

Affordable Housing

Oman, Volume 185

30.03.2009

Like the rest of the Gulf, Oman's real estate sector experienced considerable growth over the past few years. Now, thanks to the prevailing global conditions, stabilising prices and low construction costs are opening the door to affordable housing projects, which are needed to address the tight supply concerns in the country's property market.

The population of Oman is young and growing quickly – two conditions which lend strength to long-term demand for housing. Currently, about 43% of Omanis are under the age of 14, and it is estimated that by 2025 the country's population will swell to 5m, from 3.3m in 2008. There is already pressure on supply: in 2008 vacancy rates decreased to just 5%, from 13% in 2003, despite an influx of new units.

During the recent construction surge, which has only just began to cool, many Omanis were unable to keep up with rising housing costs. Though the Sultanate does not publish official price statistics for the real estate sector, both rental and sale prices are estimated to have regularly doubled over the past five years. According to OBG's recent review of local property, in 2008 Muscat sale prices averaged around OR500 (\$1300) per sq metre, while high-end residential complexes fetched more than OR1100 (\$2860). Rental prices in the capital ranged from OR150 (\$390) to OR700 (\$1820).

Prices are now stabilising, but they still remain high. According to the Ministry of National Economy (MONE's) monthly statistical bulletin for February, the price index for rent showed a 16% increase in January of 2009, compared to the same month the previous year.

In a bid to limit the impact of the high prices, the government took steps last summer to ensure that Omanis in the middle to low-income brackets were not being priced out of the housing market. In June 2008 an amendment to a 2007 housing law limited the cap on rental price increases to 7% per annum for three years subsequent to the signing of a lease agreement. Under the previous cap, which was largely ineffective, landlords could increase rent up to 15% over two years.

In an attempt to free up supply and increase zoning transparency, the June amendment also requires all commercial operations in residential-designated areas to relocate within five years. The same enterprises are prohibited from again occupying residential space.

While it is too early yet to gauge the effect of these measures, industry sources estimate that at least 20,000-25,000 units are needed over the next few years to keep pace with increasing demand. The recent dip in construction and materials costs, once a prohibitive factor in building affordable housing, could spur developers to deliver more units to the expanding low- and middle-income market.

According to the latest statistics from the MONE, the wholesale price index for building materials in Muscat fell to 163.2 in the fourth quarter of 2008, down from a peak of 186.3 in the

previous quarter. The index is expected to decline further as the cost of steel, cement and other materials remains low due to decreased worldwide demand stemming from the global credit crisis.

The drop in construction commodity prices has not escaped developers who are looking to increase their presence in the sustainably affordable housing sector. Private sector firms like Alargan Towell Investment Company are moving in to take advantage of low-cost construction and Oman's strong demand fundamentals.

In a March interview with local magazine Oman Economic Review, Ali Hassan Moosa, the general manager of the company, emphasised the potential of the country's affordable housing sector. According to Moosa, many Omanis that work in Muscat currently rent but are interested in "paying an equated monthly {mortgage} instalment that is equal to monthly {rental rates} in order to finance a property purchase.

The demand for affordable housing will continue to grow, he noted, as Oman's large youth population moves "away from joint families to the system of nuclear families".

Indeed, with a young and growing population, the Sultanate boasts all the necessary fundamentals for a lucrative boom in residential construction. While Oman has fared well compared to some of its neighbours in the current economic climate, it is not completely immune, and demand for high-end real estate is flagging. As the global credit crunch readjusts the budgets of consumers worldwide, developers in Oman and elsewhere will likely be following suit, bringing price tags and design concepts back down to earth.