in the first quarter of 2017, according to the central bank. The balance was QAR 1.1bn in the first three months of the year from a QAR 6.2 shortfall in the final quarter of 2016. The government has pointed out that if average oil prices for the year were rise by US$ 1 above its assumptions, the current account would balance. The recent rise in oil from US$ 49 to US$ 55 a barrel will help. Surpluses are anticipated to resume with the forecast rebound of oil prices in 2017 and 2018. More than

80% of its export revenues are derived from the activities of the hydrocarbon sector. The country has built up foreign asset reserves mainly due to the activity of the Qatar Investment Authority, its sovereign wealth fund. Qatar has a reserve of US$ 340 bn including assets of its sovereign wealth fund that could help the country to resist the isolation from its neighbours in the Gulf, the Governor Sheikh Abdullah Bin Saud Al-Thani told CNBC in July. The QCB has $40bn in cash reserves plus gold, while the Qatar Investment Authority has US$ 300 bn in reserves. Analysis by the IMF indicates that Qatar was one of just three countries — the others were Kuwait and the UAE — to have more than 20 years' worth of capital buffers.

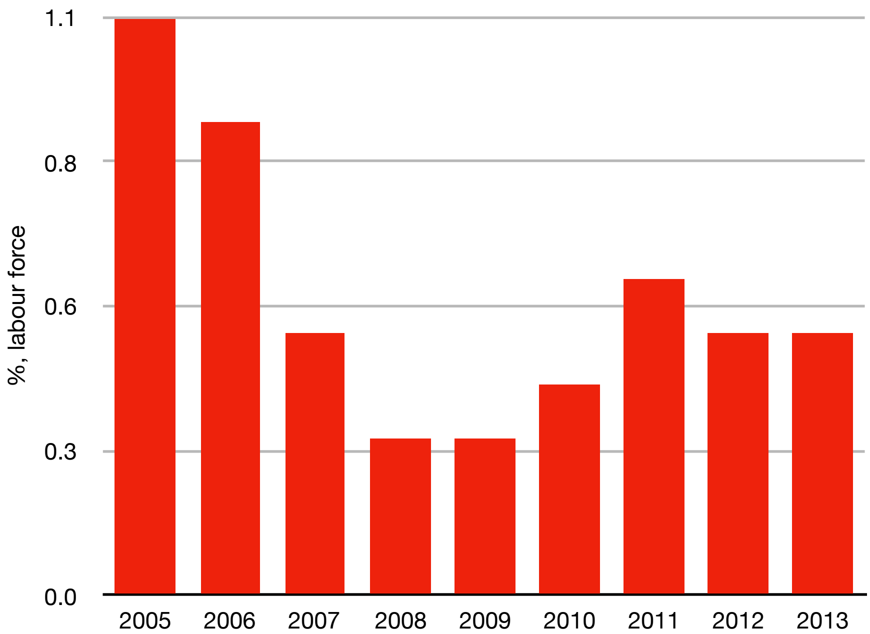
Current account balance



Source: IMF, World Economic Outlook database, October 2018

Only a tiny minority of Qatar's small population of 2.2 million people are unemployed. Qatar's unemployment rate is almost certainly the lowest in the world. The unemployment rate remained at 0.1% in the second quarter of 2017 and down from 0.2% in the fourth quarter of 2016. It is now the lowest on record. There were 2,873 jobseekers in Qatar, both citizens and foreigners, at the end of the second quarter of this year, the figures show, compared to 3,293 in the same period last year, according to the Ministry of Development Planning and Statistics. It had averaged 0.6% over the decade to 2013. Expatriates make up almost 95% of the workforce in the country and many migrant workers have been brought in to help complete the World Cup projects. The share of high-skilled workers in the labour market has climbed from 20.6% in 2010 to 22.9% in 2014. This suggests Qatar's ambition to invest in human capital set out in its National Vision 2030 is raising the skill level of the workforce. In 2014 Qatar announced measures to protect foreign workers aimed at ensuring they were properly paid and would not be forced to work in the extreme heat of midday in summer. The worker sponsorship scheme known as kafala, which requires all unskilled labourers to have an in-country sponsor and gain permission to change jobs, remains in place but new legislation that regulates the entry, exit and residency of expatriates in Qatar is set to come into force in October 2016. The new law abolishes the current two-year ban on expatriates who want to come back to the country on a new visa. Meanwhile private sector employers are likely to be more restrained in pay rises in 2016 compared with past years thanks to a slowing economy. Consulting firm Mercer said remuneration increases in Qatar would average 4.9%, the first time the figure has dipped below 5% in five years.

