

THE DANGER OF DOHA'S PROPERTY BOOM

Qatar's property market is riding a wave, although banking experts are tempering their optimism

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CEO of Doha Bank



Property prices in Qatar have been growing at an explosive pace—and banks have been leaping towards the real estate market as it heats up. Real estate prices rose 18 per cent in the year to September, according to Qatar Central Bank data. They beat their previous 2008 peak in June 2014 and have continued to rise at a double-digit rate. The value of real estate transactions has also been booming, rising 18 per cent in the first half of 2015 against the first half of 2014.

All of this has been fuelled by increases in the amount of credit provided by local banks to the real estate sector. Commercial credit to the real estate sector grew by 17 per cent from June 2014 to June 2015, and now accounts for around one sixth of all lending by Qatari banks, according to the country's central bank. At Doha Bank, real estate accounts for a quarter of the total loan book.

But this is only part of the lending story. The data doesn't indicate how much of credit to the public sector and to private individuals is spent on real estate. It is likely that mortgages and government building projects account for a significant chunk of these loans, making the overall amount of credit directed at the sector much higher. “If you look at Qatar now it looks like the UAE in 2008 and 2009—rapid price rises in housing, high lending, and banks borrowing from abroad to sustain credit growth,” says Jason Tuvey, emerging markets economist

at Capital Economics. The IMF, in its annual report on the Qatari economy, singled out price rises in the real estate sector as an area that needs closer attention paid. “Although the banking system as a whole appears cushioned from real estate sector volatility, developments at weaker banks need to be closely monitored,” the Fund said.

Part of the spending on real estate market is being allocated to the hospitality sector. Central bank data doesn't make clear how much of the credit has been spent on building hotels. But with Qatar aiming to attract 7 million tourists by 2030, and a plan to add 60,000 hotel rooms to Doha's current stock of around 17,000, it is likely to be a significant amount. To analysts, that rings warning bells. “The 2009 property bubble in the UAE wasn't just a real estate bubble,” says Sanyalaksna Manibhandu, senior researcher at the National Bank of Abu Dhabi. “You also had

an overheated hospitality sector.”

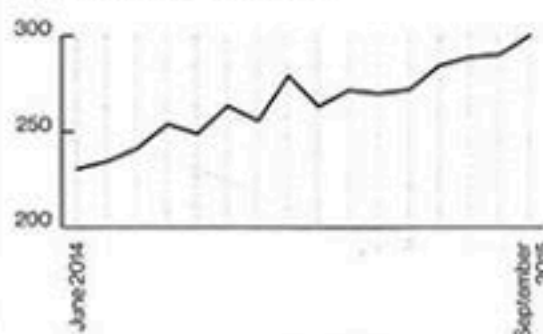
The government's projections in relation to the hospitality sector may be much too bullish, says Tuvey. “A lot of the building of hotels has been based on very optimistic projections about tourism. But the banks may end up with nonperforming loans if these projects fail to realise their expected returns.” Johnny Archer, associate director of research and consulting at real estate firm DTZ, says: “It's going to require a large increase in tourism over the next few years to meet the supply of new hotel rooms. Whether that's sustainable after the World Cup—well, everyone has their opinion on that.”

Still, the mortgage business seems to be a good investment because of “heavy demand” in some housing market segments, says Dr. Raghavan Seetharaman, chief executive of Doha Bank. Nevertheless, there is “a need to be cautious of property market prices, because land prices in the recent past have been climbing and a time will come for it to stabilise or correct,” he says.

Several analysts say that speculation on land prices could lead to major volatility in the real estate market—and could also harm the banks that are exposed to it. “Like a lot of Middle Eastern markets, land price speculation has been gathering momentum for a long while,” says Mike Williams, senior director for the Northern Gulf region at Savills, the real estate firm. “Many people see it as an investment asset, with the result that its price has moved away from its economic value. That makes it difficult for developers to build new homes at a profit because the land prices exceed what they can earn from sales or rents.”

There are some signs that the rate of price growth may be slowing in the real estate sector, as the low oil price hits deposits. Year-on-year price increases were close to 40 per cent in September 2014. As the oil price drop has led to project slowdowns and redundancies in the hydrocarbons sector, demand for mid-range real estate and office space has taken a small hit. And the supply of housing is expected to more than double in 2018 compared to current levels. This could lead the Qatari real estate market from undersupply to oversupply in three short years. “Qatar is not a market that is growing organically,” Archer says. “Supply isn't based on demand. It's based on the national vision of the Qatar government.”

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Source: Qatar Central Bank, 2009-2010 (April-March) as base year