



Muscat, Winter 2016/17

# PROPERTY MARKET OUTLOOK

## RESIDENTIAL MARKET

### Rental declines continue

During Q3, average residential rents across Muscat fell by a further 2.3%, following a 3.9% fall in Q2, taking the total decline so far in 2016 to 8.1%. This does however mask the fact that year on year rents are down by 11.6%.

Bausher and Sur Al Hadid were the only two markets where rents remained unchanged during the third quarter. On an annual basis, the weakest performing submarkets were Shatti Al Qurum (-21.1%), Sur Al Hadid (-20.8%) and Qurum (-17.9%).

### Demand down sharply

In the case of both villas and apartments however, the rate of rental decline appears to have moderated in Q3, following a challenging summer. This was of course exacerbated by the onset of Ramadan.

This together with the underlying weakness in the economy has meant that the summer months were amongst the quietest experienced by the market in recent years. Still, the weakness in the residential rental market has persisted for well over a year now with demand gradually ebbing over the course of 2016, driven by widespread redundancies that have now extended well beyond the oil sector.

Data from the National Centre for Statistical Information (NCSI) corroborates this, with a decline in the number of professional workers in the country reflected in census data from August. A 12.7% rise in the country's labourers has however helped to boost the total number of workers in Oman to 1.81 million at the end of August. More positively, oil prices have risen to circa USD 50 per barrel during October, up on lows of near USD 20 per barrel at the start of the year.

### Focus on quality

Rents have clearly been impacted negatively by the evolving demand dynamics in the market, but despite this, Al Mouj (-5.9%) has shown the least change in rents over the past 12 months, with average rents now standing at OMR 800 per month. We have noted in previous reports that this market remains unique in Muscat and the ever expanding retail and hospitality offering in this Integrated Tourism Complex has translated into a near steady stream of requirements from both buyers and tenants.

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# 954

Average monthly villa rents in Q3 2016 (OMR)

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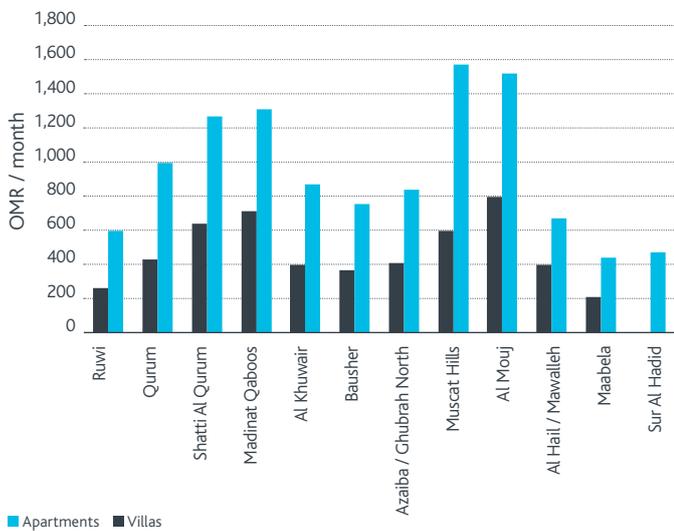
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# 464

Average monthly apartment rents in Q3 2016 (OMR)

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### Average residential rental values by submarket during Q3 2016

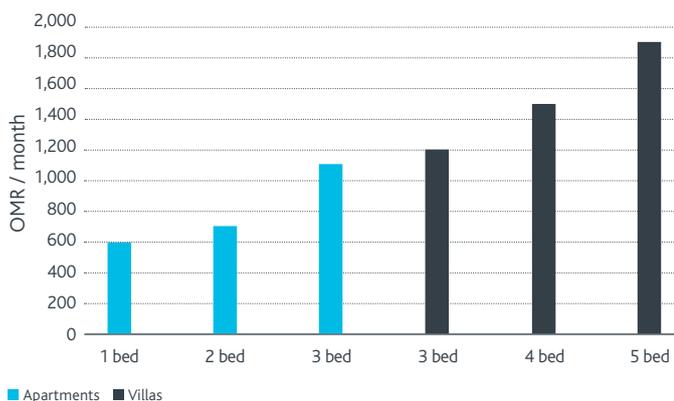


Source: Cluttons

The relatively limited amount of new supply here has in part supported the softer rental correction underway, when compared to other more mature submarkets in Muscat.

