

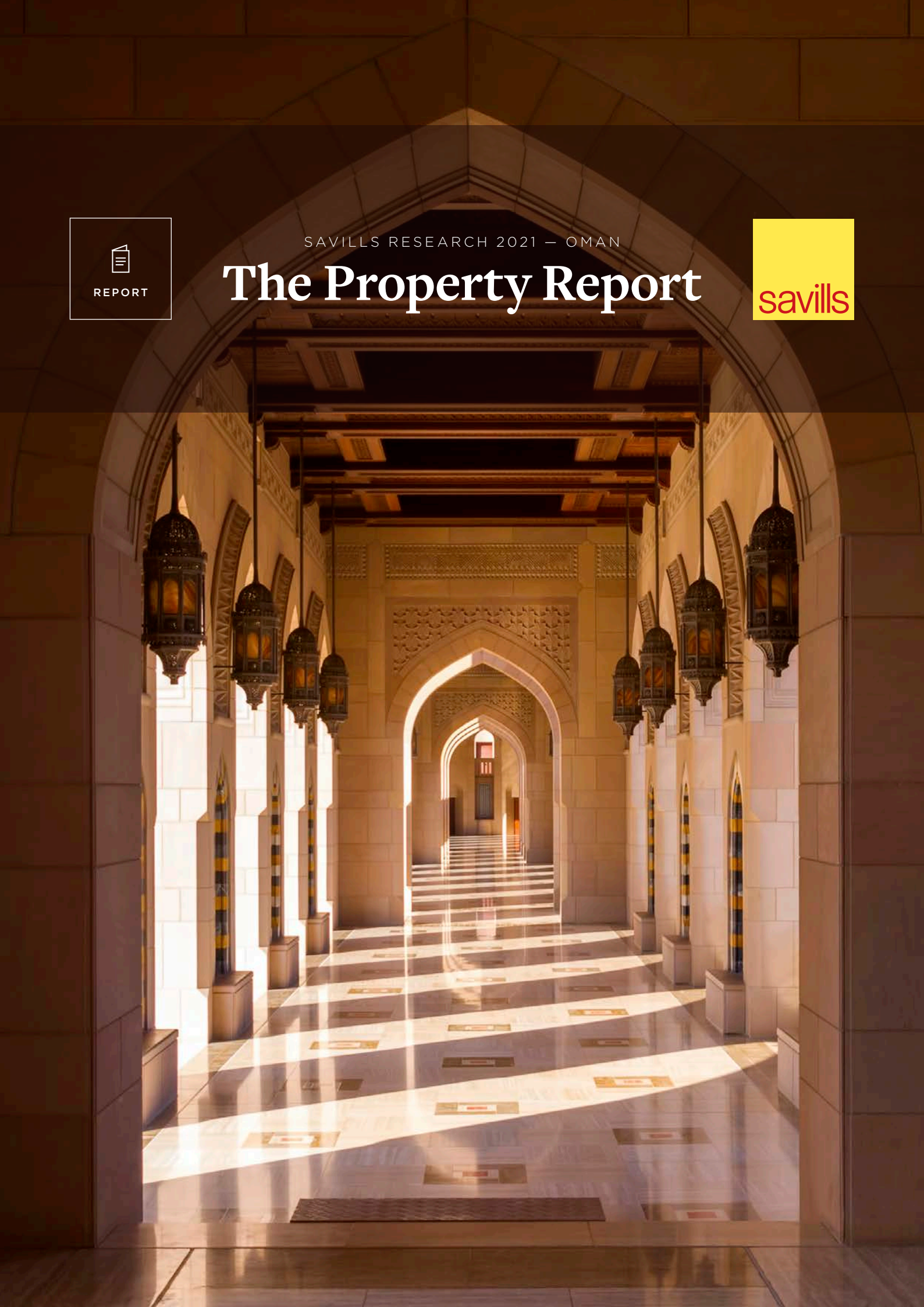


REPORT

SAVILLS RESEARCH 2021 – OMAN

The Property Report

savills



Foreword

This edition of the Oman Property Report finds the Sultanate's economy in a better and more optimistic position than 12 months ago but the outlook for the real estate sector remains challenging.

The average global price for oil dropped by over 30% in 2020 to USD 41/barrel. An on-going reliance on oil despite significant efforts at diversification over recent years, naturally had a significant, negative impact on Oman's economy. The oil sector has, however, seen a recovery since the historic low prices in April 2020 and the current projection is for an average oil price of USD 62 / barrel in 2021 with stable annual price of USD 60 / barrel over the next three years. Although not a cure all, stable oil prices at these levels allied to recently introduced austerity measures should assist the recovery of the economy and government finances.