Unemployment rate



Source: IMF, World Economic Outlook database, October 2018

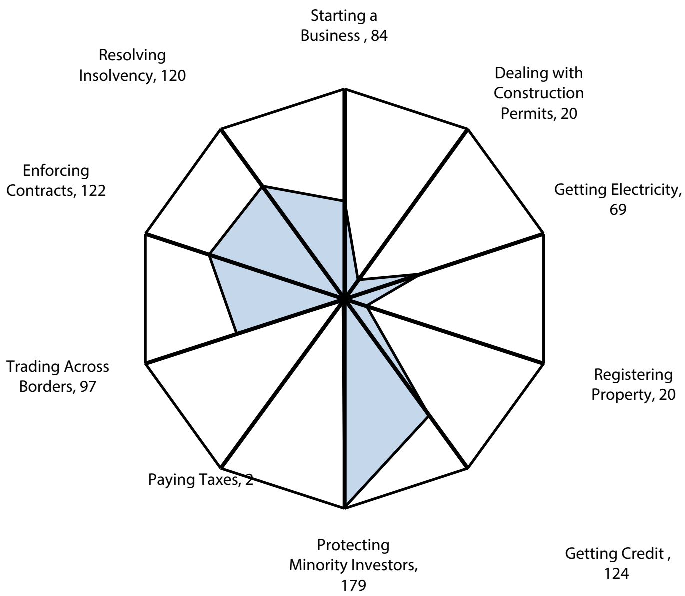
Corporates will face increase operational risks in Qatar as a result of the embargo by the GCC states. The tensions will undermine business and investment sentiment in Qatar. Firms may face higher freight costs. They also pay higher insurance and legal costs to ensure they do not trade with any entities subject to sanctions. A call by Saudi Arabia and Bahrain on deposits from Qatari banks would tighten liquidity conditions further and make it more difficult to source hard currency. Overall however Qatar is a stable country, albeit run in a highly authoritarian and centralised fashion. Generally, a non-Qatari national may engage in commercial activities provided the foreign participation in the entity does not exceed 49%. These opportunities have been greatly enhanced by Qatar being chosen to host the Football World Cup in 2022. MSCI has upgraded Qatar to emerging market status, which will automatically attract funds from global investors. The government has increased ownership by foreign investors in listed companies to 49% from 25%. Memorandums of understanding with various countries are also being signed so as to improve trade and investments relations. Other business-friendly measures include full repatriation of profits, and a flat 10% corporate tax on locally sourced profits. The embargo by the Gulf states will prevent trade between Qatari businesses and those states. However trade tied between Qatar and the rest of the region are relatively small. Qatar recently announced a visa-free entry programme for 80 nationalities to stimulate tourism, created a new permanent-resident status for foreigners and has approved a new law to protect domestic staff.

However doing business can be difficult as the business climate is marked by significant administrative obstacles, while bureaucracy can be complex and lead to delays. Qatar ranked 61 out of 175 countries in Transparency International's 2016 Corruption Perceptions Index, an improvement on 71 in 2015. However it had the sharpest decline in the overall index this year by 10 points. The country has been implicated with FIFA corruption scandals, especially around the votes to host the 2022 World Cup, in addition to human rights violations of migrant workers. Qatar insists it has taken a strong stance on corruption, establishing the Qatar Rule of Law and Anti Corruption Centre, which was inaugurated in December 2011. The Government said in September 2017 it was committed to labour reform and was constantly reviewing its policies to ensure expatriate workers received the necessary on-site protections. The World Bank's 2017 Doing Business Report ranks it at 83 out of its 189 countries. This was a pronounced fall from its ranking of 68th in 2016. It fell in seven of the 10 categories measured by the World Bank. Its worst falls were 47 places to 183rd in protecting minority investors and nine places for starting a business (83).

