Construction & Real Estate

Rental rates begin to level off after rapid growth
Bridging the labour and materials gap
Office space set for a major expansion in coming years
Population growth translates into steady rise in demand





Both public and private projects are flourishing

Hard at work

The sector's expansion continues with infrastructure and tourism projects across the Sultanate

Having subscribed to the "if you build it, they will come" mantra for the majority of the past decade, the scale of both public and private development in Oman continues to push the Sultanate's construction sector into overdrive.

For all of 2007 the building and construction sector in Oman was worth OR762.7m ($1.99bn), or 4.8% of the total GDP of OR15.96bn ($41.61bn). This was an increase of 34.7% on the OR566.3m ($1.48bn) total contribution in 2006, when the industry provided 4% of the Sultanate's total GDP.

"The construction sector is one of the most important pillars of the economy; therefore as the economy continues to grow and develop we will see the construction sector play a pivotal role," Sheikh Salim Saeed Hamad Al Fannah Al Araimi, the chairman of Galfar Engineering and Contracting, told OBG.

INVESTING IN INFRASTRUCTURE: High levels of public spending during the government's ongoing seventh five-year development plan have been a major contributor to the sector.

In addition to further investments in the country's dominant oil and gas industry, the push towards economic diversification has led to significant expenditure in infrastructure in industry, transportation and other sectors across the Sultanate.

As these public works come to fruition, the private sector has taken its cue from government efforts to develop the tourism sector by investing billions in new resorts and leisure facilities. Along with the dozens of new hotels and integrated tourism complexes (ITCs) sprouting up around the country, Oman is also developing brand new facilities in preparation for hosting the 2010 Asian Beach Games.

In preparation for the event, a 1m-sq-metre sports village will be created at Wudam Al Sahil. This will contain a 250-room hotel, 350 apartments, restaurants, recreation areas, conference halls, a marina, sports academy, sports courts and associated facilities. With such a large number of projects already on the books, Oman's construction sector is thus far bucking international trends of curtailing spending and development in light of the current global economic condition as 2008 drew to a close. Industry estimates currently show another $17bn in construction projects as still being in the pipeline.

Abdul Malik Al Hinai, Omani undersecretary for economic affairs at the Ministry of National Economy told the press in late November 2008 that the government had no immediate plans to reduce expenditure but that, if oil prices remain low, it could cut spending beginning in 2010 and that some infrastructure projects could be revised as a result.

SUSTAINABILITY IS THE KEY: The private sector echoed these sentiments, with Simon Buttery, the regional managing director of construction company Carillion Alawi telling OBG that, "I think we are seeing more sustainable growth now. There was huge growth going on from 2006 and 2007. We have managed to maintain this pattern, and we foresee coming up in the next two to three years the same sustainable growth without any huge spikes. In addition, there is currently a lot of demand in the private sector for tourism development projects."

However, the global financial challenges could slow some of this. "There could be a tendency in 2009 and into 2010 that the government scales back some projects due to reduced funding, and we also see potential issues with the value of the dollar and the credit crunch. We do not see any downturn at the moment," said Buttery.

With many local prestige projects under its belt, including the Grand Mosque in Muscat, Shangri-La Hotel and Muscat's two largest Western-style shopping malls, Carillion is one of the largest operators in Oman. Another major player is Galfar Engineering & Contracting, which registered in 2007 and, according to J K Salvi, Galfar's vice president of business development and strategic planning, the company expects 2008 revenue to increase 38% to close

High levels of public spending resulting from the government's seventh five-year development plan have been accompanied by private investment in the tourism sector.

The Sultanate has so far defied the recent international trend of curbing development spending, with some $17bn worth of projects currently in the pipeline.

The transport sector is the recipient of many of the large investments in infrastructure taking place. The major airports are set to receive a makeover, while six new regional airports will also be built.

to $1bn, with 2009 revenues projected to grow another 30% up to $1.5bn. Although Galfar works on some private developments, most of its major contracts are with the Omani government, including the Muscat highway, Harweel gas plant and an offshore development centre project for the Petroleum Development Authority in northern Oman.

INFRASTRUCTURE WORKS: Taking advantage of the substantial rewards reaped from the sustained period of high oil prices, the Omani government has embarked on dozens of large-scale infrastructure projects that are hoped to be the foundations of a stronger, more diverse economy.

