Sector Research *August 15, 2006*

research almadina

## Oman: Real Estate Sector

| Country Profile | |
|---|---|
| Country | Sultanate of Oman |
| Population (July 2006 est.) | 3,102,229 |
| Population Growth rate (2006 est.) | 3.28% |
| Total Area ($km^2$) | 309,500 |
| GDP (2005, RO bn) | 11.81 |
| GDP real growth rate (2005 est.) | 4.30% |
| Currency | Rial Oman |
| Capital | Muscat |
| Calling Code | +968 |
| Official Language | Arabic |
| Government Type | Monarchy |

***Source: CIA World Factbook***

Sector remains upbeat on strong investment initiatives on the part of the government and private sector.

### *Highlights:*

- Oman's overall GDP at the end of March 2006 rises to RO. 3.24 billion up 25% over the corresponding period of the previous year.
- Oil prices well above the budgeted level in year 2006.
- Increase in expatriate workforce serving well to push demand for rented accommodation in the country.
- Speculation based buying in residential property seen mainly by regional GCC investors.
- Demand for quality office space continues to be increase in areas outside the CBD.
- Foreign ownership law (Royal Decree No. 12/2006) to serve as major driver for Oman's tourism industry,
- Region of Sohar all set to become the industrial hub of the country.
- Overall outlook for sector is **positive** due to the mix of buoyant features such as high demand, increased investment (in tourism activities) as well as a young demography.


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***An Introduction…***

*Soaring surplus on account of high oil prices*

Oman's GDP has exhibited good growth rates during year 2005. The GDP grew at a robust rate of 24% to reach RO. 11.81 billion. This has been possible mainly on grounds of the increase in contribution of oil revenues. As of the year end 2005 figures, total government revenues stood at RO. 4.55 billion up 12.7% over last year. Net oil revenues accounted for nearly 80% of this figure. The country ended up with a net surplus of RO. 290.7 million for the year ended 2005 compared to RO. 230.3 million reported the year earlier. The latest reports indicate that the total surplus as of May 2006 has reached a figure of RO. 1.27 billion. The effects of the surplus have been widespread targeting developments across various sectors including real estate. A major increase has been witnessed in the number of lands distributed by the government for the year 2004.

Several factors have been responsible toward the growth of the real estate sector in the country. Some of these factors include the country's growing population, increase in expatriate inflow, higher liquidity, interest rates, construction costs and legal issues. The change in foreign ownership legislation which came in the face of Royal Decree 12/2006 allowing foreigners to own property is bound to bring significant effects. This could prove to be advantageous for large tourism projects in the country such as "The Wave" and "Blue City".

This report is meant to highlight how the above mentioned key factors have driven the real estate sector in the country as well as a look at each segment (of real estate) separately.

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## *Oman's Real Estate Sector…*

*Aggressive land distribution carried by the Government in the recent past.*

Of all the plots distributed by the government in the year 2004, 85.8% were toward the residential sector. Major activity is still concentrated in the capital area of Muscat city where 85.8% of lands were distributed in the year 2004.

***Land Distribution by Type of Use***

| | 2002 | 2003 | 2004 |
|---|---|---|---|
| Residential | 7,819 | 10,311 | 30,331 |
| Commercial | 791 | 434 | 2,690 |
| Other | 1018 | 1180 | 2338 |
| **Total** | **9,628** | **11,925** | **35,359** |

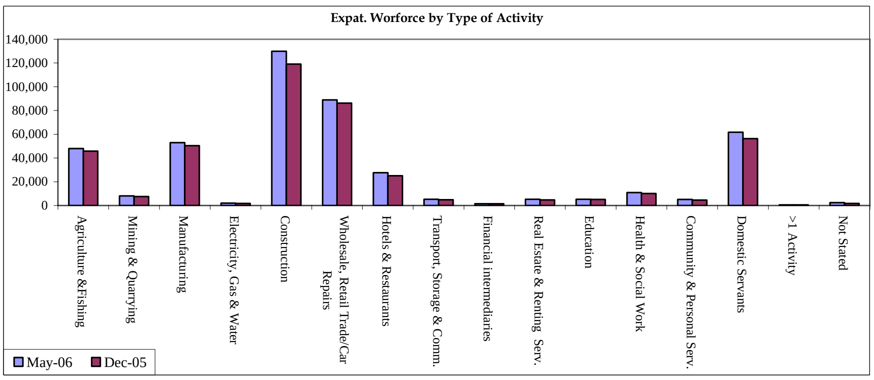
***Source: Ministry of National Economy***

