

MARKET INSIGHT ::: JULY 2022

EVOLUTION OF PROPERTY MANAGEMENT *IN OMAN*



Hamptons
INTERNATIONAL

“We will protect our national interests, as they are the most important constants of the next phase, the directions and targets of which were set by “Oman Vision 2040”, with the prime aim of transforming all aspects of life.

It is a true embodiment of collective national willpower. The success of this vision is the responsibility of us all, dear citizens, without exception, each one acting from his position and within the scope of his abilities and responsibilities.”



H. M. Haitham Bin Tariq Al Said
Guiding words from the Economic
Diversification Report 2020

FOREWORD

HAMPTONS INTERNATIONAL GENERAL MANAGER

Over the past two years, we have witnessed the negative impact of the pandemic on the Sultanate's real estate market. Lockdowns in particular not only limited the usage and interest in real estate but also dampened economic activities linked to real estate such as shopping and dining out, travelling and hotel accommodations, and the working culture in general.

We are currently in a better economic environment comparatively driven by recovery of the economy and pandemic mitigation measures being well implemented. This is in line with Oman Vision 2040 which envisages Oman joining the world's developed countries through one of the main themes, Economy and Development.

The spur of the economy has mediated the gradual rebound of the real estate market exhibited in the increased number of enquiries we have received for real estate related activities. However, we foresee challenges to remain in the real estate sector primarily driven by the discrepancy in supply and demand especially for older buildings in secondary locations which lack professional maintenance and management.

In relation to this ongoing concern, we are proud to release our first ever publication in hope that these

discrepancy issues could be addressed and gradually mitigated. Our publication discusses the evolution of property management in the context of Oman, notably taking into consideration the increased complexity and size of real estate assets within the Sultanate and the role played by the property manager. We also touch on the importance of having good property management and the positive impact it has on the valuation of assets.

We have observed property management being outsourced allowing the owners or landlords peace of mind that their assets are handled by experts and more importantly, the time to focus on their core businesses, and probably saving a lot on unnecessary expenses in the process.



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HAMPTONS INTERNATIONAL
PROPERTY MANAGEMENT

INTRODUCTION TO PROPERTY MANAGEMENT

The evolution of professional management of real estate began long ago and continues until today.

According to Rosemary Carucci Goss & Howard L. Campbell's article in 2008 (which still remains relevant), real estate developments and the subsequent management of the property has now evolved into complex operations that encourages owners to hire managers who possess specific skill sets which include law, finance, human resources, communication, marketing, leasing and other much more technical areas.

This role of the property manager has evolved from someone who focused on collecting rents to someone who is responsible for the economic viability and income optimization of the asset.

As a profession, real estate management is typically impacted by three major occurrences, the legal system which has been developed giving individuals the right to own property, the increased complexity and size of real property assets, and the historic conditions of economic change that encouraged, if not required, professional management and maintenance operations for a positive financial result for any income

producing asset.

In this publication, Hamptons International will focus on one of the three factors which impacts real estate management as a profession, notably the increase of complexity and size of real property assets. We will also look at the evolution of commercial and residential developments in Oman, and the role in which the property manager plays.

“Effective property management can compound the value of property over time, multiplying profits.”



Moosa Al Ghusaini
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THE INCREASE OF COMPLEXITY AND SIZE OF REAL PROPERTY ASSETS IN OMAN

The complexity and size of real property assets can be related to the rate of urbanization in Oman. Naima Benkari (2017) mentioned that some cities of Oman have histories of several centuries and have played key roles in commercial roads which participated in the flourishing of civilizations in the region.

The urban development of Oman has been deeply influenced by these civilizations that settled in the country dating back to as far as five thousand years ago. It was however in the past half century that Oman started a period of unprecedented socio-economic change thanks to oil procurement. Under the leadership of H. M. Sultan Qaboos bin Said Al Said, the built environment escalated as British and American oil companies were attracted to the country and began building settlements. Drastic centralization of services, facilities and decision making in the capitals led to their densification while depopulating small towns, traditional villages and inhabited zones.

Oman population staying in urban areas has been increasing at a fast rate. It was around 30% in the 1970-80s which grew to around 50% a decade later. Currently, it has reached around 80% and is likely to grow further.