According to Government figures, GDP (at current prices) dropped by just over 15% in 2020 in comparison to 2019. The International Monetary Fund (IMF) and World Bank are both projecting that Oman's economy will show a moderate recovery over 2021 before seeing a notable acceleration in 2022. The IMF's current projections are then for steady but more limited growth from 2023 to 2026.

Oman's economy is also driven to a significant degree by government spending while, according to the IMF, government revenues dropped by 24% from OMR 11.0 bn in 2019 to OMR 8.3 bn in 2020. Encouragingly, the IMF is predicting that government revenues will recover at 15% annually over the next two years to OMR 9.6 bn in 2021 and OMR 11.0 bn in 2022 before stabilising at a growth rate of 1% to 3% per annum from 2023 to 2026. At these revenue levels, the IMF is projecting that the government will be able to maintain spending at just under OMR 12 bn / year over the next five years.

The Sultanate will significantly accelerate its Covid-19 vaccination programme in June with the intention of over 70% of the population being vaccinated by the end of the year. This is likely to be of significant benefit in re-opening the travel & tourism sector while allowing current restrictions on the retail sector to be significantly eased.

Despite notable improvements in the overall situation, significant economic and socio-political challenges will remain, with controlling national debt (which has seen a significant rise since 2014) and creating employment for nationals being particularly prominent issues. The increasing focus on replacing expatriates with Omanis in both the public and private sectors, is likely to result in an ongoing reduction in the expatriate population (particularly white collar professionals) which would have a significant impact on the real estate sector, particularly the residential rental market which is driven by expatriates.

The Sultanate is in a significantly improved position in comparison to this time last year, but headwinds remain for the real estate sector. Landlords will need to be flexible, pro-active and move quickly to changing market conditions in order to attract and retain tenants. Opportunities for successful development will need to be well considered and clearly focussed on evident market gaps, opportunities and needs.



Ihsan Kharouf

Head of Oman

+20 2 37966711

ihsan.kharouf@savills.me

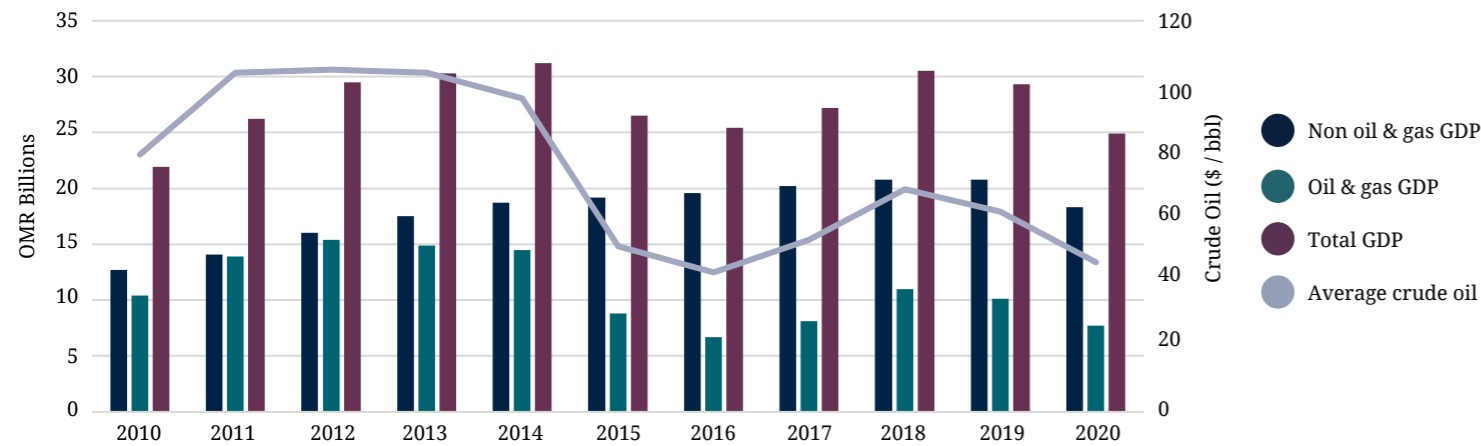


Macroeconomic & Demographic

Trends

As the chart below illustrates, there is a strong historic correlation between Oman's GDP and oil prices. As a result of the impacts of the COVID-19 pandemic and reduced oil prices, the Sultanate's economy contracted by 15% in 2020.