Many of the largest investments are in the transportation sector, which will play a crucial role in the growing industrial and tourism sectors. To this end, Oman's air transportation network is receiving a makeover involving every major airport and the addition of six new airports. Muscat International Airport is in the process of a four-stage upgrade, which will add a new terminal, runway, control tower and support facilities, while the Salalah airport is also getting a new terminal, which will be able to accommodate 1m passengers by 2011. In addition, six new regional airports are planned for Sohar, Ras Al Hadd, Al Duqm, Adam, Hayma and Shaleem.

Oman's road infrastructure is also in the midst of a massive upgrade with dozens of new highway and municipal projects under way. Some of the most significant of these undertakings are the $1.4bn southern expressway linking the Qurum and Al Naseem roundabouts in Muscat featuring 39 structures and 19 interchanges; the 90-km Quriyat-Sur dual carriageway, the widening of 82-km Sohar-Buraimi road to two lanes, known as dualisation, the 73-km Thumrait-Salalah dualisation, the 32-km Nizwa-Jibreen dualisation and the 24-km Al Muladdah-Al Hazm dualisation. Six additional roadwork projects totalling nearly 1000 km are also in earlier stages of planning.

Oman's network of ports is also undergoing major upgrades with the Sohar, Salalah, Sultan Qaboos and Duqm ports all undergoing multibillion-dollar

IT'S A MATERIAL WORLD

After years of chronic undersupply of nearly all major inputs, Oman's construction materials market has turned into a rollercoaster ride of fluctuating supply and demand. The lack of labour, steel and cement and the corresponding price increases in these critical commodities has remained a major restricting factor within the industry. The Muscat wholesale price index for building materials increased by 23% in the first three quarters of 2008 compared to the same period in 2007, with iron and steel products jumping 52.7%, concrete blocks increasing 35.7% and cement increasing by 10.2%.

But the global downturn has flipped part of this problem on its head, as the price of steel plummeted after demand started to lower in September 2008. During the summer, Turkish and Sohar steel prices peaked at approximately OR650 ($1695) per tonne only to plummet to OR335 ($873) per tonne by the end of September. Copper and bitumen prices also declined over the same period.

As prices have fallen, domestic steel production has experienced a dramatic increase in capacity. Sharq Sohar Steel Rolling Mills, the Sultanate's largest such facility, has upped its potential output from 80,000 tonnes per year at its inception in 1995 to the current level of 300,000 tonnes per year. Annual production at the plant has risen each year since the 2004 output of 217,014 tonnes to the 302,657 tonnes produced in 2007. Other planned expansions include Danube Building Materials, which is investing $13.6m in a new 4700-sq-metre steel plant near Mabella and the Shadeed iron and steel plant capable of producing 2.6m tonnes upon its completion at Sohar Industrial Port. Despite the price reprieve in the steel market, the perpetual labour shortage remains a key issue, as does the shortage of other materials such as cement.

"It's all about resources," Simon Buttery, the regional managing director of Carillion Alawi, told OBG. "The real challenge facing the industry in Oman is how to resource the projects coming on-stream. All of us are having to look at ways to do more with less, working smarter, looking at less labour-intense methods of construction in order that we can lessen the risk and impact of reduced resources." Demand for cement in Oman still outpaces a continually increasing supply, resulting in ongoing imports as well as price fluctuations despite the government's best efforts to stabilise them. In mid to late-2008 prices (which are uniformly regulated) oscillated between OR1.50 ($3.91) per bag and OR2.20 ($5.74) per bag, before settling at OR1.80 ($4.69) per bag. Both of Oman's cement producers, Raysut Cement Company (RCC) and Oman Cement Company (OCC), have been steadily increasing capacity, in order to meet the industry's insatiable demand, as well as importing additional product to meet demand.

RCC currently has a capacity of approximately 3m tonnes per annum, including a floating cement terminal at the port of Sohar. Through the first half of 2008, RCC posted sales of OR42.43m ($110.6m), up 52.4% over the same period in 2007, which grossed the company OR27.83m ($72.6m). After opening a second mill in 2007 which increased capacity by some 3000 tonnes per day (TPD), OCC sold 1.88m tonnes of cement in 2007 and has plans to increase production by another 4000 TPD by opening up a third line in 2009. In the fledgling prefabricated market, Cement Gypsum Products, which produces precast boundary walls, hollow core slabs, columns, footings and other prefabricated products, has secured some OR2.4m ($6.3m) in contracts as well.

Volatility in the prices of key construction inputs such as steel and cement have been a challenge to the sector. However, more local capacity is coming on-line and should help smooth out supply constraints.

