There is a strong historic correlation between Oman’s GDP trend and movement in oil prices. Following the impacts of the global financial crisis in 2008/09, the economy recovered and grew steadily between 2010 to H1 2014. However, the effects of the drop in oil prices in mid-2014 became evident in 2015 and had a significant negative impact on the GDP which dropped by almost 10% from 2014 to 2016. This was followed by a strong economic recovery in 2017 and 2018 by 7.3% and 12.1% respectively against the backdrop of higher oil prices before the economy dipped again in 2019.

The outlook continues to remain challenging as the oil sector is still weighed down by the extended OPEC+ cuts and a rise in COVID-19 infections has prompted localized lockdowns in Dhofar, the country’s largest province, and several other tourist destinations, challenging rebound prospects. To add to the economic woes, the average monthly global oil price dropped from US$ 61/barrel in January 2020 to US$ 20/barrel in April 2020, albeit a projected recovery to around US$ 40/barrel by Q4 2020. Consequently, we would expect to see a marked decline in GDP in 2020 and a slower pace of recovery thereafter.

Low oil prices are a key challenge for the Sultanate’s economy which remains heavily reliant on oil. It also has a huge bearing on the population and employment trend in the country. A case in point, the total population of Oman grew from 3.6 million in 2012 to 4.6 million in 2016 and has levelled off since then. This growth was driven primarily by the expatriate population which grew from 1.5 million in 2012 to 2.1 million in 2016.

Current evidence suggest that a net exodus of highly qualified expatriates started in 2016 due to economic conditions and increasing restrictions on expatriate employment. The number of highly qualified expatriates dropped by 17.6% between 2016 to Q1 2020 while the total number of expatriate employees dropped by 6.8% during the same period.

Expatriates (42% share of the total population) play a significant role in influencing demand for real estate. Market conditions in both the residential and office space rental sectors in Muscat were already in slowdown/recession prior to the COVID-19 pandemic as a result of slow economic growth and negligible net population growth. The ongoing pandemic has further deteriorated the economic landscape. While the longer-term impacts of the pandemic on the sector are currently unclear, it is evident that there will be increasing challenges over the coming months.
Macroeconomic overview & outlook

As shown by the chart below, there is a strong historic correlation between Oman’s GDP trend and movement in oil prices.

OMAN GDP GROWTH AND OIL PRICE TREND

A net decline in population growth has been a major concern for the real estate sector.

OMAN POPULATION TREND

Source: National Centre for Statistics & Information and World Bank Commodity Prices Outlook April 2020

Source: National Centre for Statistics & Information
Office Rental Market

Historical Trends

Supply
In Muscat, central areas with easy access to Sultan Qaboos highway as well as the Expressway, are often at the top of the list for new businesses, given their proximity to the established as well as developing centres of the city. In the last few years, there has been an on-going movement westwards of commercial activity away from the erstwhile CBD of Ruwi. The Airport Heights area is now emerging as the potential location for a new CBD, but at present commercial activity is becoming increasingly scattered.

The last five years have seen the introduction of several high quality office space developments to the rental market. Currently there is an estimated 350,000 sqm of Grade A office space for rent in Muscat with a further circa 100,000 sqm of office space under construction between Qurum and Muscat Hills, due to be handed over in the coming 12 to 18 months. We also note the potential for a very significant supply of new office space to be developed at Madinat Al Irfan and the fringes of Muscat International Airport over the coming years.

Demand/occupancy
The demand for office space in Oman has followed a trend similar to the country’s GDP. Demand for office space saw a notable drop in 2016/17 before strengthening moderately in 2018. We would estimate that, over recent years, absorption of office space between Qurum and the airport has averaged around 25,000 sqm / year. This has led to occupancy levels of around 70% to 90% across Grade A developments at the start of 2020. Almost 90% of new office leases were observed from companies with an existing presence in Oman with limited demand from new market entrants. Most of this demand has been primarily focused on smaller, fully finished spaces in the better-quality buildings with uptake of larger, shell & core spaces generally being more limited.

Rental values
Rental values for better quality office space declined between 30-50% from their high point in 2008 but were steady from 2012 until the end of 2015. The last four years have, however, seen moderate declines in an already low rental environment. The chart below illustrates how average office rental values dropped significantly across the capital area from 2010, stabilised from 2012 to 2015 and then saw moderate declines from 2016 onwards.
Office Rental Market
Impacts of COVID-19 & market outlook

The longer-term impacts on the office rental market in Muscat will only become clear over the coming months but trends that were seen since March include:

- Negligible demand during April and May but moderate increase in tenant interest since June.
- The majority of demand that Savills has seen over recent weeks has been for smaller, finished office units.
- A notable proportion of demand over recent weeks has been from existing office space tenants in Muscat looking to downsize.
- An on-going imbalance in supply and demand as the supply of office space in Muscat continues to grow.
- Demand to almost exclusively come from companies with an existing presence in Muscat.
- A notable proportion of demand over recent weeks has been from existing office space tenants in Muscat looking to downsize.
- Downward pressure on rental values. With rental values at historically low levels, however, we consider that landlords are increasingly likely to agree to extended initial rent-free periods and/or assistance with office fit-outs for shell & core space rather than notable drops in rental values.
- Potential tenants looking for landlord provision/assistance with office fit-outs for shell & core space.
- Limited demand for larger, shell & core units, particularly if the landlord is not willing to provide or contribute to office fit-outs.
- Good parking provision and property management to remain strong drivers for tenants.

