Cavendish Maxwell

OPINION

A new era for real estate dawns in Oman

The context for Oman's real estate boom

Real estate as an engine for economic growth

The importance of the real estate sector in any nation's economic and social development is no secret. For years, construction has been celebrated as a pivotal economic driver, and in recent decades we have seen developed economies evolve from industrial and service-oriented development to what experts call a finance and *real estate-driven* economy[1].

In this new landscape, real estate is not just a place to park your money; it is a dynamic catalyst for the economy itself. This transformation is not just about the earnings of people who work from home. It extends far beyond that. It is about harnessing the accumulated value stored in residential real estate to enhance our lifestyles. This is not limited to retirees; it is a phenomenon that is shaping societies worldwide. Take, for example, the vibrant real estate scene in Turkey (Yüksel, S., & Kavak, 2019)[2]. It is a compelling illustration of how the role of real estate has shifted, and this shift might very well be the most important economic lesson of the 21st Century.

Certainly, real estate is the dominant asset class worldwide. Nowhere is this truer than in the Gulf, where it accounts for roughly 60% of total asset value. And within this vast real estate realm, the residential sector stands at the centre. Several factors contribute to this, with demographics leading the charge, followed closely by the rise of remote work and the spending power of multiple generations. Therefore, we must understand the drivers of residential real estate value in any economy.

One of the key drivers of residential real estate value that often takes centre stage is the ability to secure home financing, a truth that holds even in developing countries.

International organisations such as the World Bank and countless analysts have underscored the benefits that well-functioning mortgage markets bring to economies. These benefits extend beyond economics, as they foster greater transparency in real estate markets, a critical facet of the mortgage financing process (Asabere et al., 2016)[3]. Historical evidence corroborates this policy stance. In the United Kingdom, government support for quasi-banks known as Building Societies propelled homeownership from 29% to 45% in just thirteen years between 1951 and 1964[4]. Similarly, in Saudi Arabia, the 2012 mortgage law catalysed the real estate market's growth in subsequent years (Al Obaid, 2020)[5], displaying a strong positive correlation with job creation (Ajeeb & Lai, 2022)[6].

In China, the development of mortgage financing has been shown not only to promote the local economy, but also to have a positive spatial spillover effect on economic development in other cities. Another highly significant, and even relatively predictable, spillover effect is that land mortgage financing fuels urban economic development partly by boosting investments in fixed assets by local governments (Chen & Liu, 2022)[7].

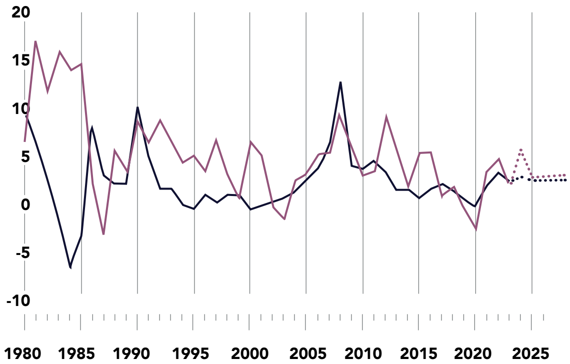
Of course, the process must be to some extent reciprocal. Favourable macroeconomics does encourage real estate development and investment and the careful management of extensive residential development is also critical for sustained economic success. After all, no one wants to see failed developments or empty properties. However, the overwhelming international evidence emphasises the pivotal role that financing can play in creating a vibrant and successful real estate sector, one that, in turn, supports economic growth and social prosperity.

The economic renaissance in Oman

The growth and development of Oman's real estate sector cannot be understood without looking at the transformation that Oman's wider economy has undergone in recent years. The nation faced its fair share of challenges in the past decade due to fluctuations in the hydrocarbon market. However, recent developments tell a promising story. Oman has seen steady growth in its manufacturing sector, surpassing pre-pandemic levels. Natural gas production has surged by a quarter, and agricultural output is up by a sixth since 2017. The country has embraced modernisation with enthusiasm, evident in the tripling of broadband use in just over two years.

Notably, Oman has taken a more flexible approach to foreign direct investment (FDI) and embarked on a journey of privatising government enterprises. These changes signal a warm welcome to investors. In 2021, GDP saw a 3% rise, followed by an impressive 4.3% increase in 2022.

