

The background features several orange line-art illustrations. In the top left, hands hold a document with a line graph. In the middle left, a hand uses a laptop. In the bottom left, hands hold a document with a line graph. In the bottom center, hands hold a document with a line graph and a pie chart. In the bottom right, hands hold a document with a line graph. In the middle right, hands hold a document with a pie chart.

Hamptons

INTERNATIONAL

FOCUS ON OFFICE

MUSCAT, OMAN

MARKET INSIGHT :: AUGUST 2023



FOREWORD

HAMPTONS INTERNATIONAL GENERAL MANAGER

It is with great pleasure and excitement that we present to you our latest market insight "Focus on Office." This publication marks a significant milestone in our pursuit of understanding and analyzing the dynamic landscape of Muscat's commercial real estate sector, particularly focusing on the vibrant yet challenging office market.

Muscat, the capital city of the Sultanate of Oman, stands at the crossroads of history and modernity, a place where tradition and progress seamlessly intertwine. As the nation's economic heart, Muscat has witnessed remarkable growth over the years, transforming into a regional hub for commerce, finance, and trade. Such a vibrant and evolving environment naturally attracts businesses and investors, making the office market a focal point of attention for various stakeholders.

The main purpose of this publication is to provide a comprehensive and insightful exploration of the Muscat office market. Through meticulous research, in-depth analysis, and expert perspectives, we aim to shed light on the market's current trends, challenges, and opportunities. The publication serves as a valuable resource for businesses seeking to establish a presence in Muscat, real estate professionals navigating the

local market intricacies, and investors looking to make informed decisions.

We extend our heartfelt gratitude to the dedicated team of analysts and contributors who have poured their expertise and passion into this publication. Their tireless efforts have allowed us to present you with a reliable report.

As with any market, the Muscat office market is not immune to challenges. Nevertheless, challenges present opportunities for growth and innovation. We hope that the insights gleaned from this publication will empower you to navigate the intricacies of the Muscat office market successfully.



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MACROECONOMIC OVERVIEW

Oman's real GDP grew at an annual rate of 4.7% in the first quarter of 2023 reaching RO8.7bn, according to data released by the National Centre for Statistics and Information (NCSI).

Hydrocarbon GDP grew at a rate of 3.5% in the first quarter, compared to a 4.6% growth of non-hydrocarbon GDP. Within the hydrocarbon sector, oil activity recorded a growth of 2.8% while gas activity grew by 7.6% over the same period.

In non-hydrocarbon growth, overall industrial sector activities increased by 4.4%, primarily boosted by a 5.2% growth in manufacturing. The construction and mining industries grew by 3.1% and 9.9%, respectively. Activities in the services sector grew by 4.5% in the first quarter of 2023 driven by wholesale and retail trade which grew 5%.

The government projected Oman's real GDP to grow by 5.5% for the full year 2023, mainly due to an increase in oil and gas production, projected to grow 10.1%, while non-hydrocarbon GDP is expected to grow 2.9% this year.

The increase in the service sector GDP can be supported by the increasing number of Omanis working in the private sector which recorded a 102.1% increase since August 2014, as well as the increase in expatriate workers, which reached 1,787,736 workers as of June 2023.

“While Omanis working in the private sector have increased over the past few years, we have witnessed a decline in these figures since the start of 2023.”

