Muscat Market Snapshot

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Introduction

This article gives an overview of the Muscat hotel market, an emerging market with numerous investment opportunities. The following points will be addressed.

- Economics and politics;
- Development and initiatives;
- Visitation and the hotel market;
- Outlook and opportunities.

Muscat is the capital of and the largest city in the sultanate of Oman. It had an estimated population of 1.1 million in 2008, or approximately 40% of the sultanate's total population. The city lies on the northeastern coast of Oman, on the Arabian Sea, alongside the Gulf of Oman and is in close proximity to the strategic Straits of Hormuz.

Economics and Politics

Omani citizens enjoy a good standard of living, but the future is uncertain, given Oman's limited oil reserves. Oman began to export oil commercially in 1967 and since 1970, when Sultan Qaboos acceded the throne, many more oilfields have been found and developed. However, since the slump in oil prices in 1998 and the depletion of reserves within its territory, Oman has made active plans to diversify its economy.

The government has identified tourism as a sector that needs to be nurtured. In many ways, this recent shift in policy towards pouring resources into tourism has been born out of necessity, as Oman's reserves of oil and gas are predicted to run dry within the next two decades. In 2002, tourism accounted for just 0.7% (US$243 million) of gross domestic product (GDP). The government hopes this figure can be increased to 1.4% of GDP in 2010 and 3.0% by 2020. Oman is also keen to increase the number of citizens working in the tourism sector. At present, 37% of those employed in the tourism business are Omani; the authorities want to increase this to 80% by 2010. The same law requires hotels to have an 'Omanisation' rate of 65%.

Development and Initiatives

Although Oman has made remarkable progress both socially and economically with the implementation of consecutive 'Five-Year Development Plans', the challenges facing the government, challenges arising mainly from uncertainty over oil revenues, gave birth to 'Oman 2020'. In June 1995, the Vision Conference: Oman 2020 was held in Muscat with the aim of moving the economy into a new phase of development – one leading to higher growth and greater prosperity. The main aims of the plan are as follows.

- Economic and financial stability;
- Reshaping the role of government in the economy and broader private sector participation;
- Diversification of the economic base and sources of national income;
- Globalisation of the Omani economy;
- Development of human resources and upgrading the skills of the Omani workforce.

In 2020, it is expected that the economy will no longer be reliant on oil, but will have been diversified with higher levels of savings and investment. Other sources of national income from the non-oil sector will assume the primary role. In recent years significant investment has been made in improving infrastructure, commerce and tourism in Oman and, specifically, Muscat. The following are some of the major developments currently under way in the Muscat area.

- **Blue City**: located approximately 100 km outside Muscat, this US$15 billion development will house 250,000 residents and contain commercial and leisure facilities including resorts, five-star hotels and golf courses. Blue City is a development by Al Sawadi Investment and Tourism and is expected to be completed by 2020;
- **The Wave**: Waterfront Investments (Omani government) and Majid Al Futtaim Investments are behind this US$2.4 billion development. It will contain more than 4,000 residential units, an 18-hole Greg Norman golf course, a 300-berth marina and three hotels: a Fairmont, a Kempinski and a third hotel whose brand is still to be determined. The first phase is complete and phases two and three are expected to be complete by 2010. A further three phases are expected to be complete by 2013;
- **Omagine**: a US$1.6 billion development by Journey of Light, Omagine will contain a unique cultural theme park named the Landmark, which will include seven pearl-shaped buildings and exhibition halls. This project sits adjacent to The Wave and will also have hotels, restaurants, parks and residential space. Completion is expected by 2012;

- **Yenkit Tourism Development**: this US$2 billion development will be located southeast of Muscat. In addition to four five-star hotels, 1,400 residential villas and 1,900 residential apartments, the development will have an 18-hole golf course and sports facilities;
- **Salam Sport and Leisure Resort**: Sama Dubai's US$1 billion development will have four hotels – two of them five-star – and serviced apartments. Additional facilities include a shopping centre, a 150-berth marina and an 18-hole golf course;
- **Salam Yiti**: a joint venture between Sama Dubai and Omran, Salam Yiti resort will have three five-star hotels, 400 villas, 1,000 apartments and 720 town houses. Other facilities included a souk retail centre, an 18-hole golf course, a marina, a beach and community services. Salam Yiti was initially expected to have been completed by 2011 at a cost of US$1.6 billion, but this is currently being revised.
- **Jebel Sifah**: Muriya, a partnership between Oman Tourism Development Company (30%) and Orascom (70%), is developing this US$200 million project 45 km from Muscat. Jebel Sifah will include four hotels, 450 villas and 500 apartments, restaurants, retail outlets and an 18-hole golf course;
- **Muscat Hills Golf and Country Club**: this US$400 million luxury resort in Muscat will have a five-star hotel, an 18-hole championship golf course, 140 luxury villas, 29 luxury three-storey apartment blocks, a retail area and other recreational facilities. It is expected to be completed in 2009;
- **Al Khyran Resort**: located 17 km east of Muscat, this project will be developed by Al Argan Towell Investment as an exclusive hotel on 13.7 hectares of wilderness landscape in an enclosed bay. The project will include an 82-room hotel, central facilities and a spa. This US$30 million project is expected to be completed in 2010;
- **Tilal Al Khuwair:** Al Madina Real Estate's US$1 billion project is divided into two phases: a Grand Mall is planned to open in 2009 and the Project is planned for 2011. This commercial and residential development will include shops, entertainment facilities and offices. The 350,000 m^2 facility will include a five-star hotel.