The continuous increasing, migration of rural households to urban areas is mainly caused by wide difference in household income, provision of infrastructure and access to social amenities

In line with the growth of urban population in Oman, driven by an increasing affluent Omani population and supported by a rebound in expatriate population figures, stock of properties are noted to have increased, indicated by the increased numbers of building permits classified.

QUICK FACT



5.7 mil

*Projected population of Oman by
2040.*

Source: National Centre for Statistical Information





Generous oil-incomes have helped Oman to embark on mega-projects, infrastructure-led developments as well as construction of several public buildings. These type of projects occupy the largest portion of built-up surfaces in the country such as roads, highways, ports, airports as well as mega-developments including Al-Mouj “The Wave”, Duqm and Jabal Sifah amongst others.

In line with the urban sprawl and increased number of mega-projects, commercial stock have been seen to increase accordingly not only in terms of numbers but quality of offerings and complexity of development as well.



Ridhwan Radzi MRICS
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“While supply has gradually increased, we have seen that demand either remained stagnant or increasing only slightly resulting in additional pressure on occupancy and rental pricing for properties in the market especially for older ones.”

As Oman continued to grow from 1980s onwards, an aggressive period of residential and commercial construction developed and improved building technology enabled developers to build up, not out.

Historically, many of these developed buildings were managed by their owners. However, as time passed, more owners amassed significant portfolios, became more affluent, and wanted to get away from the everyday chores of property management.

Over time, there was an increase in owners hiring an apartment resident or other paid staff person to collect the rent, take care of emergency repairs, pay the bills, and serve as the liaison between the owner and tenant. In exchange for their services, this "caretaker" received a reduction in rent or a small salary if they did not live in the building.

As more communities were built in the same areas it was necessary to market these units as supply gradually increased. Instead of managing one

building, the "caretaker" now managed several buildings and often set up companies to employ a number of staff to care for them. The role of the property manager had become more complex than a person who did little more than collect the rent.

As more supply was added to the market, the role of the "caretaker" evolved to an early stage of professional manager or "emerging professional manager" who now had responsibilities that included leasing new properties while managing the operational expenses in a rental market where income did not keep up with expenses. Unfortunately, in this early stage, the manager's role was often not viewed as that of a professional, and his or her employment was an afterthought in the development process.

The role of “emerging professional managers” evolved when even more properties were developed in the market, couple with the ownership structure of properties evolving from being mostly individually owned assets to properties owned by businesses for operations or even income generating assets such as state-owned investment companies or family businesses.

The manager was forced to know more about the general economic environment and to put that information together to market properties in a challenging economic environment labeled more as a "sales and marketing manager".

As even more properties were developed, maintaining occupancy became even more challenging. Reducing vacancies was still important to operations, but now the manager also became more involved in increasing the net operating income (NOI) by finding innovative ways to reduce expenses and increase revenues. The expectations for this "income maximizing manager," a term coined by Rosemary Carucci Goss & Howard L. Campbell, now included a detailed understanding of the property's budget, the owner's goals, and the total real estate market where the property was located. The successful income maximizing manager considered ways to increase revenue and decrease expenses.

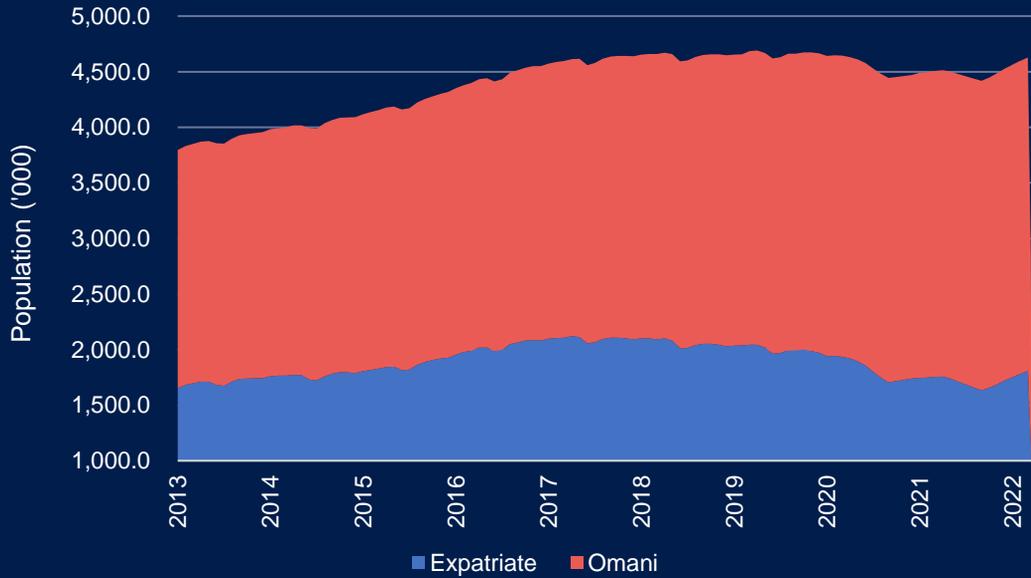
The scope and complexity of the rental market has evolved over many years resulting in the need for professional management.