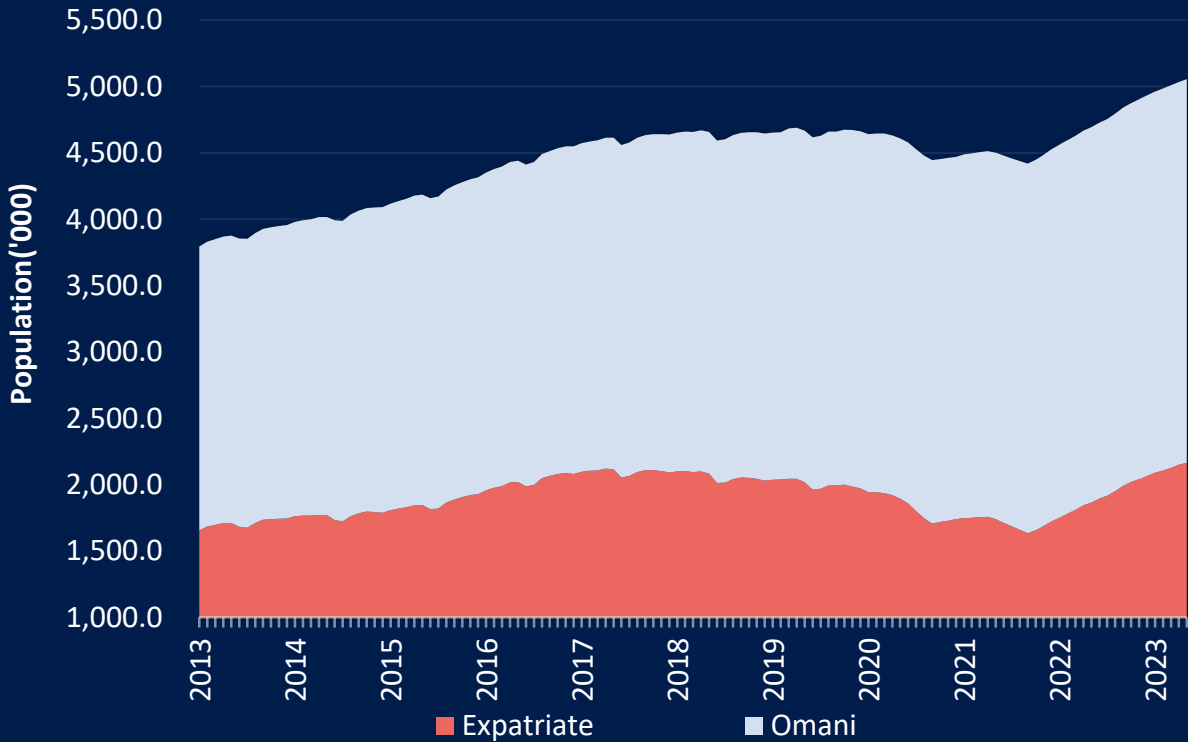


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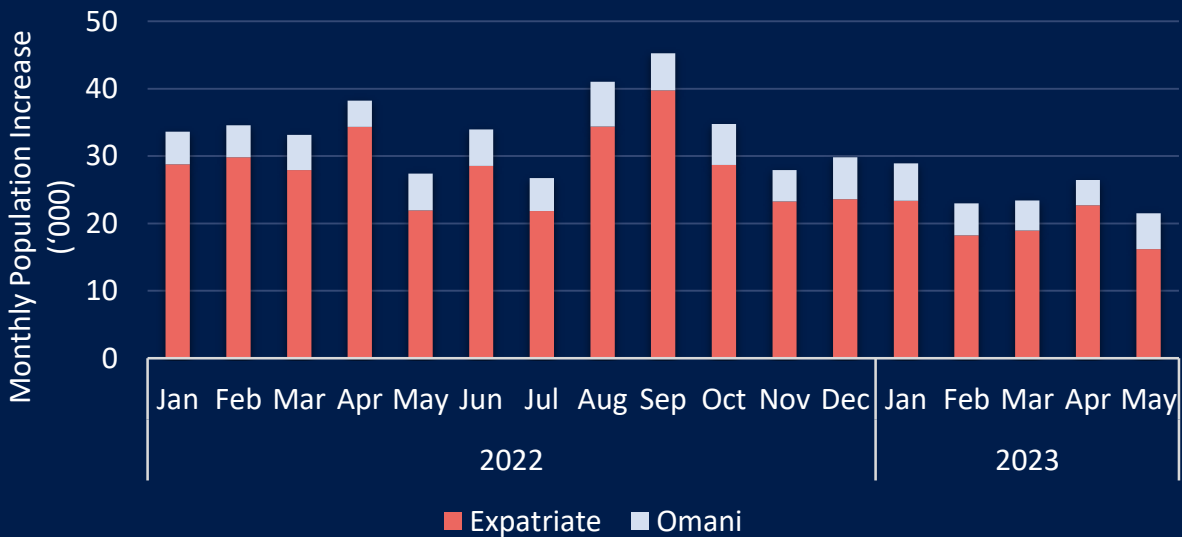
TOTAL OMAN POPULATION

