



FOCUS ON RETAIL

MUSCAT, OMAN

MARKET INSIGHT :: OCTOBER 2022

Hamptons
INTERNATIONAL



H. M. Haitham Bin Tariq Al Said
11th January 2020 speech extracts on
economic, fiscal and government
performance

"Our economic and fiscal performance has improved and we have started to accomplish for you (citizens of Oman) and with you the march of growth and prosperity. This has been further consolidated by the expansion in economic stimulus policies and the establishment of a social protection scheme catering to the welfare of citizens, thus giving this improvement a humanitarian dimension.

Over the next stage of the Renewed Renaissance, we will take action to transform government performance from the level of emergency solutions to a more sustainable level having a set of lasting and comprehensive solutions that place economic growth, fiscal sustainability and social welfare at the forefront of its priorities.

May the Almighty Allah protect Oman. May He protect you all, loyal citizens of Oman!"

FOREWORD

HAMPTONS INTERNATIONAL GENERAL MANAGER

The period witnessed the economy moving from strength to strength. Oman recorded a strong 25.7% growth in GDP during the first quarter of 2022 mainly driven by the oil & gas sector. This has had a trickle-down effect as wholesale and retail figures jumped around 8% during the same period.

We have also observed the return of international visitors as the National Centre for Statistical Information (NCIS) reported more than a 100% increase from the past year. The same trend was seen in the number of expatriates witnessing an increase of around 10% during the same time.

The strong macroeconomic trends are further supported by a more optimistic occupier and investment sentiment as published in the Royal Institute of Chartered Surveyors (RICS) 2Q report on the Middle East and North Africa (MENA) region. Headline growth accelerated on both sides of the market and conditions in the local market are perceived as consistent with an upturn.

Hamptons International have experienced a dramatic increase in retail space enquiries from across the board. We have engaged with a number of foreign and domestic retailers looking to expand and develop.

A notable retail trend that we have observed is the shift of consumption towards online platforms. Shopping centres together with retailers need to adapt and differentiate their experiential shopping offer to attract the return of footfall and potentially increase revenue.

We are cautiously optimistic about the retail outlook. We note that well located, designed and managed malls will continue to attract both shoppers and tenants.



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ECONOMY

WHOLESALE AND RETAIL ACTIVITIES EXPANDED

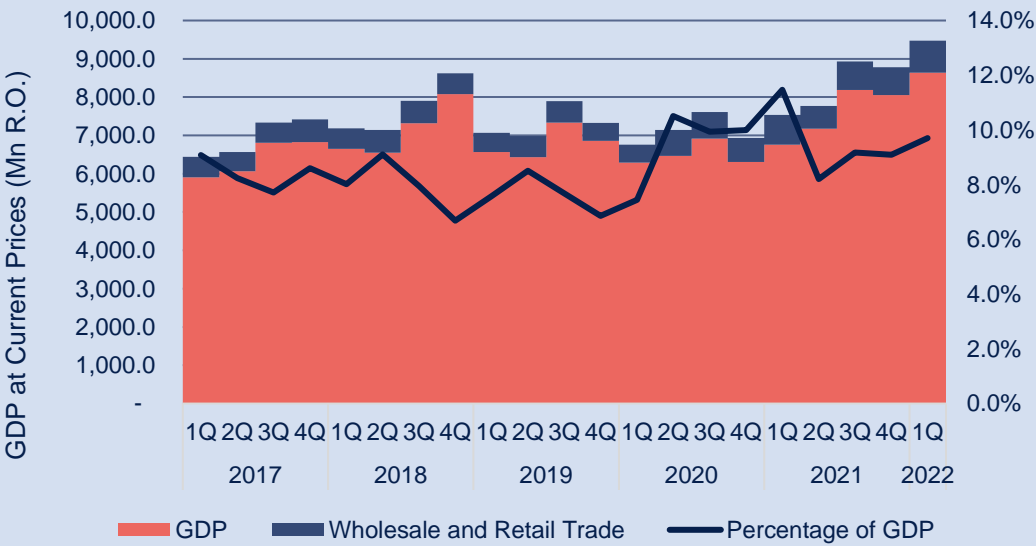
Supported by strong recovery in oil prices and government’s economic stimulus measures, Oman’s nominal GDP grew remarkably in the first quarter of 2022. This is the fastest expansion of the economy in nearly a decade with broad-based growth in major sectors including oil and gas, industry, services as well as agriculture and fisheries.

