



# Property Briefing

## Sultanate of Oman

### Residential / Commercial

Q 2 2016



The continuing lower oil price is having a negative impact on confidence but fundamentally there are no reasons to expect significant property market declines

The sales market appears least affected by market sentiment and offers good investment opportunities for domestic and foreign buyers

The rental market is starting to appear strained with a significant supply addition of homes as a result of ex patriates leaving Oman, with fewer new arrivals taking their place.

- As the commercial reality of lower oil prices takes hold, workforce reductions are being made resulting in the freeing up of rental homes across the capital. The lower inflow of new arrivals is insufficient to absorb the new supply resulting in downward pressure on rentals.

- Not all sectors of the rental market are negatively affected with the ITC's, Muscat Hills and Al Mouj holding value generally.

- Older style 'off central' property is seeing the most rental correction with tenants unwilling to lease at historic rates. A looming over supply of apartments in large group housing developments could lead to downward rental pressure.

- Capital values remain firm in the ITC projects with good re sale activity over the year. A greater variety of property / value options in this sector has boosted investment appeal.

- An active domestic off plan market remains with sales consistent with 2015 levels and capital growth occurring between purchase and project completion.

- Minimal activity has occurred in the commercial office sector so far this year with the outlook less than positive as corporates seek to reduce operational costs wherever possible. However new supply addition is minimal therefore pressure on rents is negated to some extent.

## THE RESIDENTIAL LEASING MARKET

It is almost as if, on January 1<sup>st</sup> 2016 there was a collective sigh and Oman firmly braced itself for a new more challenging economic scenario. The previous reliance on higher oil prices to support the rapid growth and development of the country could no longer be relied upon and the previous dalliance with much needed economic diversification away from oil became an overnight and urgently needed necessity.

But this has yet to translate into any significant property market downturn for the rental sector. What is apparent is the housing budget cuts being imposed by corporates and the change of new hires from traditional family size units to singles and couples. Muscat fortunately has benefited from a large supply of new quality apartments over the last two years and these have been rapidly taken up by the newly arriving expats and those that have had to forego larger housing options as a result of budget cuts. This has to some extent lead to an increase in the number of older style, larger family style villas available for rent but landlords are as yet to reduce their rentals for these to encourage early letting. Landlords of these properties are however noted as agreeing token downward rent adjustments upon lease renewal to retain their tenants and avoid vacancy and re-letting costs. We expect this trend to continue with larger, expensive villas seeing increasing voids on tenant vacation and ultimately landlords reducing rents to ensure continued occupation.

Area	2 Bed	3 Bed	4 Bed	Market Movement Since 2015
Wadi al Kabir	350 - 450	450 - 500	450 - 650	Same
Ruwi	300 - 350	375 - 450	450 - 500	Same
Darsait	300 - 400	375 - 500	450 - 650	Same
Al Wattaya	350	350 - 450	450 - 550	Down
Qurum	350 - 450	800	850 - 2,500	Same
Qurum Heights	450	550 - 900	950 - 2,500	Same
Medinat al Ilam	-	800	1,100 - 2,200	Same
Medinat Sultan Qaboos	750	1,100 - 1,750	1,500 - 1,800	Down
Al Khuwair	450 - 750	650 - 800	850 - 2500	Down
Shati al Qurum	775 - 850	1,000	1,700 - 2,500	Same
Ghubrah North	550	700 - 800	850 - 2,000	Down
Ghubrah South	450	500	850 - 1,000	Down
Al Mouj	850 - 1,100	1,200 - 1,500	1,750 - 2,500	Same
Muscat Hills	725 - 775	850 - 1,100	1,350 - 2,300	Same
Azaiba	525 - 750	800 - 900	850 - 1,500	Down
Bausher	600 - 650	875 - 975	1,000 - 2,000	Up
Seeb	350	500 - 600	700 - 1,000	Up
Al Khoud / Al Hail / Mawelah	350 - 400	450	550 - 800	Up

Typical monthly rents in OMR

Whilst the large number of new apartment developments have been welcomed in the light of the changing demographics of ex patriates arriving without large families accompanying them, there now exists a real possibility of oversupply and rental stagnation for this property type as significantly more enter the market. It is estimated that there will be over 1,600 new apartments (central areas) entering the rental sector over the next 12 months. Whilst those developments offering good amenities and management are likely to be less affected, periods of vacancy are likely to grow with a corresponding downward pressure on rentals.



Bausher is now firmly establishing itself as a preferred residential location. With proximity to the ever expanding shopping malls, expressway and recreational facilities, it has transformed itself from being the 'alternative' place to live to now one of the most highly demanded areas. Bausher offers housing of all options ranging from multi apartment complexes to luxurious villa compounds.