The impacts of COVID-19 have exacerbated the flaws in what was an already weak market. We would currently expect to see the following trends over the remainder of 2020:
Residential Rental Market

Historical Trends

Supply
Recent years have seen an increasing oversupply of low to moderate grade residential apartments with limited (if any) facilities across Muscat. Despite recent development of larger scale projects, the supply of mid to higher grade apartments with facilities (swimming pool, gymnasium, children’s play area, etc.) remains limited in comparison. Development in Muscat has historically concentrated on larger villas. As a result, there has been a shortage of better-quality villa and townhouse properties (particularly in compound developments) in the rental market in the central and western areas. The supply of apartments at Al Mouj and Muscat Hills has increased notably over recent years, particularly in the Boulevard area at Muscat Hills. In contrast to apartments, the supply of townhouses and villas within these projects is relatively limited.

Demand
As the chart below illustrates, the population of Muscat increased by almost 35% from 2012 to 2016. As with the national population, this population growth was driven primarily by a significant increase in the number of expatriate resident in Muscat although the growth of the Omani population has also been notable at around 4% per year.

The rate of growth of the expatriate population did, however, slow notably in 2017 while 2018 & 2019 saw a reduction in the number of expatriates in Muscat. At the end of Q2 2020, the expatriate population in Muscat was 6.5% lower than in 2017. The residential rental market in Muscat is driven by expatriates. The drop in expatriate numbers have therefore resulted in a shrinking market size for residential rental properties since 2017.

Recent years have seen good demand for well-designed apartments (predominantly 1 and 2 bedroom) with facilities between Qurum and the airport but less well considered properties have struggled to attract tenants except at low rental values.

There has also been good demand for smaller, 3 to 4 bedroom villas/townhouses (particularly within compounds with facilities) in the central and western areas but there is currently a very limited supply of this type of property. The last few years have seen a drop in demand for larger, more expensive villas as tenants increasingly focus on value.

Al Mouj and Muscat Hills have been the “go to” residential developments for many professional expatriates due to the quality of the properties and the environment provided by the developments. Demand for residential properties at Al Mouj and Muscat Hills ITC developments has historically been strong in relation to a relatively limited supply. Demand relative to the limited number of villas remains strong but the recent and on-going introduction of a significant number of new apartments at both Al Mouj and Muscat Hills is resulting in demand falling behind the increasing supply. Of particular note is the trend that the new apartments introduced in the Boulevard area of Muscat Hills have generally struggled to attract tenants except at relatively low price points.

Rental values
Rental values for apartments started to slide downwards during the second half of 2015 and continued to see a steady decline through to 2019. Average rental values for better quality apartments were generally around 30% to 40% lower in 2019 in comparison to 2014.

Rental values for villas in higher grade localities such as Madinat Al Sultan Qaboos, Anaiba and Ghubrah North also declined by a similar proportion from 2014 to 2019. In contrast, the more limited supply of villas/townhouses in Shatti Al Quram, Muscat Hills and Al Mouj saw declining rental values from 2014 to 2017 but then experienced stability/strengthening rental values from 2017 as a result of restricted supply relative to good demand.
Residential Rental Market
Impacts of COVID-19 & market outlook

Trends in the residential rental market that were seen since March 2020 include:

- Negligible demand during April and May but increasing (although still relatively muted) tenant interest since June.
- Demand has been limited to potential tenants already living in Muscat.
- Potential tenants are often looking for notable discounts in rental values in comparison to asking prices.

The residential rental market is driven primarily by the expatriate population which we consider is highly likely to see an accelerated decrease in terms of numbers over the coming months.

Potential interest from existing tenants to look to upgrade from their existing rental property at more affordable values.

The residential rental market was already in a slowdown prior to the COVID-19 pandemic. While better quality residential units are likely to show a more resilient performance, the projected drop in the number of expatriates in Muscat over the coming months will place the residential market under increased downward pressure in terms of both reduced demand and achievable rental values.

Potential tenants are often looking for notable discounts in rental values in comparison to asking prices.

Facilities, allocated parking and good property management to remain strong drivers for tenants looking for apartments.

Tenants are likely to look for more favourable (monthly or quarterly) payment terms.

The longer-term impacts of COVID-19 are difficult to predict with any accuracy but we would currently expect to see the following trends in Muscat over the remainder of 2020:
**AL MOUJ**

- **Stock:**
  - High end apartments
  - High end villas

- **Average rent at the start of 2020:**
  - 2 bedroom apartment – RO 600/month
  - 4/5 bedroom villa – RO 1,700/month

**MUSCAT HILLS**

- **Stock:**
  - Midrange to high end apartments
  - High end villas

- **Average rent at the start of 2020:**
  - 2 bedroom apartment – RO 450/month
  - 4/5 bedroom villa – RO 1,550/month

**AZAIBA/GHUBRAH NORTH**

- **Stock:**
  - Midrange apartments
  - Midrange to high end villas

- **Average rent at the start of 2020:**
  - 2 bedroom apartment – RO 400/month
  - 4/5 bedroom villa – RO 800/month

**AL KHUWAIR**

- **Stock:**
  - Lower end to midrange apartments
  - High end villas

- **Average rent at the start of 2020:**
  - 2 bedroom apartment – RO 200/month
  - 4/5 bedroom villa – RO 300/month
  - 3 bedroom apartment – RO 450/month

**SHATTI AL QURUM/MQ**

- **Stock:**
  - Midrange to high end apartments
  - High end villas

- **Average rent at the start of 2020:**
  - 2 bedroom apartment – RO 500/month
  - 4/5 bedroom villa – RO 1,200/month

**QURUM**

- **Stock:**
  - Midrange apartments
  - Midrange to high end villas

- **Average rent at the start of 2020:**
  - 2 bedroom apartment – RO 350/month
  - 4/5 bedroom villa – RO 1,000/month
Outlook
Impacts of COVID-19 over the remainder of 2020

- Contraction of economic activity and GDP
- Lower Government revenues
- Accelerated reduction in the expatriate workforce and population
- Reduced incomes and spending power
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