Oman macroeconomics



— Real GDP growth (Annual percent change) **1.7**

— Inflation rate, average consumer prices (Annual percent change) **1.9**

Source: *IMF 2023*[8]

When we take a closer look at Oman's economic performance in comparison to its regional peers, the picture becomes even more encouraging. Not only is Oman becoming a favoured tourist destination, but it is also emerging as a flourishing diversified economy.

Our analysis reveals 4 key drivers of economic growth in the country. First, population growth is playing a pivotal role in Oman's economic recovery.

Oman might be the fastest-growing economy among the six Gulf Cooperation Council (GCC) nations in 2023, projected to achieve 4.3% economic growth, according to the World Bank. This is a stark contrast to other regional economies that are slowing down after their impressive post-pandemic recovery.

Secondly, while inflation remains high in the region, domestic inflation in Oman has remained relatively low, bucking global trends (Heritage Foundation, 2023)[9].

Thirdly, Oman's fiscal position has shown surprising resilience, surpassing expectations of not only market analysts but also of the Omani government itself. This is despite the fact that measures such as the Medium-Term Fiscal Plan (2020–24), the 10th Five-Year Development Plan (2021–2025), and the National Programme for Financial Sustainability and Development of the Financial Sector (2023–26) have only just begun to manifest themselves through controlled spending, privatisation, and the introduction of a 5% Value Added Tax (VAT) in April 2021, gradually boosting tax revenues. Continued surpluses are effectively reducing public debt as a percentage of GDP, with the figure dropping from 61% of GDP in 2021 to 43% in 2022, and potentially less than 40% by the end of 2023.

Lastly, Oman's economic performance comes off the back of several positive institutional and planning changes. The creation of the Oman Investment Authority (OIA), established in June 2020, has attracted increased foreign direct investment alongside the Free Trade Zones program, which offers customs duty exemptions. Furthermore, the creation of the OMR 2 billion Oman Future Fund in May 2023, a support programme for start-ups, and participation in free-trade negotiations, alongside the GCC, with the UK, all paint a picture of a maturing economy that is becoming increasingly open to business and investment.

Oman Budget 2023 (OMRm)

	Budget 2022	Actual 2022	Budget 2023
Oil revenue	4,490	7,457	5,320
Gas revenue	1,150	3,557	1,400
Current revenue	3,340	3,220	3,280
Total revenues	8,980	14,234	10,050
Total expenditure	10,530	13,086	11,350
Surplus/deficit	-1,550	1,146	-1,300[10]

Source: *Oman Ministry of Finance (2022),*[11] *(2023)*[12] Oman's monthly economic performance in 2023 has exceeded initial projections, even suggesting the possibility of a surplus. If, as predicted by the World Bank last year[13], the current account continues to maintain a "comfortable surplus over the medium term," Oman will not only be able to rebuild its foreign asset reserves but also have the opportunity to negotiate new loans on improved terms.

As a result, the country's credit rating has also seen positive changes, reflecting its economic progress.

Credit Ratings

	Moody's	S&P	Fitch
2022 rating	Ba3	BB	BB
Current rating	Ba2	BB	BB+
Outlook	Positive	Positive	Stable
Last review	15 May 2023	31 March 2023	25 September 2023

These economic achievements have been accompanied by a commitment to sustainability, positioning Oman as a global leader. Energy Development Oman (EDO), established in 2020, has seen rapid growth in renewable energy usage, from less than 50 GWh in 2019 to over 350 GWh in 2022, with ambitious goals for the next decade, particularly with regard to green hydrogen. The aim is to achieve net carbon neutrality by 2050.

It is important to note that this balanced economic growth has not come at the expense or neglect of the population. Oman's commitment to its citizens' well-being is evident in the increase of hospital beds per 10,000 population, rising from fewer than 6,000 in 2015 to more than 7,000 today. Oman is also exceptionally safe and it is then no surprise that analysts are of the unanimous view that the country's political stability will persist (Congressional Research Service, 2023)[14].

Oman is indeed on a stable path of economic resurgence, diversification, and sustainability, and its transformation is reflected in the growth of its real estate sector.