The traditionally favored central areas are being impacted by the reducing family sizes renting property. The larger villas are taking longer to rent and whilst landlords are currently reluctant to reduce rents, marginal declines are being noted.

## THE DOMESTIC SALE MARKET

The year continues to see high levels of buyer interest, particularly in the 'off plan' apartment developments. There appears to be no shortage of bank liquidity and thus availability of mortgages remains available and accessible for such investment purchases. There remain few commercially attractive alternative means of domestic investment for the local market and as such property remains a firm favorite, showing typically a 7% initial yield upon completion. The emergence of commercial space for sale is a relatively new phenomenon and a number of developments have entered the market since year commencement. Whilst this is a relatively new investment sector for Oman and offers in general less returns than residential, it is a welcome addition to a fast evolving property industry.



The impact of raising of Ministry of Housing transfer costs to 5% appears to have had little impact on prevailing sale prices of land and property. There is some concern that as a counter to the increased tax, full transaction values may not be reported upon sale/purchase and the raising of rates could theoretically result in lower fees collected as a result. The establishment of a real estate pricing index as proposed by the Oman Real Estate Association is a first step in ensuring that Government bodies can track value movements and be alerted to any fraudulent reporting of sale values. The maturing of this property market to international levels of standard is slow but is now underway.



Dhalia Project – by Badr – al Qurum



Area	1 Bedroom	2 Bedroom	3 Bedroom
Ruwi / East of Centre	30,000 – 35,000	45,000 – 50,000	60,000 – 65,000
Qurum	38,000 – 45,000	65,000 – 85,000	85,000 – 90,000
Al Khuwair	38,000 – 45,000	65,000 – 85,000	85,000 – 90,000
Bausher	33,000 – 45,000	45,000 – 65,000	70,000 – 75,000
Al Mawella / West of Centre	25,000 – 28,000	30,000 – 35,000	35,000 – 40,000

Average OFF PLAN, new launch apartment developments – Omani Rials



## The ITC's (INTEGRATED TOURISM COMPLEXES)

The majority of **Muscat Hills** Phase 2 properties are now complete and this development remains a firm favorite with owners and renters alike. The much awaited Intercontinental Hotel here is rumored to be commencing construction by year end and this will greatly enhance the attractiveness for residents and visitors alike to this development. The recently announced "**Boulevard**" at Muscat Hills will provide a pedestrianized area running the core length of 665 meters, containing shops, restaurants and cafes. With over 900 apartments and several office buildings fronting this recreational zone, Muscat Hills is likely to become an important element of the master planned Medinant al Arfan – widely referred to as Muscat's new downtown.



The number of Nationals buying property within the ITC's remains high at a period when foreign buyers are acting with more caution. Solid rental returns and prospects of capital gain are still primary purchase factors but more and more Nationals are taking up actual occupancy at these developments, having identified the benefits such gated communities offer. There are likely to be a number of new project releases at Al Argan Towell's Barka development and Muriya's Jebel Sifa over the year, offering resort style property options. However, those projects with the commercial inertia enjoyed by the likes of Al Mouj and Muscat Hills will likely remain the highest performing in terms of capital gain moving forward.



Al Mouj Villa



Muscat Hills Apartment

Apartment	Lowest Price	Highest Price
1 Bedroom	OMR. 48,000	OMR. 120,000
2 Bedroom	OMR. 65,000	OMR. 170,000
3 Bedroom	OMR. 90,000	OMR. 340,000

Villa	Lowest Price	Highest Price
3-4 Bedroom	OMR. 325,000	OMR. 400,000
4-5 Bedroom	OMR. 420,000	OMR. 890,000
5+ Bedroom	OMR. 490,000	OMR. 1,300,000

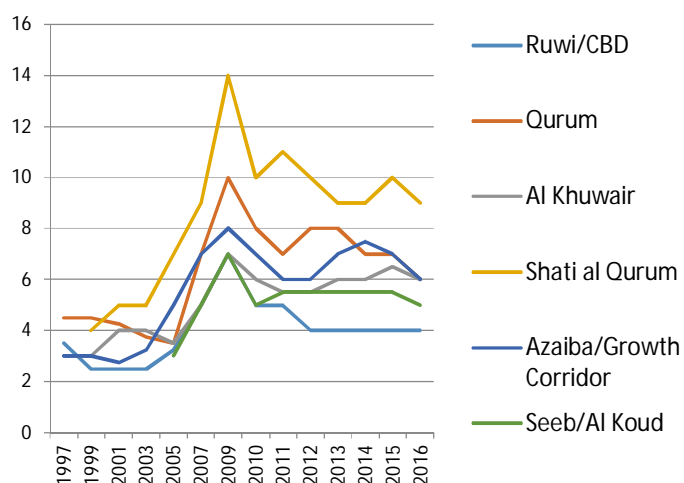
**Higher Value – Al Mouj**  
Marina and Beach front