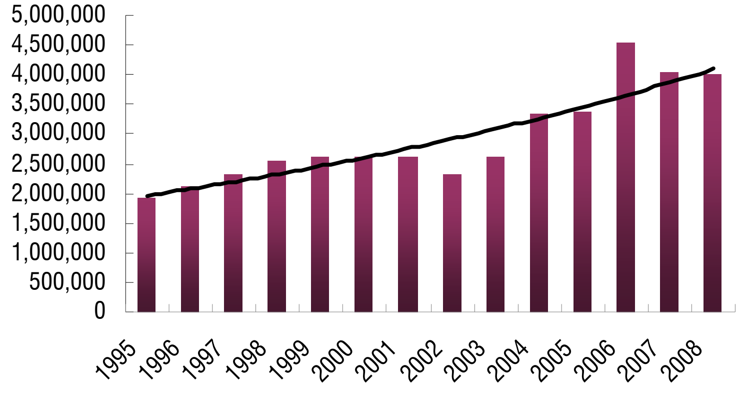
Visitation and the Hotel Market

Despite the war in Iraq and recent political unrest in the Middle East, the total number of arrivals in Muscat increased by approximately 14% in 2003, 27% in 2004 and 34% in 2006.

In 2007, the government of Oman pulled out as a shareholder in Gulf Air, a move that caused transfer and transit traffic to decrease by about 50%. This, coupled with the decline in crude oil output and Cyclone Gonu, which struck on 6 June 2007, caused the total number of arrivals to decline by approximately 10% that year. Gonu forced the closure of the airport for three days and the resultant damage, which cost US$4 billion to right, disrupted business throughout the summer of 2007, forcing Oman to abandon plans to host the annual Gulf Cooperation Council (GCC) summit. Although the number of tourists increased between 2007 and 2008, total airport traffic decreased by -1.2%, owing to the continuing drop in transfer and transit movement following the cessation of Gulf Air's operations at Muscat International.

Table 1 Passenger Arrivals at Muscat International Airport 1995-08

	International Passengers	% Change	Domestic Passengers	% Change	Total Passengers	% Change
1995	1,789,098	—	145,485	—	1,934,583	—
1996	1,960,336	9.6 %	157,496	8.3 %	2,117,832	9.5 %
1997	2,152,247	9.8	165,896	5.3	2,318,143	9.5
1998	2,251,405	4.6	296,489	78.7	2,547,894	9.9
1999	2,312,977	2.7	286,557	-3.3	2,599,534	2.0
2000	2,336,848	1.0	285,505	-0.4	2,622,353	0.9
2001	2,349,502	0.5	263,414	-7.7	2,612,916	-0.4
2002	2,022,161	-13.9	292,523	11.1	2,314,684	-11.4
2003	2,339,089	15.7	292,827	0.1	2,631,916	13.7
2004	3,056,902	30.7	277,753	-5.1	3,334,655	26.7
2005	3,102,673	1.5	280,369	0.9	3,383,042	1.5
2006	4,203,829	35.5	317,514	13.2	4,521,343	33.6
2007	3,697,258	-12.1	352,691	11.1	4,049,949	-10.4
2008	n/a		n/a		4,002,121	-1.2
Compound Annual Growth Rate 1995-07		**6.2 %**		**7.7 %**		**6.4 %**



Source: ACI Worldwide Airport Traffic Report; Muscat Airport Statistics

Muscat International Airport is currently undergoing significant expansion. The Ministry of Transport and Communication has invested US$600 million in the multiphase work, which includes the expansion of the passenger terminal as part of phase one. The plan is to increase the airport's capacity by 7 million passengers a year. Phases two and three are in the early stages of planning and details have not yet been revealed. However, the airport is expected to have a capacity of 48 million passengers by 2050.

The airport is a hub for national carrier Oman Air, which has historically been oriented towards domestic and short haul flights but which is now looking to purchase wide-body aircraft and expand its routes. Courtesy of its parent company Oman Aviation Services, Oman Air opened up eight new destinations for commercial operations in 2002 and it is looking to launch routes to Europe.

The largest source market for Oman is the countries in the GCC; the GCC accounts for more than half of the total number of inbound visitors and more than one-third of the hotel guests. The Middle East market experienced increased intra-regional tourism after the events of 11 September 2001 in the USA and the outbreak of war in Iraq in 2003. European countries account for almost one-fifth of the total number of inbound tourists and one-third of the hotel guests. Europe has been the fastest-growing source market over the last few years. Asian countries are the third-largest source of demand.