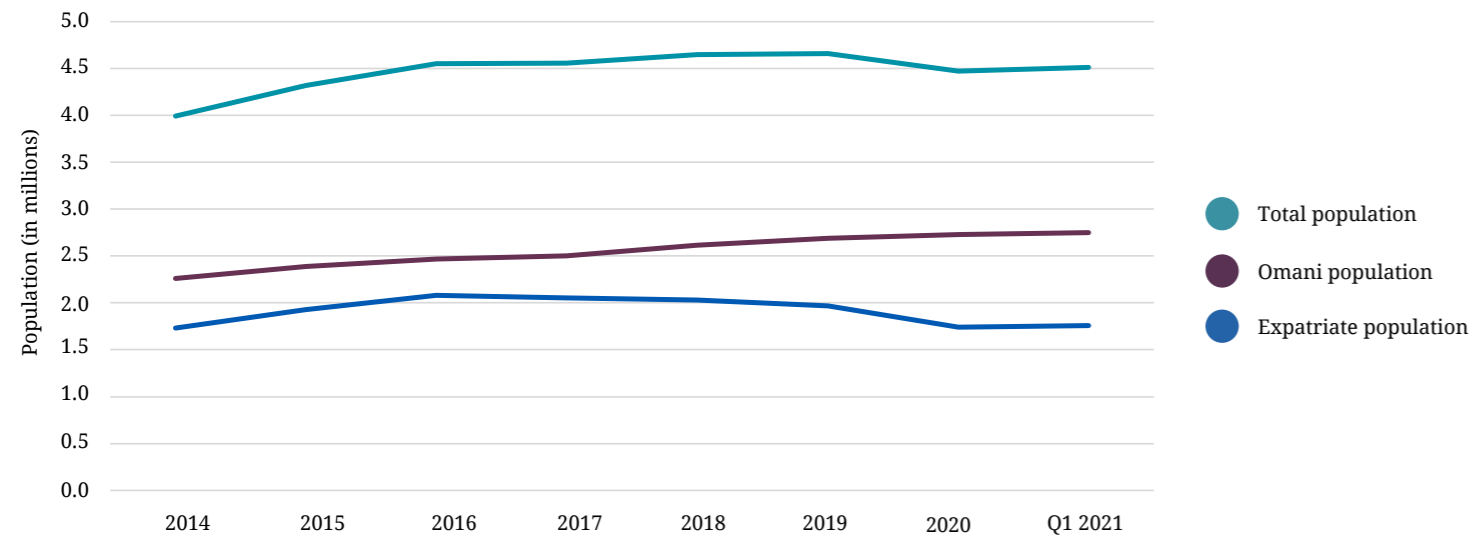
Oman GDP and oil price trends



Source National Centre for Statistics & Information

During 2020, an increasing focus on providing jobs for nationals and the impacts of the COVID-19 pandemic saw a significant acceleration of the decline in the expatriate population that started in 2017. There are now around 320,000 (approximately 15%) fewer expatriates in the Sultanate in comparison to 2016 although the expatriate population has started to stabilize over recent months.

Oman population trends



Source National Centre for Statistics & Information

Outlook

Opportunities

- Stronger oil prices
- GDP recovery
- Increasing Government revenues
- Potential opening up of the travel & hospitality sectors with the vaccine roll-out

Challenges

- Longer term impacts of the COVID-19 pandemic will become clearer
- Potential for further reductions in expatriate numbers
- Testing real estate market conditions
- Socio-political challenges





Office Market

Trends

The pandemic and subsequent lockdown measures have negatively impacted the office market in Muscat. Office leasing activity was limited before the pandemic and the onset of travel restrictions and lockdown measures led to muted demand levels in 2020. A lack of Central Business District (CBD), following the exodus of commercial activity from the established CBD which started over a decade ago, is further adding to the demand conundrum. As a result, there is no clear commercial centre for the city and commercial activity continues to be scattered in pockets from Qurum to Muscat International Airport.

As a result of the impacts of the pandemic and lower oil prices over the course of 2020, leasing activity has dropped by around 25% to 30% year-on-year (y-o-y). Almost all new office leases were observed from companies with an existing presence in Oman. Demand remains primarily focused on smaller, fully finished spaces.

Leasing activity was observed across good quality and well managed office buildings. As employee wellbeing gains foothold, projects which offer good natural light and ventilation and affordable F&B options are preferred. Demand for projects offering reserved parking provision and allocated visitor parking within the building or in the immediate locality is also high on the occupier agenda. In a city where commuting remains reliant on private cars, providing adequate parking remains a critical challenge but very few office buildings provide greater than the regulatory minimum of 1 parking space for every 50 sqm of usable office space (and many office buildings do not even achieve this target).

