

May 15, 2014

The Sultanate of Oman

Real Estate Market Observations



Oman's property market is at an exciting crossroads. It can move forward as a vital ingredient in the economic growth and prosperity of the country to everyone's benefit. Conversely it could slow the pace of development and stifle the prospects of growth that are now clearly being felt by most industry sectors.

Emerging from a period of relative stagnation following the global economic correction, Oman's property market now faces many challenges that need to be addressed in a focused and forward thinking manner. If the Sultanate's economy is to grow in line with its forecasts, real estate will benefit from being viewed as an industry in itself, not as a byproduct of other sector's growth. Globally, real estate has added billions to many countries' GDP's and yet has continued to meet its underlying social responsibilities of housing the population for residential or commercial purposes. And one of the underlying factors in this industry growth apart from population growth – cross border investment.

Oman has made great strides in opening up its doors for allow foreign direct investment into real estate. The Integrated Tourism Complexes were timely and their initial offerings attracted a healthy flow of foreign income into the country, adding to the wealth in an open yet controlled manner. Yet there is now a danger of their floundering under increasing amounts of bureaucratic procedures that have to be followed by buyers and sellers. Sometimes questionable regulations and as yet untested laws governing the management of these ITC's are also open to worldwide scrutiny and need resolving as priority if we are to continue to attract foreign investment to support these development's full tourism potential. Several important and significant ITC developments are due to launch over 2014 and these will add to the Sultanate's prominence as a strategic real estate player on the global stage.

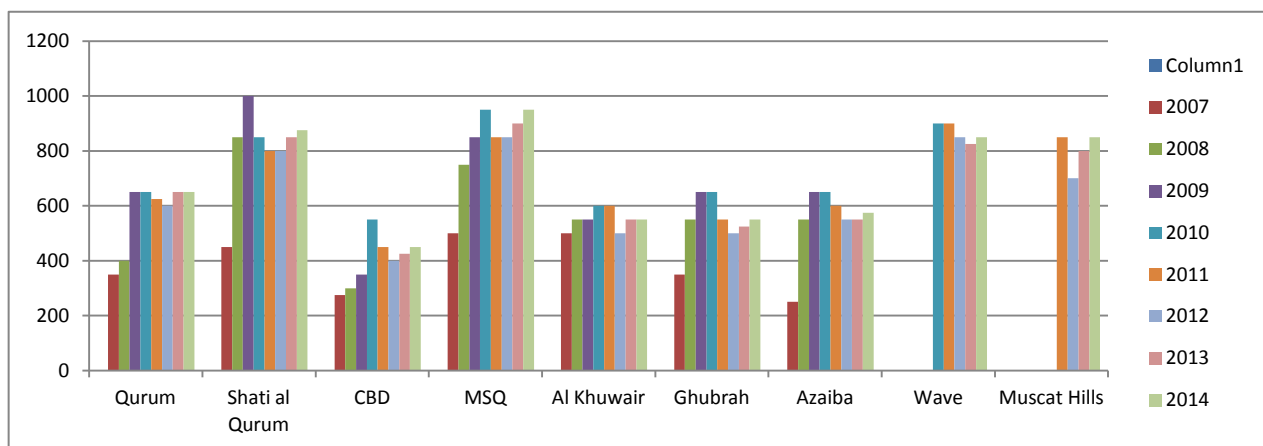
Oman should not be afraid of foreign investment into its real estate – it should welcome it with open arms. Foreigners can never physically take away the land, they can however add to the economy by owning a home, paying for their use of local services and adding to the all important retail industry here.

The first quarter of 2014 has seen continued high levels of residential rental activity, particularly in the mid to high end budget sectors. A surge of new arrivals, most notably from the hydrocarbon industry sectors ensured demand for quality homes was high and supply, at times, was not sufficient to meet this demand. Properties

within the ITC's, most notably The Wave and Muscat Hills have leased fast, at rents considerably higher than in the preceding year.

Values have in the main now returned to their 2009 peak levels, reflecting the re establishment of a demand / supply balance for most sectors of housing. Quality villas, especially in the ITC's remain short in supply and this will likely lead to general rental increases over the year until such time as the villas currently under development are completed and enter the rental market. The newer establishing areas such as Bausher and Al Muna now offer attractive rental rates as compared to their more central neighbors. Improvements in accessibility, particularly as a result of the Muscat Expressway have made these previously "secondary" areas highly demanded over recent months and they are fast evolving as preferred living zones.

