FIRST QATAR REAL ESTATE DEVELOPMENT CO.

شركة قطر الأولى للتطوير العقاري

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Oman | October, 2016

REAL ESTATE MARKET REPORT

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ECONOMY

The latest MENA Economic Monitor Report - 2016, expects Oman's real GDP growth is 1.6 % in 2016, lower than in 2015, reflecting lower oil prices and reduced spending and domestic demand.

Real GDP growth rate is estimated at 3.3 % in 2015. New oil recovery techniques and greater efficiency led to record production levels in 2015, peaking at 0.98 million barrels per day. Hydrocarbon GDP grew by 4 % in 2015, compared to a contraction of 0.8 % in 2014. Non-hydrocarbon GDP is estimated to have grown by 3 % in 2015. The central bank enacted expansionary monetary policy by reducing lending rates to support economic growth. The current account balance recorded a deficit in the first half of 2015. Consumer price inflation averaged 0.1 % in 2015.

A record high fiscal deficit is estimated for 2015, at 17.7 % of GDP. Hydrocarbon revenue fell by 45 % in 2015, which stymied government spending hindering potential economic growth and decreasing tax receipts. Approximately half of the deficit in 2015 was financed by drawing on reserves, and the remainder by borrowing from domestic and external sources. Oman issued its first sovereign Islamic bond (sukuk) for $519.5 million, and $1 billion through syndicated loan. Standard & Poor's downgraded the country's debt to BBB-/A-3 in February. The central bank is currently marketing an OR100 million five-year bond, and announcing plans to raise between $5 and $10 billion from the international market, to avoid squeezing the domestic banking liquidity further.

The government reduced spending in 2015, avoiding an even larger deficit, and has laid out an extensive austerity plan for 2016. Reforms included the doubling of gas prices for industrial users, amending labor laws and designating an office for speeding up the process for issuing licenses. The 2016 budget indicates further reforms; with subsidy spending expected to fall by 64 % in 2016 and diesel and petrol prices increasing by up to 33 %. Revenue is expected to increase through a higher corporate income tax (from 12 % to 15 %), the removal of some tax exemptions, and the implementation of a GCC-wide VAT. Other measures envisaged to enhance revenue include: revising electricity and water tariffs and increasing fees for government services.

ECONOMY

The macroeconomic outlook is highly vulnerable to the behavior of oil prices and hinges on the success of the government's efforts to capitalize on non-hydrocarbon revenues. Real GDP growth is projected at 1.6 % in 2016, lower than in 2015, reflecting lower oil revenue and the associated dampening of spending and domestic demand. Growth is projected to pick up again starting 2017, as the non-oil sector expands, despite lower levels of investment spending, which will constrain growth in the oil sector. Non-urgent projects are expected to be postponed.

The government will continue to prioritize infrastructure investment, including in tourism, airports, railways and ports. A new mining law is expected to streamline and centralize licensing processes, to improve the industry's efficiency. Since Oman has maintained consistently good relations with Iran, new trade and investment opportunities are expected including a gas pipeline between the two countries. However, in light of the projected level of oil prices, the fiscal and current account are estimated to be in deficit at 16.8 and 14.1 % of GDP respectively in 2016. Oman is expected to maintain its peg to the US dollar despite pressures, and raise interest rates later in 2016.

INDICATORS	2014	2015e	2016p	2017p
Real GDP Growth (%)	2.9	3.3	1.6	1.9
Inflation Rate (%)	1.0	0.1	2.3	3.0
Fiscal Balance (% of GDP)	-3.4	-17.7	-16.8	-11.0
Current Account Balance (% of GDP)	5.0	-13.1	-14.1	-6.7

Oman's total population exceeded 4.44 million in May, posting a 0.3% increase over figures for April 2016, according to the latest data published by the National Centre for Statistics and Information (NCSI). Expatriates numbered over 2.02 million, forming 45.5% of the total population.

REAL ESTATE SUMMARY

The continuing lower oil price is having a negative impact on confidence but fundamentally there are no reasons to expect significant property market declines The sales market appears least affected by market sentiment and offers good investment opportunities for domestic and foreign buyers The rental market is starting to appear strained with a significant supply addition of homes as a result of expatriates leaving Oman, with fewer new arrivals taking their place.

