

Reinventing Urbanity for the New Qatar

The real estate industry is of strategic importance for the state of Qatar even as its contribution to GDP is dwarfed by the matchless economic power of the energy sector. The catalyst for laws allowing foreign investment in property and construction was the realisation that the wealth generated by increasingly more expensive oil and gas could be capitalised upon, and to improve and develop infrastructure and diversify the economy.

Foreign investment is now being actively sought in the real estate and tourism sectors following the release of the Qatar Tourism Master Plan in 2004. Qatar's aim is to transform itself into a quality destination for tourism, lifestyle, sport and education. None of this can happen without a solid real estate industry.

Although nascent, laws allowing foreign (non GCC nationals) ownership in property were only realised in 2004, there has already been considerable growth. Several of the real estate companies were formed directly after this law was promulgated, and have been successful in selling out large swathes of their projects. The Central Bank of Qatar reported a doubling of real estate contribution to GDP between 2002 and 2004 (\$660 million and \$1.23 billion respectively). The most recent official figures are \$1.67 billion for 2006.

The Mazaya real estate index noted that the residential lands sector in Qatar received 44% of the total investment values during 2005, but 64% during 2008; this sector contains the highest rate of real estate activity. The number of new residential building permits in Qatar increased year on year at rates of 33% in 2004 and 27% in 2005.

Further example of the growth in value of real estate in Qatar can be demonstrated by the increase in rental rates for a 2 bedroom apartment in the capital. In 2002, rent would have been QAR 3,274 (\$897) per month; in 2007 the same unit would cost QAR 10,185 (\$2790) per month.

The government of Qatar has a large and active role in real estate developments through the companies it wholly owns or has shares in. Over one third of companies that carry out projects – 8 of the 22 companies – are government owned or affiliated, and the state has significant ownership and shares in the largest developers which are carrying out the iconic projects of The Pearl Qatar, Lusail and Barwa Al Khor.

Qatar's population is estimated to reach almost 1.6 million people by 2012 (IMF figures) up from the current 907,229. This will be as a result of increased GDP, which has shown double digit growth over the last few years, and the development of further downstream industries creating more jobs.

Whilst various housing projects will be completed by 2010, the lack of comprehensive data for these developments, the non linear growth in population, and the delay and costs in construction suggest that in the short to medium term, supply will not match demand.

According to industry sources, the value of real estate projects currently underway with various completion times, excluding hospitals, infrastructure and free zones and educational institutes is \$37.6 billion. This figure contains projects that are being executed in the large developments such as The Pearl Qatar and Lusail but it does not include overall "master figures" for these developments.

Growth pressures along with excess liquidity and continuing peg of the Qatari riyal to the dollar, are contributing to large inflationary rises. Inflation is also pushing up all costs of real estate. This could ultimately be debilitating to the real estate market.

The latest national master plans, presented in May 2008 by the UDPA, envision to ultimately shape all of Qatar into community based developments Real estate projects are to be designed to encourage retail and

business opportunities while retaining and protecting the existing environmental reserves and allowing for the local inhabitants to live alongside the large expatriate workforce.

These future developments will have to be executed in partnerships with Qatari individuals because most of the land in the capital and the surrounding municipalities is already owned by these individuals, which has been granted to them by the government. Foreigners are able to buy land on a 99 year renewable lease term.

Qatari Law Regarding Real Estate Ownership

Prior to 2002, non Qataris were not able to own property in Qatar. In 2002 this law was relaxed to allow GCC nationals to invest in and own real estate in the following areas – Lusail, Al Khuraj and Thaayeb Mountain. In 2004 this law was extended to include non GCC nationals to invest in and own real estate in another three areas – The Pearl, West Bay Lagoon and Al Khor Resort.

In 2006, the attractiveness of owning property in Qatar was increased by the permission to grant residency permits to foreigners purchasing a property.

Real Estate Companies and Their Projects

Several of the larger real estate companies, those who are carrying out the mega projects, only came into existence after the 2004 property law was passed.

Company	Year Formed
Qatari Diar	2004
The Pearl	2004
Gulf Energy Holding Company	2005
Al Waab City	2005
Barwa	2005
Ezdan	2006

Of the 22 companies known carrying out real estate projects in Qatar, 8 are fully or partly state owned, 2 are owned by members of the ruling family, 4 are publicly listed, and 5 are foreign entities. This figure excludes free zones, educational establishments, industrial cities and financial centres. Establishments included meet the requirements specified by Zawya Company Monitor.

The government has the following ownership stakes in landlord and development companies:-

Company Name	Government Shareholding
QREIC	33.75%
Barwa Real Estate*	45%
Barwa U Street*	31.50%
Barwa Al Khor*	18%
Barwa Al Doha*	22.50%
Barwa Al Baraha*	24.65%
UDC	0.08%
Qatari Diar	100%

* These companies are joint ventures between Barwa Real Estate and other investors. The name of the company is also the name of the project they are responsible for.