Away from Al Mouj, the flight to quality that we have been reporting on for over 18 months shows no sign of abating, with tenants gravitating towards schemes that are perceived to offer well managed facilities at rates thought to be in line with market conditions. It is these schemes that remain the most sought after, while vacancy rates rise elsewhere, with conditions being exaggerated by landlords failing to adapt to changing market conditions and an abundance of poorer quality stock in older parts of Muscat.

### Average residential rents in Al Mouj during Q3 2016



Source: Cluttons

### Weakness to linger

Muscat's residential market has been subject to some very challenging economic conditions over the past two and a half years, with average rents since the start of 2014 slipping by 17% on average. While this is a marked fall, it does mask the fact that markets such as Shatti Al Qurum (-28%) have registered even steeper corrections over this period.

The ongoing economic challenges are of course echoed across OPEC states around the world. While the initial impact of the oil price collapse was perhaps cushioned to an extent by the rise in oil production levels, the government continues to take positive steps to rein in costs amidst the debilitating economic conditions. However, with overall revenues dropping by close to a third (-32.1%) in the first half of 2016, according to data from the NCSI, the financial pressures are clear and are translating into a reduction in state spending levels, which the NCSI estimates were down 3.2% during H1. In fact, overall government revenues are down by 57% when compared to H1 2014.

The full effect of the government's current cost containment strategy has impacted overall job creation levels and as outlined above, has translated into an expanding programme of redundancies across a range of sectors. This ultimately has undermined the regular level of requirements for residential property in the Omani capital.

The prospects for an immediate turn around remain unlikely and given the country's heavy reliance on the oil and gas sector for the generation of economic activity, in addition to a fledgling tourism and hospitality sector, our outlook for the residential market remains weak. During the spring we forecast residential rents to end the year 10% to 15% down overall and it appears we are on track to achieve that, reflecting the average decline in tenants' budgets of 10% to 20% that we have recorded this year.

Further drops of 5% to 10% are expected during 2017 as the market attempts to bottom out after the significant corrections this year.

## OFFICE MARKET

### Rents fall to historic lows

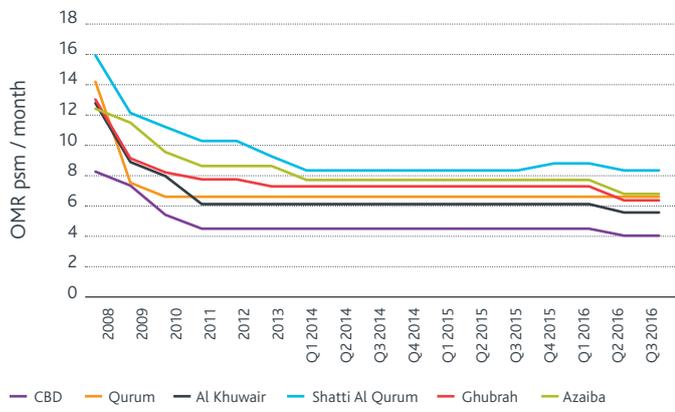
While no quarterly change was recorded in rents across the six submarkets we monitor during Q3, rents in the second quarter fell to historic lows in Muscat's Central Business District (CBD) (OMR 3.50 psm), Al Khuwair (OMR 5.50 psm), Ghubrah (OMR 6 psm) and Azaiba (OMR 6 psm).

