REPORT

SAVILLS RESEARCH 2022

The Property Report

OMAN

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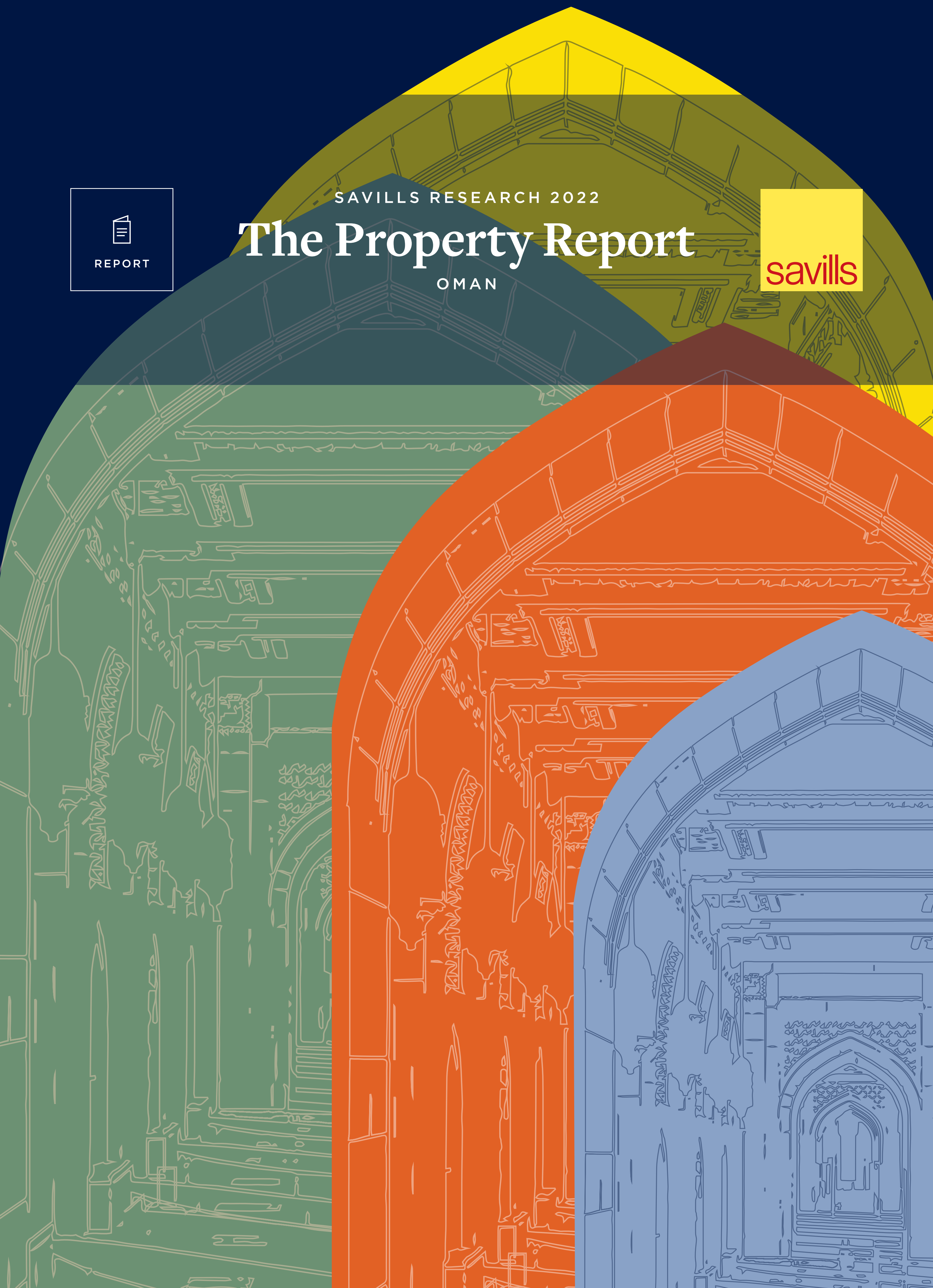


Introduction

The Sultanate's economy has recovered well from the effects of the Covid-19 pandemic and weak oil prices. Headwinds, however, remain for the real estate sector but there are some emerging signs of market stability.

The government's financial position is much stronger now than it has been for several years, despite the pandemic, due to a prudent fiscal approach. The country now has an additional source of income, due to the introduction of Value Added Tax (VAT) which was first announced in October 2020.

Oman's state budget for 2022, however, is projected to be marginally lower both in terms of revenues and spending for the year in comparison to preliminary figures for 2021 released by the Ministry of Finance. The projected budget deficit of OMR 1.55 billion is the lowest forecast since 2016. It is important to note that the budget is based on oil prices of USD 50/barrel and that the budgetary breakeven price will be USD 67/barrel - in July 2022, the value of oil was in excess of USD 95/barrel, levels not seen since 2011. Daily oil production has also seen a marked increase over the last 12 months. According to the Ministry of Finance, Oman actually recorded a budget surplus of OMR 784 million in H1 2022, with revenues rising more than 54% to around OMR 6.7 billion and spending increasing by 8.6% to OMR 5.9 billion in comparison to H1 2021.

We note that 68% of projected government revenues for 2022 are from the oil & gas sector which leaves the Sultanate's budget vulnerable to any significant drops in hydrocarbon prices. However, current evidence is that oil prices will remain strong over the coming year and average around USD 100/barrel in 2022.

Oman's credit rating remained unchanged in 2021 compared to 2020. However, as a result of improved fiscal circumstances and reducing government debt, each of the three main rating agencies improved their outlook for the Sultanate. Standard & Poor's upgraded the economy from stable to positive, and Fitch and Moody's changed their ratings from negative to stable, demonstrating growing confidence in the Sultanate's economic situation.

Government investments into infrastructure development takes precedence

Recent months have witnessed an acceleration in government investment projects. The government authority for industrial estates, Madayn, announced the development of five new industrial cities at Khasab, Ibri, Thumrait, Shinas and Mudhaibi in addition to the nine existing industrial estates with the long-term intention of establishing 40 industrial estates in Oman by 2040.