Factors affecting Oman's Real Estate market

*The young demography will serve to boost housing needs in Oman.*

Population/Employment

Over the past few years Oman has exhibited high growth rates in its population thus maintaining a fairly young population. This as well as the inflow of expatriate works has given a good boost to the overall real estate market in the country. The total population of the country for the year ended 2005 stood at 2.51 million, up 2.03% from 2.46 million the year earlier. Of this close to 33.7% are found to be in the age group of 15-29 years. This age group is definitely going to be the driver for housing requirements in the country over time. What is also noticeable is the increasing number of expatriate workers in the country. Expatriate workers also play a pivotal role in the real estate market as they rely almost entirely on rented accommodation. Overall expatriate working population stood at 424,788 at the end of year 2005. This figure has now expanded to 455,014 at the end of May 2006 (up 7.12%).




***Source: Ministry of National Economy, Al Madina Research***

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*Attractive interest rates to give good thrust to real estate transactions.*

***Interest rates***

The liberalization policy adopted by the Central Bank of Oman over the past few years has been witnessed in the form of freeing of deposit and lending rates in the country. The ceiling rates on personal loans (the major item in loan portfolios of banks) have witnessed a gradual decline over the last few years from 13% in 1999 to as low as 9% from Jan 2005. Such a decline is bound to force more competition in the banking sector.

Low rates being imposed on personal loans do serve as a driver of the real estate market. The low cost of funds via personal loans allows for an attractive option for use in real estate transactions. The overall weighted average rate on deposits has increased from 1.146% in May 2005 to as high as 1.475% in May 2006. The average lending rates have fallen from 7.42% in May 2006 to 7.26% in May 2006. The result has been a narrowing in the spread in between both the rates.

***Liquidity***

High liquidity levels have done a whole lot of good to the real estate market in the country. Since 9/11 a lot of funds were poured back into the region by residents. On top of that the increasing oil prices have resulted in a budget surplus improving the overall liquidity condition. Pension fund based buying has also been noticed in the sector giving it further impetus and making it a safe alternative to invest in.

***Construction Costs***

Compared to Q1 2006, for the period ended Q2 2006, the construction cost index has witnessed a marginal increase of 3.08% whereas the building materials index has gone up 2.09%. The increase in prices on the front of iron & steel has continued moving upwards by 14.8% at the end of June 2006 (compared to March 2006 end). Cement prices have also surged ahead by 1.57% but the increase is considered marginal compared to way it has been in the past few periods. More significant changes in prices were seen in the year 2004. Despite this happening, the overall value added in the construction sector has continues to going year on year basis thus negating some of the impact of the price increase.

*Royal Decree 12/2006 to serve as a turning point for Oman's tourism industry.*

***Tourism Legislation***

The recent Royal Decree 12/2006 has expanded ownership rights to foreigners (including non-GCC) in certain tourism designated areas of the country. The property purchased is entirely freehold whether it's a villa or an apartment. The non-Omani purchaser and his/her immediate family members are entitled to special residence visas. Ownership of property is subject to inheritance laws applying in the purchaser's home country. Descendants/Successors in title receive the same right of residence status whilst they own the property. Purchasers may even borrow funds using the freehold property as prime security.

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## Real Estate Sectors

### Residential Sector…

*Tourist destinations have served to drive residential property rates.*

Land prices have witnessed a major uplcine in the recent past on grounds of a major buying spree coming especially from citizens of several GCC countries (other than Oman). The obvious reason for above occurrence is the relatively cheap land offered by the country (other than the neighboring GCC countries). Buying has generally been on account of speculative purposes. An interesting trend being witnessed over the recent past has been the increase in prices of land close to tourism/industry designated areas. These include areas like Azaiba (The Wave), Sohar (Industrial Hub).

*High quality housing in big demand from locals and expatriates.*

The traditional view of the sector has been more ownership based living. Omani individuals have been stricter to this idea in the past. Over the period though this idea has evolved with the coming of the leasing concept. We now see quite aggressive activity on the leasing front. This has mainly happened due to factors such as improvements in the country's standard of living as well as the increase in the number of expatriate workers who generally rely on this scheme for housing. We have seen that the overall increase in rents in this sector has been in the range of 24-25% with further room for increase. With the sudden rush in demand for housing, the country has witnessed a shortage in housing (well noticed in areas like Al Qurum, Al Khuwair and Medinat Al Sultan Qaboos). The capital area of Muscat has started witnessing a wide variety of housing options, from one-bedroom apartments in multi-occupied blocks to luxurious villas with gardens and compounds with swimming pools.

