

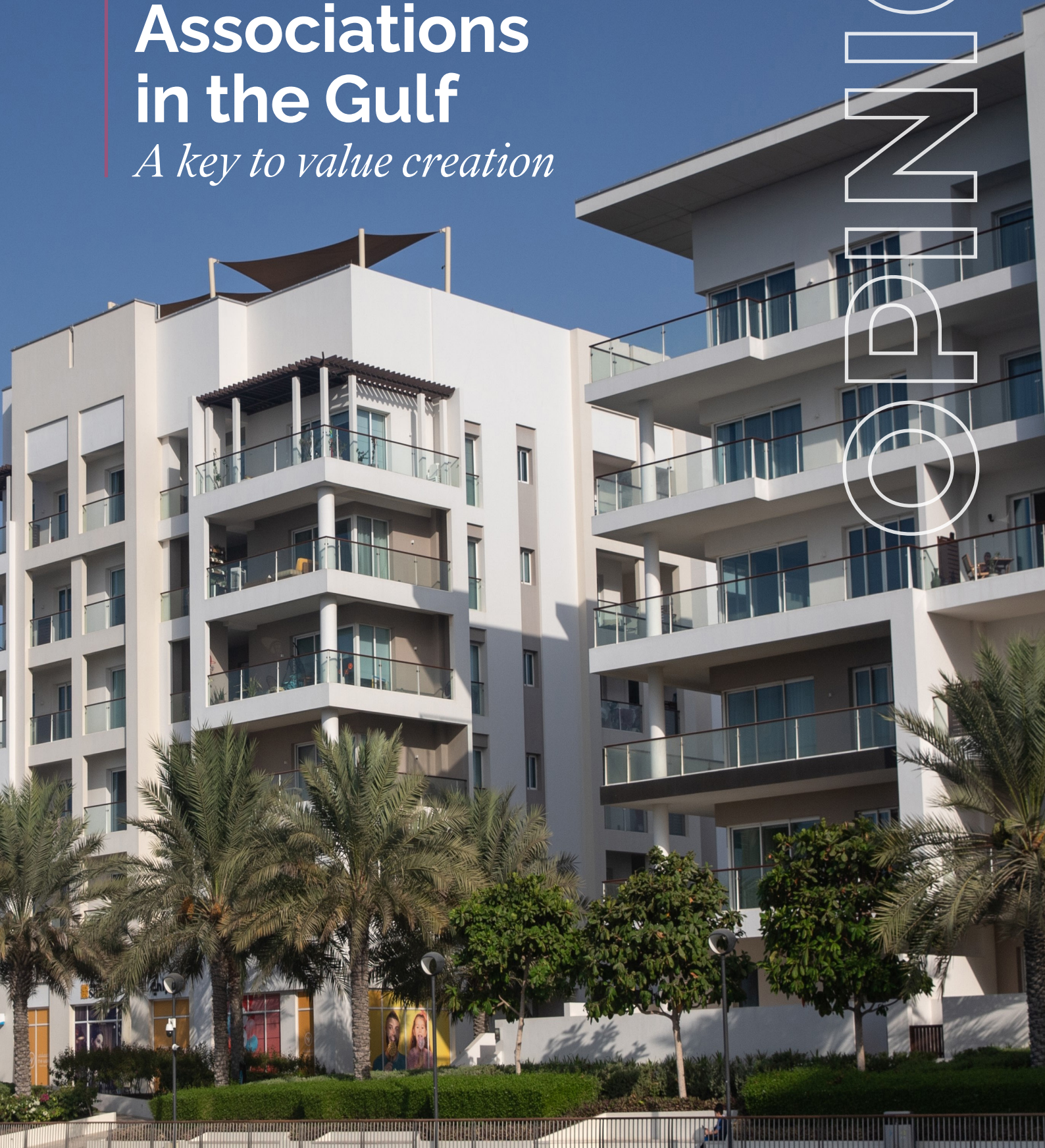


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Owners' Associations in the Gulf

A key to value creation

ZONE



The need for Owners' Associations

The issue of multiple ownership in a single asset has been around for a long time. One of the most successful solutions has been share ownership in a company, which works well for manufacturing, service, and many other types of enterprise. Real estate has also seen a similar kind of solution: joint ownership, where a property is divided into privately owned units and collectively owned common areas. There have been two main methods used to achieve this. First, freehold ownership is established over buildings and land, followed by the creation of multiple tenancies or strata titles to allow ownership of parts of the property. This legal structure

remains widespread, especially for commercial properties where tenancies are relatively short. Residential property, however, raises special problems that the freehold-leasehold split often does not solve. As a result, different forms of Management Entities for multi-owned properties have emerged around the world, notably not-for-profit Owners' Associations (OAs).

Regardless of the legal structure adopted, the key real estate issue of who maintains the common areas of the property on behalf of the freehold, leasehold, or strata owners remains. The rapid creation of new multi-owner developments over recent decades has reinforced the importance of this problem, and in turn, resulted in the creation of OAs throughout the Gulf.

Owners' Associations as value creators

Funded by the owners themselves, OAs have a wide and varied scope of responsibilities regarding the common areas and services of multi-owned properties, both inside—such as basements, corridors, entrance hallways, kitchens, lifts, roofs, and utilities—and outside, such as gardens and parking areas. They often create capital reserve funds, for example, to support preventative maintenance plans that include air-conditioning servicing, fixing appliances, and addressing plumbing or roofing issues. Their work helps save money for owners and prevent inconvenience. Evidence suggests that both facilities themselves and effectively managed OAs can play a valuable role in adding value to properties. A recent study indicated a strong positive correlation between owners' satisfaction with their property management and property valuations.¹ Other studies have provided specific indications of potential valuation benefits.