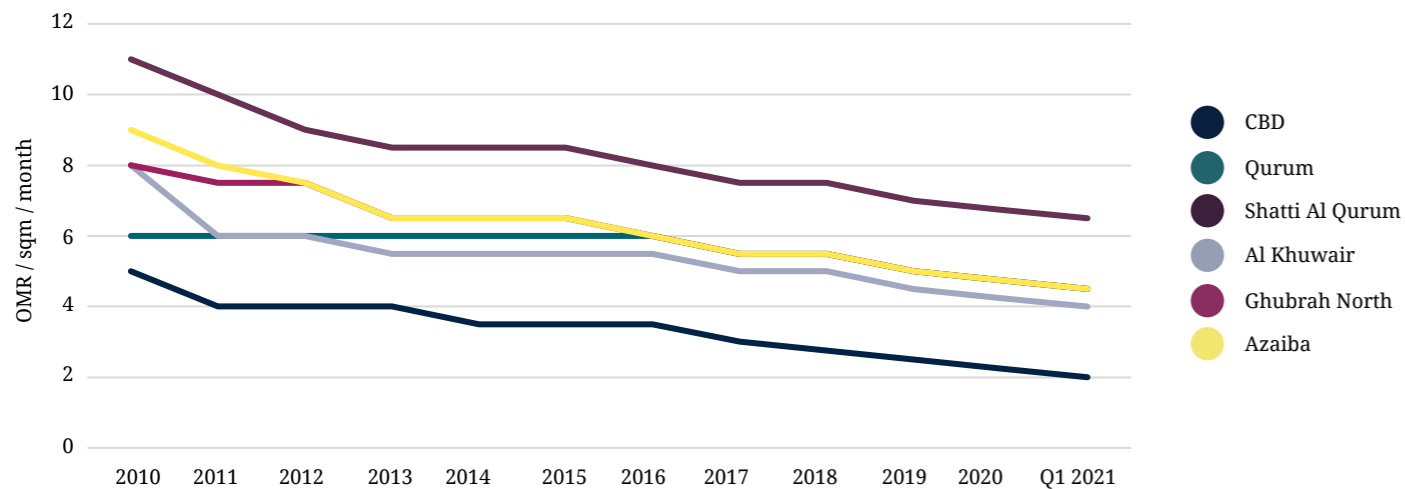
In contrast to the demand dynamics, recent years have seen the introduction of a significant supply of new office space which has exceeded the limited demand for office space in the city. There is currently circa 100,000 sqm of office space under construction, while requirements in excess of 2,000 sqm are extremely rare. As a result, Savills considers that Muscat has a growing oversupply of office space relative to actual requirements.

The supply / demand mismatch has led to a steady decline in rental values since 2015. With rental values already at historic lows, the impact of the COVID-19 pandemic and lower oil prices since the start of 2020 on headline rental values has been limited (in comparison to the notable reduction in demand/uptake) with a greater focus on rental incentives rather than a reduction in headline rental values.

Achievable rental values are currently 20% to 30% lower than they were in 2015 with the Shatti Al Qurum submarket showing the greatest resilience. Rental values are now highly compressed for midrange to higher grade office space with guideline rental values currently being:

- OMR 4 to 5 /sqm/ month for midrange
- OMR 5 to 7 /sqm/ month for higher grade

Average office rental value trends



Source Savills Research

Outlook

Continued introduction of new office space to the rental market.

Ongoing imbalance of supply of office space relative to demand will continue to grow.

Demand and uptake to remain muted over 2021.

Demand to remain focussed primarily on smaller, finished office units.

Limited demand for (particularly larger) shell & core spaces.

With current economic conditions and significant travel restrictions, demand will remain almost exclusively from companies with an existing presence in Oman.

Professional property management and amenities (particularly food & beverage outlets) increasingly key in attracting and retaining tenants.

Continued downward pressure on rental values but, with rental values at historically low levels, there is limited room for further corrections.

Growing requirement from tenants for incentives such as increased rent-free periods and landlord assistance with fit-outs.

Good parking provision to remain a key demand driver.

No evidence to suggest that there will be any strengthening of rental values over the coming 12 months.





The potential for co-working space in Oman

Global overview

COVID-19 has accelerated a number of global real estate trends that were already developing before the pandemic, including the rise of co-working. A co-working space is a type of flexible office that comprises a shared working environment (i.e. no walls/private offices), which is typically open-plan and offers either hot-desks or dedicated desks for members along with shared access to meeting facilities, break out areas, and often some office equipment, such as printers: it allows multiple people to use a single physical work station or surface during different time periods, which provides a more flexible seating arrangement. Closely related is a serviced office which features a mixture of private office suites occupied by a single company and shared breakout areas: it may also include a small co-working area as part of the offer. Both phenomena became popular in the United States at the start of the millennium and have been spreading globally in the last decade or two.

Advantages of co-working space

Co-working spaces provide businesses, independent contractors and other workers a space to work, network and participate in the local business community. Given the uncertainty due to COVID-19, it provides something that many employees and employers are particularly after at the moment: flexibility. In fact, 'flexible space' is the blanket term used to cover the various different types of office space, from co-working to serviced offices. In general, it offers space that is furnished and ready to use, available on a monthly contract, with all costs rolled into one monthly fee. It is known as 'flexible' space as the monthly or 12 month contract is more flexible than a traditional 5 or 10 year lease.

