REPORT

SAVILLS RESEARCH 2023

The Property Report

OMAN

Introduction

Oman's economy has seen positive changes over the last two years. The country's public debt has decreased from 65% of GDP in 2020 to circa 40% in 2022. This improvement in the country's macroeconomic fundamentals, owing to an increase in commodity prices over the last two years, has enabled the government to focus on pro-growth initiatives.

The government's focus is firmly set on building infrastructure, diversifying the economy, investing in green energy, and creating long-term economic opportunities for the Omani population. In line with these objectives, investments in infrastructure developments have taken centre stage. In June, the Government awarded a USD 6.7 billion (bn) contract to build the world's largest green hydrogen plant in Duqm. It is also working towards growing the country's rail and metro capacity.

At the start of 2023, the Ministry of Transport, Communications & Information Technology invited international consultants to bid for a contract to provide advisory services for the proposed metro line. The initial phase of the metro line is proposed to link Ruwi to Seeb with a branch line providing access to the airport. Additional bus services are also proposed to enhance connectivity to the metro from prominent residential and commercial districts.

The government is also pushing ahead with a crucial passenger and freight rail link connecting the country's industrial hub in Sohar to the UAE. As part of this initiative, Oman Rail and Etihad Rail established the Oman-Etihad Rail Company in 2022. The new entity is tasked with designing, constructing, and operating the line at a projected cost of USD 3 bn. Once completed, the 303-kilometre (km) line will connect Sohar with the UAE's capital Abu Dhabi. It is proposed to reduce the travel time from Sohar to Abu Dhabi and Al Ain to less than 2 hours. It is expected to generate immense economic opportunities for both countries as Sohar is a key industrial hub in the GCC, whilst Abu Dhabi has an established port along with significant warehousing and industrial space along KEZAD. Post the initial phase, subsequent phases will include new lines connecting Muscat, Duqm, and Salalah.

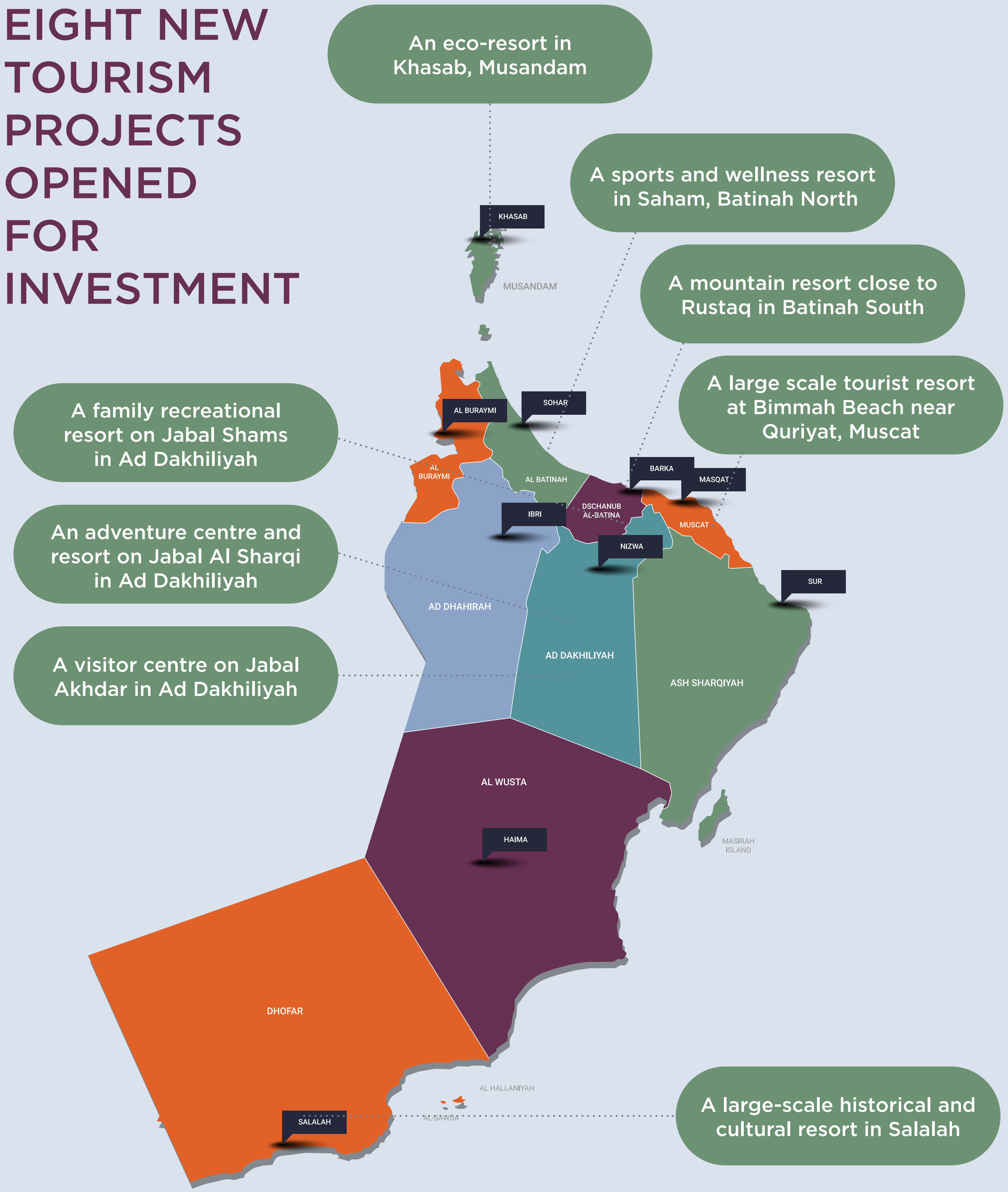
Whilst the railway line will immensely benefit the industrial segment, it will also have a positive impact on the local tourism sector. It will complement initiatives aimed at improving the tourism sector, with a focus on promoting adventure and eco-tourism. The Ministry of Heritage & Tourism launched over 40 projects in 2022 as part of this initiative. In May 2023, it officially opened up eight projects for investments.