Publicly Traded Companies

There are only 4 publicly traded real estate companies in Qatar. The table below shows how they have performed with the values as at 31 December 2007 (full year figures) and compared with the previous year

	Shareholders	Total Revenue (QAR mn)	Revenue Growth (%)	Net Profit (QAR mn)	Net Profit Growth (%)	Total Assets (QAR mn)	P/BV
QREIC	Government of Qatar 26.3%, Qatar Petroleum 0.7%, Barwa Real Estate 15%, Public Investors 58%	269,124	-7.36	299,688	117.84	4,420,354	2.55
Barwa Real Estate	Qatari Diar 45%, Public Investors 55%	269,124	-36.55	529,694	17.05	159,999,790	6.14*
UDC	Commercial Bank 5%, Qatar Insurance Co. 2.7%, Alfardan Group Qatar 1.65%, Construction and Development Co 1.55%, Individual Shareholders 89.1%	269,124	64.36	339,566	32.58	5,864,128	2.22
Ezdan Real Estate	Tadawul Holding Group 99.8%, Other investors 0.02%	237,702	-34.26	561,008	-79.13	-5,191,842	7.13

* dropped to 4.02 as at 31 March 2008, as shareholder equity increased

This table shows that Ezdan reported the industry's largest loss in net profit growth in 2007. Ezdan recently launched an IPO in February and at the beginning of March was the highest performer on the Global Services Index gaining 59%.

QREIC on the other hand showed the largest percentage increase in net profit growth.

All three companies showed negative revenue growth except for UDC.

All companies show good Price per book value figures, suggesting that investors believe that a good return on assets is expected in the future.

Projects Overview

The largest developers by land bank size are United Development Company, Barwa Real Estate, Al Waab City and Qatari Diar. Sales of individual plots to private developers and investors have been very successful on both the Pearl and Lusail projects, with several areas selling out within days of their launching.

The largest projects of these developers are the following:-

The Pearl Qatar

Operated by the company of the same name which is fully owned by United Development Company and acts as master developer. This development will cover an area of 4 million square meters at a cost initially described as QAR 9.2 billion (\$2.5 billion). Recent estimates have heightened the cost of the project to \$9 billion, including sub-developments.

The project is based on land reclaimed from the sea and will be a mixed use development. Residential units will range from apartments and serviced flats to townhouses and private villas. UDC's business model for The Pearl Qatar includes partnerships with more than 50 sub-contractors and real estate developers, including firms that have signed on for one or more residential towers. In 2008, estimates on the investment requirements of the entire project reached \$9 billion.

Lusail

Owned by Qatari Diar, (which in turn is 100% owned by the Government)

This mega project will cover an area of 21 million square meters of land. The final cost is difficult to ascertain as Lusail has been split into 16 zones which Qatari Diar as master developer has started selling off to other developers. This mega project will contain Energy City and Entertainment City, two "themed" areas the energy business and fashion respectively with projected costs of \$2.6 billion and \$1.5 billion.

Diar has claimed that by spring 2008, 80% of its Lusail project has been sold off to other developers. Some of the plots will be reserved for Diar to develop its own projects but these haven't been finalized yet. Land in the Marina Walk, the entrance to Lusail was selling for 470 QAR / sq ft at launch in 2005 and currently is reported to fetch 1200 QAR / sq ft. All subdevelopers who buy land from Diar must complete their projects within 4 years.

Barwa Projects

The largest cumulative amount of land is under management by Barwa Real Estate Company, which has at least 9 projects underway. Several of its projects are joint ventures with other investors.

The total land bank is in excess of 10.34 million square meters, and the value of the projects total QAR 51 billion (just under \$14 billion). These projects range from areas designed exclusively for laborers (Barwa Al Baraha) to executives (Ain Khalid Commercial Avenue).