What does this mean for Oman?

A clear economic focus for Oman is encouraging start-ups and small & medium establishments (SMEs). A co-working space is ideally suited to start-ups and smaller companies concerned about the potentially significant costs of setting up a traditional office while also looking for greater flexibility to allow the company to scale up at its own pace without the rigidity of a more traditional office lease. Tying in seamlessly with the rise in homeworking, co-working space allows a company to pay only for what it actually needs while providing an informal yet professional working environment with the opportunity for social connections, networking opportunities and the ability for collaboration both within the company and with other organisations.

With the recent rapid evolution of the workplace and the way that we work allied to the global success of co-working spaces, Savills considers that this type of facility would be well suited to the requirements of start-ups and smaller companies in Muscat while offering a different development approach to more traditional office spaces.



Residential Market

Trends

Expatriates constitute 40% of Oman’s population and play a significant role in the demand for residential units across the country. While the Omani population has continued to grow steadily, expatriate numbers started to drop gradually in 2018 & 2019 before seeing a drop from 880,000 to 760,000 (almost 15%) over the course of 2020. The expatriate population has started to stabilise over recent months but there is the potential for further reductions in numbers due to the long term economic impacts of the pandemic and a growing focus on Omanisation of the workforce, particularly for white collar positions.

The Oman Census 2020 reveals that there are currently circa 80,000 vacant residential units (around 20% of the total residential supply) in Muscat. With the vast majority of Omanis being owner-occupiers, it is estimated that a significant proportion of the vacant units are likely to be investment properties for the rental market.

As a result of the notable drop in the number of expatriates in Muscat over 2020 allied to the difficulty for new employees to enter Oman due to travel restrictions, demand has seen a notable reduction over the last 15 months and has been focussed to a notable degree on more affordable apartments and villas/townhouses in the exclusive localities of Al Mouj, Muscat Hills and Shatti Al Qurum.

Recent years have seen extensive development of residential units (particularly of low to moderate grade residential apartments with limited/no facilities) for the rental market across Muscat which has resulted in a significant oversupply (especially relative to diminishing demand).

Current evidence is that there is a significant and growing supply/demand imbalance while many of the residential units developed over recent years have been ill considered in terms of location, design, quality and/or target market. The proportion of well-considered, good quality residential units with a clear tenant market in mind remains relatively limited.

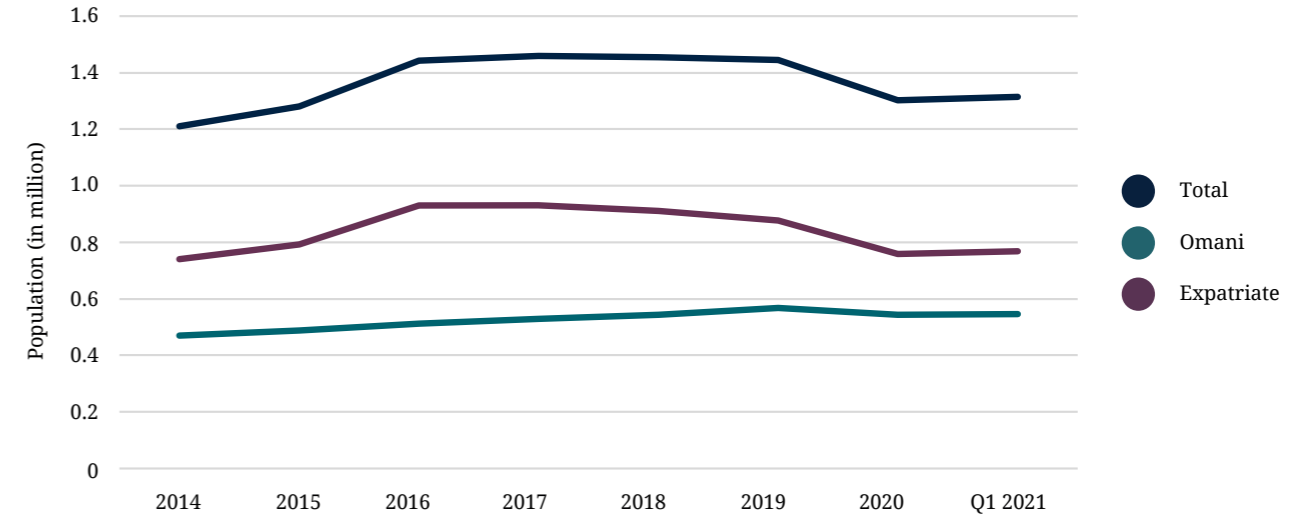
As a result of the supply and demand mismatch, average rental values have been consistently declining across the city. Rental values were on average 30% to 40% lower in 2019 for better quality apartments in comparison to 2014 while villas generally performed slightly better with average reductions of 20% to 30% over the same period. The more limited supply of villas/townhouses in the more exclusive locations of Shatti Al Qurum, Muscat Hills and Al Mouj showed the most resilient performance due to restricted supply relative to good demand.