While investments in the tourism sector are prioritised, the government is also focussing on the Greater Muscat Structure Plan. The aim of the plan is to provide a vision and spatial strategy for the future growth of Greater Muscat. The plan is nearing completion and is set to be implemented in 2024.

With a focus on sustainable urban development, the plan seeks to balance growth and prosperity. It seeks to preserve Muscat's natural landscape while growing its urban identity. It proposes to split the city into various economic clusters with a focus on innovation and knowledge, industrial and logistics, and tourism and commerce.

The introduction of a clear vision and plan for the city by the Ministry of Housing & Urban Planning is a welcome step towards the future development of Muscat.

EIGHT NEW TOURISM PROJECTS OPENED FOR INVESTMENT



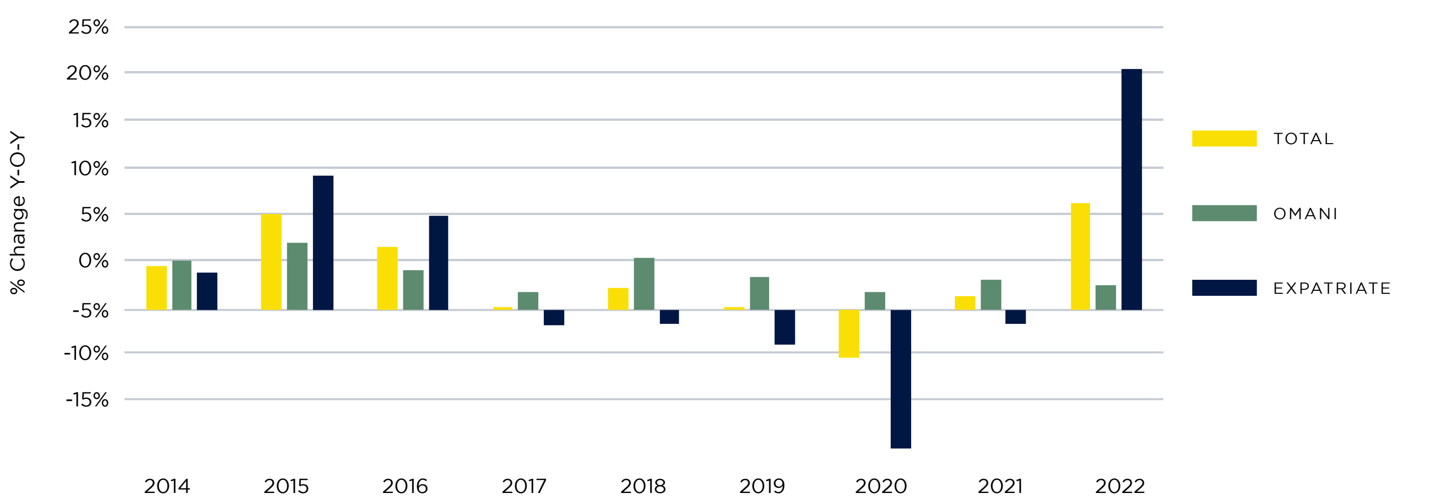
Oman Macroeconomic & Demographic Overview

After strong growth up to 2016, the expatriate population in Oman started to slide downwards in 2017 before seeing a drop of almost 12% of the total population in 2020 as a result of the impacts of the COVID-19 pandemic, whilst there was a further (yet much less significant) drop in expatriate population numbers over the course of 2021.

With significantly improved economic conditions, 2022 saw the expatriate population increase by 20%, and the first five months of 2023 have continued to see good growth, with the expatriate population rising by 5% in comparison to last year. As a result of the improved economic environment, the expatriate population in the Sultanate has grown by 33% from a low point of 1.63 million in September 2022 to 2.17 million in May 2023, which is the highest that the expatriate population has ever been.