REAL ESTATE SUMMARY

As the commercial reality of lower oil prices takes hold, workforce reductions are being made resulting in the freeing up of rental homes across the capital. The lower inflow of new arrivals is insufficient to absorb the new supply resulting in downward pressure on rentals.

Not all sectors of the rental market are negatively affected with the ITC's, Muscat Hills and Al Mouj holding value generally.

Older style 'off central' property is seeing the most rental correction with tenants unwilling to lease at historic rates. A looming over supply of apartments in large group housing developments could lead to downward rental pressure.

Capital values remain firm in the ITC projects with good re sale activity over the year. A greater variety of property / value options in this sector has boosted investment appeal.

An active domestic off plan market remains with sales consistent with 2015 levels and capital growth occurring between purchase and project completion.

Minimal activity has occurred in the commercial office sector so far this year with the outlook less than positive as corporates seek to reduce operational costs wherever possible. However new supply addition is minimal therefore pressure on rents is negated to some extent.

THE RESIDENTIAL LEASING MARKET

It is almost as if, on January 1st 2016 there was a collective sigh and Oman firmly braced itself for a new more challenging economic scenario. The previous reliance on higher oil prices to support the rapid growth and development of the country could no longer be relied upon and the previous dalliance with much needed economic diversification away from oil became an overnight and urgently needed necessity.

But this has yet to translate into any significant property market downturn for the rental sector. What is apparent is the housing budget cuts being imposed by corporates and the change of new hires from traditional family size units to singles and couples.

Muscat fortunately has benefited from a large supply of new quality apartments over the last two years and these have been rapidly taken up by the newly arriving expats and those that have had to forego larger housing options as a result of budget cuts.

This has to some extent lead to an increase in the number of older style, larger family style villas available for rent but landlords are as yet to reduce their rentals for these to encourage early letting.

Landlords of these properties are however noted as agreeing token downward (very low payment) rent adjustments upon lease renewal to retain their tenants and avoid vacancy and re-letting costs. We expect this trend to continue with larger, expensive villas seeing increasing voids on tenant vacation and ultimately landlords reducing rents to ensure continued occupation.

THE RESIDENTIAL LEASING MARKET

AREA	2 BED (OMR)	3 BED (OMR)	4 BED (OMR)	MARKET MOVEMENT SINCE 2015
Wadi Al Kabir	350-450	450-500	450-650	Same
Ruwi	300-350	375-450	450-500	Same
Darsait	300-400	375-500	450-650	Same
Al Wattaya	350	350-450	450-550	Down
Qurum	350-450	800	850-2,500	Same
Qurum Heights	450	550-900	950-2,500	Same
Mediant Al Ilam	-	800	1,100-2,200	Same
Medinat Sultan Qaboos	750	1,100-1,750	1,500-1,800	Down
Al Khuwair	450-750	650-800	850-2,500	Down
Shati Al Qurum	775-850	1,000	1,700-2,500	Same
Ghubrah North	550	700-800	850-2,000	Down
Al Mouj	850-1,100	1,200-1,500	1,750-2,500	Same
Muscat Hills	725-775	850-1,100	1,350-2,300	Same
Azaiba	525-750	800-900	850-1,500	Down
Bausher	600-650	875-975	1,000-2,000	Up
Seeb	350	500-600	700-1,000	Up
Al Khoud/Al Hail/Mawelah	350-400	450	550-800	Up

THE RESIDENTIAL LEASING MARKET

Whilst the large number of new apartment developments have been welcomed in the light of the changing demographics of ex patriates arriving without large families accompanying them, there now exists a real possibility of oversupply and rental stagnation for this property type as significantly more enter the market. It is estimated that there will be over 1,600 new apartments (central areas) entering the rental sector over the next 12 months. Whilst those developments offering good amenities and management are likely to be less affected, periods of vacancy are likely to grow with a corresponding downward pressure on rentals.

Bausher is now firmly establishing itself as a preferred residential location. With proximity to the ever expanding shopping malls, expressway and recreational facilities, it has transformed itself from being the 'alternative' place to live to now one of the most highly demanded areas. Bausher offers housing of all options ranging from multi apartment complexes to luxurious villa compounds.