There are substantial delays for entrepreneurs wishing to obtain official approvals (with ranking of the best-performing nation, New Zealand, in brackets):

- Start a business: 8.5 days (0.5)
- Obtain construction permits: 58 days (93)
- Gain electricity supply: 90 days (58)

Doing business in Qatar



Source: World Bank, Doing Business Report, 2019
Rank 190 bottom, Rank 1 top of scale

CHALLENGES TO INDUSTRY

While Qatar benefits from a favourable business environment, vast natural resources, and a clear government vision for growth backed by strong levels of spending, all of which have contributed to rapid growth in the domestic infrastructure, construction and real estate sectors, some aspects of Qatar's current commercial environment pose important challenges to continued growth in the infrastructure and construction sector. These challenges include a difficult business environment, government corruption and issues related to sector oversupply and employment. In addition, the ongoing economic and political boycott of Qatar by its GCC neighbours has contributed to significant challenges, although Qatar has so far shown itself resilient in the face of these obstacles.

Although Qatar is by no means the among the most corrupt of the region's absolute monarchies, in fact beating its fellow GCC nations in terms of the transparency in the country's policymaking, auditing and reporting standards, and overall global competitiveness, Qatar nevertheless lags behind the world average. This persistent lack of transparency is the result of the country's governing structure, which, by definition, hinders free and unfettered commerce. While the government is generally seen in a positive light in terms of its plans for development and its willingness to work with international companies, the fact remains that it retains near complete control over all commercial activities, particularly when it comes to infrastructure development.

As long as investors and corporate players seeking involvement in Qatar remain aware that the country's commercial environment is designed to protect Qatar's hydrocarbons wealth and serve the needs of the royal family and the small, elite population, there is no reason why the commercial relationship between the state and private sector actors cannot be of mutual benefit going forward.

A developed economy, Qatar's finance and banking system is heavily reliant on credit and lending, and took a blow following the global credit crisis, which particularly affected the availability of loans and mortgages to potential residential real estate buyers, though Qatar's development and construction companies escaped many of the setbacks, which hit the neighbouring UAE much harder. The presence of expatriates across all professions in Qatar has also made it a transient location, meaning many workers spend only a small amount of time in the country, thus preferring to rent rather than buy real estate, contributing to an unstable, rapidly changing market.

The retail real estate segment, although perhaps the most promising, may also pose problems for investors in the medium to long term. Though Qatar's wealthy consumer base drives huge levels of demand, far outstripping the current supply, oversupply based on this trend is a cause for concern. With available leasable retail space set to increase dramatically over the next five to 10 years, it is likely that the supply-demand balance will reverse, especially given that Qatar is not a traditional shopping tourist destination like neighbouring Dubai. Saturation will be achieved rapidly if the supply of retail real estate grows faster than the population and tourist arrival numbers. Furthermore, with mall-based retail having become the standard in Qatar's retail landscape, it will become harder and harder for new developments to compete and distinguish themselves from other spaces.

Staffing is one of the biggest problems faced by non-hydrocarbon industries across the GCC, and Qatar is no exception. With a shortage of skilled labour, and little indigenous interest in service and marketing-based careers, it is notoriously difficult for businesses to attract and retain qualified people. Though expatriate workers tend to command lower salaries, the impermanence of the expatriate labour force causes instability in staffing, which can be especially damaging to real estate trading and construction companies, home ownership levels, and the hospitality sector.

SWOT CHART

Strengths

• Qatar's desire to be a regional leader has made it eager to undertake large-scale infrastructure projects of various types and has opened up participation to international companies.

• Qatar's National Development Strategy shows a clear push for economic diversification, in which construction, infrastructure and real estate will play a major role. These efforts will create a stronger economy in the long-term and continue to require foreign involvement and investment.

• A high number of expatriate residents and foreign companies together with a wealthy local population drive demand for both residential and commercial real estate.

• The Qatari government is one of the biggest investors in real estate, and the biggest occupier of office space, eager to stimulate the industry and attract private investment.

• Qatar's increasing population influx coupled with a strong demand base with high disposable income levels means that demand for basic and heavy infrastructure, as well as residential and commercial real estate will continue to grow in the near-term.

Weaknesses

• The entire infrastructure and construction sector rests on revenues generated from the export of LNG, tying the fates of the two together through the medium term as the government works towards diversifying the economy.