The positive impacts of the notable growth in the expatriate population over the last 18 months on the Muscat residential rental market are starting to be seen with increasing stability (and even some signs of growth) in rental values over the last 18 months.

Oman population growth trends



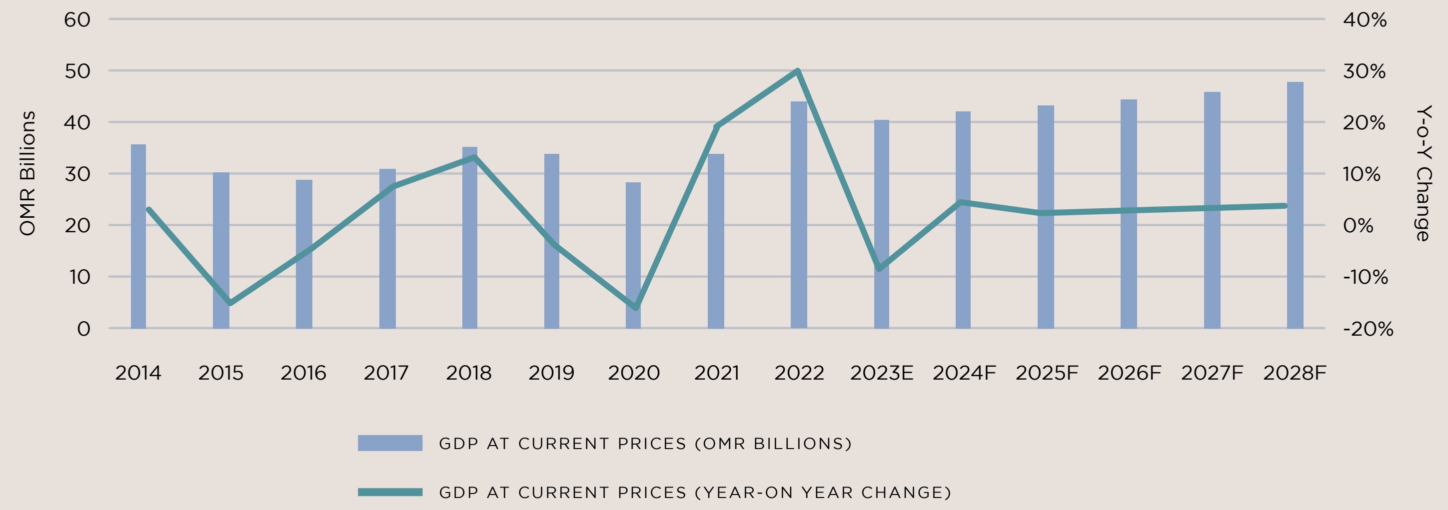
Source National Centre for Statistics & Information

Earlier this year, the IMF projected that the Sultanate's GDP at current prices will contract by 8.5% over the course of 2023, having seen exceptionally strong growth of 30% last year: in contrast, Government figures for Q1 of this year show that GDP at current prices has grown by over 7%.

IMF projections are, however, for GDP at current prices to see steady growth from 2024 to 2028, rising to OMR 48 billion in 2028 in comparison to OMR 28 billion in 2020.

Overall, the Sultanate's economic position is much healthier than could have realistically been expected in 2020.

Oman GDP trends and outlook



Source IMF World Economic Outlook – April 2023

Office Rental Market

Office Market In The Region and Around The World

Globally, commercial real estate has undergone significant changes over the last year. A slowdown in economic growth across most advanced economies, structural changes in working patterns, and increased focus on environmental and building standards are influencing demand and supply of office space.

Global occupier markets have been adapting to the changing ways that people live and work. The occupier market has been affected by hybrid working trends, with some companies relocating, right-sizing, downsizing, or eliminating their office footprints altogether.

Some are consolidating into smaller but higher quality, green-certified spaces, which are in high demand. However, suitable, green-certified spaces are more difficult to find in many markets, especially in the face of increasing levels of demand. The search for ESG-compliant spaces remains part of a broader, global trend of a flight to quality among office occupiers.

The Middle East has been an anomaly with regard to demand for office space. The downsizing trends noticed across other key cities have not been observed across the region. In fact, demand for Grade A office space has been one of the highest on record across most markets. In the case of the UAE, most Grade A developments across Dubai are operating at more than 95% occupancy levels. The city has seen a significant increase in demand for office space from companies entering the region and also from existing firms that are consolidating their office footprint and planning their real estate strategy for the long term. A similar trend was observed across Abu Dhabi, which has seen a sizeable increase in demand from financial services companies taking up space across the ADGM. Due to the lack of space across most Grade A developments, rents have increased across most developments, and there has been a flurry of leasing activity across the serviced and co-working space.