The traditionally favored central areas are being impacted by the reducing family sizes renting property. The larger villas are taking longer to rent and whilst landlords are currently reluctant to reduce rents, marginal declines are being noted.

THE DOMESTIC SALE MARKET

The year continues to see high levels of buyer interest, particularly in the ‘off plan’ apartment developments. There appears to be no shortage of bank liquidity and thus availability of mortgages remains available and accessible for such investment purchases. There remain few commercially attractive alternative means of domestic investment for the local market and as such property remains a firm favorite, showing typically a 7% initial yield upon completion. The emergence of commercial space for sale is a relatively new phenomenon and a number of developments have entered the market since year commencement. Whilst this is a relatively new investment sector for Oman and offers in general less returns than residential, it is a welcome addition to a fast evolving property industry.

The impact of raising of Ministry of Housing transfer costs to 5% appears to have had little impact on prevailing re sale prices of land and property. There is some concern that as a counter to the increased tax, full transaction values may not be reported upon sale/purchase and the raising of rates could theoretically result in lower fees collected as a result.

The establishment of a real estate pricing index as proposed by the Oman Real Estate Association is a first step in ensuring that Government bodies can track value movements and be alerted to any fraudulent reporting of sale values. The maturing of this property market to international levels of standard is slow but is now underway.

THE DOMESTIC SALE MARKET

Area	1 Bed	2 Bed	3 Bed
Ruwi/East of Centre	30,000-35,000	45,000-50,000	60,000-65,000
Qurum	38,000-45,000	65,000-85,000	85,000-90,000
Al Khuwair	38,000-45,000	65,000-85,000	85,000-90,000
Bashuer	33,000-45,000	45,000-65,000	70,000-75,000
Al Mawella/West of Centre	25,000-28,000	30,000-35,000	35,000-40,000

❖ Average OFF PLAN, new launch apartment developments - OMR

THE ITC'S (INTEGRATED TOURISM COMPLEXES)

The majority of Muscat Hills Phase 2 properties are now complete and this development remains a firm favorite with owners and renters alike. The much awaited Intercontinental Hotel here is rumored to be commencing construction by year end and this will greatly enhance the attractiveness for residents and visitors alike to this development. The recently announced "Boulevard" at Muscat Hills will provide a pedestrianized area running the core length of 665 meters, containing shops, restaurants and cafes. With over 900 apartments and several office buildings fronting this recreational zone, Muscat Hills is likely to become an important element of the master planned Medinant al Arfan – widely referred to as Muscat's new downtown.

The number of Nationals buying property within the ITC's remains high at a period when foreign buyers are acting with more caution. Solid rental returns and prospects of capital gain are still primary purchase factors but more and more Nationals are taking up actual occupancy at these developments, having identified the benefits such gated communities offer. There are likely to be a number of new project releases at Al Argan Towell's Barka development and Muriya's Jebel Sifa over the year, offering resort style property options.

However, those projects with the commercial inertia enjoyed by the likes of Al Mouj and Muscat Hills will likely remain the highest performing in terms of capital gain moving forward.