The Ministry of Transport, Communications & Information Technology has revitalised plans for improving road infrastructure, which includes a causeway to Masirah Island and a new road from Al Batinah to Jabal Akhdar. They also plan to develop a national rail network and create a metro system for Muscat.

The Ministry of Housing & Urban Planning has also released tenders for the development of smart cities in Seeb, Salalah, Nizwa & Sohar and a mixed-use project on Jabal Akhdar.

Strategic partnerships and investments underway

The visit of the Crown Prince of Saudi Arabia, Mohammed Bin Salman, in December 2021 saw the Kingdom sign 13 deals for investment in Oman, reported to be worth in excess of USD 10 billion. There is commitment for investments into projects across sectors such as hydrocarbons, renewable energy, fisheries, financial markets, mining and logistics. Also, the road border crossing was opened between Oman and Saudi Arabia at Ramlet Kelah in Ad Dhahirah, which will significantly benefit trade between the two countries. Along with these, the Saudi real estate developer, Dar Al-Arkan, is set to invest USD 2 billion in the Yiti Integrated Tourism Complex (ITC) project over the coming decade.

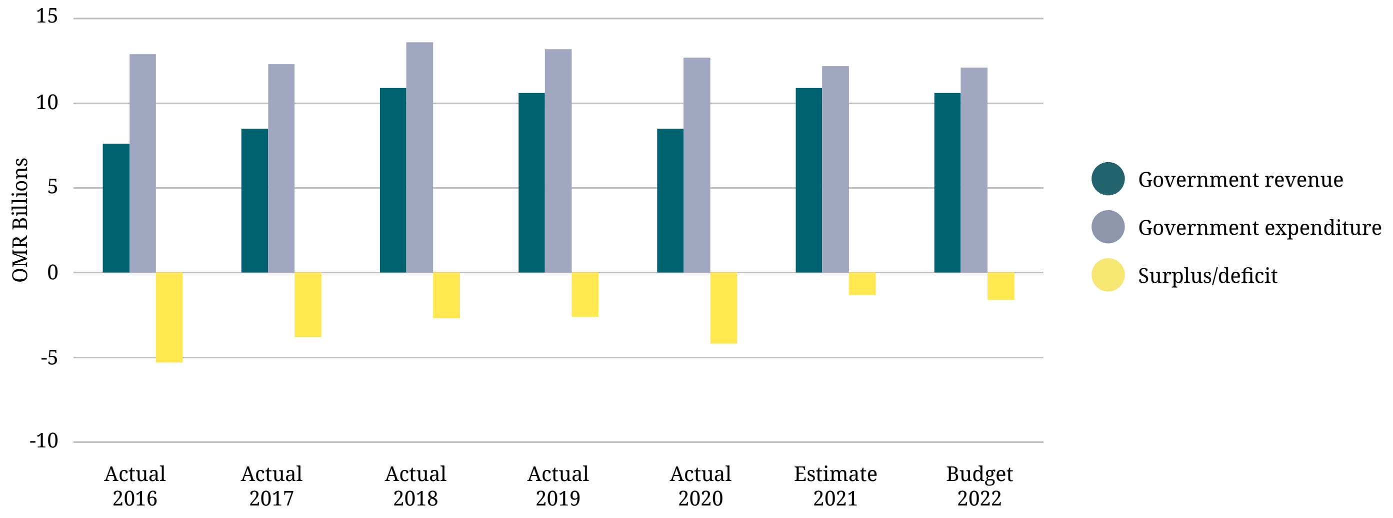
Residency through investment may drive growth

Following the introduction of similar schemes in the UAE and Saudi Arabia, Oman launched a new investor visa in October 2021. This allows applicants to secure a 5 or 10 year residency by either investing in a company, establishing a new company employing at least 50 Omani nationals or by purchasing real estate. The scheme also allows retirees (having been employed in the Sultanate) to seek long-term residency subject to demonstrating a permanent place of residence and a minimum monthly income of OMR 4,000.

Expats in Oman are now also able to buy real estate assets outside of the Integrated Tourism Complexes (ITCs) in two categories. Those who invest between OMR 250,000 and OMR 500,000 will be granted a second-class residency extendable every five years, but only for residential properties. An OMR 500,000 investment, on the other hand, grants the investor a first-class residency extendable every 10 years, as well as the ability to purchase commercial and industrial assets.

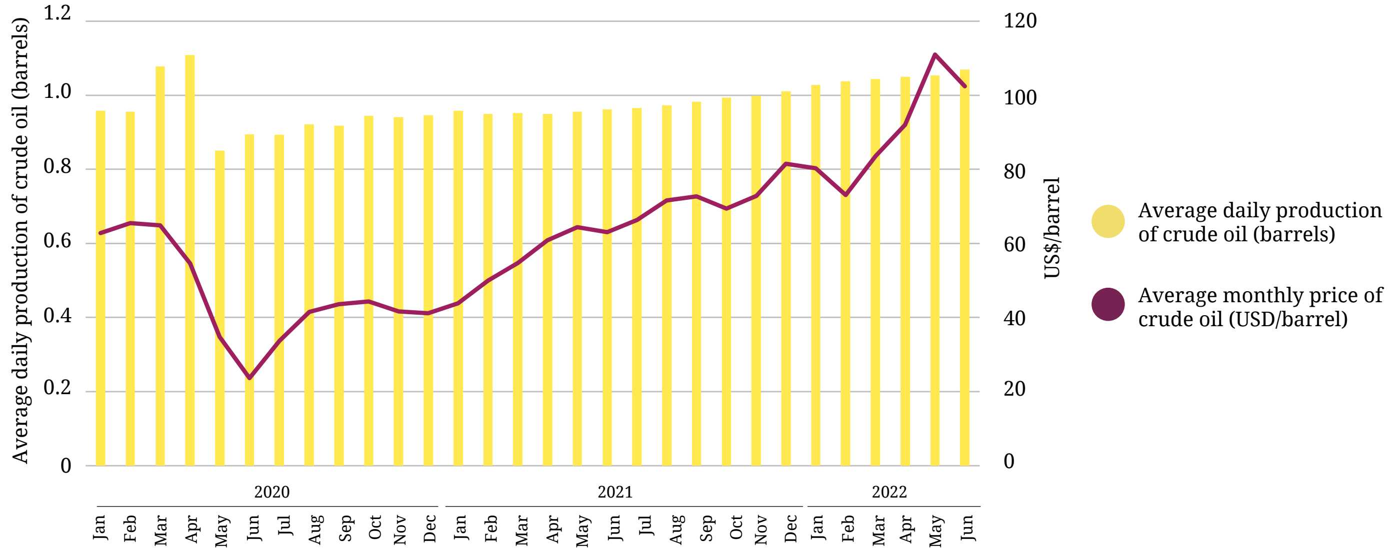
Anyone willing to invest less than OMR 250,000 will be able to buy only in ITC projects or usufruct plans. Some governorates as well as other places deemed strategically important are still prohibited.