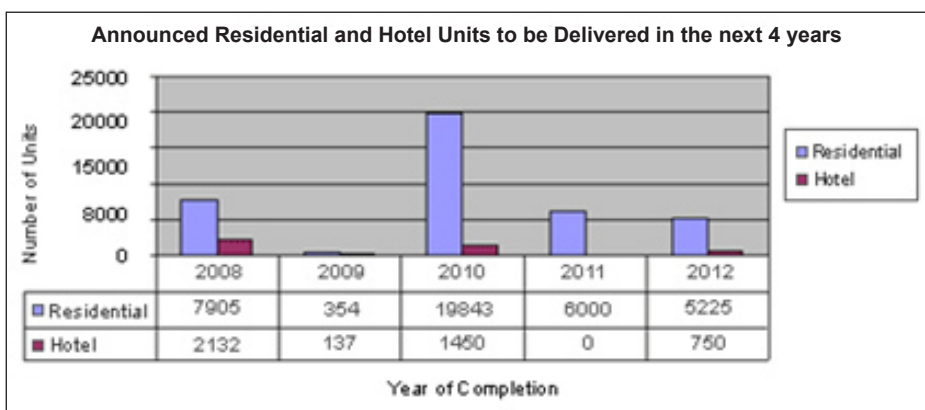
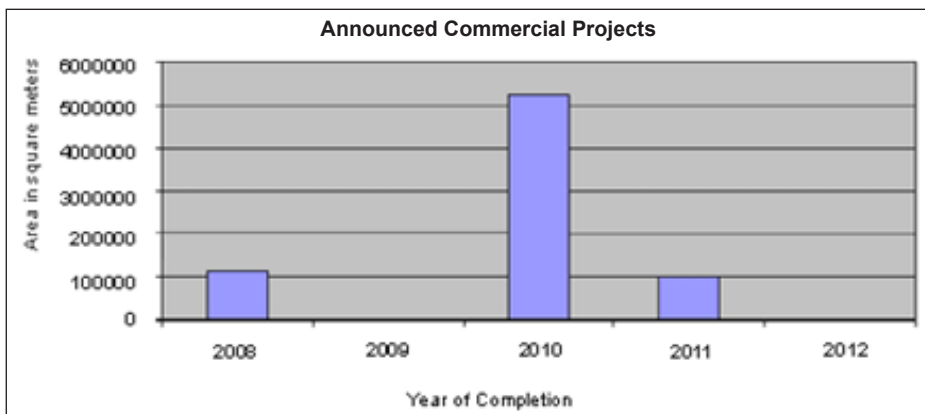
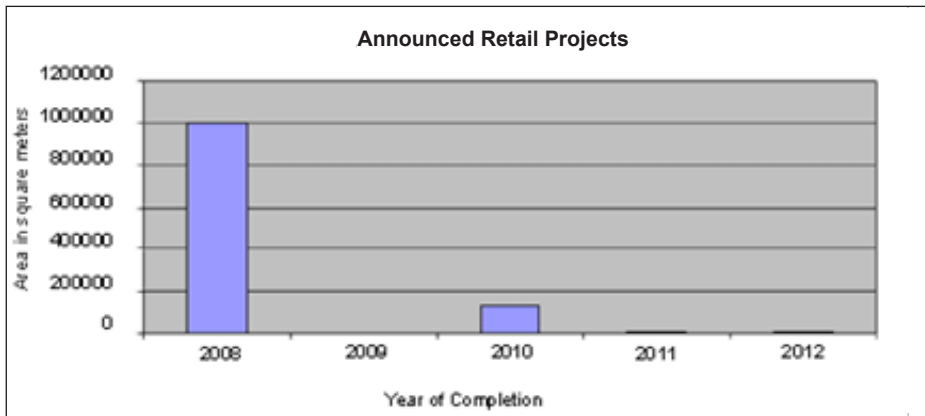
Al Waab City

Owned by management companies operating under the Nasser Bin Khaled Group.

This will cover an area of 1.2 million square meters at a cost of \$2 billion.

The unique features of this development, for both residential and commercial purposes, are that it will incorporate 'green strategies' and sustainable design principles, it will use up to 30 per cent less energy and water than similar projects.

The graphs show what amount in number of units or area will be completed for each sector over the next few years for the projects currently underway.



From these figures, the majority of projects are due to be delivered in 2010.

By 2009, The 'Fox Hills' area of the Lusail development should be delivered and 17 towers on The Pearl should be finished.

In 2010, a larger portion of the Pearl should be completed, including Viva Bahriya Area, Porto Arabia Villas, The Four Seasons Hotel, and at least 4 towers.

Energy city and Entertainment city in Lusail along with the other districts that have not been launched yet will start in approx 2010 and delivery of units will last until 2015.

Population Expansion as Demand Driver

The Minister of Finance, Youssef Hussein Kamal at the end of 2007 explained the urgent need for adequate housing arrangements with an expectation that the economy should double in size in the next 5 years.

This expansion of the economy presupposes a substantial increase in the workforce and population, which

in turn will be the main contributor towards housing demand. At the end of 2007 the Planning Council of Qatar estimated the population to approximately 900,000 with an average annual increase of 5.3% between 1997 and 2007.

If a constant rate of growth is assumed, the population would reach approximately 1.17 million by 2012. This means at least an extra 300,000 rooms will be needed. This is not taking into account the increased numbers of tourists and business visitors.

