



# MENA HOTEL MARKET REVIEW

## MUSCAT | OMAN

### 2018

# OMAN

## ECONOMIC OVERVIEW

Oman’s economy continues to be heavily reliant on hydrocarbons, with oil production accounting for approximately 84.0 percent of total government revenues in 2017. Due to decreasing oil reserves and a fast-growing labour force, Oman’s government outlined the Ninth Five-Year Development Plan (2016-2020) which aims to reduce the oil sector’s GDP contribution from 46.0 percent in 2016 to 26.0 percent by 2020.

After recording a marginal drop of 0.9 percent in 2017, Oman’s economy is set to rebound with solid growth rate projections for 2018 and 2019, estimated at 1.9 percent and 5.0 percent respectively, according to data released by the International Monetary Fund (IMF). This positions Oman as the fastest growing GCC economy in 2019.

The anticipated growth will be driven by oil rising prices, greater oil and gas production as well as increasing investments in the non-hydrocarbons sector. This is expected to reduce the fiscal deficit to less than 4.0 percent of GDP during the 2018-2019 period from 12.8 percent recorded in 2017.

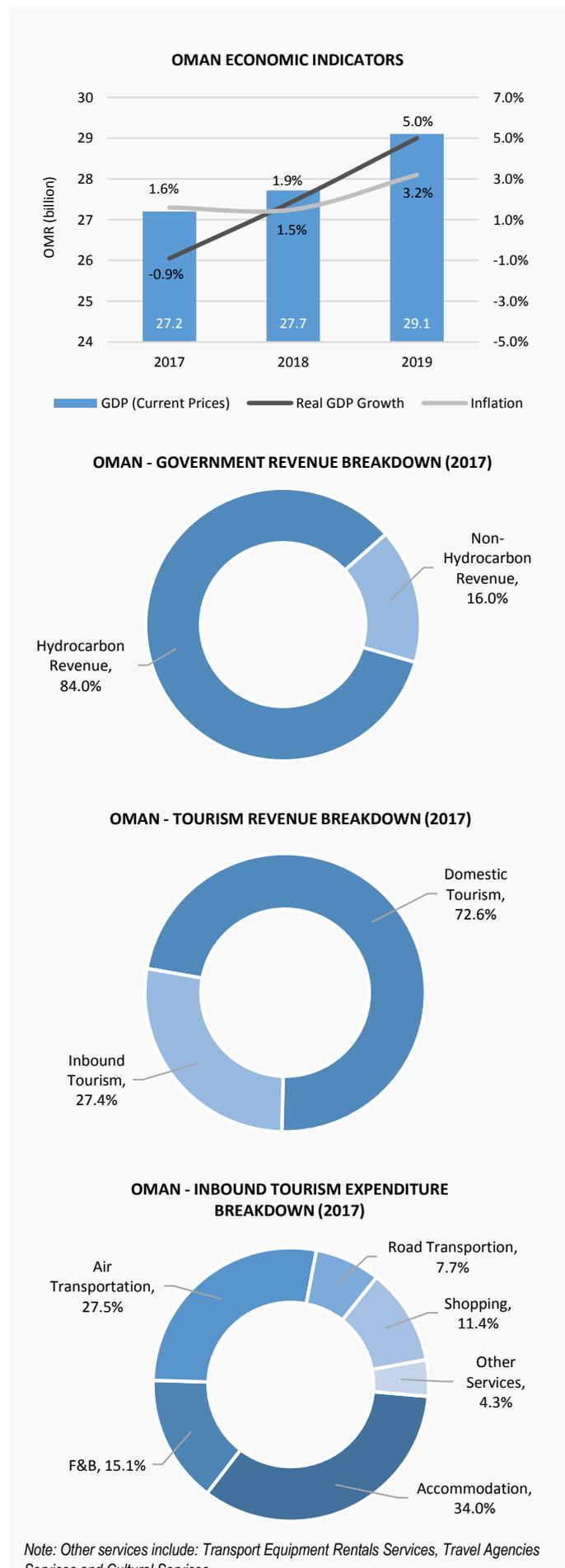
After increasing to a rate of 1.6 percent in 2017 on the back of higher corporate and withholding taxes, subsidy cuts and increased food and transportation costs, inflation is forecast to stabilise at 1.5 percent in 2018, before it rises sharply to 3.2 percent in 2019 following the introduction of VAT in January 2019.

