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- Bahrain's property market is proving resilient in the wake of the global recession.
- DTZ predict that whilst there will be a softening in the office and apartment sectors of the market, there are still opportunities in the industrial and certain areas of the villa market for well researched and market facing developments.
- Almost without exception as a consequence of the global recession every global property market has experienced a level of downturn. Certain markets have fallen further than others with the more transparent ones experiencing, in certain cases, up to a 45% fall in value.
- The Middle East markets have also had their fair share of pain and in certain cases it is fair to say the "bubble has burst". Bahrain has not been immune to the effects of the global recession and much of the market can be described as being "in stress" where potential purchasers are waiting for developments to be completed before parting with their hard earned cash. Meanwhile certain Developers who had relied on the end users to effectively fund their schemes, through phased payments are experiencing liquidity issues, as committed purchasers are reluctant to pay until they see delivery of the end product.
- Notwithstanding the above Bahrain's economy appears to be in relatively good shape and its property market has not experienced the same levels of over development as in certain other Gulf countries. Its proximity to Saudi Arabia, linked via the Saudi/Bahrain Causeway, provides a significant conduit for users and purchasers of all property types and this is significant for Bahrain's property industry as a whole.
- The Regions debt markets are currently extremely quiet, with the majority of bankers reluctant to lend unless significant security can be provided. DTZ anticipates that this will lead to flight to quality, where only carefully thought out schemes, with realistic demand drivers will secure finance.
- Whilst the future remains unclear, the fundamental drivers for value are beginning to re-emerge and over time will only lead to a stronger and more resilient property market in Bahrain.

Economic Overview

Bahrain along with other GCC States has not escaped the effects of the global economic downturn. Notably however its economy appears to have been less affected than certain neighbours with current market indicators suggesting GDP growth of 2.2% this year.

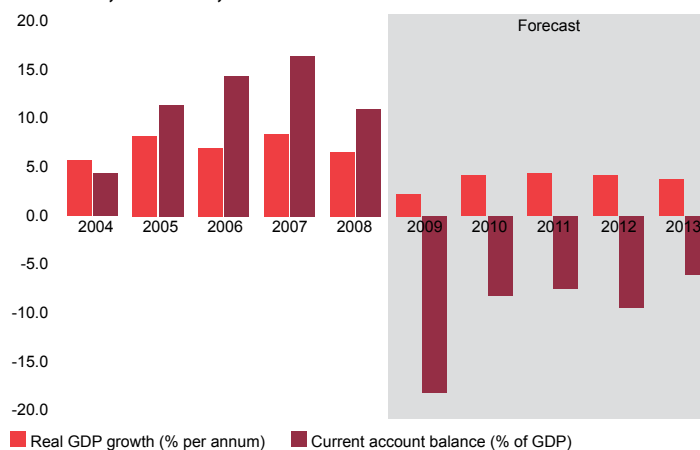
In comparison to other Gulf States Bahrain is the least dependent on oil and gas which only contributed 13% to the Kingdom's total GDP (at current prices) in 2008. The Kingdom has to a certain extent benefitted by not being a member of OPEC as it has not been constrained by recent quota cuts that have been imposed on other GCC hydrocarbon exports. However, these benefits are largely mitigated as the country is not a significant oil producer and does not have large reserves as unlike most of its GCC neighbours. As a result, after a surplus equal to 3.2% of GDP in 2007 and an estimated 7.1% of GDP in 2008, the budget is expected to move into deficit in 2009, to -4.6% of GDP. To help fund this deficit, the Government has issued a US\$750 million sovereign sukuk bond, which was highly successful and is now being followed by another sovereign bond issue but in local currency of around BD2 billion (US\$5.3 billion).

According to the most recent central bank statistics Bahrain's financial sector is the largest contributor to total GDP accounting for 26% of the BD4.73 billion recorded in 2008. Notably this sector has witnessed a 40% growth in absolute terms from 2004 reflecting Bahrain's longstanding status as the Banking centre for the region.

As at the end of December 2008 the total number of local, regional and international financial institutions operating in the country stood at 415. Of this figure 24 are retail banks; 9 of which were locally incorporated as well as 15 branches of foreign banks. To date these appear to be largely unaffected by the sub-prime failures, whilst in contrast along with other regional banks may have unwelcome exposure to the Saudi based Saad Group and Ahmad Hamad Algosaihi & Brothers which are reported to have failed to meet some of their debt payments to various lenders. Recent anecdotal evidence however suggests that bank credit ratings are generally improving following downgrades late last year.

