RESEARCH

FIRST HALF 2010
BAHRAIN PROPERTY

Highlights

Knight Frank

MANAMA HAS NOT BEEN IMMUNE FROM THE RECENT DOWNTURN IN THE GLOBAL PROPERTY MARKET

Residential sector

Demand

The appetite for affordable freehold property remains extremely strong with as many as 47,000 Bahraini's currently on the waiting list for a government home.

The developer which is able to provide a product that meets the needs of this market in terms of price and design is likely to deliver a tremendously well received project.

Furthermore, with over 60 percent of Bahraini's currently under the age of thirty, demand for accommodation from this demographic will continue to accelerate in the short to medium term.

The expatriate population also continues to increase in size, although at a reduced annual rate over the last two years, with the total population for the country forecast to reach 1.2 million by the end of 2010.

Supply

During the property boom years of 2004 to 2008, the majority of developers built high-end luxury apartments even though research shows us that affordable villa accommodation is what was and continues to be sought after by the market.

Following the introduction of the freehold ownership law in 2004, pent-up-demand for prime residential property from Bahraini's, expatriates and GCC nationals was satisfied relatively quickly and the market has been experiencing an over supply ever since.

As an additional 5,000 apartments are currently in the development pipeline the situation is only likely to worsen, as when completed, Bahrain's overall stock will increase significantly by 37 percent within two years.

Due to a severe lack of transactions, more and more developers are making the decision to offer freehold properties on the rental market after experiencing a prolonged period of poor sales.

Rental market

Vacancy rates in the gated villa compounds of the Northern Governorate, home to the many middle and high income expatriate families, have risen slightly in recent months but on the whole remain low at between 5 and 10 percent as supply has not kept pace with demand in this sub-sector.

Villa rents have subsequently remained relatively constant during the last two years with a typical new build four bedroom, two-storey detached villa commanding a rent of BD1,600 per month (US$4,249).

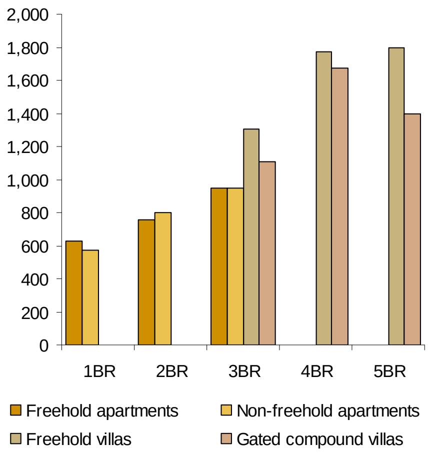
However, mid to high quality apartments in and around the capital Manama are now in high supply in comparison to demand creating a situation whereby the tenant now holds the power of negotiation.

With occupancy levels dropping in properties more than two years old, landlords are at the moment refusing to reduce rents to attract tenants, hoping that demand will increase in the short term rather than medium to long term.

Figure 1

Residential rental market (asking) – Q2 2010

BD/month



Source: Knight Frank

Sales market

Sales of freehold villas and apartments have been almost non-existent in Bahrain over the last two years.

This is indicative of the fact that investors are wary in these uncertain economic times and owner occupier demand for luxury property appears to have been satisfied at least in the short term.

Also, the boom times of speculative purchasers enjoying healthy returns on investments by flipping off-plan properties for a profit are a distant phenomenon.

As many of the mixed use schemes are experiencing construction delays, investors looking to generate rental returns on completed projects are similarly staying away.

Asking prices for high-end apartments range from BD1,000 to BD1,500 per square metre (US$2,652 to US$3,978) down approximately 20 percent on 2009 rates and villas on master planned schemes range from BD700 to BD1,000 per square metre (US$1,857 to US$2,652).

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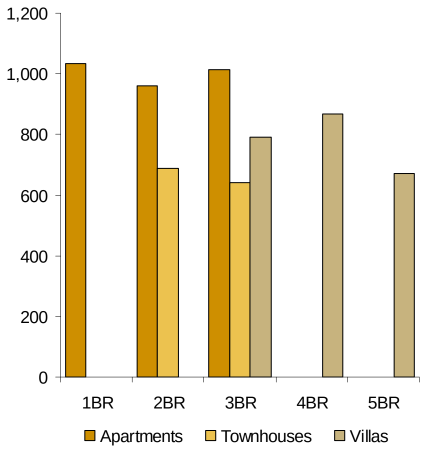
Figure 2

Residential sales market (asking) – Q2 2010

BD/m²/month



Source: Knight Frank

Commercial sector

Demand

Bahrain's labour force has increased rapidly over the last ten years, in line with population growth and is forecast to reach a little over 500,000 workers this year, up by 124 percent on 2002 levels.