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THE WILL TO CREATE ...THE SKILL TO BE CREATIVE


The sector has recently witnessed a push towards cleaner, more efficient building methods

There are plans in place to build Oman's first railway. The line will run west from near Naseem Garden in Muscat for 275 km to the border town of Khatmat Malaha.

makeovers. In addition to a new OR1bn ($2.6bn) floating dry dock and expansion of Duqm port's existing quay and breakwater, there are also plans for the establishment of a massive new industrial area and free zone, including a refinery and petrochemical complex adjacent to the port.

Port of Sohar's ongoing expansion has already absorbed some $12bn up to the end of 2008, and recently plans for further expansion involving the design, construction and maintenance of a 1.2-km deepwater jetty for the import and export of bulk materials were announced. Like Duqm, substantial construction is also occurring in the adjacent Special Economic Zones, including new and upgraded steel and aluminium factories.

Salalah, Oman's primary container terminal, also signed a memorandum of understanding to construct three additional deepwater container berths, the first of which will be operational in 2011. Plans are also under way to construct the Sultanate's first railway – a 275-km line stretching west from near Naseem Garden in Muscat to the border town of Khatmat Malaha in the Batinah region.

A BETTER WAY OF BUILDING: Although the rapid growth of the construction sector and development of multibillion-dollar large-scale projects most often dictate breakneck construction schedules ruled by labour and material cost efficiency, some construction companies and developers are taking a more careful look at the impact of their building practices. Many construction companies have noted steady improvements in labourers' living and working conditions as well as a push towards cleaner, more efficient building methods.

While these improved practices will certainly benefit the environment – and the tourism sector, which relies on it – in the long run, there may be other motives for going in this direction. While millions of tonnes of seabed are scoured from the ocean floor to build up Dubai's massive new prestige resorts from the sea, some of Oman's developers are banking on the increasing global concern for the environment to draw eco-conscious tourists to its resorts. Real estate developer Alargan Towell Investment Company, for instance, has made a concerted effort to certify some of its new developments in an effort to appeal to this niche market.

Involved in numerous large-scale residential, tourism and commercial projects, the company is a member of the US Green Building Council and has applied for Leadership in Energy and Environmental Design (LEED) certification from the organisation for its new Oberoi luxury resort in Al Khairan. LEED certification is an internationally recognised third-party certification system that sets benchmarks for the design, construction and operation of high-performance green buildings.

According to Anees Issa Al Zadjali, the chairman of Al Sawadi Investment and Tourism, which is developing Al Madina A'Zarqa, the company's construction contractors are also making efforts to use new technology and greener construction methods in the building process of the 32-sq-km project in an effort to attract potential clients.

"Today we are seeing a convergence between monetary interests and environmental interests in that it is financially beneficial to do what is right for the environment," Hussam Al Rawahy, the managing director of environmental consultancy HMR Consultants told OBG. "If we in Oman want to be environmentalists, we do not have to re-invent the wheel. We have a menu of options from which to choose. What we need to do is take ownership of these technologies and make them our own and transform them for what our needs are."

OUTLOOK: Oman's construction sector outlook for the next two to three years remains decidedly bullish despite the global economic slowdown. Most major construction companies are still wading through backlogs of contracted projects, which will take years to complete, and the government has shown no signs of curtailing its spending until at least 2010. Of more immediate concern is the continued shortage of raw materials and qualified labour. Although prices for some materials, such as steel, experienced steep declines in price in the last quarter of 2008, the undersupplied cement and labour markets continue to be a drain on the industry.

Building materials wholesale price index

	Average Q1 - Q3		
	2008	2007	% Change
Sand, stone & gypsum	117.2	112.1	4.6
Iron or steel products	269.8	176.6	52.7
Copper products	259.3	234.2	10.7
Aluminium products	107.2	101	6.1
Glass & glass fibres	150.1	117.8	27.4
Cement	159.7	144.9	10.2
Blocks	152.3	112.2	35.7

SOURCE: Ministry of National Economy — Base year 2000

Dimitrios Kallitsantsis

Haluk Gerçek

A shared vision

OBG talks to Dimitrios Kallitsantsis, Managing Director, Elliniki Technodomiki TEB and Haluk Gerçek, Vice-Chairman and Managing Director, Enka Inşaat ve Sanayi

To what extent might this partnership to construct phase one of Al Madina A'Zarqa (Blue City) encourage other Greco-Turkish partnerships?

KALLITSANTSIS: The partnership between Elliniki Technodomiki and Enka is a perfect example of a strong Greco-Turkish venture, which we certainly hope will serve to encourage further collaboration between Turkish and Greek companies. In today's increasingly globalised world, such partnerships are already prospering not only within the construction sector but also within other key sectors, such as banking and finance.