Savills research shows that average apartment rental values have dropped by a further 10% to 15% over the last 18 months while the increasing tightening of tenant budgets and growing focus on value have resulted in more marked drops of 15% to 25% for average villa rental values. The exception to these trends has been the more robust performance of the limited supply of high end villas at Al Mouj and Muscat Hills which have experience a more moderate drop of around 10% in average rental values since the start of 2020 and have remained relatively stable in 2021: in contrast, the growing supply of apartments at both of these locations has resulted in apartment rental values experiencing greater pressure.

Demand trends which have become evident over the last 15 months include:

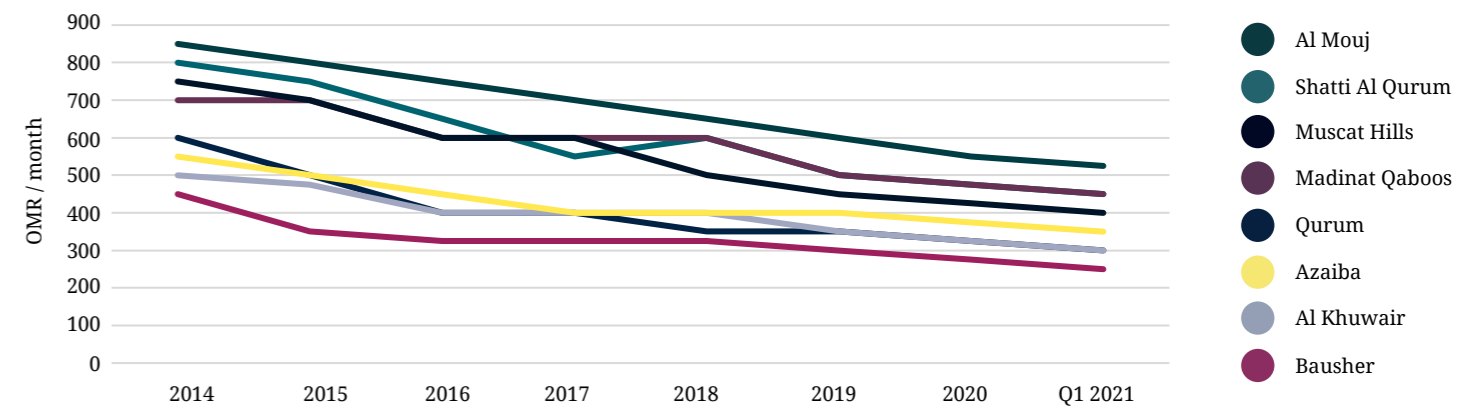
- A notable tightening of rental budgets.
- Growing demand for furnished properties (particularly apartments).
- Growing demand for shorter (3 to 6 month) lease terms due to concerns about job security.
- Increased focus on monthly to quarterly payment terms.
- Strong demand for villas with good garden space and private swimming pools.

Muscat population trends



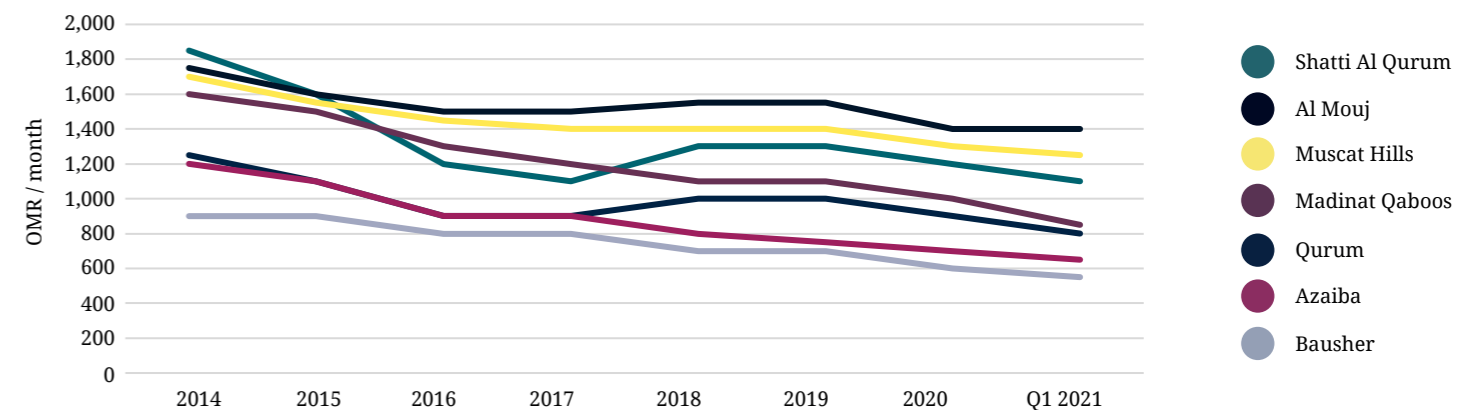
Source National Centre for Statistics & Information and National Census