Source: National Centre for Statistical Information

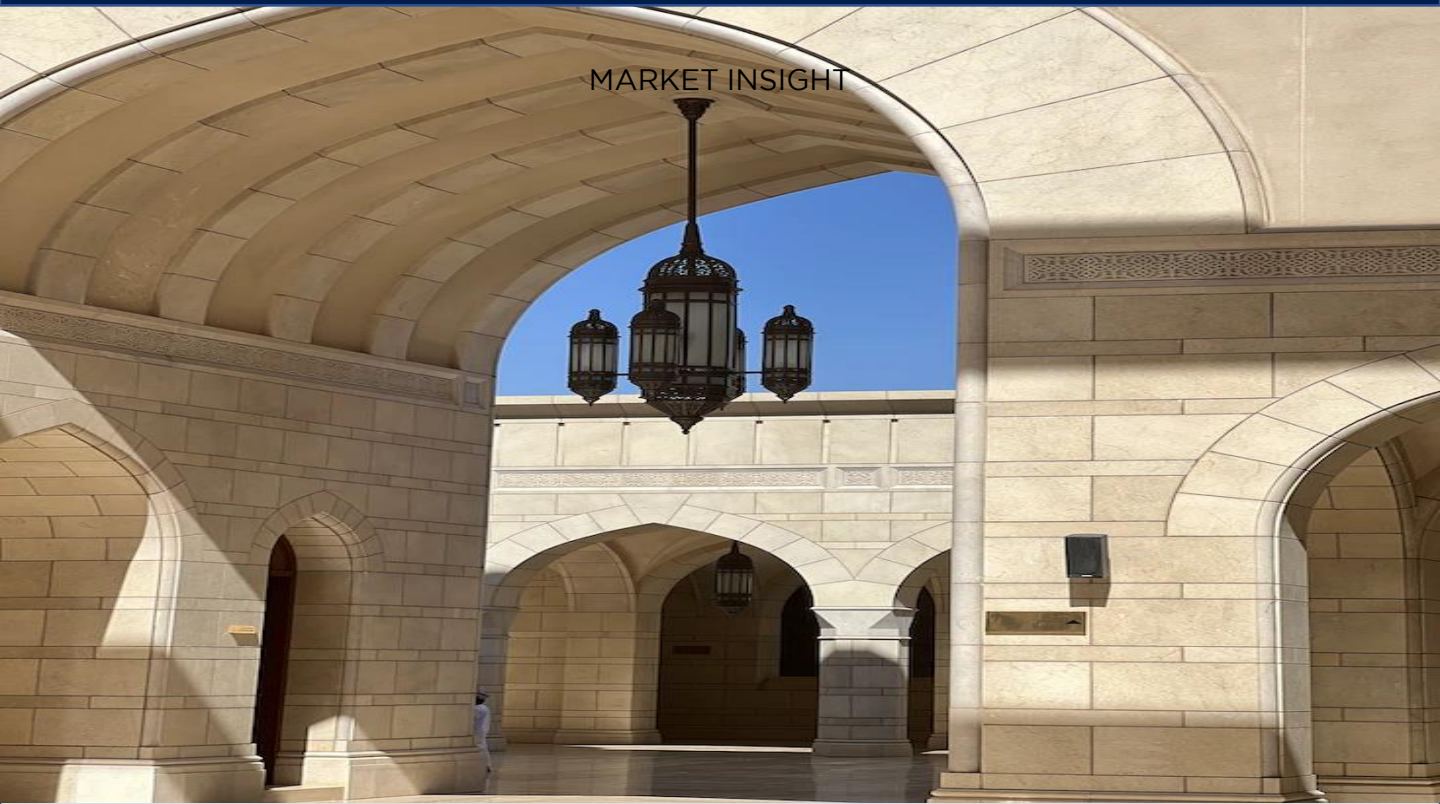


POPULATION GROWTH

Source: National Centre for Statistical Information



MARKET INSIGHT



Enterprise by size	2021		2022	
	No	%	No	%
Large	714	0.4%	716	0.3%
Medium	1,740	1.0%	1,941	0.9%
Small	18,967	10.5%	27,022	12.2%
Micro	159,860	88.2%	191,846	86.6%

Source: Royal Oman Police

In line with the increase of Omanis working in the private sector and expatriate workers, we note a jump in the number of active private enterprises within Oman. The number of enterprises increased significantly by 22.2% from Q4 2021 to Q4 2022 as total number of workers in private enterprises increased accordingly during the same period to 1.69 mil persons, indicating a 14.7% hike.