Since 2008, Al Khuwair has been the weakest performing market, with rents falling by almost 58%, from a high of OMR 13 psm. The marked decrease in rents has been uniform across the board, suggesting that the rent correction is likely to persist and is being driven by a fundamental weakness in the market. Azaiba (OMR 6 psm) and Shatti Al Qurum (OMR 8 psm) have seen slightly less severe falls over the same period, although rents here are also at half the levels seen in 2008.

### Bastions of relative stability

On an annual basis, Qurum and Shatti Al Qurum stand out as relatively stable markets, with no change in rents over the last 12 months. These two submarkets are arguably amongst the most desirable for occupiers due to the higher concentration of international Grade A office stock, which remains in finite supply.

### Q3 office rents across Muscat's key submarkets



Source: Cluttons

This has of course aided the market's ability to withstand significant rent corrections, but at the same time, the limited number of occupiers on the market remain very cost sensitive and will only consider a move if it is perceived to be good value. Steps that landlords can consider to entice demand include bonus lease incentives such as extended rent free periods, contributions to fit out costs and taking all possible steps to improve parking provision. In our experience however, overall demand for office space remains muted.

#### Stable conditions expected

We previously forecast minimal rental declines in the office market for 2016, given that rents were already at record lows and well below comparable schemes in other Gulf cities. Our view remains unchanged, with any downward rent corrections over the next six to twelve months expected to be contained at around OMR 0.50 psm.

That said, the dwindling number of requirements does pose serious challenges for the office market and also means landlords will have to be even more creative in order to create demand going forward. Good quality management, facilities and bonus perks such as those outlined above are likely to become increasingly common as landlords compete for the limited number of mobile occupiers. In addition, the government is taking steps to ease the flow of foreign direct investment into the country, which will likely benefit the office market in the long term.

## HOSPITALITY MARKET

#### Bubbling supply pipeline

Elsewhere in the commercial market, the four and five star hospitality sector is going through a period of rapid expansion in Muscat driven by significant rises in inbound tourism numbers and spending over recent years.

In addition to the re-opening of the five star Sheraton (230 keys) this year, recent five star hotel introductions include the Hormuz Grand (231 keys) and Grand Millennium (296 keys and 40 apartments), while the four star hotel apartment sector has seen the introduction of Somerset Panorama (277 apartments), the Millennium (115 apartments) and Coral Plaza (89 apartments).

Over the next two years, hotels currently under construction will result in a room supply increase of around 50% in the four and five star category.

Five star hotels under construction currently include the W (290 keys), the Kempinski (309 keys and 68 apartments), the JW Marriott (304 keys), two Jumeirah hotels (318 keys) and an InterContinental (270 keys).

Four star hotels under construction include a Crowne Plaza (296 keys), Shaza (190 keys), Sundus Rotana (245 keys) and Copthorne (180 keys). In addition, we have identified a further potential supply pipeline of 4,500 to 5,000 four and five star hotel keys.

#### Key Oman tourism stats

	2010	2011	2012	2013	2014	2015
Inbound tourists (millions)	1.50	1.39	1.71	1.92	2.23	2.62
Nights spent in Oman (millions)	6.14	6.50	8.58	9.57	11.08	13.14
Inbound tourism expenditure (OMR millions)	140.6	158.6	200.3	227.3	250.9	288.2

Source: National Centre for Statistical Information - Statistical Yearbook 2016

#### Supply to drive competitiveness

The significant increase in four and five star hotel supply will result in an increasingly competitive market from an operator perspective but will also provide a significant increase in choice for customers. We expect this will help to drive the continued growth in the tourism and hospitality sector, with other operators drawn in by the allure of a rapidly emerging market.

We note, however, that the only branded three star hotel in Muscat remains the Ibis (171 keys), while there are no branded three star hotels under construction and only a limited potential supply pipeline. We remain firmly of the opinion that branded, budget/economy hotels represent the most attractive development opportunity as the hospitality sector in Muscat matures and expect to see an upturn in development activity in this segment of the market moving forward.



Image courtesy of GHM ([www.GHMhotels.com](http://www.GHMhotels.com))

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