Government revenues, expenditure and budgetary surplus/deficit trends



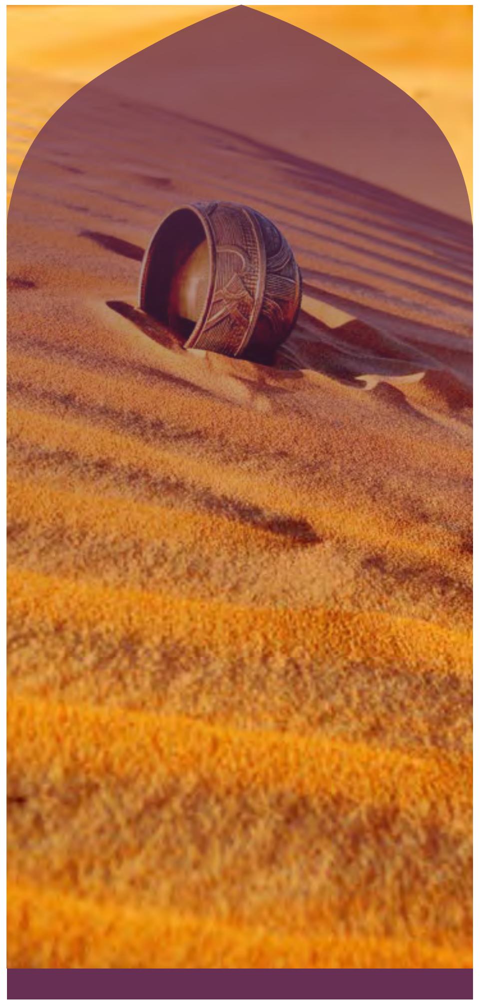
Source Ministry of Finance

Average monthly oil price trends & oil production

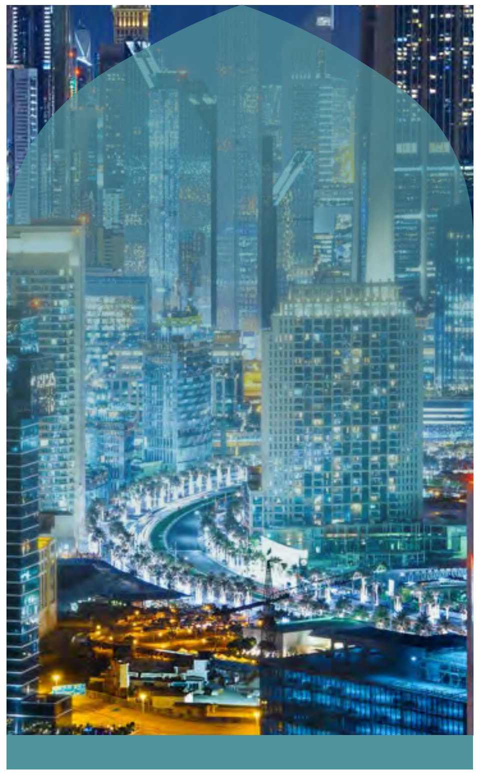


Source National Centre for Statistics and Information

Regional Real Estate Update



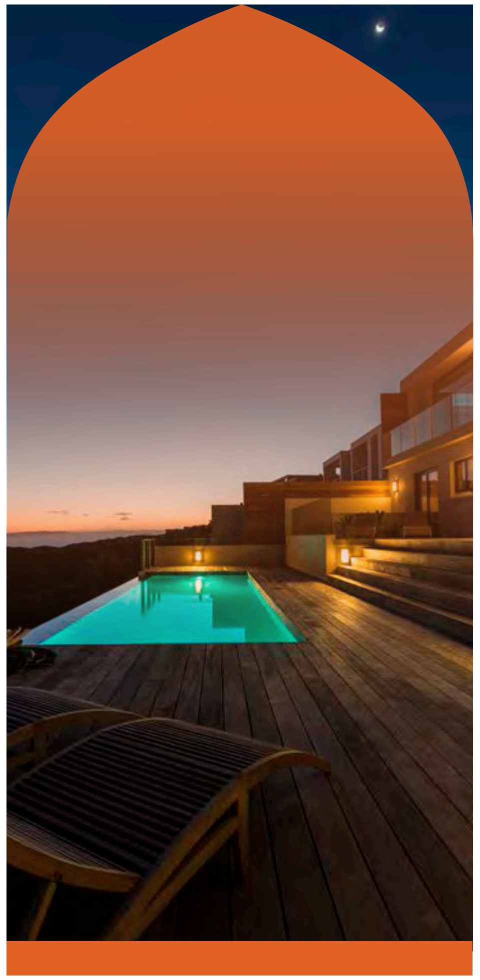
The impact of the pandemic and that of subsequent socio-economic changes has been divergent across the regional real estate markets. While countries such as the UAE were able to bounce back relatively quickly and witnessed strong transaction levels, others such as the Kingdom of Saudi Arabia continued development activity and new supply launches across its various master planned communities. In Bahrain, the recovery in transactions has been strong in 2021, and demand has remained steady in 2022 so far.