However, as Qatar is heavily dependant on an expatriate workforce, one cannot assume a linear rate of growth. The IMF suggests a sharp increase in population after 2007 to reach almost 1.6 million people by 2012. In this scenario, another 700,000 units would be needed.

After playing host to the Asian Games in 2006 and currently bidding for the 2016 Olympic Games, adequate controls should be taken to ensure Qatar's attractiveness as a hub for hospitality, entertainment, sports and living. Should Qatar be announced in October 2009 to be the host for the 2016 Olympic summer games, real estate and infrastructure development will be given an additional boost beyond the investments forecasted currently for the years 2010 to 2015. Another potential boost factor for property prices and real estate values is the Bahrain – Qatar causeway which will allow the transit of more people through the country. Construction of the causeway has been scheduled to begin in 2008 and last for four years.

Additional new plans for urban development are already being rolled out. In May 2008, the Urban Planning and Development Authority (UDPA) unveiled its program for the redevelopment of two cities: Al Wakra and Al Khor. These communities have been so far largely untouched by developers as the national upsurge in real estate projects has been concentrated on Doha.

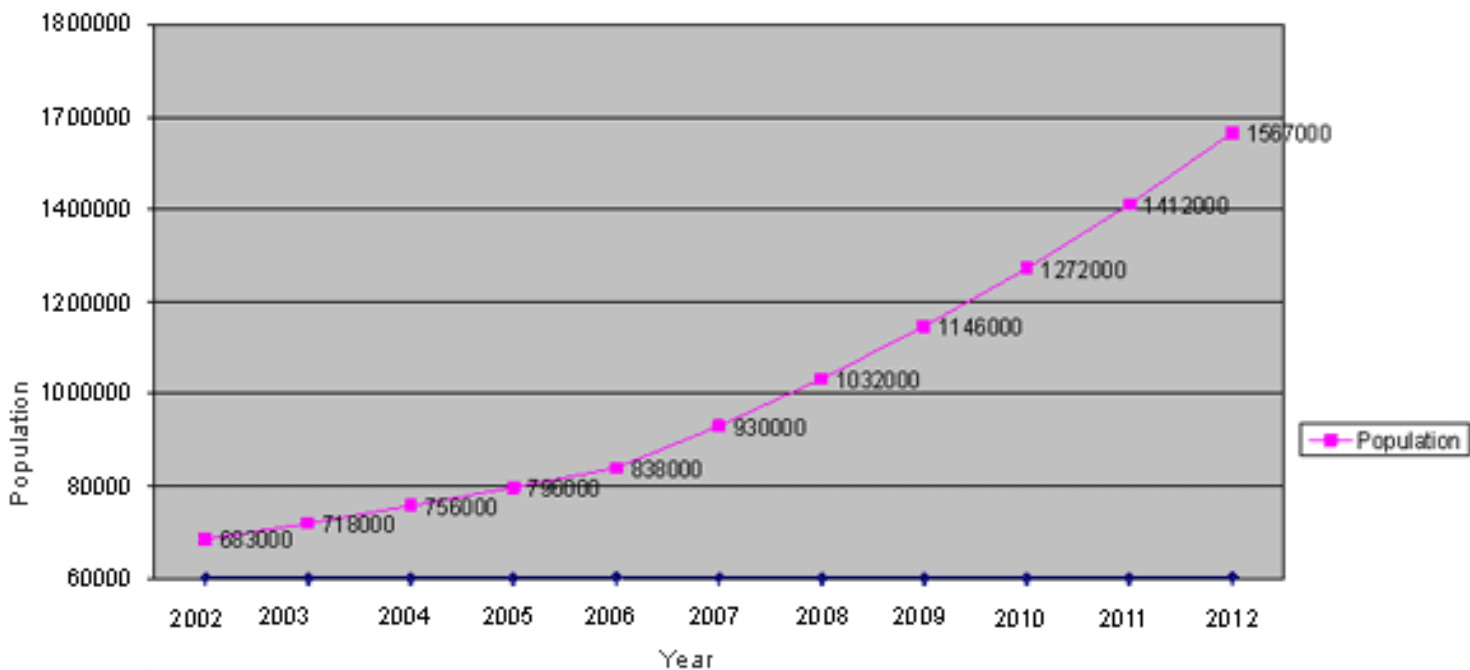
The plans drawn up by the UDPA in collaboration with Surbana Urban Planning Group detail new development zones for the two cities and what can be built in those zones. Al Wakra will serve the residential needs of the industrial city of Mesaieed and Al Khor will support Ras Laffan in the North. The Municipality of Al Khor will incorporate the new Qatar - Bahrain causeway and it is envisaged that the new Al Khor city will host white collar employees from Bahrain working in Ras Laffan. A major project by Barwa Real Estate Co, called Barwa Al Khor, will be located opposite the new beachfront.