Average residential rental value trends – 2 bedroom apartment

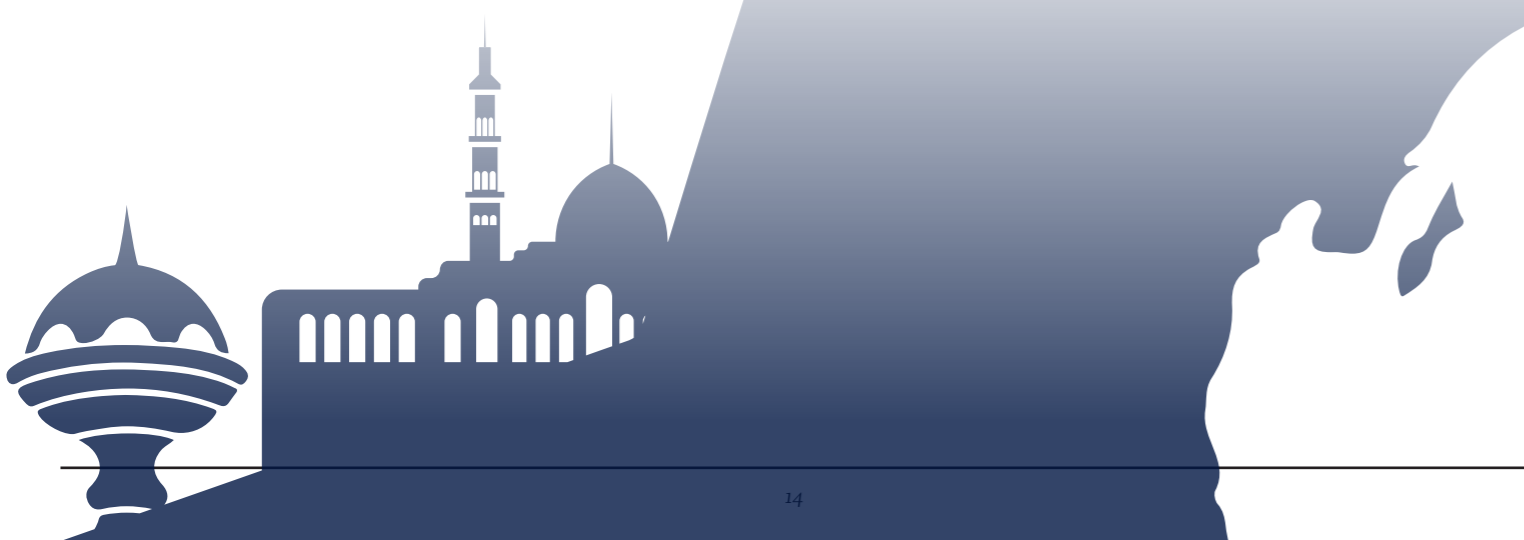


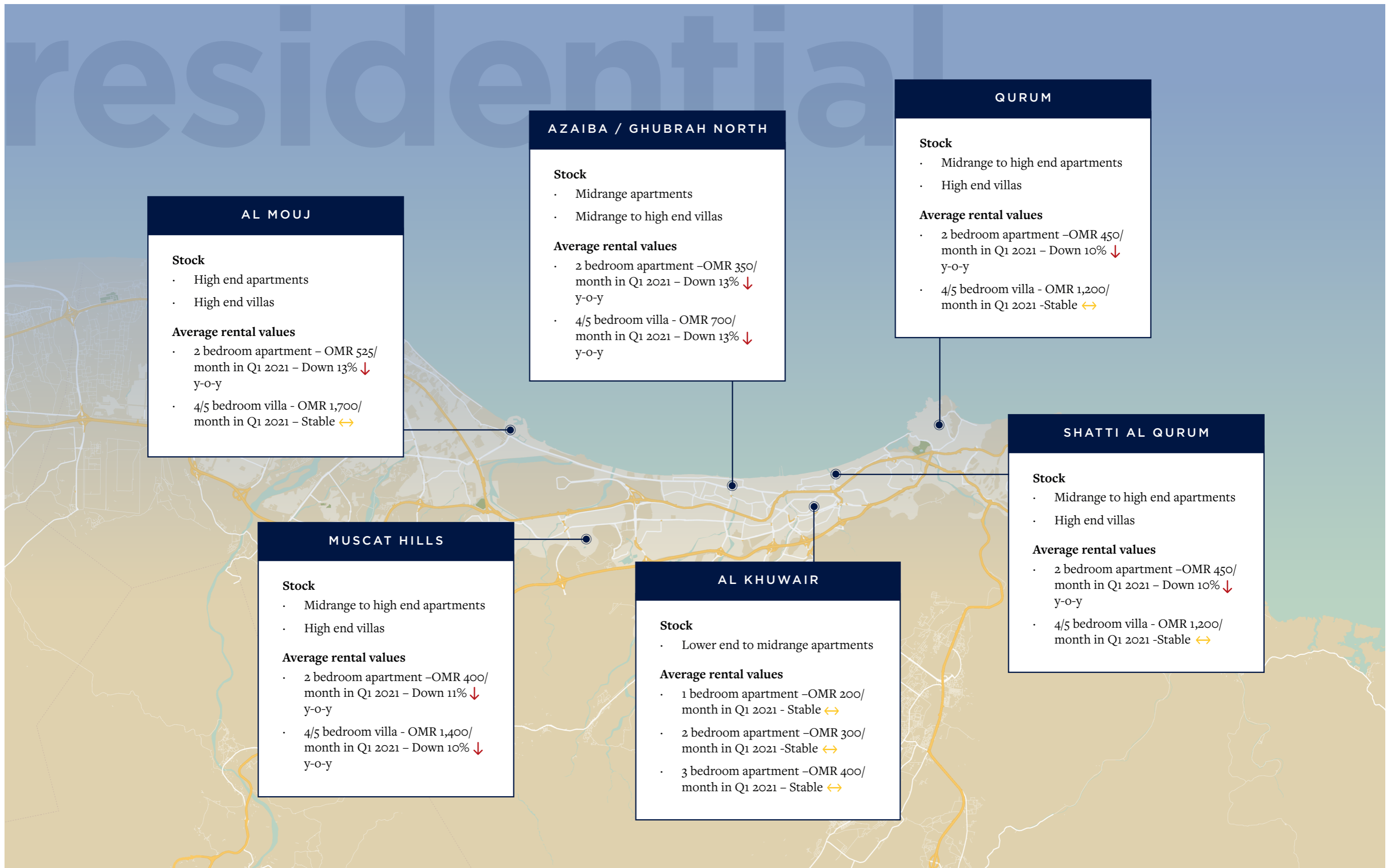
Source Savills Research

Average residential rental value trends – 4 bedroom villa



Source Savills Research





Outlook

Increasing oversupply of residential units (particularly of low to moderate grade residential apartments with limited/no facilities) relative to declining demand resulting in higher vacancy levels.

Ongoing tenant focus on lower priced/value apartments.

The expatriate population in Muscat has dropped by 17% since 2017. Although showing greater stability over recent months, Savills considers that there is the potential for further reductions in numbers due to the long-term economic impacts of the pandemic and a growing focus on Omanisation of the workforce.

With no realistic prospect of the professional expatriate population growing over the coming 12 months, demand for real estate will remain limited.

Facilities, good parking, and professional management will remain key to attracting and retaining tenants for higher grade apartments.

A significant proportion of demand will remain from tenants looking to upgrade from their existing accommodation while paying the same rent.

No evidence to suggest that there will be any strengthening of rental values over the coming 12 months.

Increasing demand for shorter term leases, monthly payments, and furnished properties (particularly apartments).