How do the experiences and expertise of both companies complement each other on this project?

GERÇEK: The basis of our collaboration lies in a similarity of corporate cultures and an understanding of the vision for Al Madina A'Zarqa. This significant collaboration has enabled both companies to share their global experience and expertise. Both of our companies bring to the table teams of experienced staff, who are dedicated to ensuring that the Al Madina A'Zarqa project is delivered according to world-class standards.

In what ways does Al Madina A'Zarqa differ from other Gulf Cooperation Council (GCC) projects?

KALLITSANTSIS: Al Madina A'Zarqa is on an entirely different scale, scope and offering to other developments in the Sultanate and GCC. We are designing and building an entire city – the footprint of the project is twice the size of Gibraltar. Al Madina A'Zarqa is not a resort. It is a fully functioning metropolis that will draw on six key economies: trade, health care and medicine, sports and wellness, education, entertainment and tourism. The city will be home to 200,000 people and will create employment opportunities for up to 120,000.

The workers' compound has received much media attention. What makes it so unique?

GERÇEK: The compound is the best of its kind in the Middle East and one of the best globally. Not only does it boast accommodation for labour and staff, but it also has extensive recreation, sports, catering, laundry and retail facilities, as well as its own waste treatment plant. The compound also encompasses all support facilities for construction such as a batching plant, a rebar cut-and-bend factory, a precast factory, equipment maintenance facilities, as well as storage warehouses. It is a "city beside the city", providing world-class accommodation for 9000 workers that are committed to making the first phase of Al Madina A'Zarqa a reality.

How does the increasingly high cost of labour and construction materials affect your planning?

KALLITSANTSIS: It affects us no more than it affects all other companies in the industry in the sense that we are all operating within the same environment. At Al Madina A'Zarqa we have the necessary mechanisms in place to allow for flexibility in the procurement process, which in turn assists us in our planning efforts.

Given the massive construction that is planned for Al Madina A'Zarqa, how can any deleterious effects on the environment be mitigated?

GERÇEK: Al Madina A'Zarqa is committed to ensuring the environment is protected throughout the construction phases and beyond. Environmental impact surveys have been used and where viable, Al Madina A'Zarqa has sustainable building practices and materials.

How might the current strong speculative market in Oman affect the overall progress of the first phase of Al Madina A'Zarqa?

GERÇEK: Al Madina A'Zarqa benefits from having a secure funding structure in place for phase one, which is financed through an investment note. It is important to remember Al Madina A'Zarqa is a long-term project and one of the most important urban developments under construction in Oman. We do not anticipate delays in the construction of phase one. At this time the project is on track to be completed as scheduled.

Demand for residential space is continuing to grow rapidly

Wide open spaces

The market remains buoyant despite the global downturn

A growing population, immigration, a diversifying and expanding economy, and supply constraints have helped fuel the recent surge in the real estate market.

Even as bank purse strings tighten and real estate prices begin to falter across much of the world, Oman's real estate market continues to push forward with more and more large-scale developments coming to fruition.

From early 2007 to 2008 the market continued its meteoric rise, with property values increasing by upwards of 200% over the course of the year. At the end of 2007 the total value of Oman's real estate market was estimated at $33bn by a Middle East Economic Digest (MEED) projects report.

A FERTILE ENVIRONMENT: A young, growing local population, increasing expatriate immigration, a swelling and diversifying economy and supply-side constraints have all contributed to drive the market to ever-increasing heights. Seeking to capitalise on these favourable conditions, a flurry of new development projects – both large and small – have been rolled out over the past few years.

While the multibillion-dollar integrated tourism complexes (ITCs) tend to garner the most attention, other market segments have been quickly and quietly growing at similarly impressive rates. Commercial space – both office and retail – has doubled in value annually in recent years and continues to retain its value despite the credit crunch and market corrections in the residential market.

But it would be erroneous to infer that the Sultanate has remained completely unaffected by the tumultuous global markets. After years of unabashed growth across the sector, prices have stabilised in Oman, and some have even began registering declines starting in October 2008.

"The growth in the Omani real estate market over the past three years has been immense, but now the market has reached a point of greater maturation so growth will settle," Taameer Investments CEO Suleiman Masoud Al Harthy told OBG.

With roughly three quarters of Oman's 3.3m residents located in or around the capital city of Muscat, the vast majority of all development has been centred on this area. However, recent emphasis by the government to diversify the country's economy and improve its transportation infrastructure – particularly in the industrial and tourism sectors – has led to accelerated growth in farther-flung regions, including Sohar, Sur, Salalah and Duqm.