This led to a significant increase in demand for office accommodation spurring unprecedented levels of commercial development in the Central Business Districts of Diplomatic Area, Government Avenue and Al Seef District during 2007 and 2008.

It is now estimated that approximately 56,000 workers occupy over 830,000 square metres of Grade A and B quality office space in the country.

Supply

As office projects conceived and launched towards the end of the property market boom start to be delivered over the next 12 months, total stock in Bahrain will pass one million square metres for the first time.

Even though demand for accommodation grew dramatically throughout the middle of the decade, as banking and insurance industries thrived, supply of new space increased at a far greater rate, growing by nearly 250 pecent during the same period.

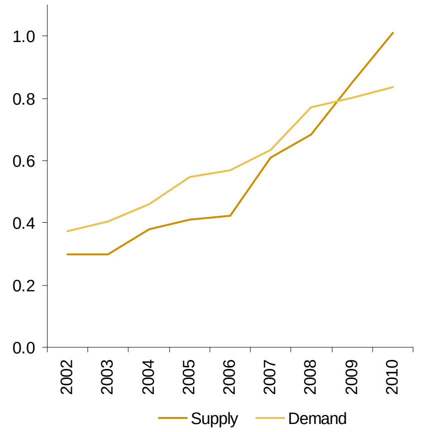
The result is that the market is now experiencing a significant over supply of stock to a level that if all of the projects that are underway are completed there will be enough new office space to accommodate an additional 9,500 workers. This equates to around 30 percent of the existing grade A and B office based workforce operating in Bahrain today.

Average vacancy rates in Bahrain's existing prime space is also high, estimated to be in the region of 20 to 25 percent. This is principally due to the fact that over 100,000 square metres of office space was introduced to the market in 2007 within the Bahrain Financial Towers scheme almost doubling the amount of Grade A stock with the introduction of one property. Absorbtion of units has been a challenge ever since.

Figure 3

Office supply and demand dynamics – 2010

GLA (mil-m²)



Source: Knight Frank

Rental market

Over recent years the office market has seen a slow migration away from the original Central Business District of Diplomatic Area towards Al Seef District as tenants look to negotiate better parking ratios as part of their lease agreements in new build properties that have taken this into consideration with their design.

On the reclaimed land of Al Seef it is estimated that only 30 percent of available land in the central area has been developed to date and therefore it is thought that this location has greater potential to become the established CBD for the country with opportunities for improved road infrastructure and public parking among other benefits.

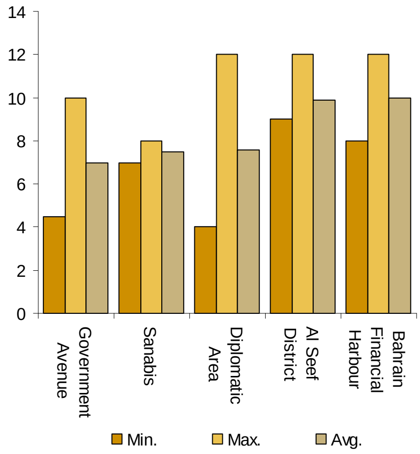
The market is currently seen to be down by 20 percent on average from last years figures, with current monthly asking rates for prime stock topping out at BD12 per square metre (US$32).

Evidence shows that tenants looking to occupy large amounts of space (over 2,000 square metres) are able to negotiate landlords down to as low as BD7 per square metre (US$19) in brand-new buildings in Seef District.

Figure 4

Office rental market (asking) – Q2 2010

BD/m²/month



Source: Knight Frank

Sales market

The concept of selling office space in Bahrain on a strata-title basis was originally attempted by Bahrain Financial Harbour Holding Company in 2004 at the dual Financial Towers component of the project. After limited interest from either national, regional or international investors the decision was then made to revert to a rental model.

Some years later during the property boom of 2007 and early 2008, strata sales were again attempted but this time on a much smaller scale with up to nine individual projects predominantly being developed in the business district of Al Seef rather than being in a wider master planned developments.

Evidence indicates that purchases were largely made by investor speculators rather than businesses intending to occupy the space.

Much of the pent-up demand for this type of accommodation was absorbed in the early months of sales release and therefore combined with the effects of the economic downturn on the real estate market, up to 65 percent of announced projects have been put on hold, cancelled altogether or those that started construction are now either looking for investment buyers or have changed to a rental model.

Current average sales rates are at BD1,100 per square metre which is down by a little over 10 percent on 2009 figures.

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