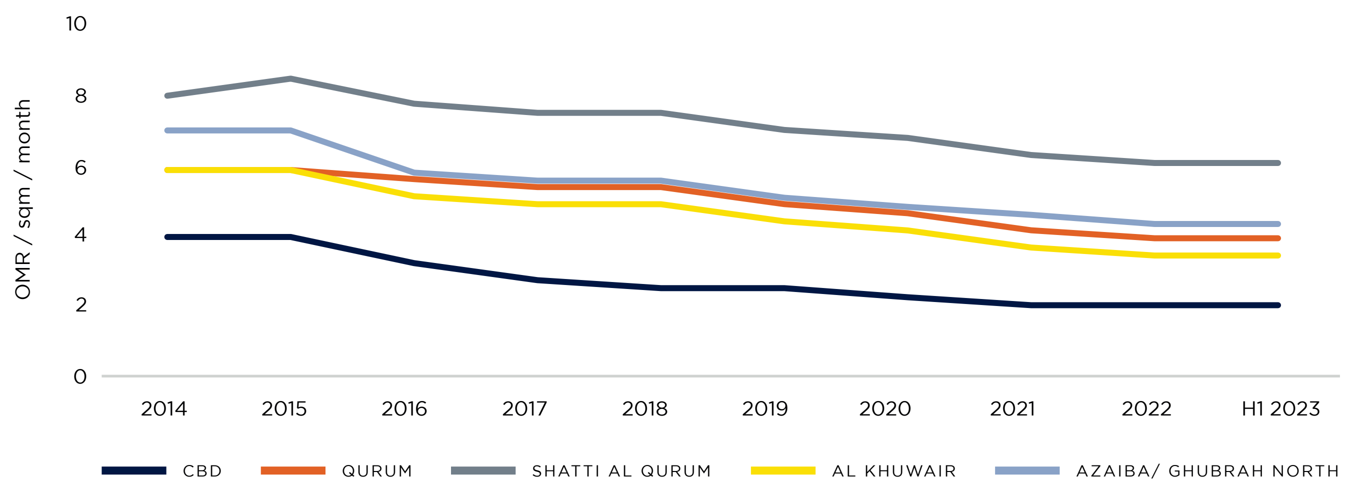
Similar buoyant market activity has been recorded across Riyadh in the KSA. Leasing activity has increased y-o-y and simultaneously rents have gone up across most developments. Occupancy levels are upwards of 90% in most completed buildings. However, unlike Riyadh, office leasing activity is not as bullish across Jeddah and the Eastern Province yet.

Supply and Demand Imbalance Continues Across the Office Sector in Muscat

The supply of new developments remains stable across Muscat, but the pace at which new projects are being introduced has slowed. Despite the steady addition of supply, demand has not kept pace, resulting in an oversupply situation. It is also important to note that most of the new supply is of lower grade and therefore it is limited to the type of occupiers that will lease space across such developments.

In terms of demand, the uptake of office space in Muscat remains moderate, with a focus on smaller office spaces. Demand for larger office spaces remains relatively limited. Most of the existing demand is observed from entities with existing presence in Muscat who are looking to relocate.

Average office rental value trends (**OMR/sq m/month**)



Source Savills Research

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There are generally few new market entrants. As a result of moderate demand relative to growing supply, only a limited proportion of commercial buildings are currently able to achieve occupancy levels in excess of 60% to 70%.

The availability of adequate parking space is also a key driver of office space demand. Due to the lack of mass rapid transport systems, commuting across Muscat is predominantly reliant on private cars. However, the ratio of car parks to usable office space is low across Muscat. Most buildings only provide one parking space for every 50 sqm of usable office space, whilst many buildings do not even meet this requirement.

There is an increase in interest from companies looking to relocate to the Airport Heights area due to its good transport connectivity and close proximity to Seeb conurbation, which is home to many Omani employees.