As massive industrial development continues in and around Oman's major ports, some developers are investigating the potential for new large-scale mixed-use projects – particularly in the Sohar and Salalah areas. Land speculators have also become interested in the coastal Barka region 100 km north of Muscat where the Al Madina A'Zarqa ITC is being built.

According to Oman's Ministry of National Economy, the government distributed 31,759 plots of land for development in 2007. Of these, 11,415 were in Muscat, 7731 in Al Batinah, 4411 in Ash Sharqiyah, 3130 in Ad Dakhliyah, 2419 in Dhofar, 999 in Al Buraymi, 792 in Musandam, 681 in Adh Dhahirah and 181 in Al Wusta. In terms of usage, 26,140 were residential, 2146 were commercial, 1671 were residential, 411 were for government use and another 30 were for agricultural use.

RESIDENTIAL AND ITCS: The ongoing economic and population surges have elevated demand for residential space across all demographics of the market. The resulting price increases have only recently abated from their impressive run, although vacancy rates continue to remain low.

Residential and ITC rental and sale prices have grown rapidly, with Muscat sale prices now averaging around $1300 per sq metre. High-end residential and ITC complexes fetch almost $3000 per sq metre.

Since 2003, vacancy rates have decreased from 13% to just 5% in 2008 despite an influx of new units. Rental and sale prices have regularly doubled over the past five years, with Muscat sale prices now averaging approximately OR500 ($1304) per sq metre and high-end residential and ITC complexes fetching more than OR1100 ($2868).

The rental market has similarly increased by upwards of 100% annually in recent years, with 2008 rental prices in Muscat ranging from OR150 ($391)

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Al Madina A'Zarqa will house around 200,000 residents. Already under way, the first phase of construction, which includes five-star hotels, apartment units and villas, is scheduled for completion by 2013.

to OR700 ($1825). In fact, rental prices have increased so greatly in such a short period of time that the government has recently enacted laws intended to curb rental price inflation. One such law has imposed a 7% cap per annum on rental units for a three year period, while another aims to open up greater supply by forcing commercial businesses away from residential space.

Seeking to fill the demand void in the Omani market, a host of local and international property developers have descended on the country and embarked on myriad new housing and ITC projects over the past five years. There are dozens of these projects in various states of development dotting the landscape, with most of them catering to the high-margin luxury tourism/expatriate market segment.

Covering 32 sq km and costing an estimated $20bn, the biggest of these projects, Al Madina A'Zarqa, is large not only for Oman but even for the region. When the twelfth and final phase of construction is completed in 2020, Al Madina A'Zarqa will house some 200,000 residents (including 10,000 students) in addition to its 20 hotels and 16 km of coastline. "There is no other project like this anywhere else in the Gulf Cooperation Council (GCC). It is not a resort, it is a city with universities, research centres, business centres, hospitals and entertainment centres," Anees Issa Al Zadjali, chairman of Al Sawadi Investment and Tourism, told OBG.

IN THE WORKS: Phase one of Al Madina A'Zarqa is already under way and is scheduled for completion some time in 2012-2013. The initial stage of construction will include three five-star hotels, 5171 apartment units and 382 villas housing approximately 27,000 residents, an 18-hole golf course, a clubhouse, among other entertainment facilities, retail areas and other public amenities.

Another headline-making ITC project is the $4bn, 2.5m-sq-metre The Wave, Muscat. Developed by a joint venture between Waterfront Investments representing the government of Oman, the National Investment Funds Company representing Omani pen-

CHANGING THE RULES

While developers and speculators have profited in the real estate market in recent years, many Omanis have become concerned that ordinary residents and businesses could be priced out of the market. In keeping with its slow and steady pace of growth philosophy for the Sultanate as a whole, the government has sought to cool the red hot growth of the real estate market recently by introducing a number of new regulations.

The most sweeping legal change is a June 2008 amendment to a 2007 decision capping rental price increases. The amendment limits the amount landlords can increase rental prices of any residential, commercial or industrial property to 7% per annum for three years subsequent to the signing of a lease agreement. This amends the previous (and largely ineffective) law that was supposed to restrict rent increases to 15% over two years. Also included in the new amendment is a security of tenure provision intended to prevent landlords from forcing out tenants in an attempt to circumvent the rent cap. Tenants may not be required to vacate the property for four years in the case of residential property and seven years for commercial property with the exception of special circumstances, including non-payment of rent or the use of the property for prohibited or illegal use.

