

Market Overview Bahrain

Editorial

Bahrain is considered to be one of the most open countries in the region from an economic and financial point of view. The Independence of Economic Freedom Report for the year 2007 ranked Bahrain the 39th on a world scale of liberal economies and 2nd out of 17 countries in the Middle East/North Africa region.

By pursuing a strategy aimed at liberalizing the economy, diversifying sources of national income and attracting investments, the country has been able to make noticeable progress in the past years and further developed its best performing sectors. In addition, Bahrain has strengthened its prominence as the region's hub for financial institutions and Islamic banking.

Bahrain's real estate market witnessed major growth in the past few years triggered by the economic boost from oil revenues, expansion investment policies coupled with the opening of the real estate market to GCC & foreign investors. Given world political events in Europe and the US, many GCC investors choose to re-invest their capital in the region. Bahrain is considered one of the most attractive countries to invest due to low inflation rates and transparent legal system with minimal barriers to foreign investments.

According to data available from the Survey & Land Registration Bureau of Bahrain, the real estate market in the 1st quarter of 2008 has experienced consistent growth in terms of activity and number of transactions traded in the past few years. This increase is indicative of the ongoing demand for real estate properties given the increase in foreign investment, excess

liquidity in the market and the government's liberal policy towards non-Bahrainis to ownership laws.

With this market overview we would like to bring this vigorous country and its large potential closer to you and hopefully welcome you to show you what Bahrain is all about.

Engel & Völkers

Engel & Völkers is represented in 24 countries on 4 continents and 300 sales shops. Our locations extend at over 200 places throughout Germany, Spain, Switzerland, the USA, South America, Asia and Middle East and now Bahrain. In all these countries the business focus is on the presentation of extraordinary properties to rent or purchase. Consultancy, leasing, sales and valuations form the core competences of Engel & Völkers for its private and institutional clients.

Engel & Völkers combines over 30 years experience in Real Estate with innovative ideas and has set foot into the market of Bahrain in 2008. It is one of the biggest European Real Estate Companies, and its professionalism and European style are increasingly recognized by the whole Middle East.

Engel & Völkers corporate vision is not to follow, but to be the leader and is striving to provide end-to-end real estate solutions for each individual client to satisfy your every need and therefore to ensure highest client satisfaction.

Market Information

Land prices, construction cost and rise in white collar wages has attributed to the growth of the market. Land prices have risen from BD2.5/ft² up to BD13-15/ft² in residential areas such as Saar and Budaiya, and BD15/ft² to BD22/ft² in Manama. As for Juffair, land prices have increased from BD4.5/ft² to a range of BD25-40/ft² where as Seef District has recorded the highest price appreciation in Bahrain with land prices as high as BD88/ft² to BD200/ft². Another cause for the increase in property values is the escalating cost of construction, reaching to 24% in the 1st quarter of 2007 due to the increased prices of cement, concrete and aggregate construction materials.

Additionally, the rise in white collar wages in Bahrain and across other GCC countries has attributed to increased spending and the demand for luxurious living. Given the expansion of certain economic sectors such as the manufacturing, industrial, construction and the financial sector, in addition to Bahrain's image as the financial hub in the region, many businesses were attracted to Bahrain increasing the number of institutions, activities and investments.

This has resulted in the boost of wages and demand for high-end housing. These conditions have spurred real estate investors and owners of residential buildings to enhance the quality of residential apartments and elevate rental rates to earn maximum returns given the overall increase in properties value.