There are presently no plans for selling off large tracts of land in Al Wakra and Al Khor to developers but this may change in the future. Currently ownership of the land in these areas is split between individual Qataris and the government. Although there will be a phased approach to the development of both cities, final completion should be within the next 25 years.

Project details and investment volumes for the next wave of Qatar's real estate development have yet to be announced. However, the latest initiatives by the planning authorities make it clear that the pool of investment opportunities in this industry is still growing, with many yet untapped opportunities.

The Qatari government will be tasked with managing, in the comparably very short time span of under 15 years, the combined forces of GDP growth and industrial development, population growth and influx of foreign labor, transformation of the country into a hub for business and leisure, and huge investment projects from mega-resorts to eventual Olympic sites. Given the government's large role in economic planning and as stakeholder in the industry, it will be incumbent upon it to ensure supply and demand of real estate are evenly matched, through the means at its disposal.

IMF Qatar Population Forecast 2002 - 2012



* Source: International Monetary Fund

Regional real estate companies have voiced expectations for population inflows that match or even exceed the IMF predictions. The Chairman of UAE-based Damac Holding, Hussain Sajwani, stated that “nearly 200,000 families are expected to move into Qatar over the next three years and around 500,000 by 2012”.

Property Prices

According to the Mazaya index, the average price per sqm for residential property reached a high of QAR 2,240 (\$613) per sqm and a low of QAR 1,756 (\$480) per sqm during 2007.

Doha ‘s Planning Council reported a 27.1% increase in housing (rental) costs to the end of June 2007 following 26% hikes in 2005 and 2006.

However, some real estate brokers claim the average monthly rent of a 2-bedroom high-end apartment rose from QAR 3,274 (\$897) in 2002 to QAR 4,000 (\$1096) in 2005 to QAR 10,185 (\$2790) in 2007.

This is supported by the current prices being advertised in local newspapers and with brokers. When compared with the figures given by the Planning Council, figures by market sources suggest a 22% increase between 2002 and 2005, and a staggering 154% increase between 2005 and 2007.

Similar to the rest of the Gulf at the beginning of their property sector growth, the majority of residential units are villas, designed for the Qatari population. Apartments are becoming more popular and although there are several towers currently in existence, this number will be dwarfed by the future delivery of apartments in the Pearl, Lusail, Al Waab City and Barwa projects.

Prices for four and five-bedroom villas have increased almost fivefold since 2002, rent for these villas has surged to an average of QAR 25,200 a month in 2007 compared with QAR 6,369 five years ago.

Prices for a three-bedroom villa have increased to QAR 16,000 a month at the end of June 2007 from about QAR 7,568 in 2005.

Office rents have increased to about QAR 300 a square meter from QAR 175 just 12 months ago, according to DTZ Qatar.

A new rent law passed in March 2008 forbids the increase of rents pertaining to contracts signed after January 1, 2005. Increases will only be allowed after 2 years from the date of the new law coming into effect (i.e. March 2010). The law also states that rents may be increased for contracts signed before January 1, 2005, up to a maximum of 20% (depending on the amount of rent already paid).

Interestingly, the maximum of 20% is applicable for tenants paying the lowest rent, less than QAR 2000 (\$547) per month. There is some concern as to whether landlords will apply the rent increases retrospectively, once the 2 year time limit has elapsed. This might mean a tenant with a contract signed after 2005, paying under QAR 2000 a month be forced to pay a 40% increase with effect from March 2010.

Regulation of the mortgage market and improvements in property financing tools will have strong impact on the real estate sector where a recent survey by Arabian Business.com showed that more than two thirds of property buyers financed upward of 71% of their purchase price through a mortgage and about one in ten buyers borrowed more than 90%.

Further Issues to Consider

If the projected numbers of units come online as planned in 2010, this should ease residential pressures but will not solve them. Other confounding variables are placing increased strain on the property sector. At Umm Ghuwailina, one of greater Doha's most densely populated areas which houses around 20,000 residents, buildings constructed before 2001 are due to be demolished to make way for newer buildings, according to the Colliers International Qatar Real Estate report 4th Quarter 2007. The report added that similar practices in other areas will further exacerbate the problem.

The current data in fact shows a distinct shortage in housing supply given the IMF population growth forecast until 2012. Exact figures of units in each development are difficult to obtain for the following reasons:-

In the large master developments, some areas have not been launched yet and therefore, whilst it may be known if the land is for commercial or residential use, it is unknown how many offices or apartments the developer will construct.

In cases where the private developer has bought a plot, they may not have completed final designs and received approval from the master developer

Equally as important, the rising costs of construction and human resource mean that plans have to be flexible, therefore it is impossible to know what numbers of units would be available until certain contracts have been signed.