• Heavy state control causes delays and increases project costs; nebulous decision making processes may mean that contracts are not awarded in a consistent manner.

• Though very wealthy, Qatar's majority expatriate population often looks to rent and not buy property. Tightened personal credit regulations have also exacerbated the issue of low home ownership levels.

• Despite efforts to promote Qatar as a tourist destination, arrival numbers remain low, putting new hospitality developments in jeopardy.

• Real estate and construction positions are under-occupied by indigenous Qataris. This has meant that many companies face difficulties in assembling a stable staff.

Opportunities

• The 2022 World Cup guarantees sustained investment from Qatar in national infrastructure and will bolster development of touristic infrastructure, hotels in particular.

• GDP per capita will continue to increase, and the ever-more affluent society will demand bigger and better homes, and more leisure outlets and retail facilities, fuelling the construction and real estate industries.

• As the capital of Doha nears real estate saturation, land transactions in lesser-developed areas signal growing urbanisation and new opportunities in untapped markets. Low-income housing is particularly unavailable and this segment offers plenty of opportunity for developers.

• Extended residency visas offered to foreign real estate buyers opens up a larger market for property developers.

Threats

• A sustained climate of low oil prices poses a threat to government finances and Qatar's state-led infrastructure development plans.

• Though the World Cup is likely to generate high occupancy rates in 2022, oversupply across all real estate and some infrastructure segments is expected following the event.

• As the government's various branches control the infrastructure industry, contract tender processes will never be transparent, limiting foreign investment in the sector.

• Ownership regulations restrict foreign companies from full involvement in the market, further limiting investment attractiveness.

PROJECTIONS

Economic Projections

	2017	2018	2019	2020	2021
Nominal GDP (US$ bn)	177.7	183.4	190.5	204.8	230.5
Real GDP Growth (%)	3.2	3.9	7.5	12.5	10.2
GDP Per Capita (US$)	90,985	93,896	97,558	104,875	117,984
Population (mn)	2.31	2.37	2.43	2.49	2.53

Source: Noozz

Industry Projections

	2017	2018	2019	2020	2021
Construction Sector Contribution to GDP (%)	8.3	8.7	9.1	9.6	10.0
Real Estate Sector Contribution to GDP (%)	8.8	9.1	9.4	9.7	10.1
Infrastructure Spending (US$ bn)	13.0	13.6	12.9	12.2	11.6

Source: Noozz

NEEDS ASSESSMENT

• The government should make every effort to streamline business procedures to ensure that planned projects progress on schedule and that Qatar continues to enjoy a reputation as one of the best places to do business in the region.

• Potential real estate investors should be wary of existing or impending oversupply across most segments of the industry, despite a steadily growing population and government interest in developing the tourism industry.

• The United Arab Emirates outranks Qatar in the ease of gaining construction permits. While Qatar's government should maintain firm control over the sector to ensure that zoning and building standards are met, simplifying the process would be beneficial for both the government and contractors.

• Qatar's labour productivity levels have fallen consistently since 2006, dropping over 8% between 2006 and 2009 alone. Efforts to increase productivity and implement best practices in health and safety at construction sites will benefit the sector and make Qatar a more attractive destination for skilled construction workers.

• The Qatari government should balance the need to develop infrastructure on a massive scale in preparation for the 2022 World Cup with a realistic vision of how these structures, hotel rooms in particular, will be used following the conclusion of the tournament.

• As efforts to promote diversification continue, the government should make water, sanitation and renewable energy projects a priority to ensure that Qatar's social infrastructure and its position as a leader in energy generation are maintained. Efforts to promote development of renewable energy in particular are needed to keep Qatar at the cutting edge of technological development and innovation.

• As government efforts to improve living standards of its citizens have come in the form of a massive infrastructure overhaul, the issue of residential housing needs to be addressed, as the potential for social unrest due to lack of acceptable housing options is imminent. While Qatar's housing shortage is not as severe as some countries in the Gulf, particularly Saudi Arabia, the issue is expected to grow in the short and medium terms as the population expands and the country experiences a population influx related to the 2022 World Cup.