Rental Movements – 2005 to Present - High quality 2 bedroom Apartment



Rents reflect Omani Rials per calendar month based on one year letting

The impact of the ITC's, primarily The Wave and Muscat Hills Golf & Country Club on the rental sector has grown significantly over the last 12 months. Now firmly established as favored expatriate rental locations, there continues to be a high demand for quality villa and apartments at either development. Particularly for villas, demand is now outstripping supply and upward rental movement has commenced. Whilst already priced higher than the comparative non ITC villas, we anticipate growth of up to 20% over the next 12 months, reflecting the lack of available rental property, compounded by the fact that there is only very limited new stock entering the market within the next 18 months..

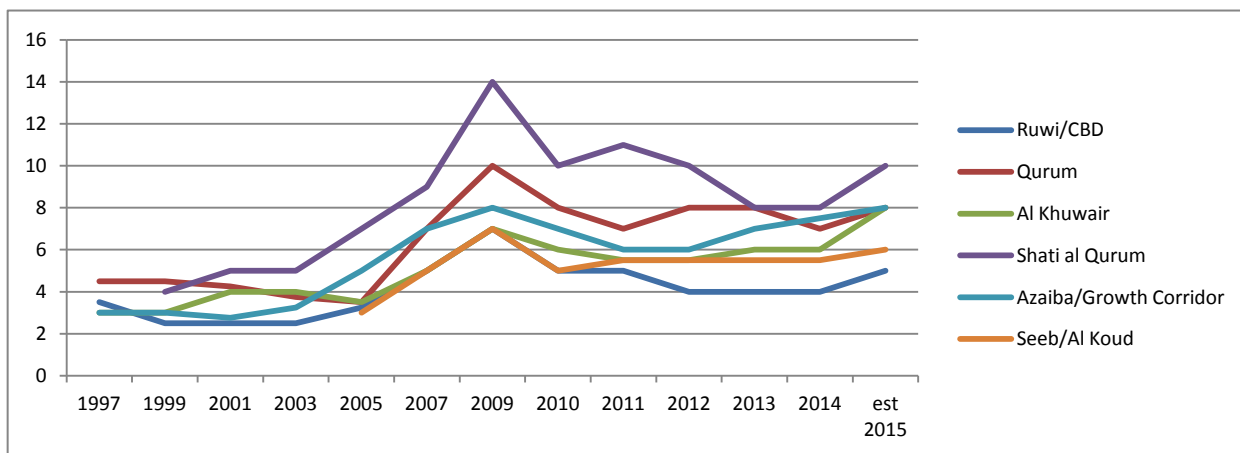
On a more commercial level. Employment growth is a key to all industry success. The ability to provide office space to meet employment growth targets is critical and the attraction of global corporates to assist in

this is essential. Availability of office space is a key factor in country choice for MNC establishment and Muscat now faces an alarming shortage of quality commercial office space that meets the requirements of incoming and expanding corporates.

The commercial Office sector has followed a consistent performance cycle over recent years. As the commercial office leasing market is primarily driven by newly arriving/expanding Multi National Companies (and to a lesser extent by expanding Domestic Groups), any new office space take up can be closely correlated with the activities of these market groups. If these groups slowdown in growth or entry, a natural decline in demand will likely occur.

Currently, there is an estimated 720,000 square meters (approx) of graded offices space in Muscat (A & B) and Grade A office space accounts for approximately 34 % (245,000 square meters) of this space. Industry projections show that there will be a real demand for over 1 million square meters of Grade A office space by 2018. Yet future stock addition of Grade A space (based on work commenced on site) is estimated at only 132,000 square meters. Clearly an undersupply position is in the making, one which will lead to a potential obstacle in attracting the much needed MNC investment into the country.

Rental Values - Historic Commercial Rents and rental predictions



Rates per square meter per month

What will however most likely happen however is there will be a sudden awakening of the need to develop such space and developers will scramble to build on every available piece of land. This cyclical development trend, most often with a 2-3 year time lag over which period of undersupply rents will rise dramatically can however be avoided. A more controlled demand/supply position still allows growth but avoids unsettling periods of “boom and bust” and can be achieved by proper industry forecasting and planning.

The need for regulating the real estate market in Oman is well acknowledged and welcomed. Great strides are being made in this direction but it is the setting of standards and upholding of same that will meet with success, not necessarily arbitrarily imposed rules and regulations. Eminent bodies such as the Royal Institution of Chartered Surveyors can provide the framework for such standards by implementation of the ethics as set out in the "red and blue books" governing the standards for valuers and brokers to adhere to. Consumers of real estate services will appreciate and benefit from these standards. Those real estate individuals that fail to follow these standards will over time fall by the way side as the industry evolves into a respected and valued part of the economy.