The UAE's property market, a key growth driver for the economy, displayed unwavering strength in 2021, breaking out of multiple years of declines first triggered by low oil prices amidst a generally tepid world economy. The total residential transactions across Dubai increased to 56,800 units in 2021, a growth of 77% y-o-y. This momentum continued into 2022 with close to 46,500 residential units transacted till July 2022, an increase of 56% compared to the same period last year. Similar strong growth numbers were noticed across neighbouring emirates of Abu Dhabi and Sharjah.

Abu Dhabi is undergoing an interesting transformation with the launch and also completion of various key hospitality and family entertainment concepts. This has pushed demand for residential units across the city and has helped in widening the investor base further. The emirate recorded USD 19.47 bn worth of transactions in 2021 across 14,958 sales and mortgage transactions. In Sharjah, the Sharjah Real Estate Registration Department (RERD) announced that during 2021, the real estate trading volume recorded the highest value in four years amounting to a total of USD 7.13 bn.

The volume of real estate trading in Bahrain reached USD 2.76 bn in 2021, an increase of 46% compared to 2020, which saw USD 1.90 mn worth of property transactions, and 29% higher than 2019, when properties worth USD 2.13 mn were transacted.



The outlook for residential real estate across most of the regional economies remain positive. As per recent IMF estimates, the Middle East is expected to be among the fastest growing regions in the world, while Saudi Arabia is set to grow at its fastest pace in a decade. Sweeping pro-business reforms and a sharp rise in oil prices and production have been cited as the reasons for the strong economic growth.

The office sector is starting to benefit from the positive economic momentum. Dubai's office sector has remained resilient over the first half of 2022, displaying strong demand for Grade A office space. The sustained growth in leasing activity has led to a sharp drop in vacancy levels across Grade A assets in the city. Occupier demand has been strong on the back of a buoyant local economy where companies are crystallising their expansion plans, and amid an influx of senior executives, business owners and High Net-worth Individuals (HNIs). As a result of increased occupancy levels across prominent Grade A developments in Dubai, rental values have increased by an average 10% compared to H2 2021 and by a circa 13% y-o-y.

Across Bahrain, demand for office space continues to remain strong. The Grade B and Grade C project offerings across the city have particularly seen an increase in occupier demand over the last few quarters on account of relatively affordable rental values. As a result, rental values across the mid-end office segment have grown by an average 5.8% and 1.2%, respectively, during Q2 2022.

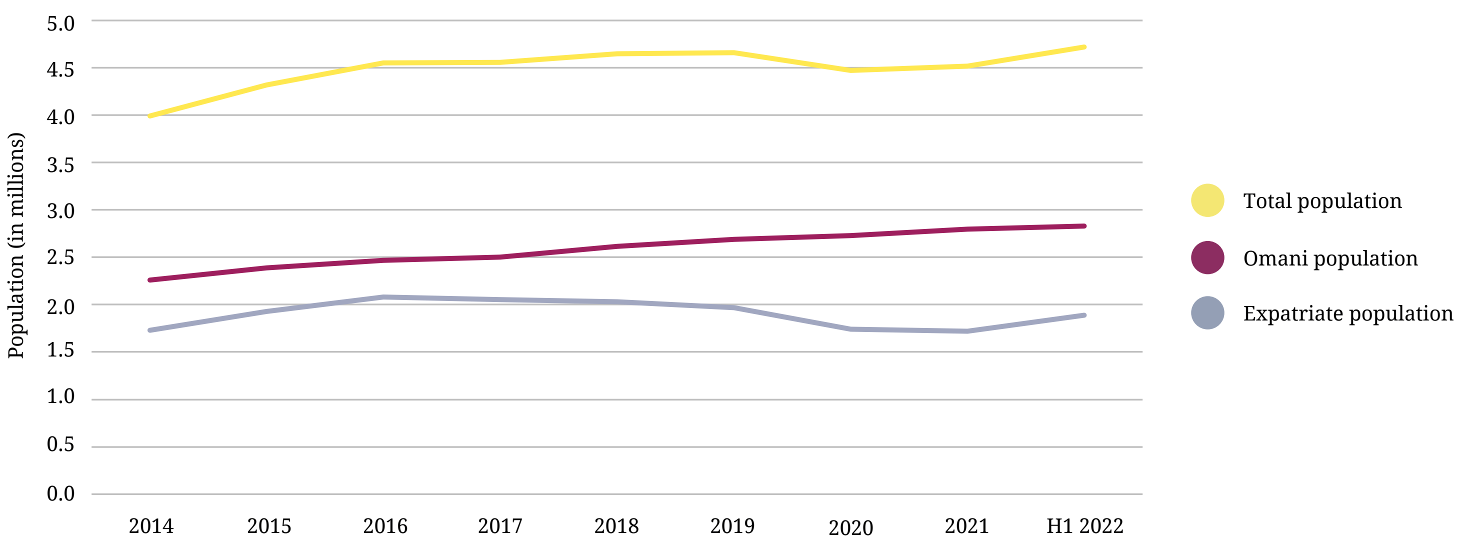
Oman Macroeconomic & Demographic Overview

Population growth over the last decade was driven primarily by a significant increase in the number of expatriate residents in Oman up to 2016, which saw the total population grow from 3.6 million in 2012 to 4.7 million in 2019. During 2020, the impacts of the Covid-19 pandemic caused a significant acceleration of the decline in the expatriate population that started in 2017 with around 230,000 expatriates leaving Oman over the course of the year. Last year saw expatriate numbers reduce by a further 20,000 and there were 360,000 fewer expatriates in Oman at the end of 2021 in comparison to 2016 (equivalent to a drop of over 17%). The expatriate population at the end of 2021 was approximately 60% Omani and 40% expatriate.

H1 2022 has seen the expatriate population grow by around 170,000 (approximately 10%) but we understand that this has been driven almost exclusively by an influx of expatriate workers rather than professionals.

With an on-going focus on nationalising the workforce, we would expect to see further drops, although less dramatic, in the expatriate professional population over the coming years while we would expect the Omani population to continue to grow at around 3% per year.