## TOURISM MARKET OVERVIEW

Oman’s travel and tourism sector was valued at an estimated OMR 1.25 billion in 2017 according to the National Centre for Statistics and Information (NCSI), with inbound tourists generating OMR 342.3 million (27.4 percent of total tourism revenue). This represented a year on year increase of 6.1 percent, while the domestic market contributed the remaining OMR 909.1 million (72.6 percent of total tourism revenue), highlighting the importance of the domestic market in the sector.

In 2017, the travel and tourism sector accounted for 2.6 percent of GDP, however the government is focused on increasing the overall contribution to GDP to 6.2 percent by 2040, as stipulated in the Sultanate’s National Strategy for Tourism 2040. Other primary objectives include the attraction of 11.7 million international visitors per annum, the creation of 500,000 tourism-related employment opportunities and the growth in the private sector’s contribution to tourism projects and investments.

It was announced in July 2018 that the government would be aiming to raise OMR 5.8 billion to invest in tourism infrastructure and accommodation with 76 percent of the sum expected to be generated from the private sector. Oman’s tourism strategy focuses on the development and promotion of a series of destinations or “clusters” across the country. These clusters will offer tourists a more comprehensive view of Oman’s culture and nature and encourage extended visits. The Ministry of Tourism has highlighted 14 different locations across Oman with the aim of developing them into key tourism attractions. Although, some of these clusters are in already renowned destinations in the country, others are situated in remote areas and are yet to be developed enough to gain regional or international status.



### NEW VISA POLICIES

As part of its strategy to strengthen tourism arrivals into the Sultanate, in October 2017 Oman implemented revised entry requirements for citizens of 25 mainly Asian countries. Citizens of these 25 countries will be granted a non-sponsored e-visa provided that they have a valid residence or tourist visa for the US, Canada, Australia, the UK or the Schengen Area.

Furthermore, to boost visitor numbers from three of the region's fastest growing inbound source markets, the Sultanate introduced a visa-on-arrival for citizens of Russia, China and Iran in May 2018.

In order to reduce the waiting time at the country's points of entry, the Ministry of Tourism announced in March 2018 that all applications would have to be made online prior to travelling as opposed to granting visas on arrival at the border visa service desks. Although visa-on-arrival is still reported to be available, the change in process could impact the inflow of residents of neighbouring countries who previously enjoyed the ease of convenience of last minute bookings.

### MUSCAT SOURCE MARKETS

Despite a marginal 1.0 percent decline in room nights of demand in 2017, Muscat witnessed strong tourism growth between 2011 and 2017 with room nights of demand increasing at an average annual growth rate of 7.2 percent.

The domestic market remains the largest individual source of demand for Muscat hotels with an estimated 705,000 room nights in 2017. Europe was Muscat's top inbound source market in 2017 with 34.0 percent of room nights, followed by Asia (31.4 percent) and the GCC (13.9 percent).

The GCC market generated the highest annual growth rate between 2015 and 2017 of 5.5 percent, followed by the Asian market, which grew by 5.1 percent per annum.

### MUSCAT HOTEL MARKET OVERVIEW

Muscat's hotels experienced a challenging 2017 with the market witnessing a decline in all key performance indicators.

As Oman continues to face economic headwinds on the back of low oil prices and lower government spending, the hotel sector in the capital saw demand levels fall, prompting a rate war which saw both revenues and profits decline dramatically.

Weaker demand was compounded with increasing supply, with hotel supply in the wider Muscat Governorate growing at a CAGR of 7.8 percent between 2013 and 2017 to reach 142 properties. Muscat has witnessed an increasing number of internationally branded hotels enter the market which has further impacted performance as these new properties adopted aggressive market penetration strategies in order to carve out market share.