The future is bright with Oman Vision 2040

The Omani government is not resting on its laurels, however, as much of this success continues to derive from increased hydrocarbon production capacity, in particular aided by the development of new natural gas fields (World Bank, 2023)[15]. Guided by Oman Vision 2040, the government envisions a future with four central pillars: a competitive economy, a creative and innovative society, responsible public agencies, and a focus on environmental sustainability. Oman Vision 2040 is not just about diversifying the economy, promoting social well-being, and enhancing competitiveness, it is also characterised by clear metrics to gauge the program's success across macroeconomic, environmental, and social targets.

With Vision 2040, the Omani government is thinking long-term, with economic diversification in mind. This forward-thinking approach is evident in the tourism industry, which has not only swiftly rebounded from the pandemic but is also gearing up for considerable growth. The number of monthly visitors is set to approach a staggering 400,000.

Equally significant is the surge in tourism-related spending, with hotel guests increasing by 30% annually. This surge leads to higher hotel occupancy rates and, subsequently, increased revenue for the sector. If Oman achieves its tourism targets as outlined in Oman Vision 2040, the sector could contribute a substantial 10% to the economy.

The role of real estate, especially construction, in realising the goals of Oman Vision 2040 is crucial. First and foremost, the sector is a vital player in the economic diversification process, driving growth. But let's delve deeper. Real estate's importance becomes even clearer when considering specific objectives.

For instance, consider the construction required for Special Economic Zones, where the revision of the Foreign Ownership law is of critical importance. This revision opens the door for foreign investors to obtain residency visas through property investment[16], creating enticing opportunities. Public-private partnerships (PPPs) also have a crucial role in delivering affordable housing, and Oman has already put a dedicated PPP law in place to facilitate this aspect of the plan. Furthermore, the expansion of the hotel and resort sector is essential to accommodate the rising number of tourists, especially the development of integrated tourism complexes and the promotion of luxury tourism (Mishra & Kukreti, 2022)[17].

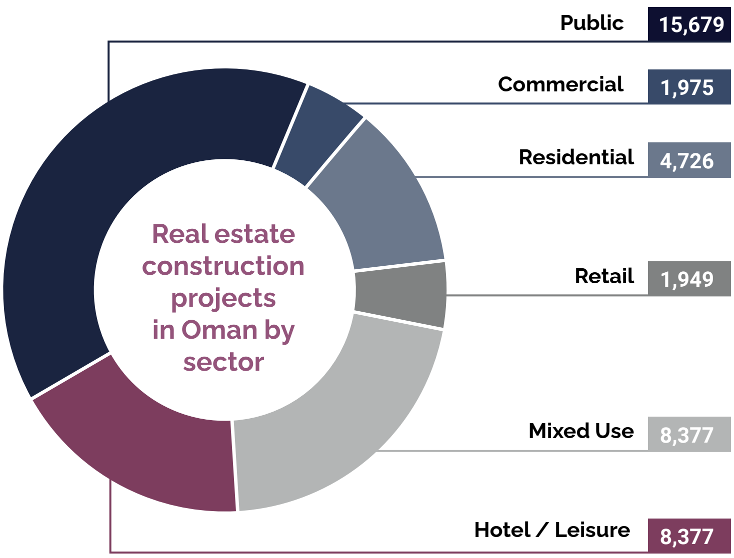
Keeping up with the Omani real estate market

Where do we stand?

First things first, infrastructure developments are progressing rapidly in Oman. Joint heavy rail projects with the UAE and Saudi Arabia are enhancing connectivity, and Muscat is set to acquire a metro system. Port development is equally encouraging, with the three major ports of Oman experiencing an 8% growth in traffic in 2022. However, when we compare these achievements to real estate construction projects, it is evident that there's room for growth. Real estate already contributes over OMR 1 billion to the Omani economy, while construction adds over OMR 1.5 billion. Per capita, this figure is still less than half that of the UAE.

Nevertheless, signs of market maturity are becoming more evident. One notable development is the introduction of Real Estate Investment Trusts (REITs)[18]. Since their introduction in 2018, one publicly listed REIT Fund was initiated in 2020, boasting a capital of OMR 65 million. Its portfolio includes various well-known properties, from retail and industrial to office and residential, making it a diverse mix of 20 properties with a targeted annual dividend yield of 7.5%. To instill confidence in investors, Omani regulators have comprehensively regulated investment in Real Estate Investment Funds, paving the way for increased capital inflow, including from foreign investors. REITs also have enhanced transparency within the real estate sector, fostering trust among investors and attracting more capital[19]. Less immediately obvious but equally important is the availability of targeted advice from international advisory firms for investors interested in Oman.