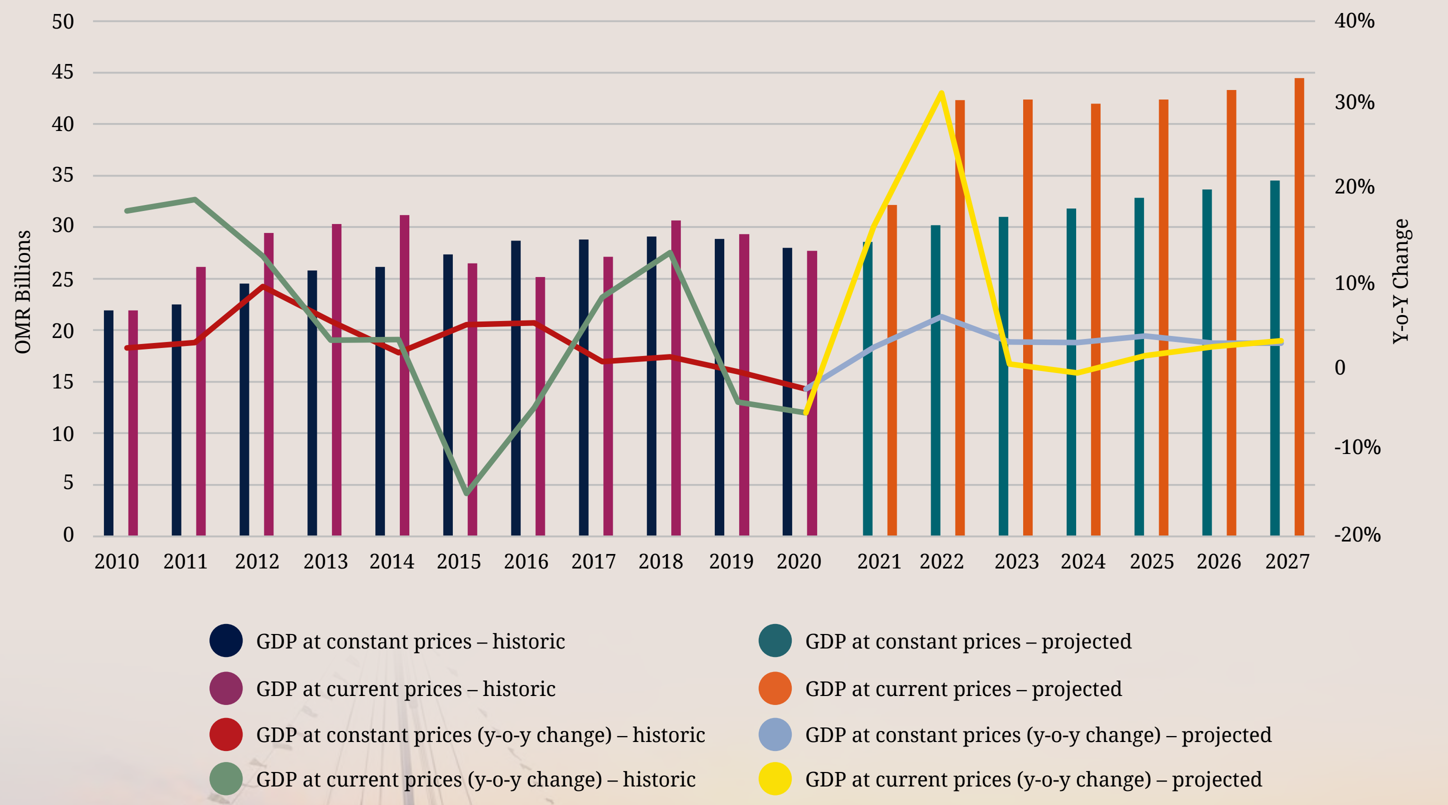
Oman population trends



Source National Centre for Statistics & Information

As per the IMF, the Sultanate's economy (at current prices) contracted by 17% in 2020 as a result of the Covid-19 pandemic and lower oil prices but is projected to have grown by over 16% over the course of 2021. On the back of increased oil prices, the IMF's outlook showcases more optimism than 18 months ago with the Sultanate's economy projected to record encouraging growth of 5.6% at constant prices and 31.2% at current prices over the course of 2022.

Oman GDP trends and outlook



Source IMF World Economic Outlook – April 2022

Office Rental Market

Market oversupplied with lower quality product amid limited demand

Recent years have seen the introduction of a significant supply of new office space which has exceeded demand. Savills would estimate that there is currently around 400,000 sqm of mid to higher grade office space for the rental market in Muscat with a further roughly 100,000 sqm of office space under construction, although much of this is lower to mid-end.

Even prior to the Covid-19 pandemic, demand and uptake for office space in Muscat were moderate. Following the pandemic, our experience is that demand/uptake has declined further, especially for new entrants, as almost all new office leases have been registered by companies with an existing presence in Oman. Due to tepid demand relative to supply, there has been downside pressure on occupancy with only a limited number of buildings currently achieving occupancy levels in excess of 70%.

Muscat is yet to evolve as a global commercial hub and activity remains moderate with the most important players belonging primarily to the oil & gas sector. However, the notable recent upswing in oil prices, if sustained, is likely to have a positive impact on the commercial sector and could help to drive demand and occupancy.

Interest remains primarily focused on smaller, fully-finished spaces in better-quality buildings with the uptake of larger, shell & core spaces generally being more limited. Key demand drivers continue to be office buildings with high quality and good management, abundance of natural light and reserved parking provision. There is a growing requirement for allocated visitor parking spots and good quality but affordable food & beverage outlets either within the building or in the immediate vicinity.