Wholesale and retail trade jumped by 8.0% in Q1 2022 to RO 837.7 million from RO 775.4 million in the same period of last year supported by stable increase of passenger arrivals, Omanis working in the private sector and the overall population.

Number of International passenger arrivals increased by 262.7% to 2,345,723 passengers as of August 2022 from 646,741 from January to August 2021. Headcount of Omanis working in the private sector meanwhile grew to 284,741 in September 2022 from 259,685 from the same period the previous year, a 9.6% growth. And overall population in Oman grew to 4.84 million as of September 2022 driven by the return of expatriates, which saw an increase of 356,919 people or 21.8% compared to the same period in 2021.

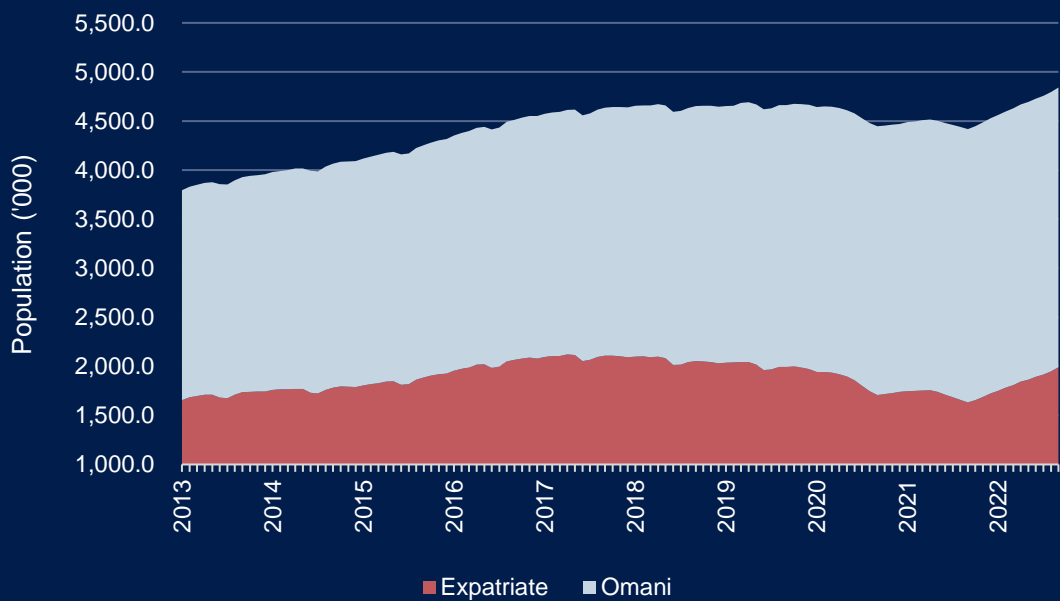
RETAIL AND WHOLESALE TRADE CONTRIBUTION TO GDP (CURRENT PRICES)