Al Mouj Villa

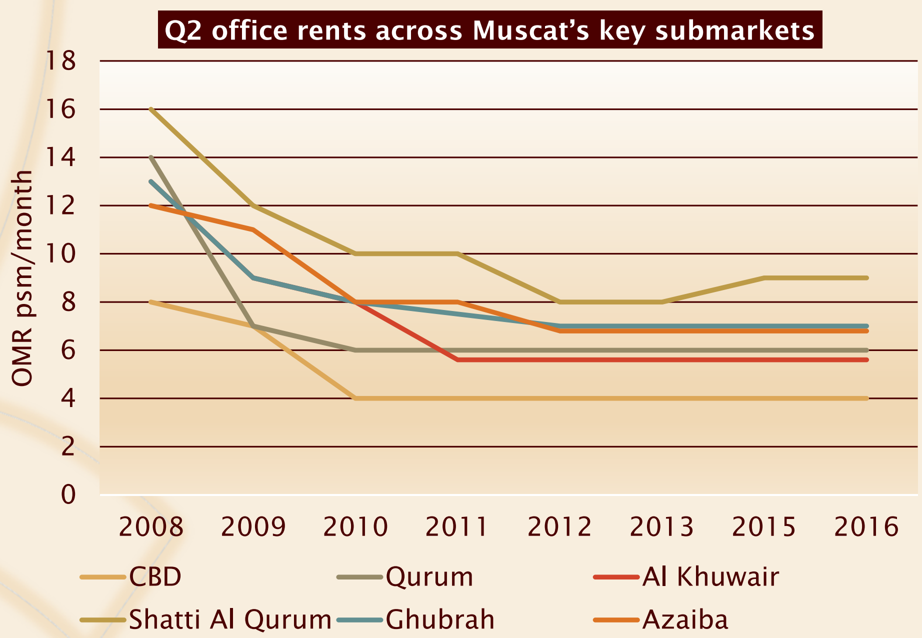
Muscat Hills Apartment

Apartment	Lowest Price (OMR)	Highest Price (OMR)
1 Bedroom	48,000	120,000
2 Bedroom	65,000	170,000
3 Bedroom	90,000	340,000
Villa	**Lowest Price (OMR)**	**Highest Price (OMR)**
3-4 Bedroom	325,000	400,000
4-5 Bedroom	420,000	890,000
5+ Bedroom	490,000	1,300,000

- ❖ Higher Value – Al Mouj Marina and Beach Front
- ❖ Lower Value – Higher density apartments – The Boulevard at Muscat Hills

THE OFFICE MARKET

There has been minimal activity in the office sector since the beginning of 2016. Many corporates are adopting "wait and watch policy" and are quietly nervous about increasing costs, taxation and general operating overheads overlapped with reduced income projections. With a pipeline of circa 170,000 square meters of new commercial space destined to be completed in the next 18 months, there is concern that another over supply scenario may result in the short term, dampening any prospects of rental growth. The longer term scenario may be more optimistic as a result of the energetic push for economic diversification which could lead to new company startups and space absorption. Existing tenants, upon lease renewal are likely to secure minor reductions in the current climate as landlords seek to retain occupiers and avoid what could be significant re letting void periods.



SHATTI AL QURUM BUCKS RENTAL STAGNATION

Despite economic headwinds, rents across most of Muscat's main office markets have remained steady for the ninth consecutive quarter. In fact the only submarket that has seen movement in rents in the past 12 months is Shatti Al Qurum, where office rents have risen by 6% to OMR 8.50 psm. Shatti Al Qurum is the most expensive of the submarkets covered, and the marginal uptick in rents here is reflective of the limited supply in the area of high quality space; however the sustainability of this slight uplift is unlikely as the weaker economic conditions bed in.

LANDLORDS SLOW TO REACT

The sharp slowdown in the overall level of requirements since the start of the year is yet to prompt a market wide downward readjustment of rents, which appear to be on the cusp of a fall. With ongoing redundancy programmes being worked through across many business segments, large scale requirements have all but dried up. Of the few requirements in the market, most hover around the 200 sqm mark.