In Tokyo, where space is always at a premium, one study found that having a meeting room and an external space for hosting events increases apartment unit resale prices by approximately 7% and 16%, respectively.² In the USA, where there is ample experience with OAs and therefore plentiful data, a well-known study indicated that houses with Homeowner Associations (HOAs)—which manage facilities, establish neighbourhood regulations, and can even own properties—were 6.1% more valuable than similar houses without one.

In other words, the researchers estimated that consumers valued a three-bedroom home with an HOA as much as a four-bedroom home without one.³ Practitioners in the US also suggest that properties with HOAs enjoy a shorter sales time.⁴ These are all very substantial potential benefits indeed. Little wonder that the principle has become so widely accepted and spread worldwide over the past two decades.



Legal Requirements and Regulation

Aware of their importance, governments throughout the Gulf have, for several decades now, introduced a range of regulatory structures to govern OAs. In Bahrain, for example, the 2004 law was replaced in 2017 by Law 27, which introduced more comprehensive regulations, making the creation of Owners' Associations mandatory for multi-owned real estate.⁵ This was followed in 2020 by Resolution 1, which prescribed specific regulations for new developments.⁶ Owners throughout the Kingdom have been steadily moving to adhere to the regulations promulgated by Bahrain's RERA, with over three hundred OAs now registered,⁷ although much detailed implementation work remains to be done in many cases.

Similarly, in Dubai, a law administered by RERA has been in place since 2007, with frequent updates, the latest being in 2019, and now hundreds of OAs are registered. In Oman, since 2016, it has been mandatory for OAs to be formed and registered before the sale of new units can be finalised.⁸ Ministerial Decision No. 204/2024 has now been issued, extending the regulation to all units: owners must be up to date with their OA charges before they can sell.⁹

Expert insight

The Role of Owners' Associations in Enhancing Property Value

“The Ministry of Housing has yet to provide detailed guidelines or a framework for the operation of Owners' Associations (OAs) in Oman, though it is now mandatory for multi-unit condominium buildings to establish and register these associations with the Ministry. A well-managed OA can play a crucial role in enhancing property values in Oman by ensuring regular maintenance, which helps maintain a property's appeal and attracts potential buyers and tenants. Moreover, OAs foster a sense of community, boosting demand for properties in the area and driving property values higher.

Effective management of OAs also promotes transparency and trust among property owners, attracting investors and supporting the growth of the Omani property market. Once established, an OA can appoint an independent property management firm to ensure smooth operations, and in line with the new 2024 law, this firm must be fully owned by Omanis or GCC nationals to support Omanisation. This system benefits all stakeholders—tenants receive professional maintenance, owners benefit from transparency and increased property values, and financing banks gain from a more stable and transparent real estate market.

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The role of the manager

The value creation benefits of OAs only translate into monetary advantages for current owners if future owners and renters can recognise and appreciate the work done by the OA and compare the results to other properties with less effective management. As the level of due diligence by potential renters and buyers increases, the importance of compliance with all relevant regulations also rises for existing owners. Therefore, it is in the best interest of current owners to ensure their Owners' Associations operate efficiently and can provide proper documentation as evidence of their work.

Individual owners are not well-suited to undertake this role: they are not experts, their time is often committed elsewhere, and there may be too many of them. As a result, it is entirely logical for owners who are seeking to maximise the value of their properties to seek professional support. In Japan, no fewer than 98% of Building Management Associations, the Japanese equivalent of an OA, outsource at least some of the management role.¹⁰

The role of the Owners' Association Manager is crucial in ensuring that all potential value-creation opportunities are pursued, nothing is overlooked, and every owner is treated fairly and equally in often complex processes. Owners retain ultimate control through a Board that oversees the Manager's work, enabling major capital expenditures to be properly identified, discussed collaboratively, priced, and the right decisions made. The Manager role can be filled by various types of organisations, usually requiring a license, as in Bahrain.¹¹

These include chartered surveyors like Cavendish Maxwell, specialist small enterprises, and even developers themselves, though typically only for a few years after the development is completed—except in Dubai, where this is no longer permitted. Regardless of the source owners choose, the quality of guidance is key to delivering value, as issues such as the constitution and legal form of the OA, drafting of contracts between OAs and contractors, OA budgets, minutes of OA Board meetings, proper filing of documentation with authorities, and handling any tax or liability all require expertise, which is still rare.



The image shows a modern, multi-story apartment building with a light-colored facade and balconies. In the foreground, there is a courtyard with several large palm trees, a checkered tile path, and a small water feature. The sky is blue with some clouds.

Conclusions

Three trends are now evident. Firstly, there is growing recognition that well-managed properties are significantly more valuable. Secondly, multi-owner properties present maintenance challenges that can be addressed in several ways, while the range of facilities within these developments is expanding. Thirdly, governments throughout the Gulf have recognised that introducing regulated OAs is the best approach to manage this transition to high-value services in multi-owner real estate. As a result of these three trends, OAs can create substantial value for owners, making the choice of Manager crucial for individual owners.

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