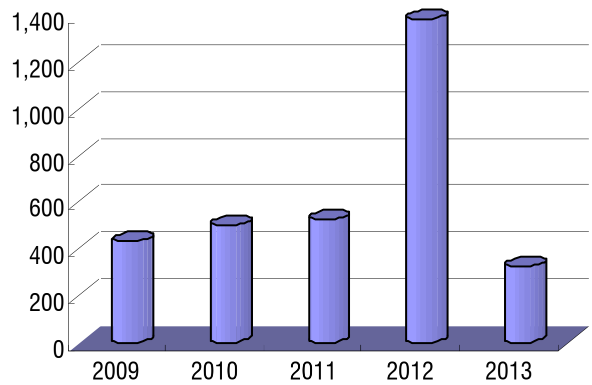
Occupancy among five-star hotels has been around 70% over the past few years and average rate has been US$330. In the four-star market, the corresponding figures were 75% and approximately US$250. Oman, in general, has been a luxury leisure destination predominantly, piggybacking on Dubai's tourism. Business tourism, however, is on the increase, as Muscat is starting to be regarded as a cheaper alternative to Dubai.

This promising outlook, coupled with Oman's lush natural countryside, has enabled Muscat to market itself as a luxury escape. The predominance of resort accommodation in this niche tourism market has attracted many brand names known for their luxury and indulgence.

Four Seasons is rumoured to be entering the market. The 200-room sharia-compliant Caravan Serail has been approved as has the 'dry' Shaza hotel. InterContinental Hotels Group, Accor and Golden Tulip are also ready to expand. The approved hotel supply that is expected to enter the market in the near future is detailed in Table 2.

Table 2 New Hotel Supply

Proposed Property	Number of Rooms	Opening Year
Park Inn	232	2009
Ecos Airport Hotel	200	2009
Ibis Muscat	171	2010
Premier Inn	150	2010
Swiss-Belhotel Al Qurum	179	2010
Jumeirah Al Salam Yiti Resort	350	2011
Holiday Inn Hotel	176	2011
Banyan Tree Resort	105	2012
Angsana Resort	105	2012
Missoni Jebel Sifa	300	2012
Fairmont – The Wave	280	2012
Sofitel Beach Hotel & Resort	250	2012
Ibis Mutrah	203	2012
Novotel Mutrah	145	2012
Kempinski – The Wave	324	2013
Total	**3,170**	



Outlook and Opportunities

Oman's tourism sector has much to look forward to in the next few years. However, the country's infrastructure must be such that it can cope with the number of visitors that will be drawn to Oman by the country's advertising campaign.

The Omani authorities' tourism policy is concerned more with the type of tourist entering the country rather than the number. The fact that Oman's two most important source markets are mature European economies and the GCC is partly a result of the country's policy of marketing Oman less as a destination for the masses and more as a very high-end location that is best suited to those seeking more costly and luxurious holidays.

No investment decision should be made based on the information presented in this article. For further advice please contract the authors.

About the Team

HVS has a team of experts that conducts our operations in the Middle East and North Africa. The team benefits from international and local backgrounds, diverse academic and hotel-related experience, in-depth expertise in the hotel markets in the Middle East and a broad exposure to international hotel markets. Over the last three years, the team has advised on more than 150 projects in the region for hotel owners, developers, lenders, investors and operators. HVS has advised on more than US$25 billion worth of hotel real estate in the region.

About the Authors

Nehme Ayoub joined the Dubai office's Consulting & Valuation practice in May 2008. Before joining HVS, Nehme led the investment team at Noor International Holding. While in Boston, he honed his skills at Mercer and Bank of America's Investment Services in the areas of finance and portfolio analysis. During his years in college, Nehme worked as an intern with Banque Du Liban, Deloitte, and Société Générale pour les Études et l'Entreprise. Nehme holds a masters degree in Economic Policy from Boston University and a bachelor in Economics from the American University of Beirut.

Hala Matar Choufany is the Managing Director of HVS Dubai and is responsible for the firm's valuation and consulting work in the Middle East and North Africa. She initially joined HVS London in 2005, and moved to HVS Shanghai in September 2006 where she helped grow the HVS Shanghai office and its business in the Asia region. She relocated to Dubai in September 2007 and looks after HVS's interests in the Middle East. Before joining HVS, Hala had four years' operational and managerial hotel industry experience. She lectured at Notre Dame University in Lebanon on International Travel and Tourism. Hala holds an MPhil from Leeds University, UK, an MBA from IMHI (Essec-Cornell) University, Paris, France, and a BA in Hospitality Management from Notre Dame University, Lebanon. Hala has worked on several midscale and large-scale mixed-use developments and has conducted numerous valuations, feasibility studies, operator searches, return on investment analyses and market studies in Europe, Middle East and Asia.

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