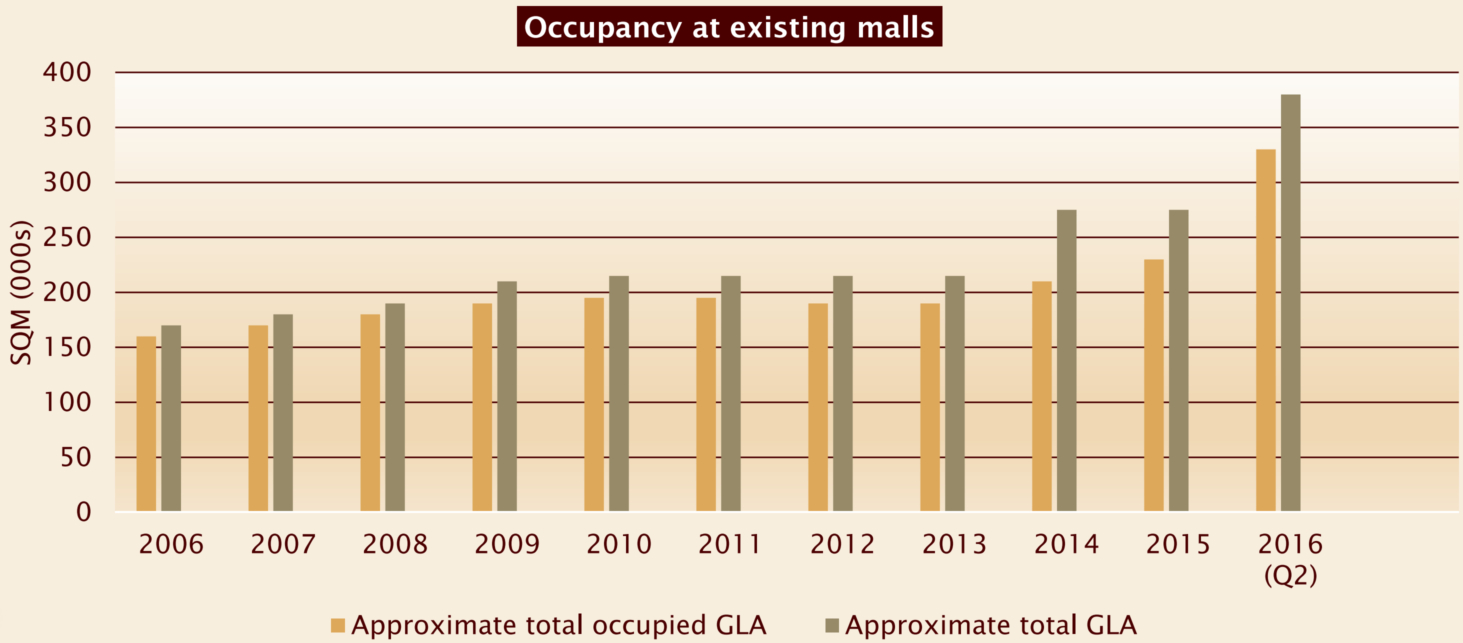
Furthermore, most occupiers that remain active in the market are opportunistic and looking for the best deals, with many avoiding long term leases. Landlords have for the most part, been slow to respond to the deteriorating market conditions, with many falling to capitalize on the opportunity to contribute to fit out costs, or extend rent free periods in order to entice demand.

Where rents are already at the minimum level for landlords to remain profitable, there is also of course the opportunity to improve property management services, which continue to be amongst the top priorities for many occupiers. Buildings with good facilities and property management remain well let and sought after.

RENT FALLS LIKELY TO BE MINIMAL

While office rents are still at roughly half the level seen before the Global Financial Crisis in 2008 across most of Muscat's office submarkets, they have remained relatively stable for over two years now. Clearly the diminishing level of occupier requirements is going to put rents under further strain. Occupancy levels in existing, well managed buildings, remain fairly stable. However, new projects are seeing limited demand.

We are aware of instances where landlords have used the recent increase in the lease registration fee from 3% to 5% as a way to support asking rents in the first year of tenancies; however going forward we expect to see significant concessions made in order to attract and, more importantly, retain existing tenants. With this in mind, it is our view that monthly rent declines of OMR 1 psm to OMR 2 psm are likely across the board over the course of the year as the market adjusts to the challenging economic environment. Well managed buildings may buck the trend, with rents likely to remain stable in popular schemes.



THE RETAIL MARKET

Significant supply addition has occurred over the last 24 months and new mall openings over the last year have included Panorama Mall in

Bausher and The Oman Avenues Mall. There is now approximately 345,000 square meters of prime retail (mall) space within Muscat Capital area, all fully leased and trading.

A further 280,000 square meters of confirmed projects will be completed by 2020 to include the Mall of Oman, The Palm and retail elements of the Convention Centre. Whilst Oman previously lacked the diversity of retailing offered by its neighbors, this has now changed and along with it retail shopping habits, with retailers reporting rising spending.

Area (m²)	Grade A	Grade B
Average Unit Size	120	65
Rent Low	7-5	6
Rent Mid	20-28	12-7
Rent High	35	18

❖ Rents per square meter per month

SOURCE & REFERENCE

- CLUTTONS
- SAVILLS MIDDLE EAST
- NATIONAL CENTRE FOR STATISTICS & INFORMATION (NCSI) – OMAN
- OXFORD BUSINESS GROUP
- MENA ECONOMIC MONITOR REPORT 2016

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Thank You…!