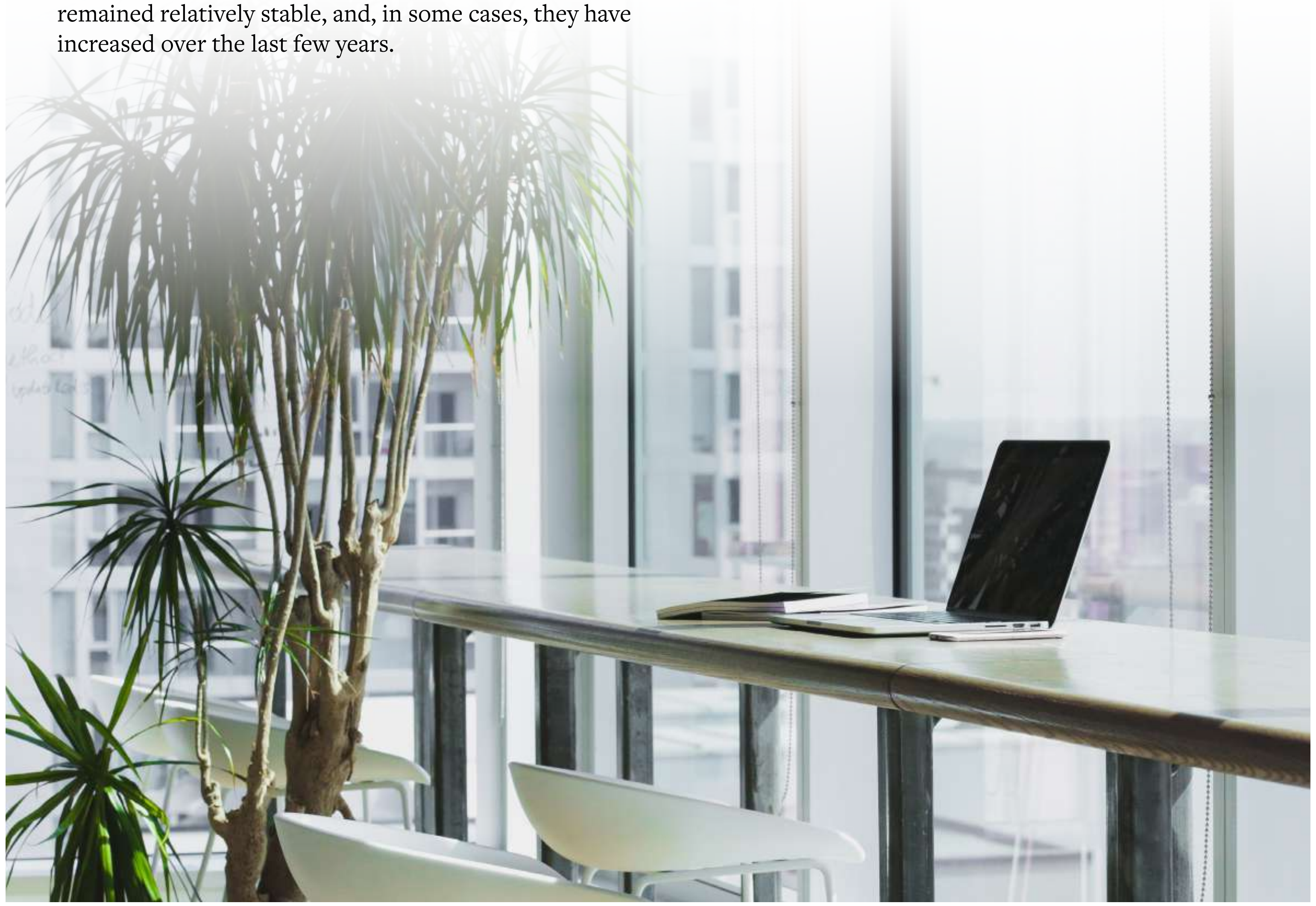
Similar to other markets in the region, serviced office facilities have seen a significant expansion across Muscat over the last decade. Despite the increasing supply, demand for serviced office space has kept pace resulting in generally good uptake and occupancy levels. Rental values have remained relatively stable, and, in some cases, they have increased over the last few years.

Rental Values Show Increasing Stability

Despite the ongoing supply and demand imbalance, achievable rental values for mid-range to higher-quality office space have remained largely unchanged over the last 18 months. This is largely due to landlords being unwilling to reduce headline rental values any further and instead increasing the initial rent-free periods to attract and retain tenants.

Achievable rental values for mid-range to higher grade office space have seen little change over the last 12 months and are currently estimated at OMR 4 to 6.5/sqm/month for larger shell & core units, and OMR 5 to 7.5/sqm/month for smaller, finished units.

The market is likely to remain tenant-favoured over the next 12 months. However, the achievable headline rental values should remain largely stable, with the exception of rents across lower-grade space, which are likely to remain under pressure.



Residential Rental Market

Significant Growth in Expatriate Population

Since 2018, there has been a decline in the expatriate population, that dominate the residential rental market. The trend was exacerbated by the impacts of the COVID-19 pandemic. The number of expatriates across Muscat dropped from a peak of 0.97 million residents in April 2017 to a low point of 0.71 million in September 2021 (a drop of 27%). But since the last quarter of 2021, the number of expatriates moving to the city has increased, and the population grew to 0.91 million by the end of 2022. A steady growth in the number of expatriates has led to a gradual uplift in demand for rental properties across Muscat during 2023.

Higher-Quality Localities and Properties See Increased Demand

Whilst there is an ongoing introduction of lower-grade residential units (particularly apartments) to the rental market, which has resulted in a general oversupply, the supply of higher-grade properties within established localities or larger projects offering a more integrated lifestyle is becoming increasingly limited relative to rising demand as the expatriate population grows.

Communities such as Al Mouj have increasingly become one of the most desirable residential localities in the city due to the quality of the properties, professional property management, a growing range of retail and food & beverage outlets, and a wide offering of leisure facilities. As a result of strong demand relative to supply, the number of residential units available for rent has dropped. Similarly, Muscat Hills has become increasingly attractive for tenants over recent months due to the significant improvements to the golf course following its rebranding as La Vie, allied to the opening of the new ABA school campus in Q1 2022. The community is likely to further benefit when the 80 key Tivoli boutique hotel and 2,800 sqm of retail and food & beverage outlet space open to the public in 2026.

