

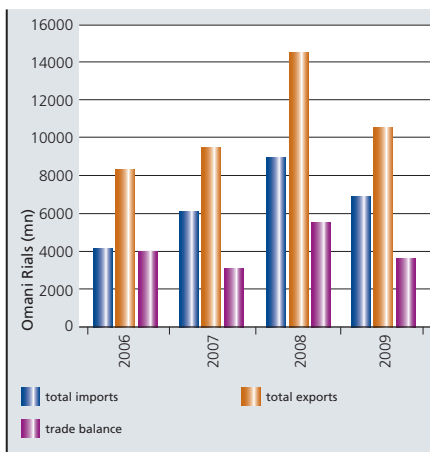
Oman property market update

October 2010

Comment Oman's macro-economic performance in 2009 was adversely affected by the global recession and the sharp decline in crude oil prices in the international markets. Data released by the International Monetary Fund (IMF) put nominal GDP in 2009 at OR 20.5 billion (US\$ 53.4 billion), a decline of 10.9% year on year. This comes after consistent growth for five consecutive years since 2004. The IMF predicts, however, that nominal GDP will grow by 16.7% this year and by 8.8% in 2011.

IMF forecasts growth in real GDP from 2010

Foreign trade indicators



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

The economy In spite of the fall in nominal GDP, oil output rose by 7.1% year on year to 813,000 barrels/day. As a result of these increases in both oil production and prices, the IMF expects real GDP to grow by 4.7% in 2010 and 2011.

Despite the 7.1% rise in crude oil production, contraction of nominal GDP originating directly from the hydrocarbon sector was larger at 38% compared to 7.4% decline in the contribution of the non-petroleum sector to GDP. According to figures released by the Ministry of National Economy, the share of the hydrocarbon sector in the overall nominal GDP declined from 50.5% in 2008 to 41.0% in 2009. Noticeable rises in the contribution to nominal GDP were seen in the electricity and water supply (11.3%), construction (5.6%), real estate services (14.2%), public administration and defense (4.0%), and agriculture and fishing (4.0%) sectors.

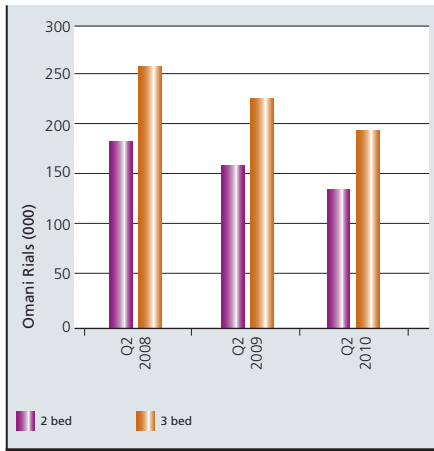
Oman's balance of payments and overall fiscal balance witnessed some pressure during 2009 due to weak external demand following the global recession and the consequent decline in crude oil prices. Oman's external current account witnessed a marginal deficit of RO 108 million in 2009 in contrast to a surplus of OR 1,931 million in the previous year. The Central Bank of Oman's foreign assets, however, increased from OR 4,401 million at the end of 2008 to OR 4,692 million by the end of 2009 on account of a sustained rise in net foreign direct investment and positive flows from foreign portfolio investments.

Despite the fall in revenues, particularly due to the fall in crude oil prices, the Government sustained capital expenditure as a part of its counter-cyclical fiscal policy. Consequently, the overall fiscal balance showed a deficit of OR 680 million in 2009. Oman is financially well positioned to withstand a fall in oil prices as its 2010 budget is based on a price of US\$ 50 per barrel which is well below current prices.

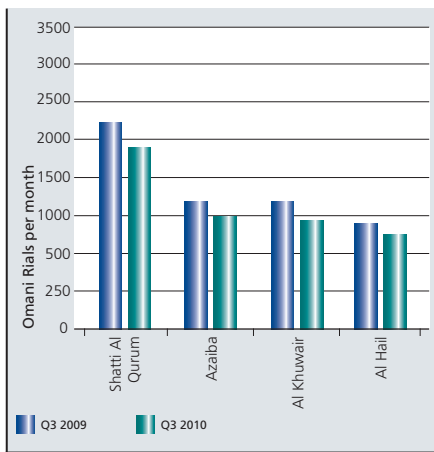
Exports are forecast to grow strongly in 2010, boosted by high oil prices and the continued development of Oman's sea ports which will boost re-export trade. The trade surplus is forecast to widen to OR 6.6 billion in 2010 and OR 7.1 billion in 2011.

Despite the adverse effects of the downturn in the global economy, outlook on growth remains positive for 2010 following the recovery of crude oil prices and the expected rise in the volume of world trade.

