



# Oman property market update

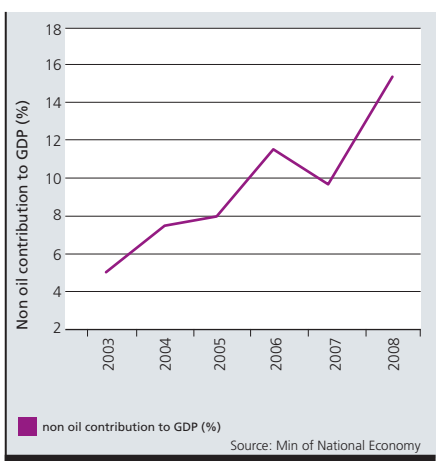
July 2010

**Comment** Oman continues to benefit from a relatively conservative and stable financial system, recording lower than average GDP rates in comparison to other GCC states between 2003 and 2008. This considered approach to the economy has recently been underpinned by an increase in hydrocarbon output as well as moves towards diversification through major infrastructure spending.

## Oman continues its diversification away from oil

**The economy** The modern Oman economy has traditionally been reliant on the oil industry. The Ministry of National Economy reported that in 2008 oil and gas revenues made up 78.6% of the total Government revenues.

Non oil contribution to GDP



Oil reserves are, however, limited and the Government has initiated a structured approach (Vision 2020) to provide solid foundations for a diversified economic base led by the private sector.

Economic policy will remain focused on diversifying the economy away from its reliance on the hydrocarbons sector, and on meeting the employment needs of a young and expanding population. This is borne out by figures released by the Ministry of National Economy which show an increase in the non oil contribution to GDP since 2003.

In spite of Oman's economy recording some of the lower growth rates in the GCC over the past decade, its economy has been relatively unscathed in the wake of the recent global downturn. Real GDP is reported to have grown by an average of 6.5% per year between 2003 and 2008 in comparison to an average of nearly 8% for the GCC, despite its significantly better 2008 figures.

Oman currently benefits from a relatively conservative and stable financial system which has been dominated by traditional banking practices, focused on customer and government deposit taking as well as corporate and retail lending.

In addition, the on-going construction of a number of large scale industrial sector and infrastructure projects as well as increased hydrocarbon output has helped underpin the Omani economy in the post recession climate.

To this end there are no obvious potential major problems in the financial sector and the Omani economy looks set to remain one of the more steady performers in the GCC region. The IMF World and Economic Outlook predicts that real Gross Domestic Product (GDP) will grow by 4.7% in 2010 and 2011 due to higher than expected oil prices and export volumes.

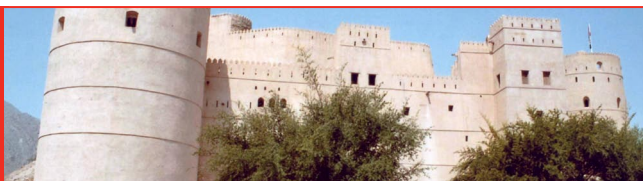
Confidence in the long term prospects of the real estate sector in Oman is illustrated by the increasing liquidity in the residential market as major banks start to offer improved mortgage rates and loan-to-value ratios.

Real GDP growth (%)	Past		
	2007	2008	2009
Oman	7.7	12.3	3.4
UAE	6.1	5.1	-0.7
Saudi Arabia	2.0	4.3	0.1
Bahrain	8.1	6.1	2.9
Kuwait	2.5	6.4	-2.7
Qatar	13.7	15.8	9.0

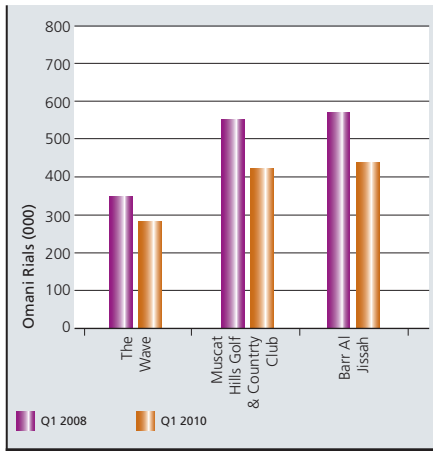
Source: IMF WEO

Real GDP growth (%)	Future		
	2010	2011	2015
Oman	4.7	4.7	4.5
UAE	1.3	3.1	4.8
Saudi Arabia	3.7	4.0	4.6
Bahrain	3.5	4.0	5.3
Kuwait	3.1	4.8	4.9
Qatar	18.5	14.3	4.9