Shatti Al Qurum, Madinat Al Sultan Qaboos, and Qurum are also seeing increased demand as a result of their central location and the wide range of facilities that they offer. Villas in Azaiba and Ghubrah North have similarly seen increased tenant interest due to their easy accessibility and proximity to the beachfront.

There is, however, still a strong cohort of tenants looking for low-priced properties in order to limit their expenditure, but the scale of demand has not been sufficient to absorb the ongoing increase in supply, despite the significant growth in the number of expatriates.

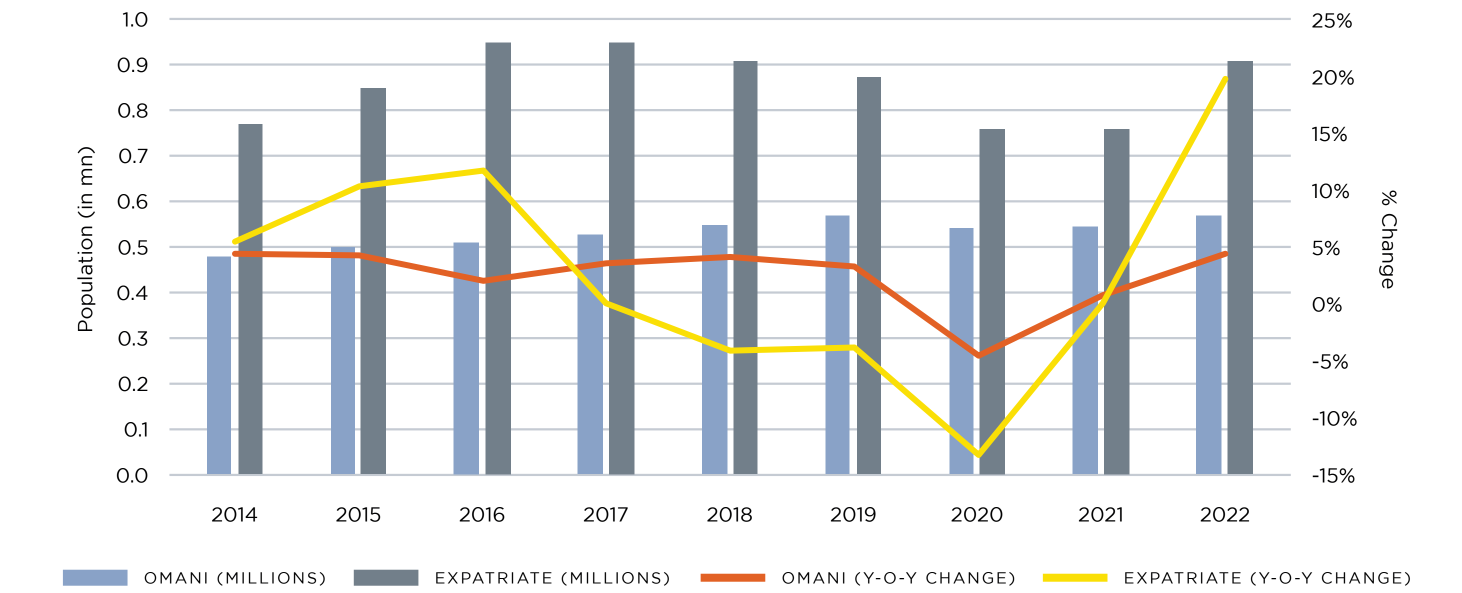
Rental Values Stabilise with Some Signs of Growth

After a general slide downward in average rental values from 2014 to 2021, rents have stabilised. There are also instances of rental growth witnessed across a select few micro-markets.

Al Mouj is the strongest-performing submarket, with average rents rising by around 10 to 20% over the last 18 months due to strong demand relative to limited supply. Qurum is the other locality that has also seen rental values strengthen, with average rental values growing by around 5 to 15%. The other mid-range to high-end submarkets have seen rental values show increasing stability since 2021.