We note that the contribution of enterprises to Oman's Gross Domestic Product also increased from 9.7 bil R.O. to 10.4 bil R.O. or around 7.4% of total GDP. Large enterprise still contribute the bulk of gross value at 54.1% but contributions from medium, small and micro enterprises, or SMEs, have been significantly growing in value as well as percentage of contribution.

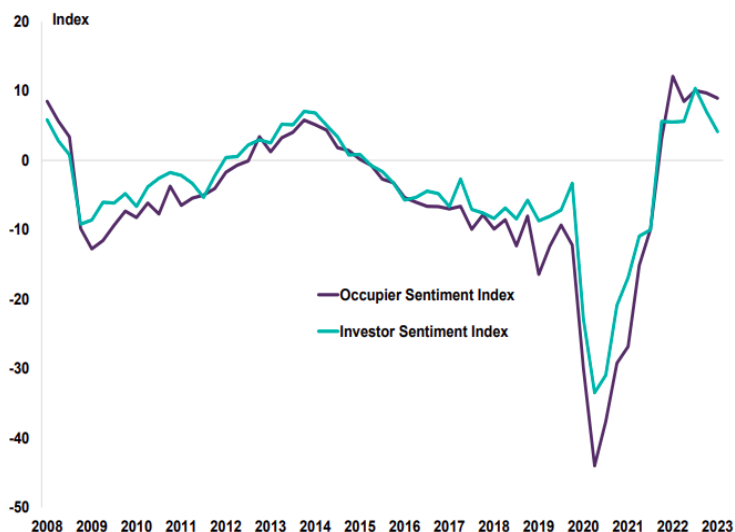
OFFICE MARKET OVERVIEW

POSITIVE REGIONAL SENTIMENT

The results of the Q1 2023 RICS Global Commercial Property Monitor showed variety in regional trends with Middle East and Africa remaining consistent with a generally upbeat mood supported by headline indicators on occupier and investor demand comfortably in positive territory.

Expectations for rents and capital values point to further gains across all sectors at the aggregate regional level over the year ahead. All sectors display a positive outlook for capital values growth over the coming twelve months. Results of the survey envisaged a solid pick-up in capital values across the prime office sector over the year to come. Although still positive to some degree, secondary office is regarded as laggard.

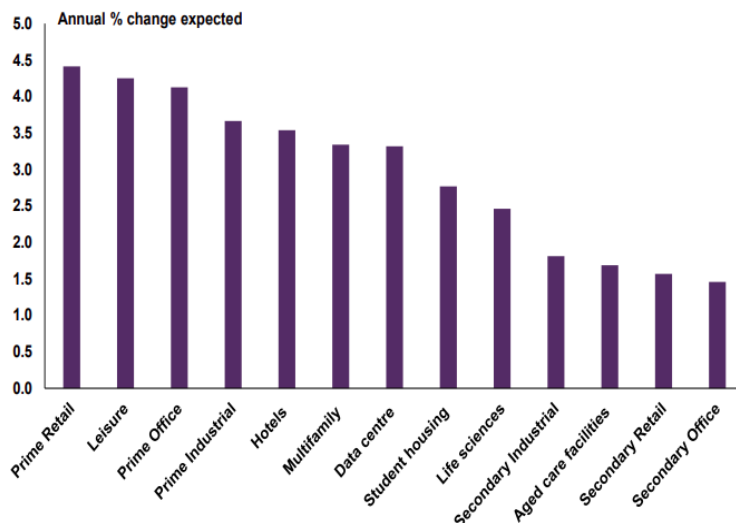
MENA Occupier and Investment Sentiment Indices



Source: RICS Global Property Monitor, Q1 2023

“We note an increased investor interest in commercial assets during the period especially from within the region. Investments are however limited by lack of quality assets.”