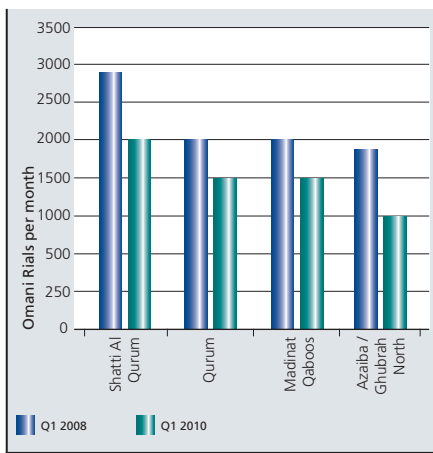
Source: IMF WEO



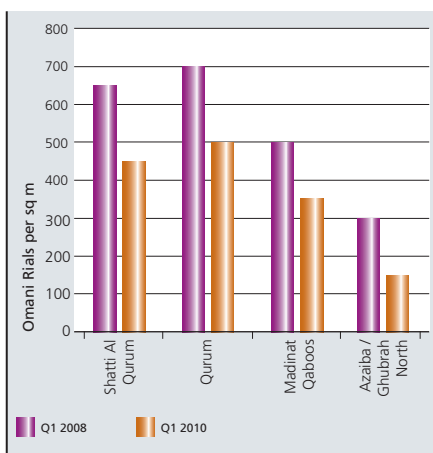
Average sale price (4 bedroom villa)



Average rental price (4 bedroom villa)



Average sale price (residential land)



**Residential** Prices for residential properties within Integrated Tourism Complexes (ITCs) dipped significantly from the highs of early 2008 but have now stabilised and signs of a recovery are starting to show. We consider that confidence has come back into the market with increased sales activity becoming evident.

## Rental values fall as a result of increased supply

The increasing maturity of the ITC sales market is shown by the fact that purchaser demographics have shifted over the last two years from speculators looking for short term gains to end-users or long term investors.

Currently, asking prices in the ITC sales market are often significantly in excess of realistically achievable sales prices but sellers are increasingly willing to negotiate on price to achieve a sale.

In addition, property owners who have not been able to sell their properties are increasingly looking to rent their properties until the sales market rises to meet their expectations and/or financial requirements.

The downward pressure on capital values over the last two years have made properties within ITCs more affordable for potential purchasers. However, the substantial strengthening of the Omani Rial against the Euro and Sterling since the start of the year has significantly reduced the impact of these price reductions for potential investors from Europe.

The non-ITC residential market has witnessed a significant and on-going drop in rental values over recent months. As a result, it was expected that demand for land and buildings would decrease. Unexpectedly, however, demand for smaller residential plots or buildings remains strong in prime locations across all areas of Muscat provided they are priced realistically.

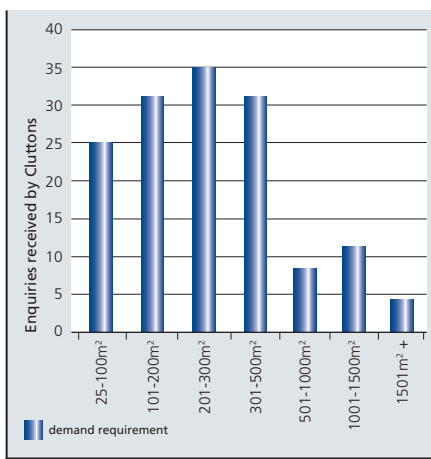
The residential leasing market has seen a decline in activity over the last quarter and volumes are reduced in comparison to the same period in 2009. Rising rental values and a shortage of residential properties up until mid-2008 led to significant development activity which is now resulting in an over-supply of residential rental property. Average rental values have fallen and we foresee further reductions as the impact of the over-supply becomes more evident.

Demand, however, remains strong for smaller, good quality stock in modern developments. Properties at The Wave, in particular, are proving to be extremely popular despite the fact that they command a premium in rental values in comparison to alternative properties in the surrounding area.

**Office** Rental values for prime office stock appear to have stabilised to some degree following falls over the last 18 months. There is, however, a significant supply of office space that will become available within the capital area over the next 18 months which is likely to result in further reductions in rental values.

## Good demand generated for smaller units

Commercial office demand (2010)

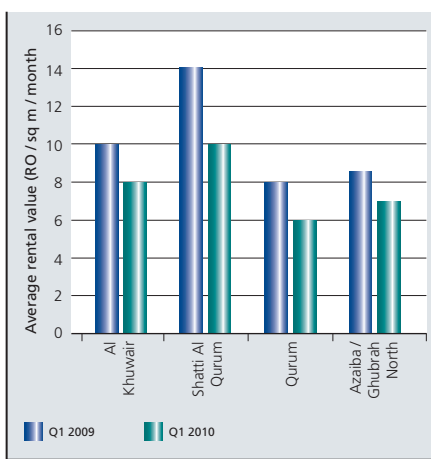


In early 2008 there was limited office availability across the market which resulted in demand out-stripping supply. This situation has now changed and there are a number of office buildings under construction and several newly completed office buildings that have come on line in the past 12 months. As a result vacancy levels have increased considerably over the past year.

We anticipate a continuation of rising vacancy levels as supply continues to outstrip demand. This will, however, be project specific and largely dependent on the location, quality and parking provisions of each development. Accordingly suitably located and well designed office space with good parking facilities will continue to be in demand and command a premium while we expect that poorly considered or low quality office space will show high vacancy levels and reduced rental values. The result will be the development of a two tier office rental market.