Source: National Centre for Statistical Information



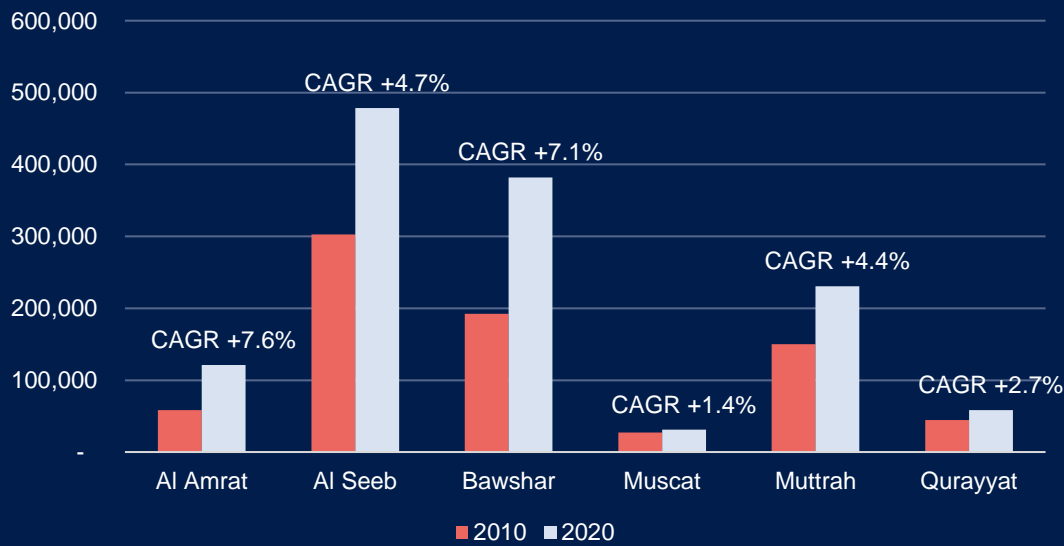
TOTAL OMAN POPULATION

Source: National Centre for Statistical Information



MUSCAT POPULATION GROWTH BY WILAYAT

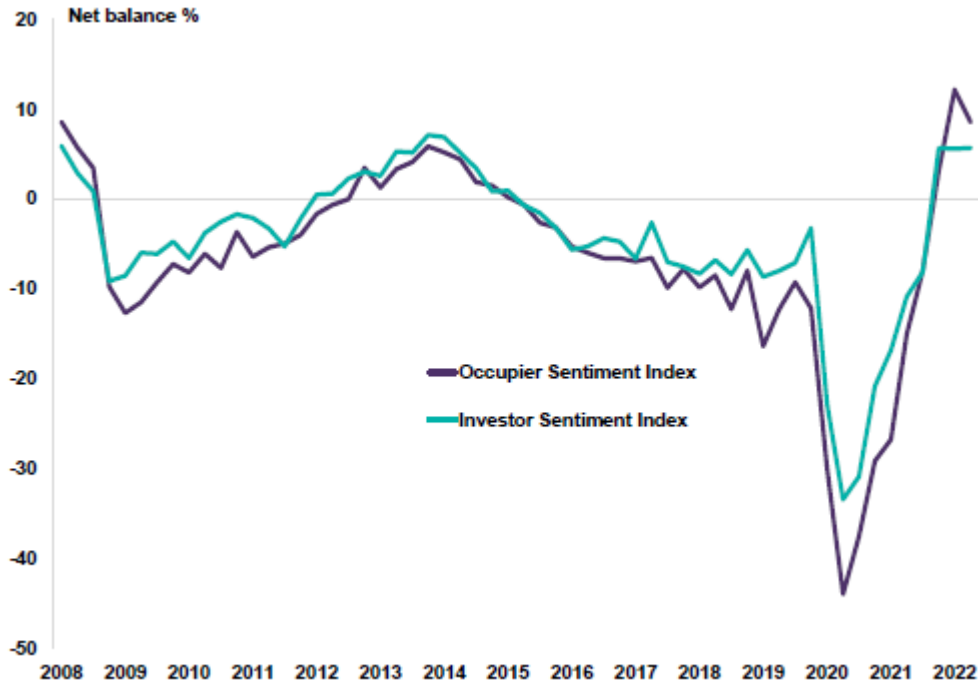
Source: National Centre for Statistical Information



RETAIL MARKET OVERVIEW

IMPROVEMENT IN MARKET CONDITIONS

MENA Occupier and Investment Sentiment Indices



Source: RICS Global Property Monitor, Q2 2022

A survey feedback throughout the Middle East and Africa (MENA) region indicated a solid improvement in market sentiment following a recovery from the pandemic reported by the Royal Institute of Chartered Surveyors (RICS) in their Q2 2022 Global Property Monitor.

Sentiment for headline demand growth accelerated across both occupier and investment sides of the market. Additionally, the largest share of survey contributors in Oman feel conditions in the local market is consistent with an upturn.

The steady increase in retail sales indicated by the wholesale and retail trade has geared up 2022 to be a decent trading year, of course with assumptions there will be no further lockdowns nor movement restrictions. We also observed increases in average spend based on our discussions with retailers.

In addition, we have witnessed encouraging footfalls within shopping centres over the same period suggesting that this sentiment is the most optimistic for the retail sector in a while.