Residential Market

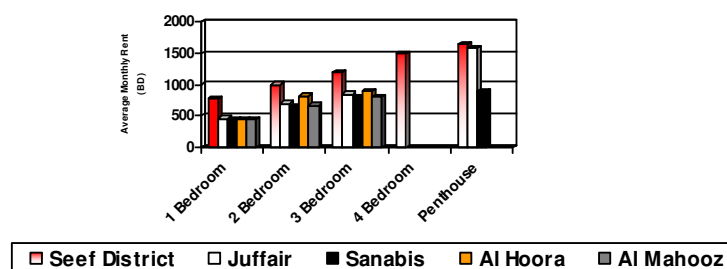
The residential sector has been witnessing a lot of speculative activity driven mainly by trading by Kuwaiti, and Saudi investors. Land prices have appreciated by about 3 to 4 times, for example land prices in high end low rise residential areas such as Saar, and Budaiya have increased from BD2.5 to BD10 per sqft. In Busaytin, another residential area; prices have gone up from BD2 to a range of BD10-20 per sqft.

The Bahraini residential property market is mainly dominated by rental activity, and witnessing minimal sales. Demand for residential properties has been increasing due to the growth in population and influx of foreigners, especially these who come from Saudi Arabia through the King Fahd causeway. Due to the country's proximity and convenience to many foreign expatriates that work in Saudi Arabia, many of those expatriates live in Bahrain, traveling daily or weekly to their work place.

Additionally, the US military still remains a major client for renting flats in the country. Saar, Budaiya, and Busaytin are among the areas witnessing increased activity in the construction of low rise compounds and villas, and are inhabited mainly by Saudis and expatriates. Villas in high end areas such as Busaytin and Saar are selling in the range of BD80,000 to BD325,000, while monthly rents for villas are in the range of BD1,000 – BD2,000.

For a 200sqm plot, with 60% of the plot area being built up, and with a price of land ranging BD8-10 per sqft, an average villa will cost BD60,000- 75,000, while an apartment should cost BD30,000-50,000. Residential returns are in the range of 8-10% for investors, and 15-20% for developers. The new areas are currently attracting interest away from Manama city which used to be the favorite residential area. The aging housing stock in Manama has forced people who are interested in higher quality properties to shift to new areas such as Seef, Saar, Budaiya, and Busaytin. Currently, Manama city is inhabited mainly by low income expatriate population.

Average Monthly Rental of luxurious Residential Apartments 2007 (BD)



Source: Tameer Research

Demand for residential properties has been increasing considering the increasing population growth and influx of foreigners, especially those who come from Saudi Arabia through King Fahd causeway. A lot of upscale residential projects are in the pipeline. We believe that the residential sector in Bahrain has been crowded with high-profile commercial properties and luxury residential properties leaving the country short of housing for low income groups.

We believe that the real opportunity for the residential sector in Bahrain lies within low end residential properties.

Despite the increasing activities in the residential sector, there is a shortage of housing for low income groups. The focus on high-profile commercial properties and luxury residential properties has left the country short of housing for low income groups. Currently, 40,000 housing loan applications are on the waiting list with the ministry of housing. Density in Bahrain is also very high, the highest among GCC, increasing the demand even further.

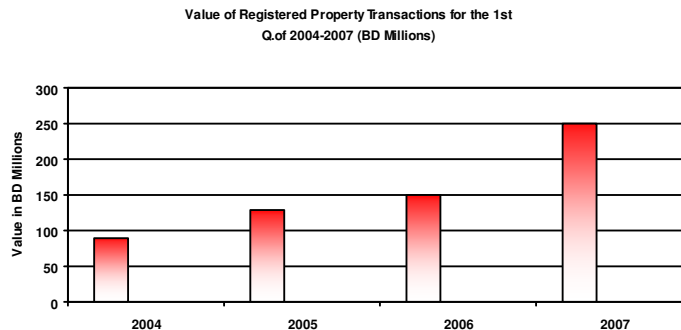
Concerning developments serving low income groups, there have been few projects targeted at low income groups in Muharraq, Hamad, and Al A'ali. The ministry of housing is also constructing 600 houses that are targeted for low income groups. However, the demand is too big for the government to handle on its own, and there is a need for the private sector to step in and resolve the issue.

Real estate analysts believe that the real opportunity for the real estate sector in Bahrain lies within the residential sector especially in the supply of low end residential properties. There is a lot of supply of high end luxurious residential projects coming up catering mainly to GCC nationals wishing to own a second home or a weekend getaway.