The recent announcement of foreign ownership has spurred demand in the sector which gives us a reasonable degree of confidence to claim that the overall demand in this segment will be vibrant in the near future. Some housing demand will be eased by the upcoming mega tourism projects in the country.

Looking at the increase in the rate of employment of young Omanis and expatriates, we do expect the residential sector to progress ahead in a positive manner.

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***Land Rates in the Sultanate of Oman***

| Sr No | Region | Willayat/State | Price (RO. Per Sqr M.) | |
|---|---|---|---|---|
| | | | Residential Land | Commercial/Residential Land |
| 1 | **Muscat** | Muscat | 20-60 | 70-80 |
| 2 | **Muttrah** | Muttrah | 30-40 | 150-250 |
| | | CBD Area | | 350-600 |
| | | Ruwi | 50-60 | 150-250 |
| | | Wadi Al Kabir | 30-60 | 80-120 |
| 3 | **Al Amerat** | Madinat Al Nadha | | 30-50 |
| | | Al Amerat | 20-30 | 30-50 |
| 4 | **Bausher/Ghubra** | Al Ghubra | 60-70 | 100-150 |
| | | Bausher | 60-80 | 80-100 |
| | | Al Azaiba | 65-90 | 100-150 |
| | | Ghala | 40-50 | 80-100 |
| 5 | **Al Qurum/Khuwair** | Al Qurum | 50-140 | 80-150 |
| | | Al Khuwair | 80-100 | 250-350 |
| | | Madinat Sultan Qaboos | 100-150 | 180-250 |
| 6 | **Al Seeb** | Al Muwaleh | 40-50 | 80-100 |
| | | Al Khoud | 20-50 | 40-150 |
| | | Al Seeb | 30-40 | 80-100 |
| | | Al Hail north | 30-40 | 80-100 |
| | | Al Mubilah south | 20-30 | 80-100 |
| | | Al Mubilah (gas line) | 20-30 | 30-40 |
| | | Al Rusail | 20-30 | 80-100 |
| | | Mutrtafaat Al Rusail | 20-30 | 80-100 |

*Source: Al Madina Real Estate*

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### *Industrial Sector…*

*Govt. plans to expand the manufacturing sector.*

The manufacturing sector has begun to receive impetus as the country has set its focus on initiating development in this sector. Overall growth of the sector has already exceeded what was expected during the sixth five year plan of the country. This growth is slowly moving the sector towards the target level of 15% of GDP as set by the Vision 2020 plan of the government. As of March 2006, contribution of this sector towards the overall GDP has risen to 10.1% from level of 8.5% at the end of year 2005.

*Sohar, leading from the front...*

*Sohar all set to be Oman's industrial hub.*

By far the largest development activities in this sector are being witnessed in the region of Sohar. Sources claim that the scale of development in the region is close to USD 12 billion. The city is currently buzzing with construction and industrial activity. The government has already announced projects in the region such as Sohar Refinery, Sohar Methanol Project, Ethylene Dichloride Plant, Sohar Fertilizer, Ferro-Chrome Project and the Sohar Aluminum Project. Mega projects like these will serve as way for the country to diversify from the currently dominant oil sector.

It is worth highlighting some of the developments taking place in the region of Sohar. First in line would be the newly completed Sohar Refinery which is a USD 1.2 billion project. The Sohar plant comprises a 116,400 b/d crude unit and a 75,000 b/d residue fluid catalytic cracking unit, LPG Merox unit, gasoline desulfurization unit and deep desulfurization unit. The plant is expected to manufacture products such as naphtha, propylene, gasoline and gas oil. The plant has already begun exporting its products.

*Projects valued at around USD. 12 billion to add great value to Oman's Vision 2020.*

The Sohar Aluminum project is valued at around USD 2.2 billion. The smelter will consist of a single AP35 potline with associated carbon and casting facilities and gas-fired power plant. The 250-kiloton smelter is expected to begin operations in mid-2008. the annual capacity is expected to be close to 330,000 tones per annum. Sohar Aluminum Company is a joint venture owned by Oman Oil Company, Abu Dhabi Authority for Water and Electricity and Alcan Company.

Sohar International Urea and Chemical Industries, a green field project in this region involves an investment of USD. 650 million by private entrepreneurs. The plant will be operational by the second quarter of 2008 with an annual capacity of 1,225K tones of granular urea targeted toward the export markets.