Chart 1

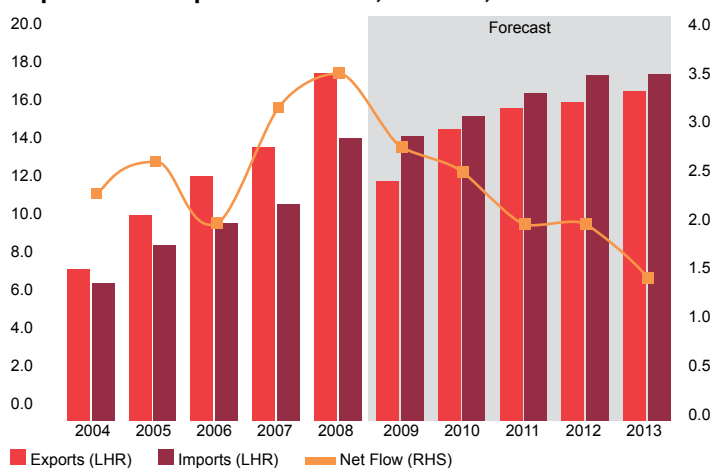
Trend and Forecast GDP Growth and Current Account Balance, Bahrain, 2004-2013



Source: Oxford Economics, DTZ

Chart 2

Imports and Exports of Goods, Bahrain, 2004-2013



Source: Oxford Economics, DTZ

Table 1
Historical and Forecast Market Indicators, Bahrain, 2004-2013¹

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Real GDP growth pa	5.6	7.9	6.7	8.1	6.3	2.2	4.0	4.2	4.0	3.6
Consumer price index	102.2	104.9	107.0	110.4	114.3	117.5	120.4	122.8	125.3	127.1
Current account balance (% of GDP)	4.20	10.95	13.80	15.76	10.56	-17.37	-7.87	-7.09	-9.02	-5.78
Population (millions)	0.712	0.728	0.744	0.760	0.776	0.791	0.807	0.823	0.838	0.853
Petroleum production (barrels/day)	209.14	186.57	183.31	184.20	183.24	181.04	178.32	174.89	171.52	168.21

¹Forecast provided in this section are based on July 2009 forecasts

Economic Overview

Looking ahead however DTZ anticipates that this sector and in particular some of the smaller banks could see a degree of consolidation in an attempt to create economies of scale, reduce costs and improve falling profit margins.

Heritage Foundation recently announced in its Economic Freedom Index for 2009 that Bahrain had the 16th freest economy in the world and most free in the MENA region, meanwhile while the World Bank has placed the Kingdom 18th in its Ease of Doing Business Rankings 2009. Some of the most compelling reasons that many International companies have selected Bahrain as the place to enter the region are due to its geographical environment, well-regulated authorities and relatively low operating costs in comparison to other regional options.

Specifically in relation to the Kingdom's real estate market whilst this has noted a marked slowdown since the beginning of the year, this has been far less severe than in neighbouring countries where in certain cases "the bubble has burst" and significant price corrections have followed. As a result, the real estate market's contribution to the economy is expected to decline in 2009, which prompted by the severe lack of liquidity has removed many investors and developers.

Bahrain's inflation last year peaked at 5.1% in December 2008 but has gradually fallen to 2.9% in July 2009, largely off the back of falling import prices. As current market conditions continue to filter through it is expected that due to depressed domestic activity and stable food prices that inflation will be suppressed to an average of 2.8% this year and 2.5% in 2010.

The population of Bahrain has been growing at a relatively robust pace over the past few years and as at the end of Q1 2009 stood at 1.04 million. It is estimated to continue to grow at a similar pace for the foreseeable future with forecasts predicting a total of 1.4 million in 2025.

As at the end of Q1 2009 the total number of employed persons in Bahrain stood at 483,000 accounting for 46.5% of the total population. This represents growth of 24.1% from 2008, above the CAGR level of 12.6% observed between 2001 and 2008, although it is expected to fall over the current year.