We believe that the liberal environment of Bahrain and the easing of property ownership regulation could generate demand for the new wave of supply coming up, however, for an upcoming project to succeed, it needs to be differentiated by a unique feature, an example is the Marina west project, which is a high rise building on the beach, and surrounded by greenery. It includes 1,340 apartments, and is 15 minutes drive from the Seef district, and is also accessible from the Saudi causeway.

The property market has proven to be very lucrative for potential and well established investors and landlords who have introduced a new standard of style, fully-furnished, all-inclusive, and serviced apartments concepts. In addition, newly established private universities in Bahrain are creating an increase demand towards furnished apartments to cater to the needs of many students, professionals and staff attending these academies.

Although, the existence of expatriate workers have caused a substantial boost in apartment rental rates.



source: Survey of Land Registry Bureau 2004-2007

Office Market

The office sector is currently facing a shortage of supply driven by a flourishing business environment, improved macroeconomic environment, and increased foreign investments. Commercial rents have increased rapidly.

The business environment in Bahrain have been flourishing lately along with the improved macroeconomic environment, the positioning of Bahrain as the financial hub for the region, and attracting foreign investments. Previously, Central Manama (Government Avenue) included most of the commercial activity in Bahrain, however, the commercial activity shifted to the Diplomatic area, then to the Seef area, due to traffic and parking problems.

Yields on the office segment ranges between 15-20% for developers, and 10-12% for investors. Due to the current shortage in office space, commercial rents have increased 10-15% in 2007. Monthly rents for office space ranges between BD4-7.5 per sqm in Seef area, BD5-10 in the Diplomatic area, and BD4-7 in Central Manama. Monthly rentals for prime office space have gone up from BD9.5 to BD10.5 per sqm in 2007 on year-on-year basis.

Lots of Office Buildings Coming up, there is a lot of supply of office space coming up shortly in Bahrain at the same time. The Government of Bahrain has designated BFH as a “Strategic Investment Zone” offering investors a relaxed regime of rules, particularly in immigration and labor formalities. Investors will have right to ownership of their assets in BFH and they will also be granted residency permits on a freehold basis. The first phase to be developed by BFH is the Financial Centre, constituting the Financial Mall, the Dual Towers and the Harbor House.

Despite the current shortage of office space; the upcoming new supply might not have enough demand to support the viability of these large scale new projects, which will be partly occupied by existing tenants migrating from Seef to these new projects, due to the current traffic problem in Seef. Further, though the country is opening up to foreign companies, lots of them are representative offices that do not actually require a lot of office space.

Retail Market

The retail sector has been quiet buoyant, supported by the expatriate population, and the Saudi and Gulf travelers coming for vacation in Bahrain. There is a lot of retail activity in Bahrain, with most of the shopping malls mainly concentrated in al Seef area such as Seef mall, Dana mall, Bahrain mall, Marina mall, Sheraton complex, Gosi mall, Citra mall, and Isa town mall.

Most of these shopping malls are high end except for Marina mall and Isa town mall. The average monthly rent for retail space in Bahrain is BD16 per sqm, while in the upcoming City Center; it is expected to range between BD22-24 per sqm. We believe that there is still room for growth in the retail sector; as the majority of shopping in Bahrain is done by foreigners and other GCC nationals who visit on the weekends.

Although, most of the Bahraini population falls into the low income group, the activity in the Bahraini retail market has been quiet buoyant, supported by the expatriate population, and the Saudi and other GCC countries travelers coming for vacation in Bahrain.

The BD150mn City Centre Bahrain, the largest urban shopping and entertainment project launched by the UAE-based regional property developer “Majid Al Futtain Investments”, is set to become Bahrain’s biggest retail outlet. Bahrain City Centre will house the Middle East’s largest 20-screen Cineco Cinema, and more than 350 stores, including six anchor stores.