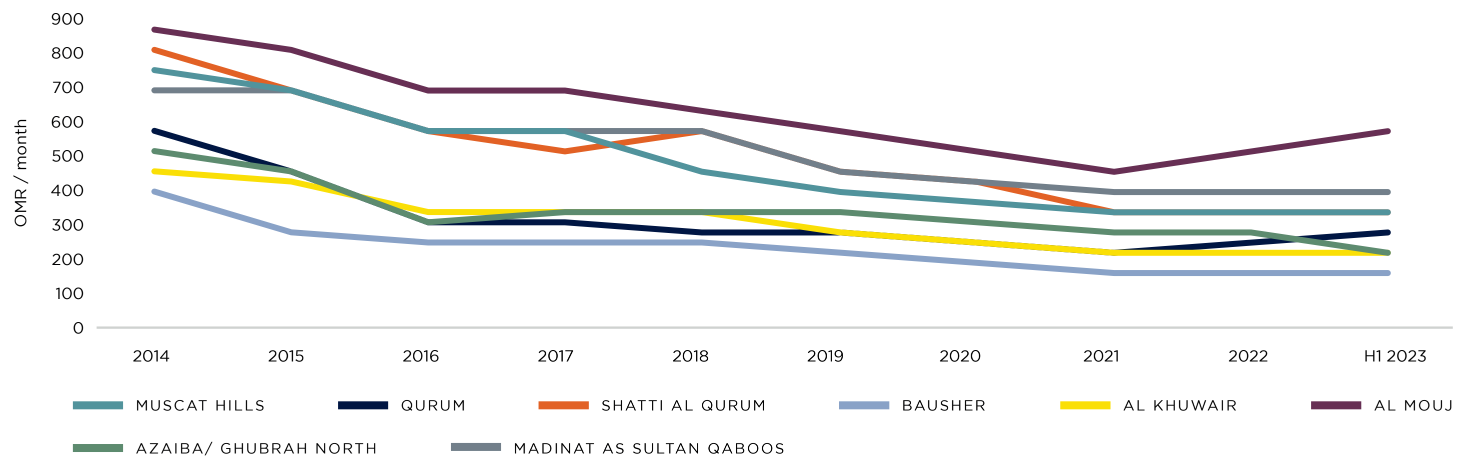
Although not yet buoyant, overall market conditions for mid-to high-end rental properties are more encouraging from a landlord perspective than they have been over recent years. Over the coming 12 months, we would expect rental values for mid-to-high-end units to remain relatively stable (and even show moderate increases in some locations), but that moderate downward pressure will remain for low-end properties.

Muscat Population Trends

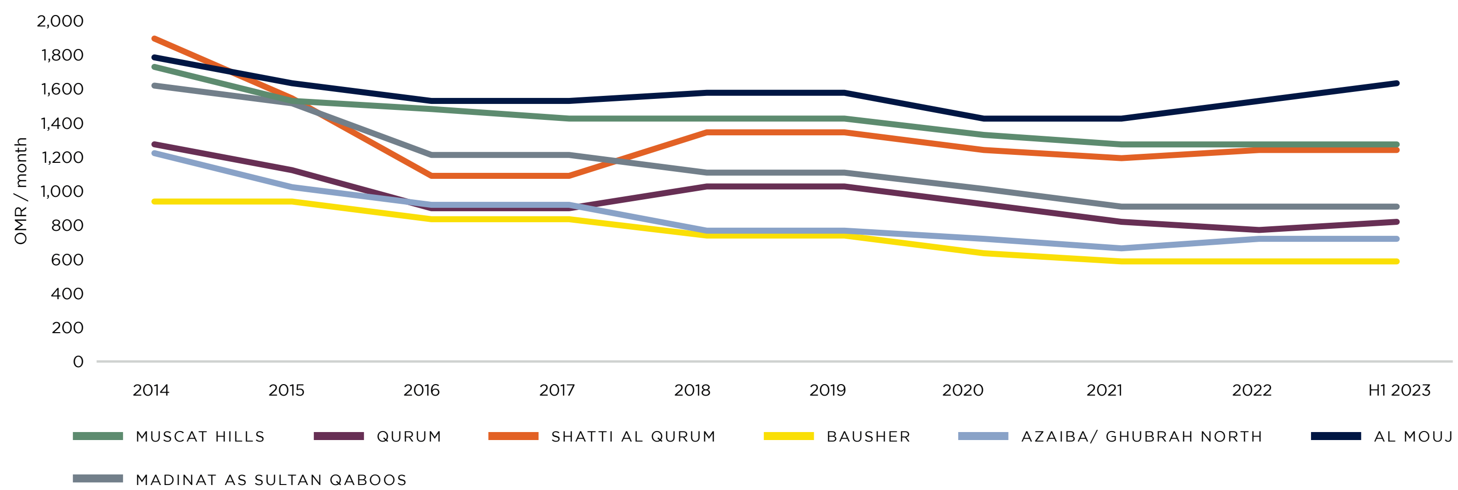


Source National Centre for Statistics & Information and National Census

Average Residential Rental Value Trends – 2 Bedroom Apartment



Average Residential Rental Value Trends – 4 Bedroom Villa



Source Savills Research

Outlook

Economy

Steady growth of GDP projected to 2028.

The Sultanate's economy has and is likely to benefit from the higher oil prices experienced since 2021.

Higher oil prices will continue to sustain government revenues, leading to further investment in the economy. As a result, we expect to see increased investments in infrastructure developments.

Pace of expatriate population growth is likely to moderate from 2022.

Continued strong recovery of inbound tourism, but the hospitality sector will see a moderate recovery due to ongoing supply increases.

Residential

The residential rental market will remain primarily driven by expatriates.

Generally stable rental values for mid-range and higher-end properties, but rental values for lower-end units will remain under pressure due to supply increases.

Continued strengthening of rental values at Al Mouj.