In the early days of property management, caretaker managers would never have seen their property budgets. They would have been responsible for collecting the rent, making necessary repairs, paying the bills, and turning over the profits to the owner. Emerging professional managers would have been given a budget from the corporate office and expected to manage the property within the budget. The sales and marketing manager may have had some input into the budget but would be expected to adhere to the budget while emphasizing resident retention. Today's income maximization managers prepare the budget for their properties in consultation with the corporate office so as to maximize the profit for the owner or stockholders.

MARKET INSIGHT

POPULATION TRENDS IN OMAN SPLIT BY EXPATRIATES AND OMANIS

Source: National Centre for Statistical Information



BUILDING PERMITS CLASSIFIED - RESIDENTIAL

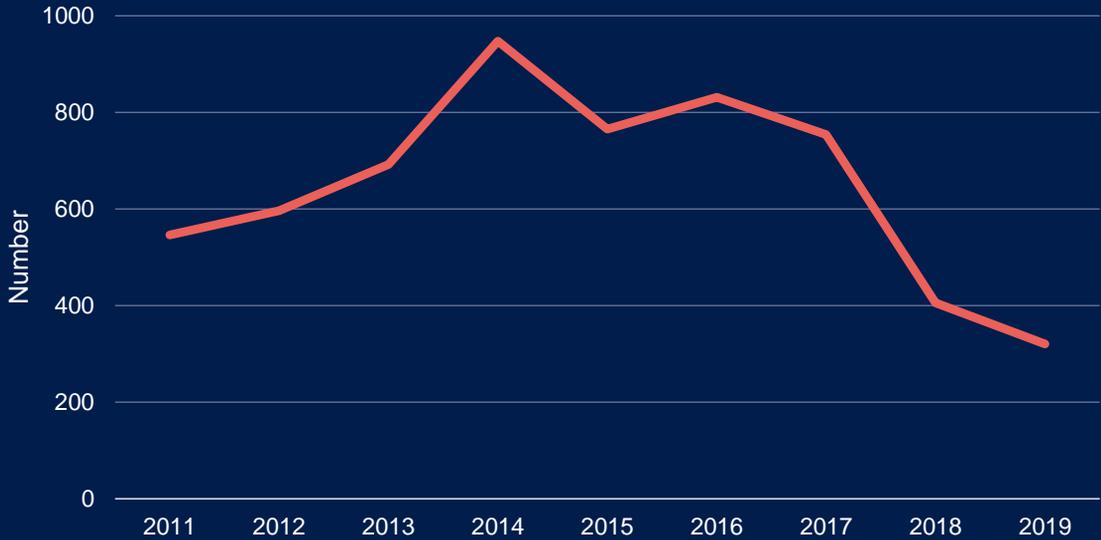
Source: National Centre for Statistical Information