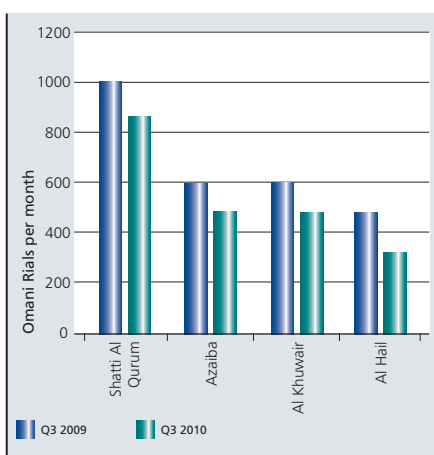
Average sale price of Wave townhouses



Average rental price (4 bedroom villa)



Average rental price (2 bed apartments)



Residential Despite an increase in the the volume of transactions in the residential leasing market throughout 2010 in comparison to 2009, average rental rates continue to decline as the supply of residential properties exceeds demand. Significant rises in rental values in the two years up until mid-2008 resulted in extensive development activity as landowners sought to exploit favourable market conditions.

Sales values continue to soften

The results of this development activity are now being introduced into the market and are contributing to an over-supply of rental properties across the capital area. Average rental values have fallen significantly from the highs of 2008 and we foresee further reductions as the impact of the over-supply of properties becomes increasingly evident.

Demand remains, however, for smaller, good quality properties in modern developments and in the established expatriate rental areas such as Madinat Qaboos, Shatti Al Qurum and Qurum. Properties at The Wave, in particular, are proving to be extremely popular despite the fact that they command a premium in comparison to the rental values for similar sized properties in the surrounding area. Recently completed properties at Muscat Hills are also proving to be attractive due to their design and setting.

Existing tenants are looking to renew their tenancies on more favourable terms or upgrade to a newer or better property on comparable terms. Landlords are realising that they need to be flexible and have started to reduce their rental value expectations in line with market conditions or be left with vacant properties.

Our research into the Sohar market shows a similar pattern whereby recent, large scale construction activity has resulted in the supply of residential property available for rent significantly exceeding demand. Accordingly, rental rates in Sohar have declined drastically from the highs of two years ago and many properties within the city remain vacant following completion.

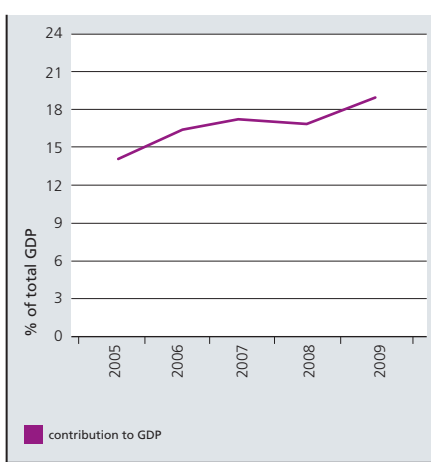
Prices for properties within designated Integrated Tourism Complexes (ITCs), which can be bought on a freehold basis by all nationalities, have declined sharply from the highs of early 2008 but have now stabilised to a large degree. As a result we feel that confidence is starting to come back into the market mainly on the back of increased affordability.

We foresee, however, that there will remain a continued softening of sales values as the market seeks to find its equilibrium. Asking prices in the secondary market are often significantly in excess of realistically achievable prices though serious vendors are becoming increasingly willing to negotiate on price in order to achieve a sale. Other property owners are looking to rent out their properties until the sales market rises to meet their expectations and/or financial requirements. The increasing maturity of the property market in the Sultanate is illustrated by the fact that purchasers in the ITC sales market are now end-users or long term investors rather than speculators looking for quick profit.

Industrial In 2009, non-petroleum related industrial activities witnessed a negative growth of 14.6%, mainly due to the global recession, in contrast with a sharp increase of 39.8% in the previous year. Within non-petroleum industrial activities, manufacturing accounted for 55.2%, followed by construction (36.6%), electricity and water supply (6.3%), and mining and quarrying (1.9%).

Supply of warehousing remains restricted

Contribution of industrial sector to GDP

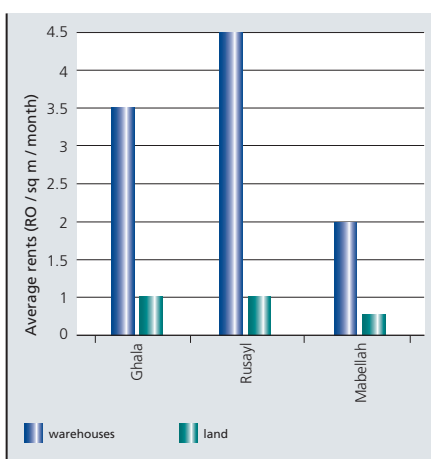


The manufacturing sector has undergone significant expansion in recent years even though its contribution to GDP contracted by 26% in 2009 in comparison to its contribution the previous year. The objective for the manufacturing sector is to grow at a faster pace so as to contribute 15% to overall GDP by 2020 from current levels of 10% in both 2008 and 2009.