There is still considerable demand for office space in Muscat, particularly from smaller (100 to 300 square metres) space occupiers. Improving confidence in the general financial climate within the private sector has led to greater transaction activity over the last quarter but tenants are starting to drive a hard bargain when negotiating rents and lease terms. Existing tenants are also looking to renegotiate more favorable rents and lease terms as their current leases come up for renewal.

Average office rents



In an increasingly competitive market, landlords will need to demonstrate a greater willingness to enter into negotiations in order to secure the best tenants. They will need to adopt a more flexible approach to leasing, offering more attractive occupier terms and a wider range of incentives which were not generally offered when the market was rising.

New developments will need to distinguish themselves in terms of quality, design and facilities in order to differentiate themselves from the competition. This highlights the need for developers to seek expert advice from a range of experienced property professionals such as chartered surveyors, architects, contractors, engineers, quantity surveyors and development consultants at the inception stage of any office development to ensure that it is financially viable and market facing.

**Retail** Muscat currently has approximately 300,000 square metres of retail space in purpose-built retail centres. This figure does not include the large amount of lower grade, ground floor retail space in mixed use buildings predominant in areas such as Ruwi, Ghubrah, Azaiba and Al Khuwair.

## Footfall generates demand

Five retail developments that are currently under construction will deliver approximately 100,000 square metres of good quality retail space into the market over the next 18 months which will be a significant addition to the supply of retail space in the capital area. Several significant projects have, however, been put on hold following the recent global financial downturn.

Demand remains strong from both international and local retailers for space within established shopping malls with high levels of proven footfall. However, the indications are that some of the newer retail space is proving less attractive to potential tenants. This is due to the perception that the appetite for large scale retail development in the Muscat area may well have been sated in the short to medium term from both the consumers' and retailers' points of view.

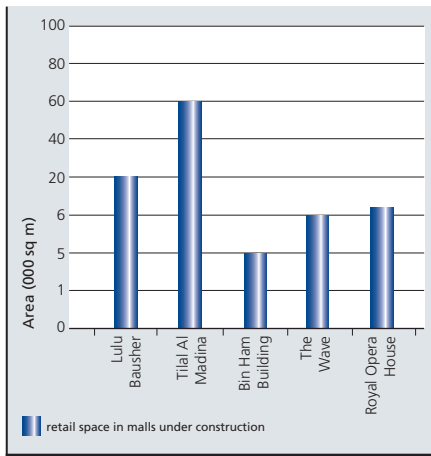
Demand is highest for retail units ranging from 100 to 200 square metres. There is a particularly strong demand for smaller retail spaces in high quality locations across the capital area from the food and beverage sector.

Purpose built retail space in niche locations such as The Wave and the Royal Opera House and retail space that has a leading anchor tenant should still generate strong demand from retailers. We also consider that there is potential in the market to provide retail facilities, such as a retail warehouse park, that are not currently available in Oman but have proved successful in other parts of the world.

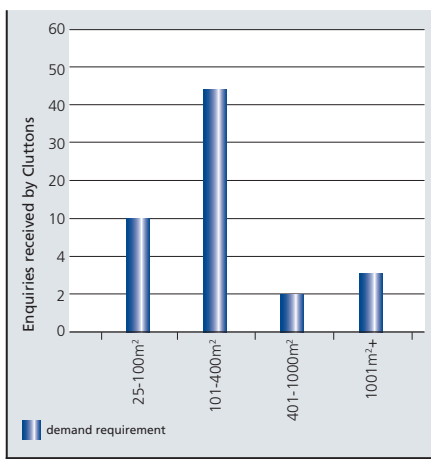
Rental rates in purpose built retail centres vary from RO 15 to RO 35 per square metres, per month. Unsurprisingly the highest rents are being achieved by established shopping malls with high footfalls whereas rental rates for some of the large scale new developments are suffering from downward pressure.

Due to the relative shortage of high quality retail space in Muscat, most retailers are willing to pay high rental values for good quality retail outlets. We foresee rental rates remaining stable for established retail centres with a high footfall and for new developments exploiting a niche market. On the other hand rental rates for new, large scale shopping malls are likely to struggle to meet the landlords' expectations.

Future retail supply



Retail demand (2010)



### Oman contacts

Philip Paul, MRICS  
Head of Country  
+968 2456 4250  
philip.paul@om.cluttons.com

Francis Selvaraj  
Head of Professional Services  
+968 2456 4250  
francis.selvaraj@om.cluttons.com

Shruti Dilip  
Commercial & Retail  
+968 2456 4250  
shruti.dilip@om.cluttons.com

Matthew Wright  
Strategic Consultancy  
+968 2456 4250  
matthew.wright@om.cluttons.com

### Middle East offices

Bahrain & Saudi Arabia  
+973 1756 2866  
tim.glover@bh.cluttons.com

Dubai  
+971 4334 8585  
steven.morgan@ae.cluttons.com

Sharjah  
+971 6572 3794  
lesley.preston@ae.cluttons.com

Abu Dhabi  
+971 2659 4001  
william.dewsnap@ae.cluttons.com