MENA Twelve-Month Capital Value Expectations



Source: RICS Global Property Monitor, Q1 2023



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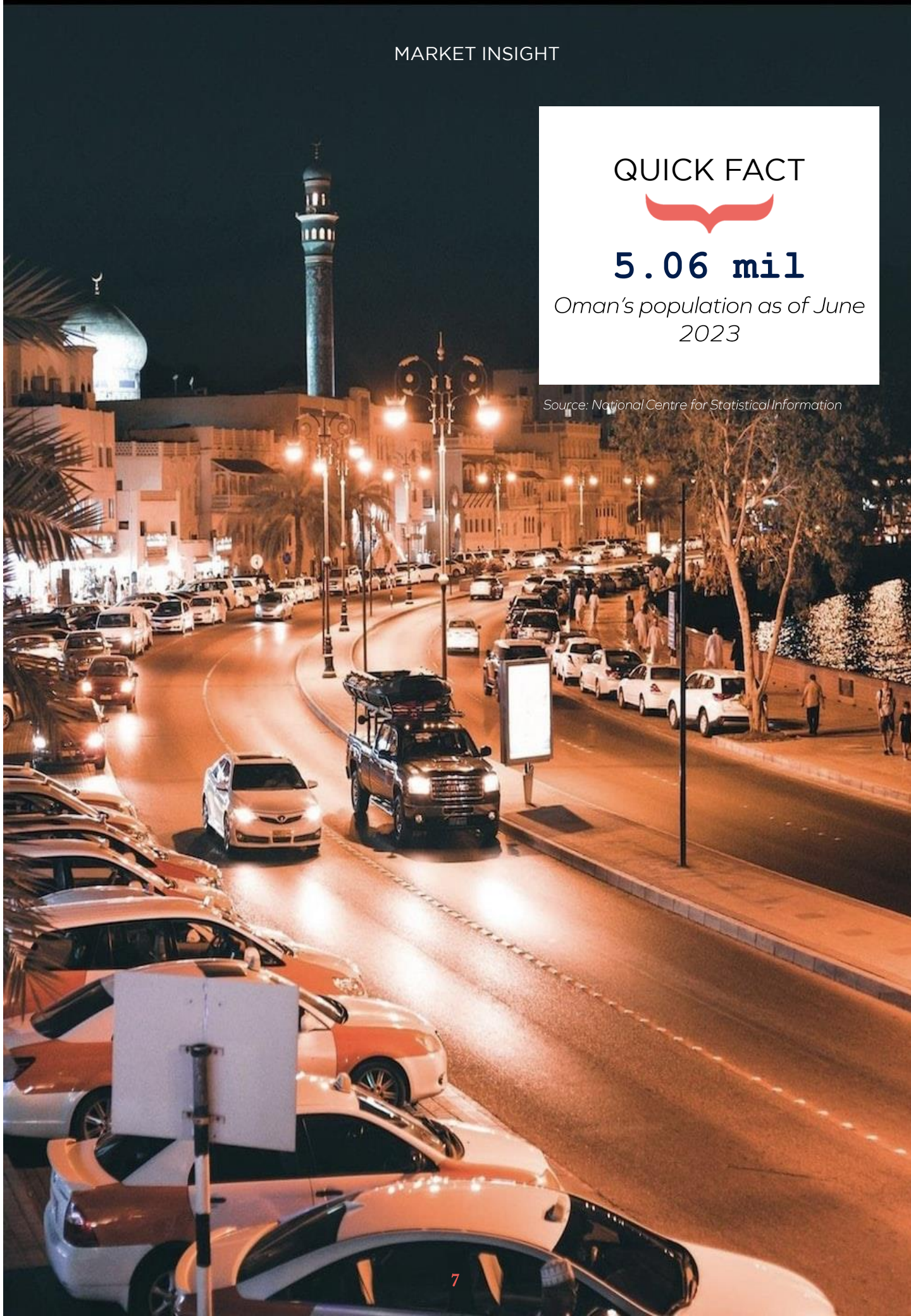
QUICK FACT



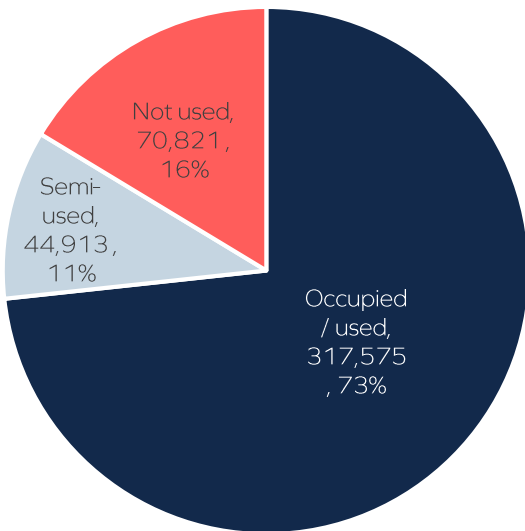
5.06 mil

*Oman's population as of June
2023*

Source: National Centre for Statistical Information



Hamptons analysed data released by e-census to understand the supply – demand dynamics within Muscat. While the number of office buildings or the size of office space is not clearly defined, and occupancy figures reveal an aggregated number of residential, commercial and non-profit buildings, the statistics provide an estimate of the general occupancy trends within Muscat, as indicated below.