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*Transformation witnessed in the demand for office space.*

*The government is all set to augment tourism based revenues.*

***Commercial Sector…***

A few years this sector was characterized by weak demand. That all has begun to change in the recent past as more development is being witnessed in the country pertaining to industries as well as the overall country's standard of living. With the low supply situation in the recent past, the positive movement in this sector has almost immediately created a shortage causing rents to go up.

What we witness is a movement in demand in office space from the popular area of CBD to other areas such as Ghala, Azaiba and Ghubra. The main reason for this has generally been the congestion witnessed in the area of CBD. With the kind of expansion being witnessed in the overall economy, the demand for office space is expected to be high in the near future.

***Tourism…***

One area which is highlighted as a focal point of the government's Vision 2020 plan is the Tourism sector. Though at its budding stage at the moment, the government has announced some big plans to transform this sector in the near future. The Vision 2020 plan envisions to take the total contribution of the tourism sector (of the GDP) to 20%. The sector has already begun showing some fruitful signs looking at the strong improvement in hotel occupancy rates in the country. Tourists from the GCC as well as the region of Europe are showing good interest in the country.

***Hotels & Motels- Oman***

| | 2001 | 2002 | 2003 | 2004 |
|---|---|---|---|---|
| No. of Hotels | 115 | 124 | 133 | 147 |
| *% Growth* | | *7.83%* | *7.26%* | *10.53%* |
| No. of Rooms | 5,729 | 6,078 | 6,462 | 6,980 |
| *% Growth* | | *6.09%* | *6.32%* | *8.02%* |
| No. of Beds | 8,625 | 9,208 | 9,778 | 10,839 |
| *% Growth* | | *6.76%* | *6.19%* | *10.85%* |

***Source: Ministry of National Economy.***

The table above presents information on the hotel industry in the country. The demand for hotel rooms is expected to continue to be high in the near future. As we mentioned earlier, higher oil based revenues have propelled the government to pursue ahead with investment in the sector. Several mega projects have been announced which either in the construction phase or in the pipeline.

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*Tourism projects in the Oman…*

*Mega projects all set to put Oman on the tourist map.*

The Wave is a USD. 800 million tourism project that is being established in western part of the capital. The project is a joint venture between the Government of Oman, the National Investment Funds Company (representing other pension funds) and Majid Al-Futtaim (MAFI). With a total site area of around 2.5 million square meters, the project is expected to cater for around 4,000 residences. The initial phase one will consist of land reclamation, site filling and constructing the 18-hole golf course. The second phase will witness the development of the other segments of the project such as restaurants, residences and towers.

The Blue City is a USD. 15-20 billion project to be developed in the region of Barka (Al Sawadi beachfront). The project is to be developed over a total land area of around 20-30 million square meters. The projects will involve amenities such as healthcare, education, residency, entertainment and sports.

*Muscat Golf & Country Club, the first to offer properties to foreigners.*

The Muscat Golf & Country club is a unique project offering residency as well as golfing experience. Situated close to the Seeb Airport, the facility consists of a 18-hole mountainous golf course, luxurious residential accommodation (villas/apartments) as well as other facilities such as a fitness centre, tennis courts, a swimming pool and a five star hotel. Situated in 2 million sq mts of land, the total cost of the project is roughly estimated at around $30 million. This is the first project that has been offered to foreigners. As of March 2006, around 80% of all properties have been sold off. The project is expected to be completed during year 2006.

All such tourism projects depend strongly on the development of the freehold ownership law. Some of the projects have already begun witnessing aggressive buying by expatriates. The Muscat Golf & Country Club has been one of the most successful of these. Apart from it The Wave has also seen some aggressive buying during the booking process. This serve as an indication that the Government's aggressive moves on the front of tourism are gaining momentum and that the sector as whole is expected to witness strong expansion over time.

**Sector Outlook**

The overall outlook of Oman's real estate sector is expected to be promising. The high oil price will serve to provide ample liquidity to pursue further investment. The country is also considered to be very stable politically which adds further confidence for real estate based investments.
The legislation passed on expatriate ownership of property in tourist locations is another step that is all set to improve the segment. Many mega projects have been announced that are bound to benefit strongly from this law. The real estate market is more competitive on grounds

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that the land prices in Oman are generally lower than those in the neighboring GCC countries. Oman also has a young population as well as a growing expatriate population, factors that are expected to do a great deal of good for the real estate market in general.

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