Whilst the demand is clearly there and other experienced developers from the region are showing interest in Qatar, much depends on the availability of land for developers to use. Not only that, but several of the developments will be buildings for Qatari companies or institutions, e.g. Qatar Petroleum headquarters will occupy a plot in Energy City in Lusail, and several of the housing projects in existence and future projects will be for QP employees.

Other government bodies such as the National Council for Arts and Heritage, Qatar National Hotels Company, Qatar Sports Investment Company and the General Retirement and Pensions Authority all have projects underway that will serve their commercial operating interests. This leaves even less residential spaces available for the population at large.

The market is furthermore influenced by real estate purchases that are based on investment decisions or speculation. The impact of massive liquidity overhangs in Qatar, as in other GCC locales, is visible in the extreme speed at which some developments and projects are sold out within days or hours from their release. It must be assumed that not all of the residential units purchased as investments will be available to regular tenants.

A recent example for building of speculative price pressures is the Bahrain-Qatar causeway. After more than five years of uncertainty over its realization, the causeway has now been confirmed to go ahead and pushed

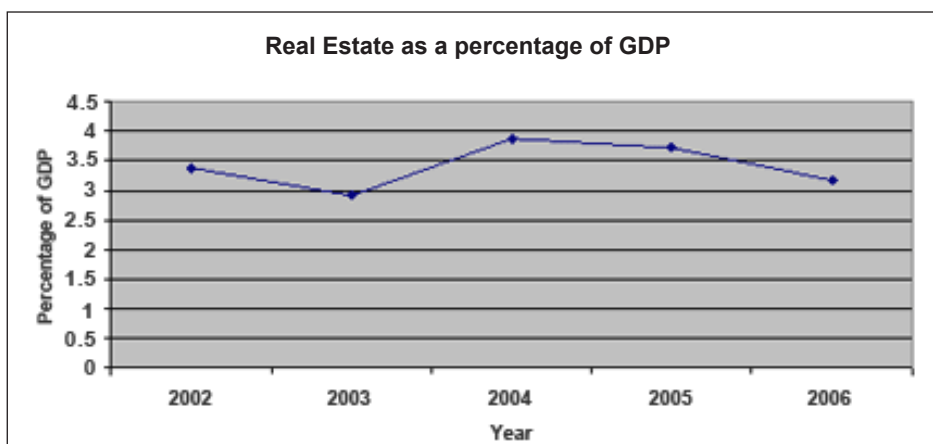
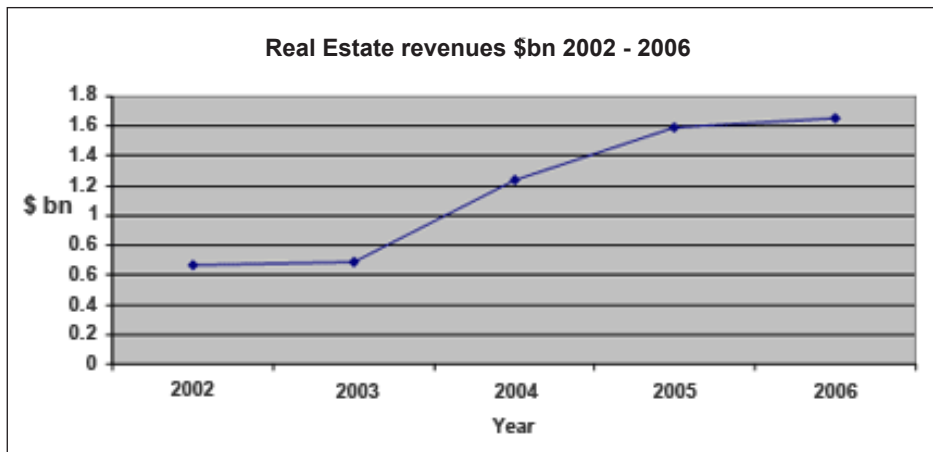
up land prices around Al Zubair in the north of the country by as much as 10%.

Better infrastructure links will lead to an increase in population. This could stimulate the government to open areas in the vicinity of the causeway for foreign ownership under the freehold property law, however nothing is known yet about future apportioning of the land.

Economic Growth in Real Estate

A report by the Qatari Central Bank covering the period 2002 – 2006 shows the contribution of real estate activities to total GDP

	2002	2003	2004	2005	2006
Total GDP \$ bn	19.4	23.48	31.7	42.49	52.68
Real Estate \$ bn	0.66	0.68	1.23	1.59	1.67
Real Estate in % of GDP	3.38	2.91	3.88	3.73	3.17



* Source: Qatar Central Bank

Whilst the central bank's data show actual revenue generated by real estate as increasing, its percentage contribution to total GDP has been slightly decreasing in 2005 and 2006 from a peak in 2004. The likely reason for this is that combined GDP contribution of the increases in oil and gas production coupled with the dramatic increases in global oil and gas prices could not be matched by the growth in the domestic real estate industry in the past few years. The Oil and Gas sector accounted for 62% of GDP and non oil and gas sectors (including real estate) accounted for 38% in 2006.