MUSCAT INTERNATIONAL AIRPORT STATISTICS 2016-17

Indicator	2016	2017	Change (%)
Arrivals (mn)	6.07	7.02	15.7
Departures (mn)	5.94	7.01	18.1
Total Passengers (mn)	12.03	14.06	16.9
Aircraft Movements	103,326	114,360	10.7

\*Total passengers comprise arrivals, departures and transit passengers.

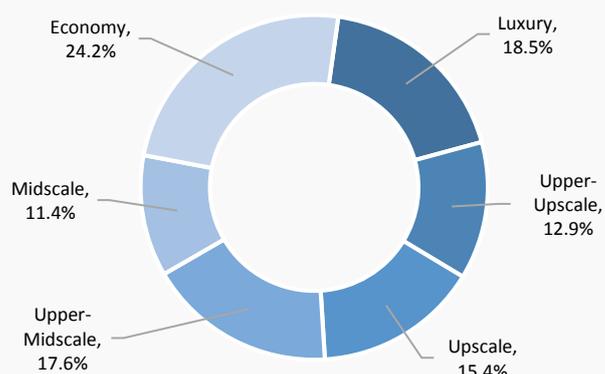
MUSCAT - ROOM NIGHTS OF DEMAND BY SOURCE MARKET (000s)

Indicator	2016	2017	Change (%)
Domestic	710	705	-0.7
Inbound	1,283	1,268	-1.2
GCC	165	176	6.7
Other Arabs	146	131	-10.3
Europeans	420	431	2.6
Asians	393	398	1.3
Other	159	133	-16.4
<b>Total</b>	<b>1,993</b>	<b>1,973</b>	<b>-1.0</b>

MUSCAT - HOTEL ESTABLISHMENT ROOM SUPPLY GROWTH (STR)



MUSCAT - 2017 ROOM SUPPLY BY CATEGORY (STR)



## MUSCAT HOTEL MARKET PERFORMANCE

Muscat's four and five star hotel market witnessed a 5.4 percentage point decline in occupancy to 58.2 percent in 2017, on the back of weaker corporate and government demand and increased supply. The market not only witnessed an 11.6 percent decline in corporate demand (the largest market segment), but average rates from the segment fell 13.4 percent during the periods.

As a consequence, hoteliers were forced to adopt more competitive pricing strategies and shift to alternative source markets which eroded average room rates by 12.7 percent in 2017.

The city's hotels continue to be driven by rooms revenue, which generates over 50 percent of total revenue, however a decrease in F&B revenue compounded the 20.1 percent decline in RevPAR, resulting in total revenues falling 21.7 percent lower to OMR 84.0.

Departmental profits were consequently down with the rooms and F&B departments witnessing a 15.7 percent and 22.0 percent reduction in profit, respectively. Overall departmental profits also decreased, falling from 59.4 percent of total revenue in 2016 to 56.2 percent in 2017.

Payroll expenses as percentage of total revenue increased 6.7 percentage points during the year, not only as a result of softer total revenues, but also on the back of an increase in job visa fees for expatriates and new Omanisation policies. The higher payroll costs and an increase in operational and energy costs contributed to a 39.0 percent fall in GOPPAR to OMR 22.0 and a 7.5 percent decline in profit conversion to 26.1 percent.

## MARKET OUTLOOK

Although Oman's economy is still facing a number of challenges, rising oil prices coupled with projected growth in non-oil economic sector and boosted budget spending for 2018 are expected to help the country's economy rebound. In addition, the recent opening of Muscat Airport's new international airport, the launch of the country's first low-cost airline, Salam Air, and the announcement of easing visa restrictions on visitors from China, India, Iran and Russia are expected to help attract greater leisure demand. The share of the Tours/ Groups market segment is also forecast to strengthen as increasing visitor numbers from the above-mentioned markets primarily book organized group package holidays.