In addition to the rental cap, the enactment of another law in the summer of 2008 seeks to free up space for residential use by phasing out their use by commercial enterprises. Intended to free up more stock, the new rule requires businesses to relocate all commercial operations from residential-designated buildings over the next five years and it bans commercial enterprises from signing any new leases in residential buildings.

While this move should result in more housing units becoming available over the coming years, it will also contribute to the already growing supply pressure in the commercial market.

"The new [commercial zoning] regulation is a good law. It will create more demand in the office space market and provide a tremendous yield," AlarganTowell Investment Company general manager Ali Hassan Moosa told OBG. "There will be an opportunity to develop this segment more in the future, and we are now exploring some of these opportunities."

While it may be too soon to gauge the effectiveness of these 2008 laws, the success of Oman's 2006 freehold law allowing foreign ownership of designated Omani property is now becoming clear. Now that the Sultanate's first freehold property has welcomed its initial residents, the resounding popularity of the law is now being fully realised as foreign investment dollars flow into the country.

"The government put all the legal framework in place for the freehold law," Nick Smith, CEO of The Wave, told OBG. "We have 48% Omani buyers and 52% from other nationalities so it has clearly been successful, because none of those other people would have been able to buy in the country before."

In addition to The Wave, various other integrated tourism complexes have been granted freehold status by the Omani government. This is part of the government's attempts to limit speculation and price fluctuation by restricting the freehold properties to designated areas. The sites include Al Madina A'Zarqa, Sifah, Jebel Sifah, Yenkit, Yiti Lifestyle Resort and Spa, Barr Al Jissah Resort and Spa, and others.

In the past year the government has amended a number of residential and commercial property laws to steady the pace of development and ensure housing remains affordable.

sion funds and Majid Al Futtaim Group of the UAE, the endeavour will comprise some 4000 properties, including apartments, town houses and villas. It will also host three luxury hotels (including the Kempinski and Fairmont brands), commercial and retail space, golf course, academy and clubhouse, and 300-berth marina.

The Wave also represents a few firsts for Oman – it was the first large-scale ITC project to hand over units to its residents – in October 2008 – as well as the first designated freehold property to open. With its amenities and waterfront location near the centre of Muscat, interest in the project has been high. The first nine releases of properties were snapped up immediately. Interest remains extremely high due to its reliable delivery track record, according to The Wave's CEO, Nick Smith.

Some of the dozens of other residential, tourism and ITC projects currently under development include: Salam Resort and Spa, Al Shmou, Tilal Residences, Al Burooj Residence, Omagine, Al Khyran Resort, Salam Yiti, Old Town, Muscat Hills, Sifah Resort, Yenkit, Tilal Al Khuwair, Salalah Beach, Mirbat Beach, Qaryat Qurum, Al Mawalih, Al Hail, Al Khod, Dar Al Maha and many more. With so many large-scale ITCs set to deliver a vast amount of new tourism, residential and commercial stock, some feel that investors may be more cautious in developing any additional projects in the near future.

"In general, I think that the country is not open to developing many more integrated tourism projects," Al Zadjali told OBG. "There will be only a few of them I think – six or seven – that's all. Not like in other countries where every day you hear about a new project." Given the current global economic climate and Oman's traditionally slow and steady growth pattern, it is difficult to dispute this view.

CREATING COMMERCIAL SPACE: Oman's economic growth and diversification in recent years have allowed increasing numbers of businesses – foreign and domestic – to flourish in country. An unfortunate side-effect of this growth has been that both retail and office space remains in short supply, and new space is snapped up as soon as it hits the market. While this sometimes makes things difficult for growing businesses, it has proved to be a genuine boon to real estate developers.

From 2004 to 2007 rental and sale prices of commercial space increased by a minimum of 50% annu-

No. of plots planned by type, 2005-07

Type of use	2005	2006	2007
Residential	126,599	67,972	39,412
Commercial	7685	2367	1172
Commercial / Residential	3612	3645	2414
Industrial	1648	13,336	2497
Agricultural	–	13	19
Government	9645	3540	2394
Total	149,189	78,873	47,908

SOURCE: Ministry of National Economy

Growth in the real estate market is expected to settle as it reaches maturity

ally even as stocks continue to grow. In late 2008 the average commercial space in prime Muscat locations was renting for OR15 ($39) per sq metre compared to just OR10-11 ($26-29) in early 2007.