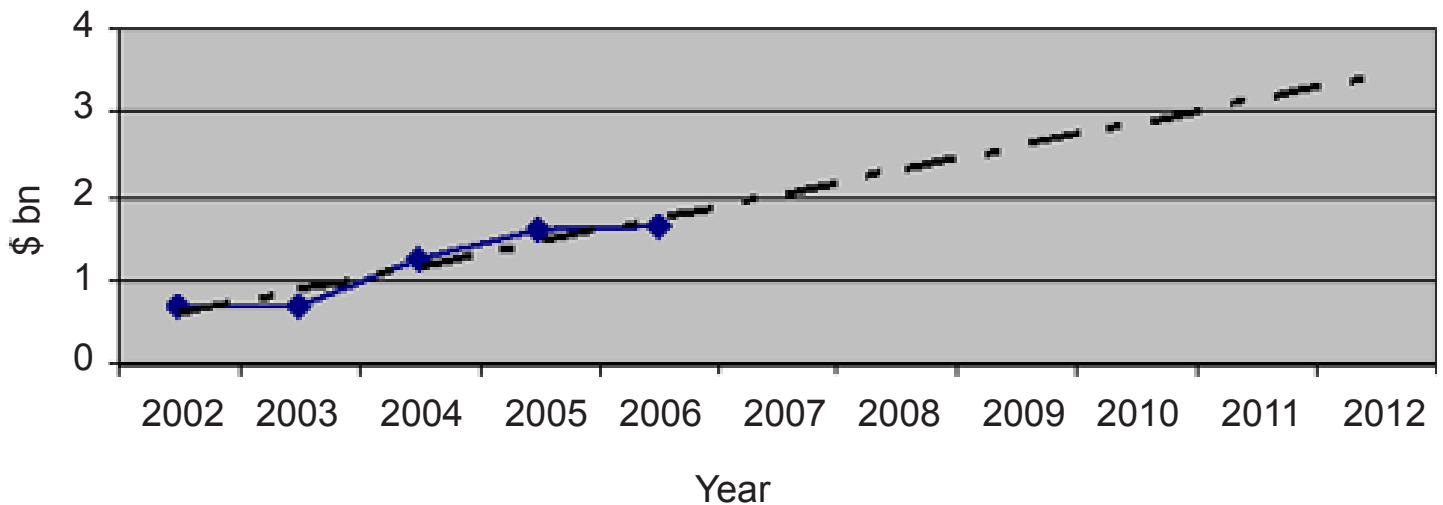
In 2007, GDP grew by 12.5%, its slowest rate of growth in 5 years as output of oil and gas slowed. However, this year, (2008) GDP growth is expected to be slightly more at 15.5%. The growth in the contribution of gas and oil in 2007 dropped to 9.3% from 28.6% growth in 2006 and over 46% in 2005, according to the preliminary economic numbers released in late March 2008 by the Planning Council.

As the non-oil sectors expanded by 16.8% in 2007, the past year saw the weight of the non-oil sectors in the total economy increase to 44.3%. Qatar's construction sector grew 22.04% in 2007 and will probably expand another 24.22% this year, according to the Planning Council. In addition to the combined contribution by finance, insurance, real estate and business services which are expected to account for over 12% of total GDP in 2008, manufacturing and tourism are two of the non-oil sectors whose increasing importance the government counts on.

It will be interesting to see how the contribution of real estate will factor in the growth of the non-oil sectors in 2008 and beyond. Given current GDP estimates for 2007 and 2008, and assuming real estate continues to contribute around 3% of total GDP, future revenue may reach almost double the 2006 levels by 2012.

As GDP increases, so will revenue generated from real estate. More downstream products and industries will develop thus creating more jobs and therefore a demand for housing. This is supported by the \$2.6 billion project of Energy City, (located in the Lusail master development) which is exclusively designed for all energy related businesses catering to the commercial, technical and human resource needs of the oil and gas industry operating in the whole of the Gulf region

Projected Contribution of Real Estate to GDP



In the UAE by contrast, GDP growth in 2007 was lower than Qatar at a rate of 7.4%, according to data published by the UAE Ministry of Economy on March 9, 2008. However, total GDP of the UAE is over 3 times that of Qatar, which correlates with the UAE's contribution of real estate being 2.5 times as much as Qatar.