Potential for limited rental value increases in submarkets such as Qurum, Shatti Al Qurum, Madinat Al Ilam, Azaiba North, Ghubrah North, and Muscat Hills.

An integrated lifestyle and amenities are increasingly important to tenants.

Demand for villas with gardens and private swimming pools to remain strong.

Mid-range to higher-end apartments providing facilities and reserved parking will remain desirable.

Good property management remains key in attracting and retaining tenants.

Office

Ongoing but more limited increase in supply relative to demand.

Demand to remain moderate and mainly come from tenants with an existing presence in Oman.

Preference for smaller office spaces, with lower requirement for larger, shell & core spaces.

Driving occupancy will remain the key priority for landlords.

Landlords will need to continue to be flexible and proactive in terms of asking rents and incentives to acquire and retain tenants.

Professional property management remains important for tenants, whilst a good range of amenities is increasingly desirable.

Parking provision will remain a key issue/ challenge.

Other key drivers in attracting and retaining tenants include good management, good quality but affordably priced food & beverage outlets in the locality and good natural light levels.

Savills Middle East

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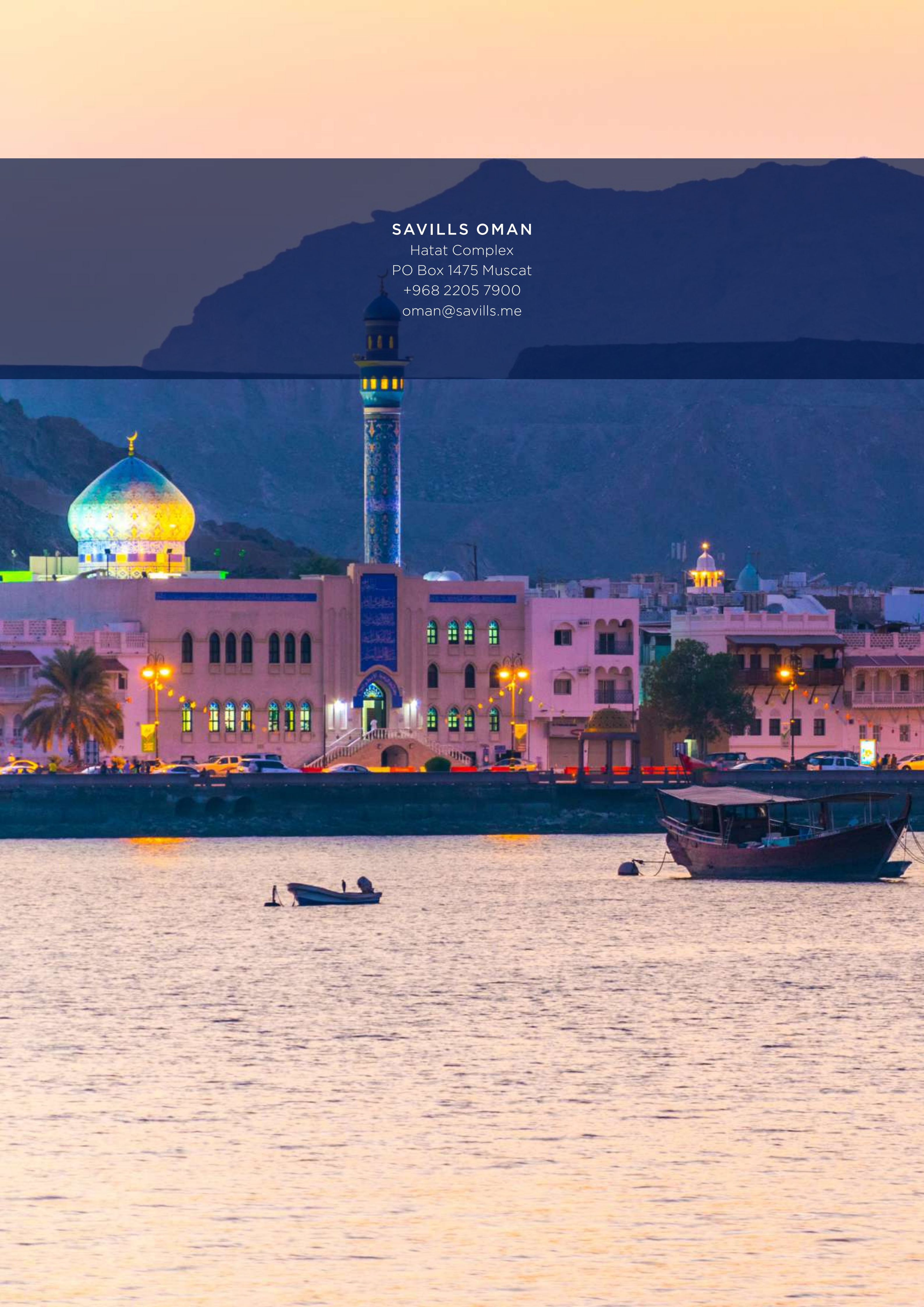

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