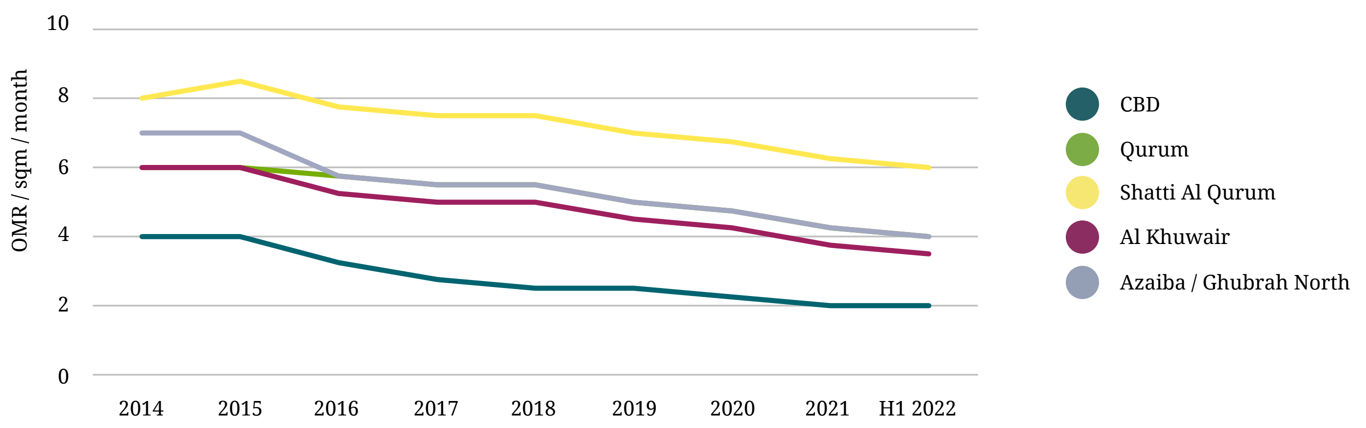
Rental values remain subdued

After holding steady from 2012 until the end of 2015, the last six years have seen a sustained decline in achievable rental values as a result of challenging economic conditions and an increasing oversupply of office space relative to demand. With rental values already at historic lows, the impact of the Covid-19 pandemic since the start of 2020 on headline rental values has been evident. Although, there has been a greater focus on rental incentives rather than a reduction in rental values with prospective tenants increasingly expecting numerous landlord incentives to lease office space. Realistically, achievable rental values dropped by 5 to 10% over the course of 2021 and are currently 25 to 40% lower than 2015 with the Shatti Al Qurum submarket showing the greatest resilience. Rents are now highly compressed for mid-range to higher grade office space with guideline rental values currently being:

- OMR 4 to 6.5/sqm/month for larger, shell & core units.
- OMR 5 to 7.5/sqm/month for smaller, finished/Grade A units.

We expect market conditions to remain challenging over the remainder of 2022 in terms of both demand and achievable rental values but high oil prices, if sustained, are likely to provide a boost for commercial activity.

Average office rental value trends



Source Savills Research

Oman Property Market 2022

Residential Rental Market

Flight to quality continues

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 diminished demand. In contrast, the supply of higher quality properties within larger projects offering an integrated lifestyle remains relatively limited.

Having experienced a sharp drop over the course of 2020, last year saw the total expatriate population stabilise as economic conditions improved, while 2022 has seen a sharp upturn in the expatriate population. We understand, however, that the expatriate population growth experienced in 2022 has been driven almost entirely by labourers rather than professionals. Although the overall expatriate population is likely to continue to grow over 2022 as the economy continues its recovery, Savills would identify the potential for further (but relatively moderate) reductions in the number of expatriate professionals as a result of a growing focus on Omanisation of the workforce, particularly for white collar positions. As such, many expatriates, who are the primary demand generators of the residential rental market, are limiting their expenditure due to a combination of rising living costs and concerns about job security.

As a result of the notable drop in the number of expatriates in Muscat over the years, overall demand has seen a marked reduction and competitive pricing is key to attracting and retaining tenants. Presenting well-maintained or upgraded residential units has also become more important due to the increasingly wide range of options available to tenants.

Another key trend experienced over the last two years has been a "flight to quality" as rental values for high-end properties have become more affordable. This has been particularly evident at Al Mouj where villas and townhouses have high occupancy levels while apartments have seen higher demand over H2 2021 and H1 2022. Al Mouj remains a preferred residential development in Muscat due to the range of amenities and facilities that it provides. Villas and townhouses at Muscat Hills have also witnessed strong demand and high occupancy levels due to the golf course residential setting that they provide. However, we have also seen interest for more affordable apartments especially from expatriates as they try and limit their overall cost of living.

Rental value remains under pressure

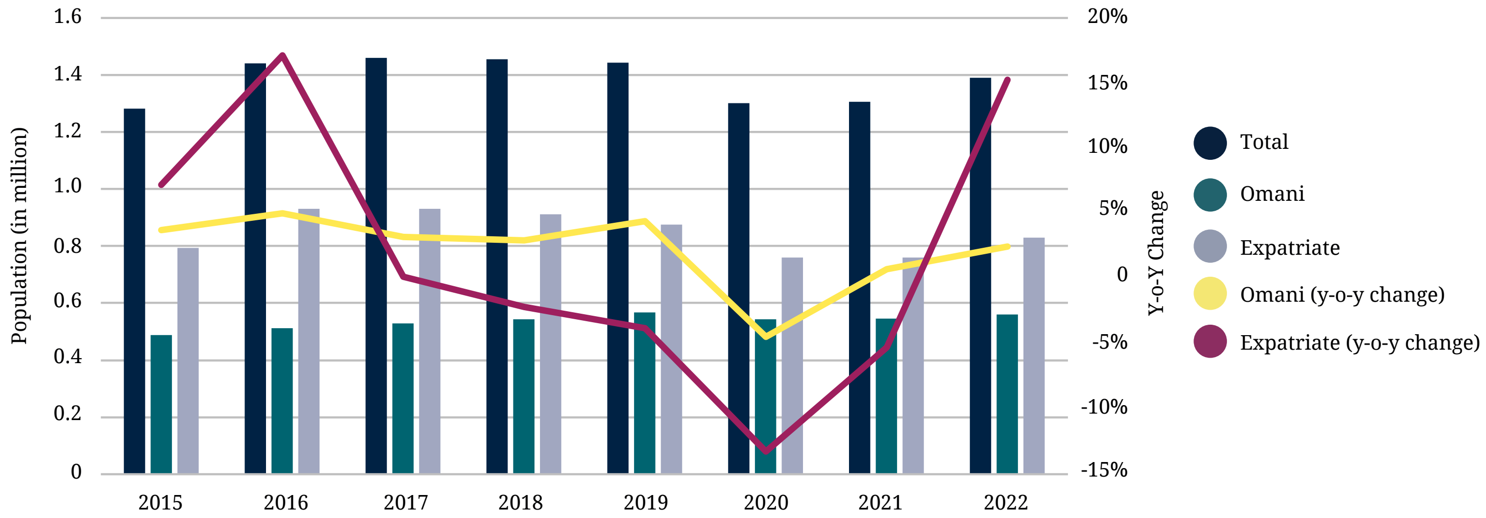
Rental values for both apartments and villas started to reduce during the second half of 2015 as a result of the wider economic impact of the significant drop in oil prices from mid-2014 and continued to see a steady decline through to the end of 2019. The pandemic further exacerbated rental value declines over recent years - average rental values for townhouses and villas across high-end sub-markets are now around 30% to 50% lower compared to 2014.