**Lower Value – Higher**  
density apartments – The  
Boulevard at Muscat Hills

## THE OFFICE MARKET

There has been minimal activity in the office sector since the beginning of 2016. Many corporates are adopting a wait and watch policy and are quietly nervous about increasing costs, taxation and general operating overheads overlapped with reduced income projections. With a pipeline of circa 170,000 square meters of new commercial space destined to be completed in the next 18 months, there is concern that another over supply scenario may result in the short term, dampening any prospects of rental growth. The longer term scenario may be more optimistic as a result of the energetic push for economic diversification which could lead to new company startups and space absorption.

Existing tenants, upon lease renewal are likely to secure minor reductions in the current climate as landlords seek to retain occupiers and avoid what could be significant re letting void periods.



## THE RETAIL MARKET

Significant supply addition has occurred over the last 24 months and new mall openings over the last year have included Panorama Mall in Bausher and The Oman Avenues Mall. There is now approximately 345,000 square meters of prime retail (mall) space within Muscat Capital area, all fully leased and trading. A further 280,000 square meters of confirmed projects will be completed by 2020 to include the Mall of Oman, The Palm and retail elements of the Convention Centre. Whilst Oman previously lacked the diversity of retailing offered by its neighbors, this has now changed and along with it retail shopping habits, with retailers reporting rising spending.

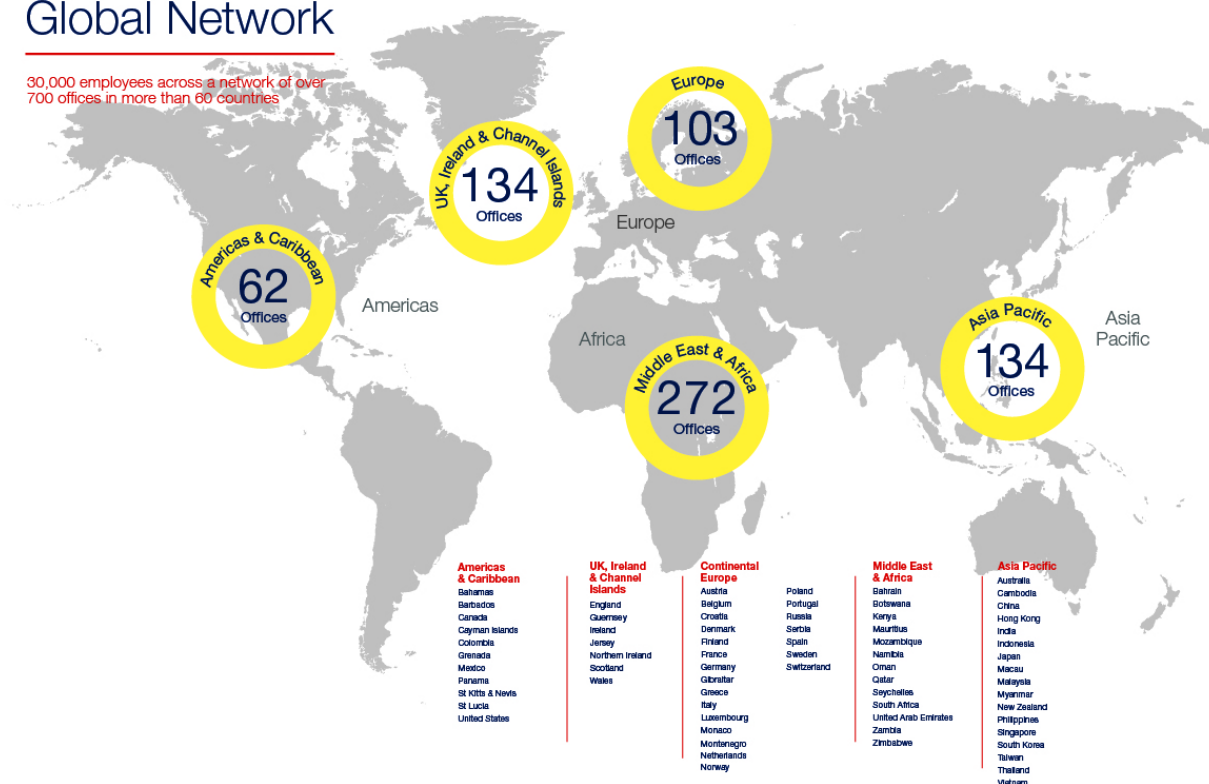
Area (square meters)	Grade A	Grade B
Average Unit size	120	65
Rent Low	7.5	6
Rent Mid	20.28	12.7
Rent High	35	18

Rents per square meter per month



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