2007	GDP (\$bn)	GDP growth in year	Contribution of Real Estate
UAE	190	7.4 %	8 %
Qatar	59.34	12.5 %	3.2 % (estimated)

Conclusion

Based on Qatar's buoyant macroeconomic outlook and national development plans, investments into real estate are set to increase substantially in the coming years to 2012, and beyond. The total cumulative value of announced real estate mega developments and large projects cannot be reliably assessed at this point, mainly because developments are being prepared in staggered phases whose investment needs are being constantly pushed up by the cost explosion for materials and labor.

Known projects that have been announced and are in various stages of the tendering process are worth more than \$33 billion, according to the Zawya Project Monitor. Ranging from mega developments and mixed use urban projects to hotels, commercial towers, hospitals, and communal buildings, this tally includes 28 projects with minimum value of \$50 million per project (as of May 20, 2008).

An important step toward better assessment of real estate stock and market needs has been initiated in May 2008 when the General Secretariat for Development Planning started a field survey of all existing real estate in the state of Qatar. We expect to gain new insights into the market's supply and demand structures from the results of this survey.

There is no danger of oversupply of residential, commercial, hospitality, and office spaces to the market in the short to medium term. Unlike neighboring Dubai, none of the sectors in the real estate industry will reach saturation point in the next 5 years. Also unlike Dubai, many sectors of the residential and retail market are being catered for with the planning of areas specifically for laborers and budget to middle class tenants. Most of the developments have been designed to include a mix of commercial, residential, retail, entertainment and education, making each project self sufficient and capable of generating revenue as families live, work and play there.

The statistics suggest a distinct shortage of all kinds of units especially in the next two years. It would be impossible to predict with any amount of accuracy the extent to which this shortage will be and what impact this will have on the economy or real estate sector. The most contentious and driving factors are the costs and availability of materials required to build the projects and the appearance of any temporary housing substitutes that will ease the shortage in the market.

The statistics suggest a distinct shortage of all kinds of units especially in the next two years. It would be impossible to predict with any amount of accuracy the extent to which this shortage will be and what impact this will have on the economy or real estate sector. The most contentious and driving factors are the costs and availability of materials required to build the projects and the appearance of any temporary housing substitutes that will ease the shortage in the market.

It is certain that whatever external pressures are exerted on Qatar, its positioning in the global spotlight thanks to its gas reserves and the revenues gained from them, will mean that suitable and timely solutions will be found, even if they are at the expense of government coffers. Although criticism may be leveled at the amount of state control and regulation, extending to trading on stock markets, regulating land available and capping steel prices, it is only the state which can ultimately afford to take responsibility in the event of either an extremely positive or negative outcome.

For the end user, the threat of substitute products is low, customer bargaining power is low and competition in its true sense only exists between the smaller private developers who are constructing various towers and villas on the Pearl and in Lusail. However, for those involved in construction, project finance and master developers who can afford to buy land and property in bulk, there are real and sustainable growth prospects.

“zawya.com” and zawya logos are trade marks of zawya.com LTD. All rights reserved.

Copyright

The contents of the Service and the zawya.com website are protected by applicable copyright laws. No text, graphics, video, audio, software code, or user interface design or logos may be copied, distributed, modified, uploaded, transmitted, posted, framed or distributed in any way without prior written permission of the Company, except that Subscribers may download, display, or print one copy of the materials contained on the Service for personal, non-commercial, home use, provided that Subscriber keeps intact all copyright, trademark, and other proprietary notices. Modification of the materials or use of the materials for any other purpose is an infringement of the Company's its affiliates' or its third-party information providers' copyrights and other proprietary rights.

Disclaimer

The user of this report agrees that use of the material, irrespective of the form of presentation as online or printed document, is at User's sole risk. All reasonable care has been taken to ensure that the information contained in Zawya Industry Insight Reports is accurate and does not misrepresent facts or mislead. Analyst views are the opinions of the authors and not of Zawya. All information is for the private use of the person to whom it is provided without any liability whatsoever on the part of zawya.com LTD, any associated company or the employees thereof. Nothing contained in this report should be construed as an offer to buy or sell or a solicitation of an offer to buy or sell. Neither the Company, its affiliates, nor any of their respective employees, agents, third party content providers, or licensors warrants that the Service will be uninterrupted or error-free; nor do they make any warranty as to the results, materials or information that may be obtained from use of the Service or the right of any party to use or permit any use of any such results, materials or information, nor do they make any warranty as to the accuracy, reliability, quality or suitability or content of any information, material, service, or merchandise provided, procured or imparted through the Service. The Service is provided on an “as is” basis without warranties of any kind, either express or implied, including but not limited to warranties relating to quality, fitness for a particular purpose or non-infringement, other than those warranties