It features a 5,000sqm Magic Planet, and two hotels with a total of 700 hotel rooms combined, which will directly link to the mall. The resort will also be home to the largest indoor water park in the Middle East, covering an area of 12,500sqm. Other facilities will include 30 international restaurants and Bahrain’s first Carrefour hypermarket, which will span 16,000sqm, as well as 6,000sqm for car parking spaces.

Although the purchasing power in Bahrain is very low, we believe that there is still room for growth in the retail sector; as the majority of shopping in Bahrain is done by foreigners and other GCC nationals who visit on the weekends

Property development

Amwaj Islands



Amwaj Islands, referred to in Arabic as Juzur Amwaj, is the first freehold development that is built in the Kingdom of Bahrain. The BHD 567 million (US\$ 1.5 billion) project is a series of man-made islands, reclaimed off the northeast coast of Al Muharraq Island.

The mixed use development cover an area of 2.8 million square meters (30 million square feet) and provide 9.5 kilometers (5.9 miles) of beachfront land. The islands are connected to the mainland by a 3 kilometer (1.86 miles) highway and are approximately 5 kilometers (3 miles) from the Bahrain International Airport.

Abraj Al Lulu



Abraj Al Lulu, also known as The Pearl Towers, is a freehold apartment development being built in the in Seef district of Bahrain's capital city Al Manama. The BHD 95 million (US\$ 252 million) project will contain three tower located next to the Lulu (pearl) roundabout.

It will cover an area of 18.6 thousand square meters (200 thousand square feet) and was designed by a group of architects (Jafar Tukan, Cowi Al Moayed and Habib Mudara).

Durrat Al Bahrain



Durrat Al Bahrain, which is also referred to as the Rising Pearl or Pearl of Bahrain, is a residential, leisure and tourist resort being built near the south tip of the Kingdom of Bahrain. The BHD 452.4 million (US\$ 1.2 billion) project will be a series of 13 man-made islands covering an area of 20 million square meters (215.3 million square feet). It will comprise of six atolls (coral lagoon islands), five petal islands (fish-shaped), a crescent-shaped island, five-star hotels, a 18-hole golf course, 12 bridges, and a marina.

Reef Island

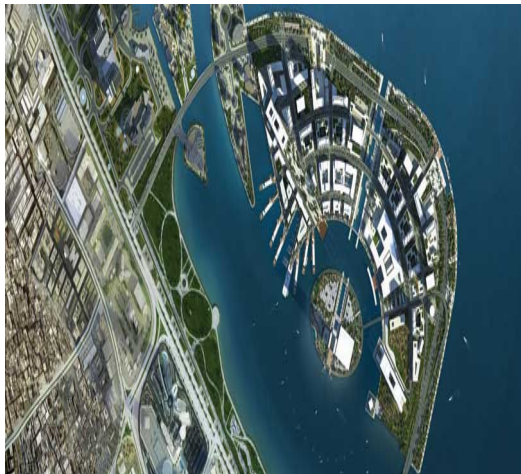
Reef Island, previously known as Lulu Island, is a man-made island being built on the coast of Al Manama, in the Kingdom of Bahrain. The BHD 450 million (US\$ 1.2 billion) freehold development project will cover an area of 579 thousand square meters (6.23 million square feet) and be located close to the Pearl roundabout, along with being moments away from Abraj Al Lulu and the Bahrain Financial Harbour [BFH].

Reef Island is being designed in the shape of the number 9 and will contain 39 residential buildings with a total of 1,217 apartments with waterfront or lagoon views.



It will also contain one residential tower, 49 beach villas, 65 individually designed sea-view villas, a 250 room five-star hotel, marina and yacht club, an aquarium, a well care center, a shopping mall, and a multi-function exhibition center.

Bahrain Bay



Leveraging its strategic location near the airport, embassies and growing business district, Bahrain Bay is ideally located to become an anchor for residents and visitors to Bahrain.