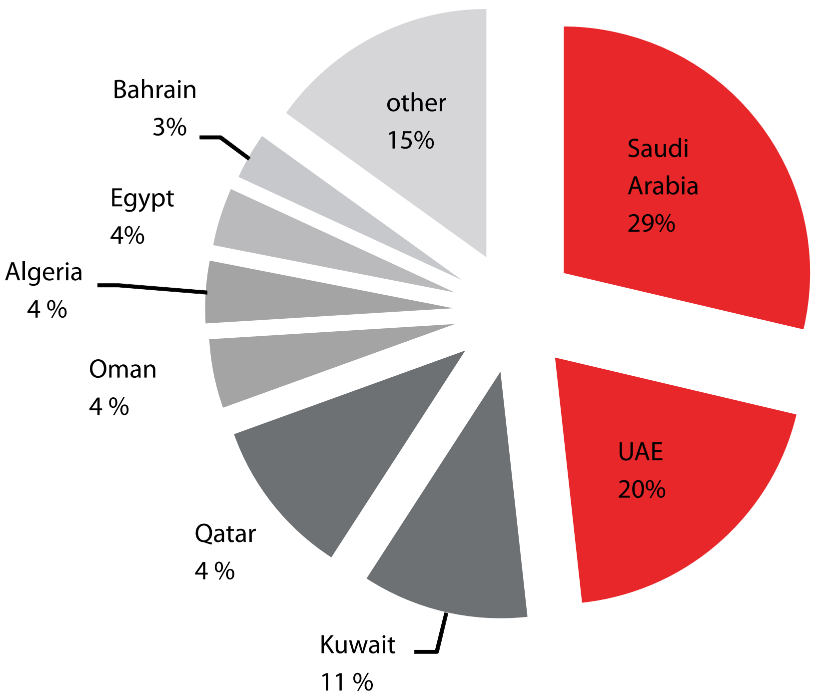
• Residential real estate developers should be aware of the reluctance of the expatriate majority towards buying property. As many of these workers are only in Qatar temporarily, it may be useful to emphasize renting over buying for this consumer base.

• Though Qatar's residents are wealthy and show a strong demand for retail outlets, developers should be prepared to make efforts to differentiate their properties for existing developments to attract both consumers and retailers given the large amount of supply in the pipeline.

MENA-WIDE OVERVIEW

A total of US$ 4.3 tr is expected to be spent on construction in the MENA region over the next decade, representing growth of 80% to 2020. Experts anticipate a particular emphasis on the development of affordable housing. Following the global financial crisis and the Arab Spring, the market suffered throughout most of the region. US$ 1.6 tr worth of projects were cancelled around the region between 2009-2014, and US$ 23 bn worth of North African projects had been put on hold, including many in Libya, as of late 2015. Despite these initial setbacks, the infrastructure and construction sectors are poised for growth in the coming years.