Rents across established locations such as Al Mouj have also seen a gradual correction but have been relatively resilient with average rental values for townhouses and villas reducing by 15% to 20% in comparison to 2014, outperforming the wider market. The last six months have, however, seen rental values generally start to stabilise, particularly for better quality properties, with evidence that rental values for villas and townhouses at Al Mouj have grown over the last six months as a result of good demand relative to limited supply.

Similar to the commercial property segment, market conditions will generally remain challenging over the remainder of 2022 from a landlord perspective but current evidence is that we are nearing or are at the bottom of the market with the rental declines likely to slow down. Although rental values are generally likely to remain under pressure over the course of 2022, the limited supply relative to demand for good quality products indicates that villas and townhouses at sought-after locations such as Al Mouj and Muscat Hills are likely to see a moderate strengthening of rental values over the coming year.

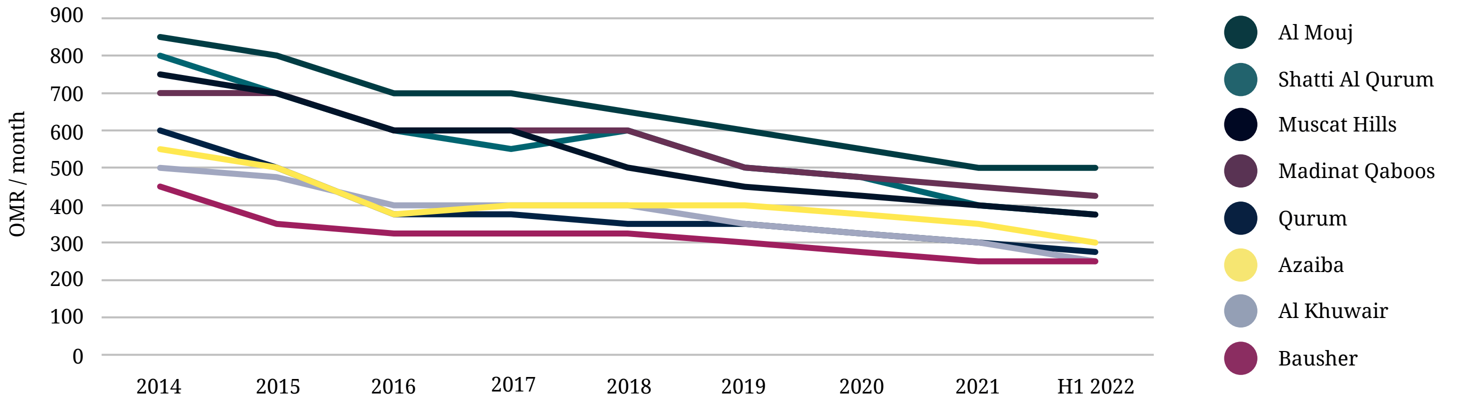
Oman Property Market 2022

Muscat population trends



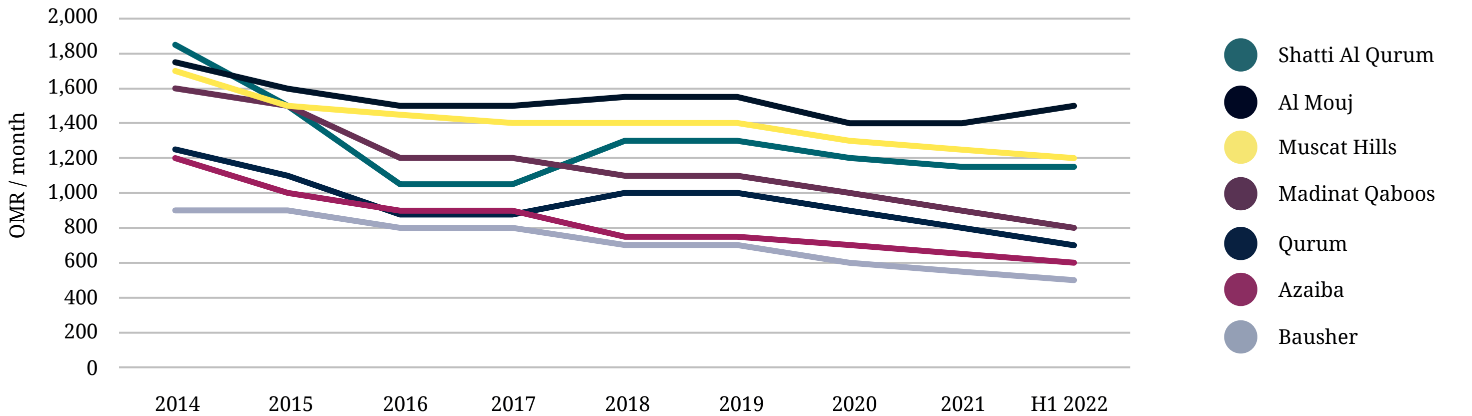
Source National Centre for Statistics & Information and National Census

Average residential rental value trends – 2 bedroom apartment



Source Savills Research

Average residential rental value trends – 4 bedroom villa



Source Savills Research

Oman Property Market 2022

Outlook

Economy

The country's economy will benefit significantly from higher oil prices experienced since 2021.