Source: e-census

Generally, much of the stock that currently lies vacant or has poor occupancy is either poorly designed, built of low grade, poor car parking ratios and / or having inadequate access. Some developments suffer from poor layout, low levels of natural lighting and poor building design.

Car parking insufficiency has been one of the major issues within Muscat commercial developments over the past few years. Ideally the car parking ratio should exceed the ratio of 1 space to every 50 square meters (gross area) as we note that typical office reconfigurations cater to around 10 to 15 square meters for every 1 person.

“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.”



Nasr Al Farsi
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The general occupation term for office space has fallen in recent years. At the height of the market when confidence in the general economy was higher, tenants were willing to take 3–5-year leases. In the current climate tenants are generally taking 2–3-year leases or in limited cases, 1-year leases and renewing annually.

Some would commit to longer leases, but the majority of landlords require payment for the full term of the lease (at least through the provision of post-dated cheques) in order to have it registered with the municipality which incurs tax upfront. The landlord is unable to recoup the tax should the tenant default, hence the requirement for full payment, with an ability to charge the tenant a penalty should they leave early.

Service charges are generally linked with rental figures in Oman; most communal costs incurred by the landlord for items such as lighting, lift maintenance, general maintenance, management etc. is included within the rent. Some landlords meanwhile separate service charges from rents due to tax purposes.

“A reasonable escalation of rent clause in the lease agreement is around 2 - 3% every 2 years or 5% every 3 years depending on the prevailing market rent.”

“We envisage rental levels remaining broadly stable for the better specified, designed and located offices and falling further in the short to medium term for poorer office assets.”



Moosa Al Ghusaini
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PRIME OFFICE SUBMARKETS



We note that the bulk of current demand is greater for smaller more flexible units notably lesser than 100 square meters in size. Demand for smaller space from SME and start-up companies has been increasing in recent years supported by the number of new establishments of these type of enterprises. Most owners have accepted the state of the market and have created smaller units by partitioning large floor plates or provisions of business centres.

Serviced offices and / or co-working spaces are ideally suited to these target markets given the potentially lower initial capital outlay compared to traditional offices. In addition, they allow greater flexibility in terms of the lease tenure enabling them to scale up according to their own pace.

Hamptons International have tracked some office tenant movements over the past few months as indicated in the table below. The common relocation theme which we have observed is the flight to quality, where tenants relocate to better quality buildings. We contribute this phenomenon to the historically declining office rents within Muscat coupled with the traditionally poorer designed office developments which lack car parking space.

“We have witnessed some relocations of office tenants mainly driven by flight to quality.”



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NOTABLE OFFICE TENANT MOVEMENTS

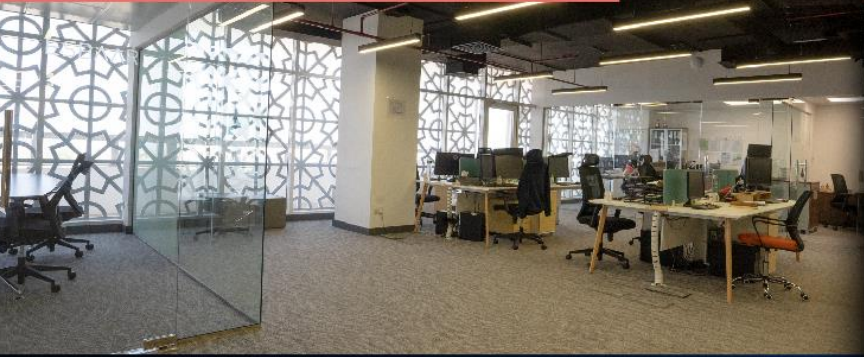
Source: Hamptons International Research, 1Q - 2Q 2023

Tenant Industry	From	To
Digital	Ghala	Al Khuwair
Telecommunications	Wadi Al Kabir	Madinat Sultan Qaboos
Investment	Ghala	Al Khuwair
Real Estate	Al Mawaleh	Al Ghubrah
Banking	Shatti Al Qurm	Al Azaiba
Aviation	Bausher	Madinat Al Irfan
Manufacturing	Al Khuwair	Shatti Al Qurm



MIC OFFICE SPACE

FOR RENT



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