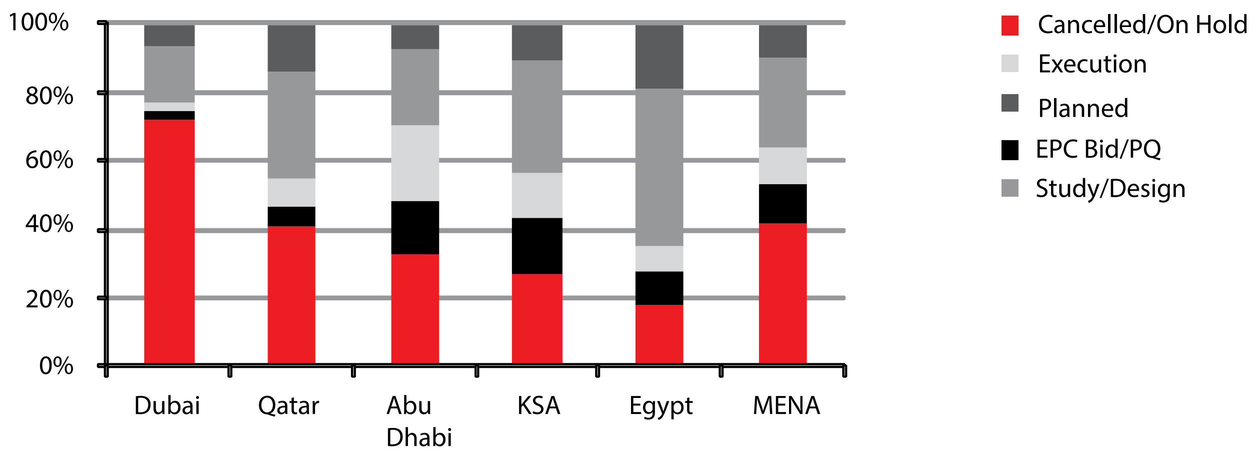
Backlog Market Share



Source : Global Investment House

Infrastructure in the MENA region is not as developed as the construction or real estate sectors. At the 2010 World Economic Forum, government and business leaders noted that the region must overcome its infrastructure deficit if it is to boost its competitiveness and attract much-needed foreign investment. According to the World Bank, the MENA region needs to invest between US$ 75 and US$ 100 bn in infrastructure annually to sustain growth rates achieved in recent years and boost economic competitiveness. Saudi Arabia's contribution to regional expenditures in the sector remains the one of the highest in both the MENA and GCC region. In 2014, the UAE surpassed Saudi Arabia as the largest regional construction market with an estimated US$ 16.2 bn worth of projects in the pipeline. Although small by comparison, Bahrain's construction market has been steadily increasing in recent years with over US$ 4.7 bn worth of development projects in the pipeline in 2014.

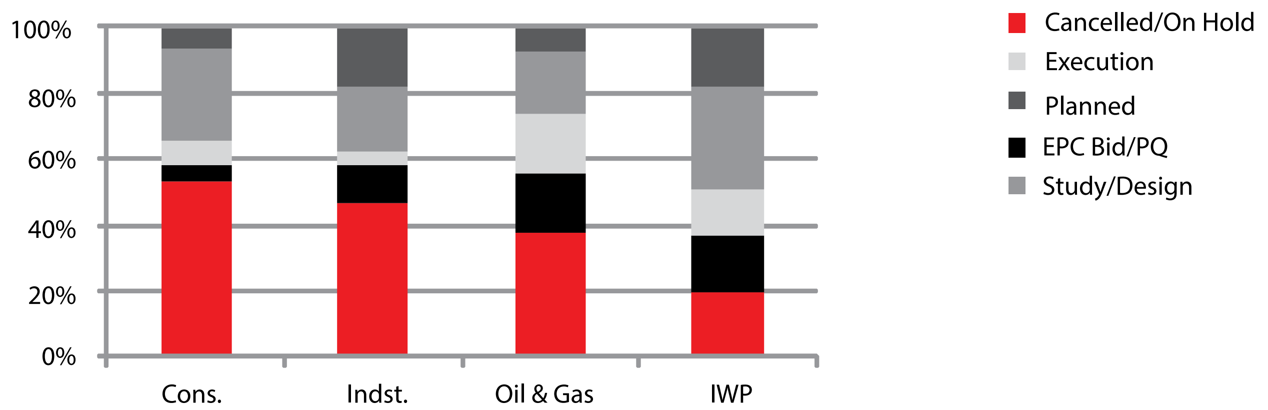
MENA Projects by Location



Source : Global Research

As a whole, the GCC countries account for over US$ 1.6 tr worth of construction projects to be completed over the next decade, equal to over three-quarters of the region's project pipeline. The construction market is currently undergoing a comeback after a period of economic volatility. The collapse of the Dubai real estate market momentarily brought the construction industry to its knees, as projects were abandoned, investors pulled out, and companies suffered high losses. However, government interest in construction projects following regional unrest in 2011 has helped revive the sector, particularly in countries like Bahrain, where the potential for political unrest is imminent. Demographic factors, economic growth and state pursuits of a diversified economy are all propelling growth. A considerable wave of projects across the Middle East has turned the region into the world's biggest market for construction machinery, vehicles and equipment.

MENA Projects by Segment



Source : Global Research

Regional cement and steel production have also followed a similar upward trend, as massive investments in construction projects have fuelled demand for building materials. With regional demand for steel expected to grow between 8-10% per year, many countries have boosted domestic production, with Saudi Arabia notably expanding capacity by at least 50% within the coming three years. To stave off the wave socio-economic discontent engulfing its neighbours, the government has attempted to pre-empt the forces of political unrest by launching development plans aimed at stimulating employment, in some cases adding to the volume of expenditures proceeding to the region's construction markets. As instability persists across the region, Egypt and its neighbours will continue to devote large sums to investment in infrastructure, fuelling the construction sector demand for building materials region-wide.