Villas and townhouses at Al Mouj, Muscat Hills and Shatti Al Qurum will continue to outperform the market in terms of demand and rental value resilience.

Ongoing pressure on rental values but, with average residential rental values already around 40% lower than the most recent market highs seen in 2014/15, Savills considers that there is limited room for significant further drops in value.



Savills Middle East

Working alongside investors, developers, operators and owners, we inject market insight and provide evidence-based advice at every stage of an asset's lifecycle. We have unrivalled reach across the Middle East with extensive market experience in UAE, Bahrain, Oman, Egypt and KSA.

Savills Market Research

We provide bespoke services for landowners, developers, occupiers and investors across the lifecycle of residential, commercial or mixed-use projects. We add value by providing our clients with research-backed advice and consultancy through our market-leading global research team.

Research Middle East



Swapnil Pillai
Associate Director
Research
+971 4 365 7700
swapnil.pillai@savills.me



Richard Paul
Head of Professional
Services & Consultancy
+971 4 365 7700
richard.paul@savills.me

Oman Office



Ihsan Kharouf
Head of Oman
+968 2205 7900
ihсан.kharouf@savills.me



Matthew Wright
Head of Consultancy
+968 2205 7917
matthew.wright@savills.me



SAVILLS OMAN

Hatat Complex
PO Box 1475 Muscat
+968 2205 7900
oman@savills.me