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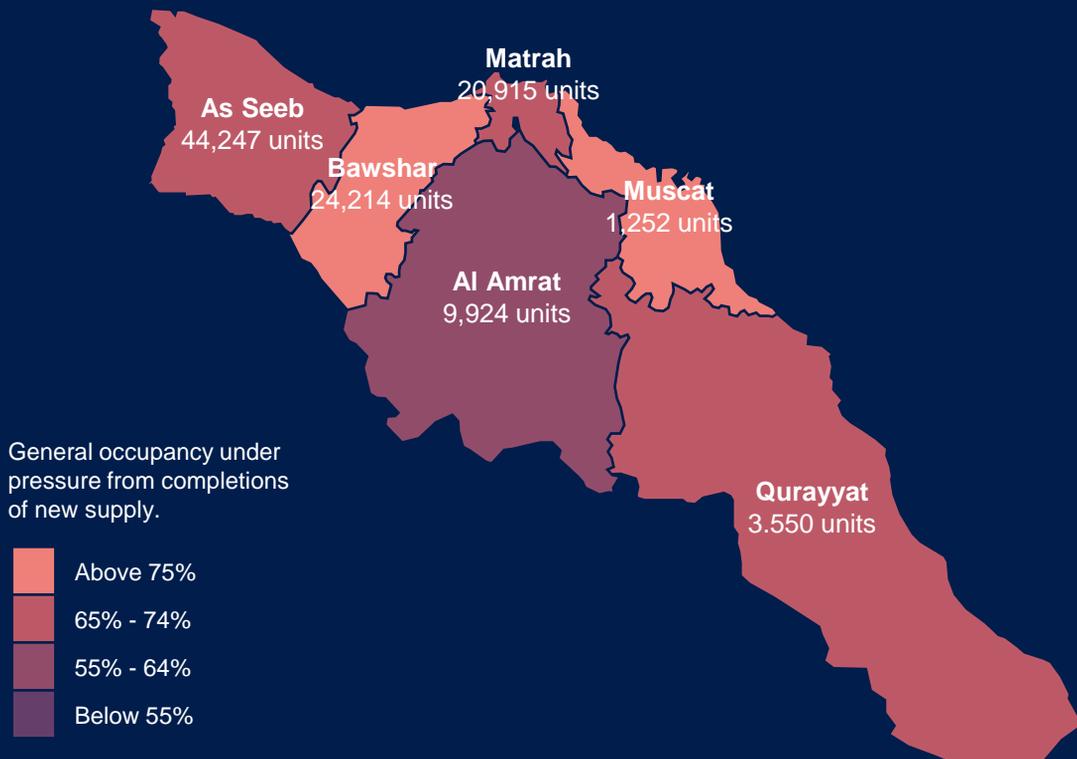
BUILDING PERMITS CLASSIFIED - COMMERCIAL

Source: National Centre for Statistical Information



NUMBER OF COMMERCIAL UNITS AND OCCUPANCY BY WILAYAT

Source: Ecensus 2020



HAMPTONS INTERNATIONAL PROPERTY MANAGEMENT

While it is accepted that property management is generally outsourced, we note that several landlords will do it inhouse for the purpose of anticipated cost savings. Both structures do have their advantages and disadvantages. Based on our experience in the market, property management demands knowledge of the property market and needs of the occupiers and visitors and expertise of the building's technology as proven by the history and evolution of the profession.

This is where many landlords could leverage property managers to enable them to focus on their core business and leave the day-to-day operations of the property to a professional. The laborious details including human resources, tools, equipment, legal issues and flexible access to particular skills will be well managed by us compared to when doing it inhouse.

There is increasing awareness of developers and property owners whether individuals or corporations understanding the importance of the need of property managers in the market especially during the past few years contributed to the widespread impact of the pandemic.

“By outsourcing property management, the landlords will end up having peace of mind knowing that all the work is taken care of people who are experts in their respective fields.”



Nasr Al Farsi
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MARKET INSIGHT

We observe that the role of property management has evolved in line with changes in the market. Long gone are the days of simply putting up a banner and the property will be filled with occupiers. We note that running a full-fledged property management operation comprises almost everything from upkeep and maintenance to marketing and leasing of any available units.

“We should point out that a stable rental income is best protected by maintaining tenant satisfaction.”



Joshua Morrison
Residential Leasing Manager
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Hamptons International Oman manages around 3,000 units of commercial, industrial, retail and residential units having more than 22 years of experience in the local market.

We prioritize on attracting new tenants as well as retaining existing tenants through a well-established management system which keeps everything in order. We advise and consult on best practices to optimize the potential of the property based on our market experience as well as collected data and analysis, making informed decisions. Our monthly reports to landlords break down the KPI's required to measure the quality of services provided by us. These detailed monthly reports provide the landlord with all the information to see how well their asset is performing as well as all service providers performance related to the property.

Concerns regarding maintenance and management for older, more obsolete buildings could be addressed by having a proper property management structure in place, which has come a long way from an evolutionary perspective in relation to the complexity and size of assets within the Sultanate.

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