So far, all real estate sub-sectors combined in Oman account for less than 20% of the Gross Fixed Capital Formation, according to available project documentation. In contrast, in the UAE, the same figure is twice as high. Even within this total, purely residential real estate projects remain at a relatively modest proportion in comparison to hotels and resorts, public projects, and mixed-use developments.



Source: MEED (2023)

Property financing landscape

One of the advantages Oman possesses is that its prior trajectory means that real estate development has a great deal of leeway by comparison to other Gulf states, where real estate investment has been so much more substantial as a percentage of GDP.

Meanwhile, however, overall banking assets in Oman have risen by a quarter since 2017 and now stand at over OMR40bn, deposit CAGR now standing at 2.7% and lending at 3.9% for the past five years. Regulation however remains tight, with Basel 3 now having been in effect for a decade, and steady Total Capital Ratios and Tier 1 Capital Ratios, both well in excess of required minima. The opportunity clearly existed for a redeployment of banking resources in the direction of real state, which has gradually filtered through into a gradual relaxation of lending rules.

Whilst mortgages themselves have been available for decades, last year they were extended to non-Omanis, and most recently, in June 2023, the Central Bank permitted lenders to extend loans to developers for the construction of residential projects in addition to the previous categories of warehouses and industrial projects[20]. The direction of travel is both obvious and no doubt very welcome to future borrowers.

With the majority of Omani banks now offering products, the local mortgage market is now competitive in terms of interest rates, maximum loan amounts, and loan purposes. Especially noteworthy is that Omani banks are now beginning to offer a wider range of products. Already, the National Bank of Oman, for example, is prepared to lend for the purchase of residential plots. Several banks are also prepared to consider lending for integrated tourism projects and developments.

Note that although Oman offers a comparable range of mortgage products to the UAE and Saudi Arabia, actual mortgage take-up remains lower, and it will take time for the recent regulatory changes to influence investment and prices.

Market trends and investments

The Oman real estate market has picked up steam in 2022, and this momentum continued into 2023. According to a report issued by the National Centre for Statistics and Information the value of real estate transactions in Oman surged by 37.8% by the end of May 2023 compared to the previous year. Several advisory firms note that this robust growth, reflecting the post-COVID recovery of the sector, is driven in part by increased interest from potential tenants and investors looking to lease or purchase commercial and residential properties[21].

As the population continues to grow, the Residential Property Market is expected to expand. It was estimated to have a market size of USD 4.01 billion in 2023, and this figure is projected to reach USD 6.23 billion by 2028, growing at a CAGR of 9.19% during the forecast period (2023-2028)[22].

Oman's commitment to boosting the real estate sector is evident in its approval of 19 new Integrated Tourism Licenses and an allocation of $11.37 billion for hospitality and real estate investments. This plan is set to introduce over 16,500 hotel rooms and 42,500 housing units across the country, making room for non-Omanis to own property, thus enhancing foreign investments in the sector[23]. It is a clear indicator of a bright future for Oman's real estate market.

Our conclusion

A resilient Oman with a robust real estate sector

The Omani economy has emerged from the pandemic both more successful and stronger than it entered it. However, much of this success is still tied to the traditional petrochemical industries that Oman is known for. The need for diversification, as outlined in Oman Vision 2040, is both widely acknowledged and wholeheartedly supported by stakeholders across the economy.

When we look at the sectors that hold great promise for the future, two stand out - tourism and real estate. Oman has positioned itself as a regional tourist destination of choice, and all signs point to the continued growth of this sector.

In the medium term, Oman is joining other developed countries **in the importance of its real estate** market. However, it is worth noting that residential development, in particular, constitutes only a relatively small portion of the overall construction spending. If it were to be scaled up to match the proportions seen in comparable jurisdictions, it could potentially double or even triple over the next decade.

The missing piece of the puzzle, so far, was purchasing power, or lack thereof, for both Omanis and other residents. The liberalisation of financial markets with respect to real estate lending was the crucial next step. It now serves as a major catalyst for further real estate construction, both to support businesses, including tourism, and to provide homes for Oman's growing population of Omanis, permanent and temporary residents, and tourists. Oman's real estate market has firmly established itself on the map, not just as a driver of economic growth but also as a provider of social prosperity.

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