QUICK FACT



+25.7%

1Q 2022 Oman GDP growth

Source: National Centre for Statistical Information

“We have experienced an increased amount of retail leasing enquiries as retailers are seen to be on the lookout for well managed retail developments in good locations.”



Jagruti Naravani
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The retail landscape in Oman has been relatively undeveloped in comparison to neighboring GCC countries with few modern large retail malls prior to 2012. One driving factor being the small population, recorded to be around 2.8 million during census 2010 resulting in low population concentration not favorable to retail.

The evolution of the retail market has been one of the most rapid in the region, spurred by intense population growth (4.84 million, September 2022) and increasing affluence resulting in several large sized shopping centres being developed (and potentially more in the pipeline) attracting international retail brands.

The recent opening of IKEA Muscat on 19 June 2022 located at Oman Avenues Mall, with the IKEA store spanning across 25,000 sqm of retail space, underlines this point. In the run up to the official inauguration, a crowd of more than 3,000 customers were waiting for the store to officially open. It has been reported that the Swedish home furnishing giant created a good job market with more than 40,000 applicants applying to several positions across all departments.

MARKET INSIGHT

Retail activity in Muscat however is observed to be scattered across the city due to the absence of a concentrated and established centre. We further add that shopping malls are similarly dispersed location wise proposing that 'good locations' depends on the retail target market.

In conducting our retail market insight, we categorize the prime retail in Muscat into five (5) distinctive submarkets indicated in the below map. We note similarities of shopping malls within these submarkets in terms of positioning catering to specific target markets. Additionally, general occupancy and rental rates are observed to be consistent throughout these submarkets.

PRIME RETAIL SUBMARKETS

Source: Hamptons International



Note: *General rents are noted to indicate gross rents per sqm per month based on typical sizes of retail units taking into consideration of typical lease periods

MARKET INSIGHT

For future developments, we understand that the Madinat Sultan Qaboos (MQ) retail area, located within the 'Shatti Al Qurum / Qurum / Madinat Sultan Qaboos' submarket, will undergo an extensive refurbishment which will be conducted over the next couple of months. It will be interesting to witness the impact upon completion of refurbishment works given that the location of the retail is embedded within a rather affluent residential area.

We observed that during the pandemic, there was a shift of consumption towards online platforms dramatically impacting the brick-and-mortar retail environment. Shopping centres together with retailers need to adapt and differentiate their experiential shopping offer to attract the return of footfall and potentially increase revenue. This may include more thematic experiences, promotional events and expanded show areas. New F&B concepts especially will be a crucial element in luring customers to shopping malls, taking over the role of anchor tenants previously.

Demand is also growing for a faster range of delivery options especially for online transactions. We note a growing number of click-and-collect and even grab-and-go services across Muscat servicing customers who spend more time in nearby retail areas to their home. More retailers are likely to enable customers to conduct online orders within the physical stores to reduce inventory and provide a 'contact-free' shopping experience.

While we have observed prime retail rents to remain stable, tenant incentives have notably increased in recent years, representing the only tangible attraction that mall operators can offer to retailers.

The current market standard is landlords providing tenants a minimum of 3 months grace period to allow them to design and fit-out their units. We have also seen some landlords offering 6 months and even 12 months grace period depending on the tenant.

In general, restaurants may take longer to fit-out in comparison to other retailers due to inspections conducted by the Municipality, coupled with a potentially long lead in time to procure specialist equipment. The Municipality may insist on amending floor plans according to their regulation standards. This should be considered when arranging lease start dates.

A reasonable escalation of rents in the lease agreement clause currently is around 6 - 7% every 2 years or 9% every 3 years depending on the market.



Musheer Ahmed

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"Incentives provided within shopping malls to specific desirable tenants has been a driving force behind the success of a mall in achieving stable occupancy and tenant retention."



Hamptons International are cautiously optimistic about the outlook of retail. The prime retail market appears to have reached saturation point with supply currently exceeding demand in most areas especially within Muscat. However, well designed, managed and located malls will continue to attract both shoppers and tenants.

QUICK FACT

+10.6%

Expatriate increase y-o-y
as of June 2022

Source: National Centre for Statistical Information

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