Historically, most of Oman's office space has been located in eastern Muscat's central business district. However, the lack of space and increasing traffic congestion in the district has pushed commercial development into new areas. A number of large new office blocks are currently under construction in western Muscat, which will shift much of the new commercial office space market.

Because of the nature of this high-demand, high-yield segment, even developers who have not been involved in large commercial projects in the past are looking to capitalise on the current market conditions. Alargan Towell Investment Company, for instance, has traditionally catered to middle income residential products but has recently entered the commercial market through its upscale Qurum Gardens commercial project.

The OR12m ($31.28m) Qurum Gardens project alone will add 9300 sq metres of office space to the market when completed in 2009. Other commercial developments currently under way include: Barka Town (79,000 sq metres), the Al Waha Complex (more than 11,000 sq metres), Azaiba Business Park and Qurum City Centre (QCC, more than 35,000 sq metres). In total, an estimated 200,000 sq metres of new office space is scheduled to open over the next five years.

The retail market is largely experiencing the same trends as it moves from smaller markets, malls and souks into modern, large-scale shopping mall settings. Muscat's third major mall, QCC, opened in October 2008, bringing with it a much-needed injection of more than 75 retail outlets spread over a gross leasable area (GLA) of 20,600 sq metres.

The country's largest mall, Muscat City Centre (MCC), also finished its expansion in 2008 bringing

The fact that both retail and office spaces have remained in short supply compared to demand has helped real estate developers. Rental and sale prices increased by a minimum of 50% annually between 2004 and 2007, even while available space continued to grow.


The country's population is expected to reach 5m by 2025, fuelling rising demand for housing

With the Sultanate's population expected to almost double by 2025, and 43% of Omanis under the age of 14, continued growth in the residential segment should be assured for many years to come.

its total GLA to some 60,000 sq metres, while Markaz Al Bahja (MAB) also has expansion plans. As of late 2008 average retail rental prices for most shopping centres ranged from OR16 ($42) to OR20 ($52) while upscale malls including MCC and QCC commanded higher fees. This represents a significant increase over the rental rates of just one year before. According to MAB general manager Kim Jepsen, rents have swollen from around OR6 ($16) per sq metre in 2007 to more than OR18 ($47) by late 2008.

Other major retail centres under development include the Muscat Grand Mall within the larger Tilal Al Khuwair project, while a number of new hypermarkets are also opening. Most of the ITC projects also include varying amounts of office and retail space in their master plans.

OUTLOOK: Oman's population is projected to expand over the next two decades from 3.3m in 2008 to 5m by 2025, with 43% of Omanis under the age of 14. Regardless of how the global economy progresses, Oman's residential market will need to expand in order to accommodate the growing numbers, exerting continued upward pressure on demand.

While the days of selling out entire projects overnight may be coming to a close, a young, growing population and a relatively strong economy should translate into continued growth in the residential segment for years to come. The commercial and industrial properties will also see continued growth as the country continues its economic diversification strategy, though perhaps not at the levels experienced over the past five years.

Prices should continue to stabilise after several years of double- and triple-digit growth as new stock becomes available and the effects of recently introduced price control laws are felt. In addition to the further development of Muscat itself, the surrounding areas, such as Barka, the industrial areas of Sohar, Salalah and Duqm, should also see sustained interest following substantial investments in these areas.

The willingness of banks to approve loans for real estate deals is a key difference between Oman and the stricken Western markets, and it is a factor that should help balance the uncertainty regarding the financing and pricing of construction materials.

WHAT HAPPENS NEXT?

As the global financial crisis continues to decimate real estate markets across the Western world, the big question many are posing in Oman – indeed in the Middle East region as a whole – is: how bad will it get here?

For years, real estate investors and developers have enjoyed fantastic yields in their Omani investments as the value of the market grew exponentially. But with property markets across the world melting away under the heat of the global credit crunch there is understandable concern that Middle Eastern property could be the next victim. As of December 2008 Oman had yet to see the sharp decline that has hit property markets in the US, UK, Germany and other Western countries. However, although somewhat insulated from this trend so far, Oman is by no means immune to the economic downturn, and this was evidenced by a decline in property values beginning in October 2008.

One real estate developer pointed to the example of a development of 36 villas that were selling for OR150,000 ($391,000) prior to September 2008 but were selling for OR10,000 ($26,000) less a few months later.

Francis Selvaraj, the head of professional services at Cluttons, indicated he believed that the market was in the midst of a correction. "Quite a few people have postponed development plans, and the smaller companies and projects may be weeded out. Having said that, local banks are still quite often ready to lend to experienced, well-established developers," Selvaraj told OBG.