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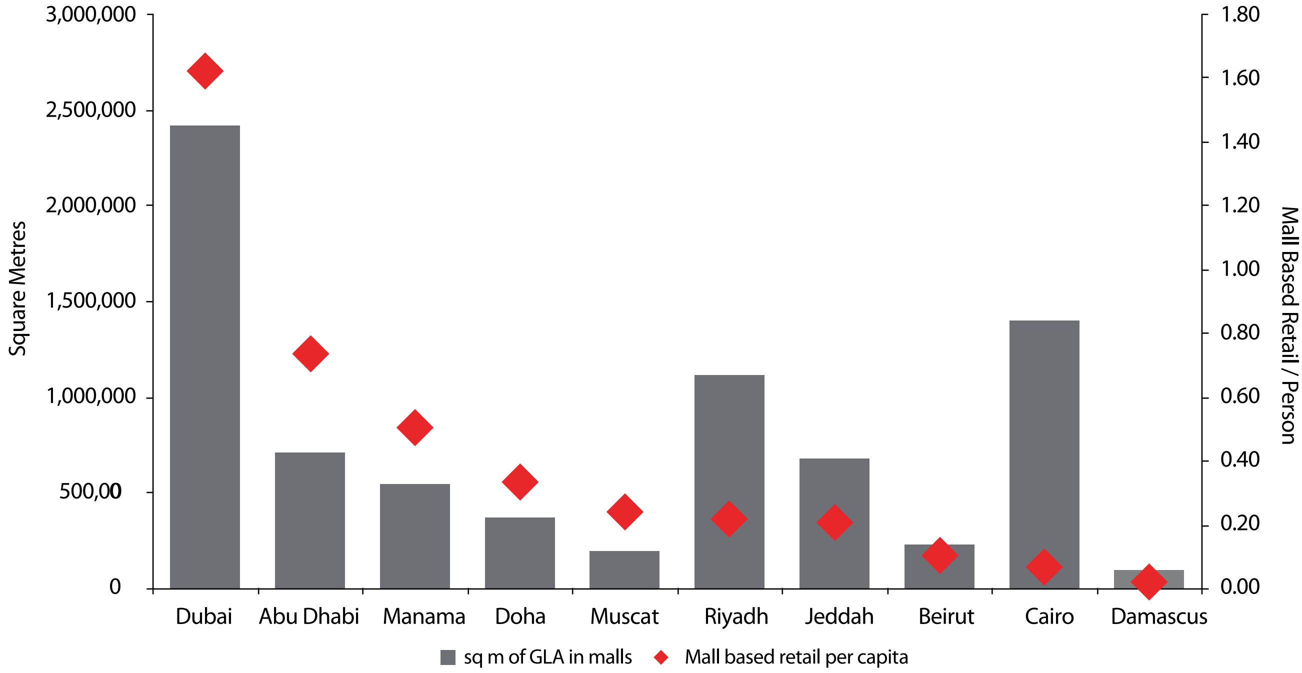
Shortage of Affordable Housing in MENA

Country	Total Supply	Total Demand	Shortage
Egypt	15,400,000	16,900,000	1,500,000
Iraq	1,900,000	2,900,000	1,000,000
Morocco	2,800,000	3,400,000	600,000
KSA	2,300,000	2,700,000	400,000
Bahrain	190,000	230,000	40,000
UAE	370,000	390,000	20,000
Oman	285,000	300,000	15,000
Total	23,245,000	26,820,000	3,575,000

Source : Jones Lang LaSalle

Retail Space Supply (Egypt vs. MENA)



Source : Jones Lang LaSalle

tQatar offers attractive opportunities for investors, despite the government's demonstrated reluctance to partner with private sector enterprises to carry out ambitious development plans. The range of projects in the pipeline, from petroleum infrastructure to railways and hospitality initiatives ahead of the 2022 World Cup, presents an array of opportunities that will require the involvement of specialised investors, contractors and consultants to be successful. While Qatar's business and political environments remain obstacles, the country's push for development in infrastructure will make the domestic construction sector one of the most promising region-wide in the near and medium terms.