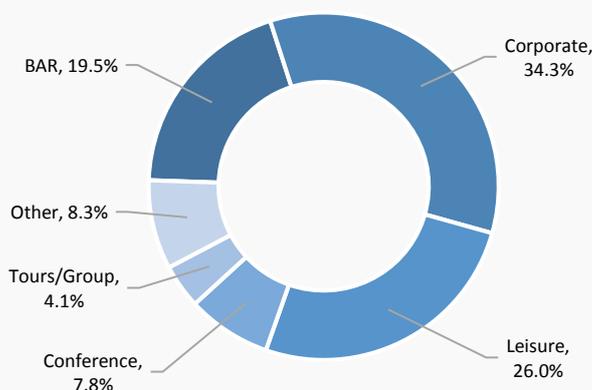
As far as Muscat's future hotel establishment supply is concerned, the capital will witness the opening of 37 new hotels (7,452 keys) between 2018 and 2022, resulting in an 87-percent increase in supply. The majority of the future supply will fall under the upscale segment (35.4 percent) with luxury and upper-upscale hotels accounting for 23.5 and 14.2 percent respectively.

Overall, we project the Muscat hotel market will continue to face headwinds for the remainder of 2018 and into 2019 as the city continues to experience an influx of new supply and the corporate environment remain subdued. However, we remain optimistic that leisure demand will strengthen, driven by the new visa regulations, improved airlift and stronger tourism promotion and marketing.

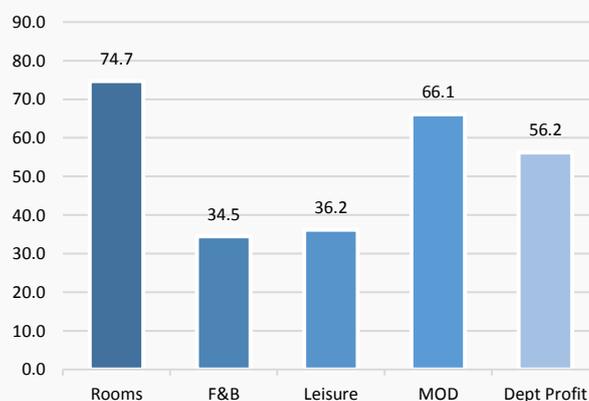
### MUSCAT - HOTEL PERFORMANCE INDICATORS

Indicator	2016	2017	Variance
Occ (%)	63.6	58.2	-5.4
ARR (OMR)	83.2	72.6	-12.7%
RevPAR (OMR)	52.9	42.3	-20.1%
TRevPAR (OMR)	107.3	84.0	-21.7%
Payroll %	31.9	38.6	6.7
GOPPAR (OMR)	36.0	22.0	-39.0%
GOP %	33.6	26.1	-7.5

### MUSCAT - MARKET SEGMENTATION (2017)



### MUSCAT - DEPARTMENTAL PROFIT % (2017)



### SELECTED UPCOMING HOTEL OPENINGS

Property Name	Opening	Keys
Jumeirah Muscat Bay	2018	206
W Hotel Muscat	2019	278
Hilton Garden Inn	2019	232
Hilton Muscat	2020	205
Dusit D2 Palm Mall	2020	237
InterContinental Muscat Hills	2020	249
JW Marriott	2020	305
Mandarin Oriental	2021	150
Novotel Azaiba	2021	200

## TRI CONSULTING

TRI is one of the region's leading management consultancies in the fields of hotels, leisure and real estate. Since its conception in 1995, the company has gained extensive experience on projects across the region, including the Middle East, Africa and Europe.

TRI adheres to the principles laid down when the company was formed: the best possible advice to clients, based on professionalism, expertise and continuous learning. In doing so, these principles help ensure that TRI remains a leader in its field.

### KEY SERVICES

TRI provides assistance at all stages of the project lifecycle with the following services:

- Market and Financial Feasibility Studies
- Highest and Best Use Feasibility Studies
- Hotel Operator Search and Selection, Review of Term Sheet/MOU
- Pre-Feasibility and Financial Analyses
- Bespoke Research Studies
- Operational Reviews
- Valuation Studies
- Master Plan and Market Validation Studies
- Preparation of Business Plans and Financial Models

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