The masterplan is centered around a unique concept: An island connected by two bridges that form an inner harbour. Two organising principles define Bahrain Bay: radiating circles that carve the central island, promenade and road system, and two intersecting axes which defines vistas, the canal and five key monuments.

Bahrain Financial Harbour



Bahrain Financial Harbour (BFH) is a world-class, fully integrated waterfront development which will create a complete financial city, a self contained community, in the centre of Manama, Kingdom of Bahrain.

Reasons to Invest in Bahrain

Bahrain is ranked the most economically free country in the Middle East and is the fourth freest economy in the world as ranked by The Heritage Foundation/Wall Street Journal.

Simplified administrative and legal systems and procedures, along with rapid industrialization, have assured excellent opportunities for the foreign investor considering Bahrain as a Middle Eastern base for business activity.

Investment incentives include 100% foreign ownership allowed for certain categories of business.

Other significances are:

- No personal, corporate or withholding tax.
- Neither VAT nor any form of sales tax on goods or service.
- Duty-free access to the GCC States (subject to conditions).
- Sustained low inflation.
- No exchange controls.
- Strategic geographical position in a market of 100-million people
- 'Fast-track' seven-day commercial registration procedure for new companies.
- A liberal and high standard of living.
- King Fahad Causeway between Bahrain and Saudi Arabia offers easy access to the largest single market in the region.
- A well-developed multi-lingual Labor force at one third the cost of those in industrialized countries.
- No customs duties on imports of raw materials, semi-finished commodities brought for further processing, imports required for development projects, machinery for manufacturing, or on goods imported for re-export.

Market Projections

The government of Bahrain has taken several initiatives towards achieving a strong and open economy, including positioning itself as the financial hub of the region, investing in the manufacturing and infrastructure sectors, the ongoing construction of the 40km causeway linking Bahrain and Qatar, expansion of Bahrain International Airport, seeking private sector participation in the utility sector, and signing the Free Trade Agreement with the US. High oil prices, and increasing liquidity levels in the region have also contributed to the booming economy.

The burgeoning economy has spilled over the real estate market, which has been witnessing increased activity with several projects in the pipeline in the residential, commercial, industrial, and tourist segments. This will allow the real estate sector to witness further growth in the short term. Land prices in Bahrain have shot up on the back of speculative activity by GCC investors trading in the market, and we expect the trend to continue on the back of high liquidity levels in the GCC region. There is high demand for residential properties in Bahrain driven by the growing population and high density in Bahrain.

Estimated Total No. of Luxurious Residential Buildings		
Area	No. of Buildings	No. Of Apartments
Juffair	66	2200
Al Hoora	22	810
Seef District	12	600
Al Mahooz	11	600
Sanabis	7	425
Total	118	4635
Source: Tameer Research		

GCC nationals and expatriates especially those residing in Saudi are expected to drive the demand further. However, we believe that the residential segment has been crowded with high end residential projects in the pipeline, while there is a shortage in the supply of low income housing. The ministry of housing has already initiated few projects targeted for low income groups. However, demand is very huge for the government to handle on its own, and for the private sector to step in, more financial products need to be developed that allow low income groups to purchase properties in Bahrain.

The real estate market has already seen developments of various forms of financing such as Islamic financing, and mortgage financing, and the government is also supporting low income groups through the provision of interest-free housing loans. With more developments of financial products supporting low income groups, we expect activity in the average-low end housing to pick up as investors will try to take advantage of the huge demand.

The retail and tourism sectors have been attracting demand from GCC nationals, mainly visitors from Saudi who are commuting through King Fahd's causeway to spend their weekends and holidays in Bahrain. In addition, with a foreigners' friendly legislation, investors have started to see the potential, and a lot of upscale residential projects in tourist designated areas have risen to the surface catering mainly to GCC nationals and foreigners in the GCC region. The upcoming causeway linking Qatar to Bahrain could also add potential to the tourism segment along with the progress in the measures undertaken by the government to allow freehold ownership by foreigners in Bahrain.

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