Growth in the manufacturing sector is aided by a network of industrial estates administered by the Public Establishment for Industrial Estates (PEIE). These have expanded from the first such industrial estate, established at Al Rusayl in 1983, to include the facilities at Raysut, Sohar, Nizwa, Sur, Al Mazunah Free Zone and Knowledge Oasis Muscat with plans for further estates in the Batinah and Muscat areas in the near future.

Following the opening of the deep sea port in 2004 and the subsequent development of the surrounding heavy industrial area, which extends to approximately 2,000 hectares, Sohar is rapidly developing as a major industrial and logistics hub, particularly due to its strategic location and ever improving transport connections. In addition to the industrial port, the city also has an established and expanding PEIE industrial estate, while the first phase of a 4,500 hectare freezone is in the early stages of development.

Industrial rents



On the south east coast, the port at Duqm is currently under construction and is expected to be completed in 2012. Duqm is being developed by the Government and the Port of Antwerp as a major industrial city which will include an international airport, industrial areas, freezone, power plant, oil refinery and dry dock facilities. These large scale projects show a clear commitment to the on-going expansion of the industrial, manufacturing and logistics sectors as the Government continues to seek to reduce the economy's reliance on the oil sector.

On a more local note, the established Ghala industrial area in Muscat is currently in the process of being re-zoned as a commercial and residential area. Industrial activity in this area will need to be re-located over the next few years. The industrial area in nearby Mabellah has the capacity to absorb a limited amount of the expected exodus but we foresee the re-zoning fuelling the continuing expansion of Barka as a logistics hub and the further development of the Rusayl – Samail corridor for heavier industrial activity.

The supply of good quality warehousing and light industrial facilities in the capital area remains restricted and this situation will be exacerbated in the short to medium term by the expected exodus of industrial activity from Ghala. Rental rates for industrial and warehousing facilities in the capital area have therefore maintained their value despite on-going declines in rental values in other sectors of the real estate market. There is an evident gap in the market for warehousing and light industrial units to service the needs of the expanding manufacturing and logistics sectors.

Transport The Government of Oman has invested significantly in the Sultanate's transport infrastructure over recent years in order to improve both internal and external links. The major investment continues with fifteen agreements covering land, sea and air transport infrastructure projects being signed in July this year by the Ministry of Transport and Communications.

Investment leads to higher quality transport networks

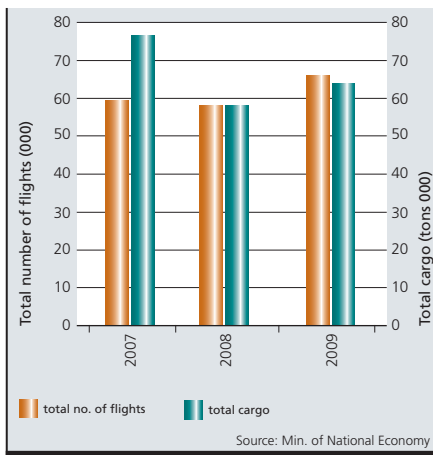
The 275-kilometre Batinah Expressway will run the length of the Batinah region. The Expressway will start from where the Muscat Expressway currently ends near Naseem Gardens to Khatmat Malaha on Oman's border with the United Arab Emirates. It is currently under construction and is expected to be completed in mid-2013. In addition substantial investment is also being directed at upgrading significant sections of the existing road network across the Sultanate.

Major investment is also being channeled into improving the Sultanate's air transport connections. The new terminal at Muscat International Airport should be completed by 2014 and will have the capacity to handle 12 million passengers and 200,000 tons of cargo annually while further expansions planned in three subsequent phases will ultimately boost the airport's capacity to 48 million passengers by 2050. Salalah Airport is also undergoing major expansion which will boost capacity to 1 million passengers and 100,000 tons of cargo annually by 2013 with the potential for further expansion.

Construction is expected to start soon on the development of a national rail system which will consist of four lines from Muscat to Sohar, Muscat to Duqm, Sohar to Al Ain and Sohar to the UAE border at Khatmat Malaha while consideration is currently being given to extending the Muscat-Duqm line down to Salalah. This network will link the Sultanate's major industrial and urban centres while also offering the ability to connect into the proposed GCC rail network. The GCC network is expected to be rolled out over the next seven to eight years and will involve investment across the Gulf exceeding \$100bn.

The scale of investment across Oman's transport sector is resulting in a high quality internal transport network allied to strong external links. This will enable enhanced access to both national and international markets for the Sultanate. The ever-improving transport links will benefit the industrial, trade and tourism sectors of the economy which have been identified by the Government as key areas for growth as the Sultanate seeks to reduce its reliance on the hydrocarbon sector.

Movement at Muscat International Airport



Carriage way (km)	Length		
	2007	2008	2009
Single	19,074	21,839	24,301
Dual	1,087	1,384	1,625
Total	20,161	23,223	25,926

Source: Min. of National Economy

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