Elevated oil prices will increase government revenues and reduce its debt, leading to further investment into the economy.

A revival of the travel and hospitality sector is anticipated due to the lift in travel restrictions, which would also support the non-oil sector.

Potential for further but moderate reductions in the number of expatriate professionals may add downside pressure to the real estate market.

Residential

As market conditions stabilise, only moderate reduction in rental values is expected.

Potential for rental value increases for villas and townhouses at Al Mouj and Muscat Hills as they remain the "go to" residential projects in Muscat due to the integrated lifestyle that they offer.

Demand to remain moderate relative to overall supply.

Ongoing demand for shorter term leases, monthly payments and furnished properties (particularly apartments) is expected to continue amid job uncertainty.

Rental budgets will generally remain limited with a continuing focus of demand on lower priced/ value apartments.

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

Expatriate population is achieving stability but property demand to generally remain tepid.

Property management to play a key role in attracting and retaining tenants.

Addition of low to mid-end apartments to the market is likely to continue, adding further pressure on rents.

Landlords will need to be proactive and flexible with leasing terms to secure and retain tenants.

Office

The market is likely to remain oversupplied relative to actual demand.

Demand to remain stable and primarily come from tenants with an existing presence in Oman.

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

Opportunity for tenants to secure better quality office space at more favourable price levels.

Continued pressure on occupancy and rental values but pace of rental decline is expected to slow.

Amid the need to lower vacancy rates, increasing occupancy is likely to remain the key priority for landlords.

Potential to adapt existing space, offer new office space with modern design, provide competitive pricing and good parking ratios will remain key for landlords to secure tenants.

Demand to remain focussed primarily on smaller office spaces.

Professional property management and healthy building environment likely to remain important for tenants while a good range of amenities are increasingly desirable.

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, KSA and Pakistan.

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.

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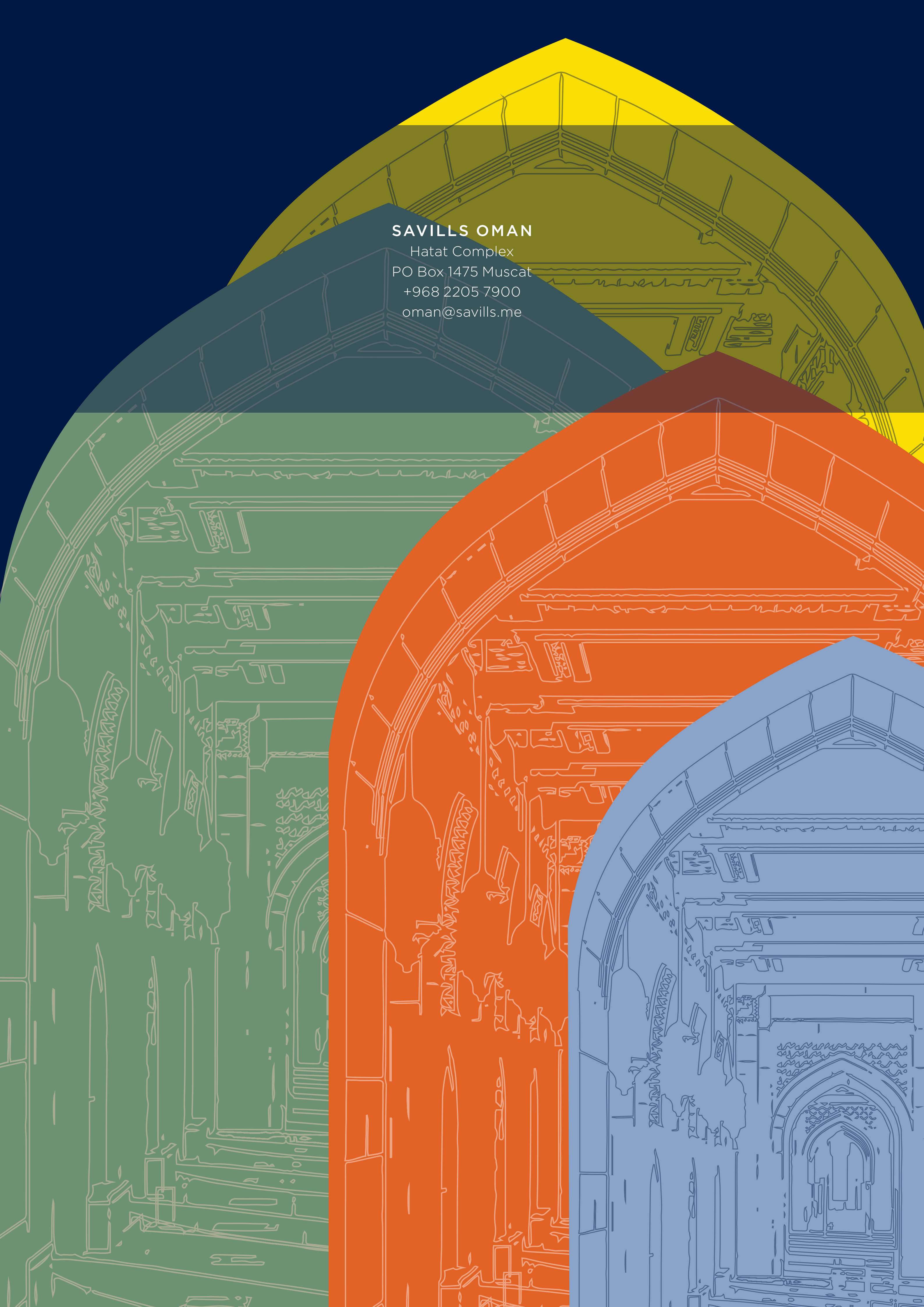

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