As a result, there is a concern that some of the larger projects still in the early stages of construction as well as some still on the drawing board will be put on hold while developers and financiers evaluate the market.

"Project managers have been unable to launch some projects as developers are waiting to see how the market plays out, where construction materials prices will end up and how to secure financing," Asim Al Zadjali, Eqarat.com International Property Consultants general manager told OBG. "Two key OR100m ($260m) projects are currently on hold and we do not know when they will come back on-line."

However, the continued willingness of banks to approve loans for real estate deals is balancing out this uncertainty. This is a significant departure from the ailing Western markets, where lower interest rates have so far failed to increase bank lending. Combined with the Sultanate's undersupplied market and the continuation of strong government spending, this should protect the Omani market, at least in the short term.

Grand designs

A host of upcoming projects set to adorn the Sultanate

The Wave

Developer: Waterfront Investments, the National Investment Funds Company and Majid Al Futtaim Investments
Cost: $4bn
Completion: 2013
The 2.5m-sq-metre development near Muscat's city centre will house over 4000 residents in apartments, town houses and villas, with a host of leisure facilities.

Al Madina A'Zarqa

Developer: Al Sawadi Investment and Tourism
Cost: $20bn
Completion: 2020
The largest ITC in Oman, Al Madina A'Zarqa will cover 32 sq km including 16 km of coastline. It will house over 200,000 residents and feature commercial, medical, educational and leisure facilities, including 20 hotels.

Qaryat Qurum

Developer: Al Qurum Properties (joint venture of ETA Star Properties and OHI)
Cost: TBA
Completion: TBA
More than 500,000 sq metres of area will be divided into two parts. The first contains retail and commercial areas, the other includes 13 apartment towers.

Mirbat Beach

Developer: Dhofar Tourism Company
Cost: OR1bn ($2.61bn)
Completion: Soft launch 2009, final completion 2022
Mirbat Beach will feature 1500 residential units and a commercial district containing more than 10,000 sq metres, with both retail and office space. It will also house leisure facilities including two five-star hotels.

Al Khiran Resort

Developer: Alargan Towell Investment
Cost: $30m
Completion: 2010
Located 17 km east of Muscat, the development will feature an 82-room hotel made up of individual chalets surrounding an enclosed bay and will also include a spa, restaurants and other amenities.

Muscat Hills Golf and Country Club

Developer: Sayyid Kais bin Tarik Al Said
Cost: $400m
Completion: 2009
This high-end development will feature 140 villas, 29 apartments and a five-star hotel all serving Oman's first PGA-standard 18-hole par-72 championship green golf course and associated country club.

Salam Yiti

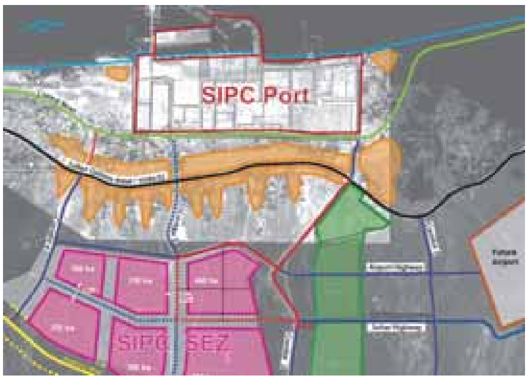
Developer: Sama Dubai and Omran
Cost: $2bn
Completion: 2011
Yiti will contain 400 villas, 720 town houses and 1000 apartments in both oceanfront and mountain settings, along with a commercial centre, golf course, marina, luxury beachfront hotel, beach club and eco-centre.

Al Sifah Resort

Developer: Muriya (Oman Tourism Development Company and Orascom)
Cost: $200m
Completion: 2011
Located 45km from Muscat, the 6.2m-sq-metre project will include 450 villas, 500 apartments, four hotels, marina, golf course, restaurants and commercial space.

Duqm

Developer: Government of Oman
Cost: Currently exceeds OR700m ($1.82bn)
Overall Completion: 2012
Al Duqm port is in the midst of a huge investment programme that will enlarge the port basin by extending the breakwaters, deepen the port to 18 metres and triple the length of the commercial quays to 2250 metres.



Sohar Port

Developer: Port of Sohar
Cost: Currently exceeds $12bn
Completion: TBA
Adjacent to the Sohar Special Economic Zone, the Sohar Industrial Port is set to triple its concession area and is in the process of expanding its bulk, cargo and liquid shipping infrastructure.