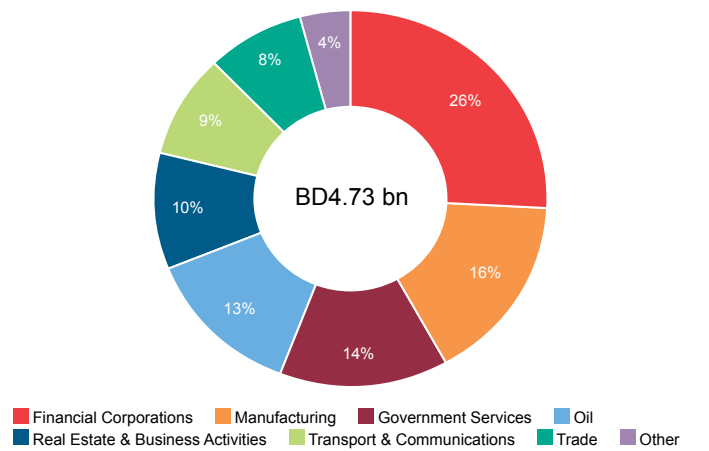
Private sector employment increased 2.9% from the previous quarter to 444,000 in Q1 2009. This sector is largely made up of non-Bahrainis who accounted for 81% of the total private sector workforce as at the end of Q1 2009. Overall the proportion of non-Bahraini's to the total employment in the country increased from 57.5% in 2001 to 75.6% at the end of Q1 2009.

Looking ahead, the Government is expected to continue with its spending programme in a bid to support the economy as outlined in the 2009-10 budget. During 2008, it increased efforts to bolster and diversify the country's infrastructure, launching an upgrade to the existing port of Mina Salman,

completing the \$530 million Khalifa Bin Salman Port as well as expanding the Bahrain International Airport to increase its cargo handling capacity. However, it is likely that the fall in GDP from reduced hydrocarbon revenues will constrain the Government's spending, with the possibility that some of the recently announced infrastructure projects will be placed on hold.

Chart 3

GDP contribution by sector at constant prices, 2008



Source: CBB, DTZ

Property Markets Overview

Like most property markets across the world, Bahrain's property market has also suffered the effects of the global recession. Accordingly we comment how this has impacted upon specific sectors and how DTZ expects these to perform over the short and medium term.

Residential Sector

Having experienced significant growth over the past 4 years Bahrain's residential sector has undergone a significant correction from Q3 2008 continuing through to Q3 2009. Significantly as a result of reduced levels of liquidity and low investor confidence, reduced levels of investment activity were recorded in the second half of 2008.

Transactions in Q4 2008 were down 40% on the previous quarter and 52% year on year. (See figure 1) Statistics for 2009 have not yet been released by the Survey and Land Registration Bureau, however, the downward trend in investment activity is apparent with low levels of sales generally being reported by developers.

The Freehold Market

The residential freehold sales market has come to a virtual standstill as investor confidence has all but disappeared and lending criteria has become more stringent. As a consequence DTZ believes that off-plan sales will remain stagnant for the foreseeable future whilst completed schemes will have a much higher chance of securing purchasers. As a result, a number of high profile developments have been put on hold whilst others have ceased marketing efforts pending a market recovery.

Surprisingly despite low sales volumes, many developers have not lowered their quoting prices. Currently apartments in

Amwaj Islands they are currently averaging BD 875 per sq m whilst in Juffair they are at BD 850 per sq m (see Figure 2). Significantly these rates were being achieved at the peak of the market in Q2 2008 and it is apparent that many developers are maintaining this level of quoting price believing they can be achieved when the markets recover.

There has, however, been a downward revision of quoting prices on some developments, to include certain projects in Juffair where they have dropped by circa 20%, whilst in Reef Island, where developers were achieving sales rates of BD 1,800 per sq m at the peak of the market, these have fallen to BD 1,325 per sq m, representing a 25% reduction (see Figure 2).

In relation to Bahrain's villa market this has been largely dominated by a number of large scale master planned schemes to include the likes of Durrat Al Bahrain, schemes on Amwaj Island and Riffa Views. The market for these developments peaked in 2007 with prices of BD 1,500 to BD1,900 per square metre being achieved. This was part driven by a desire for an enhanced lifestyle, but significantly also by speculators.

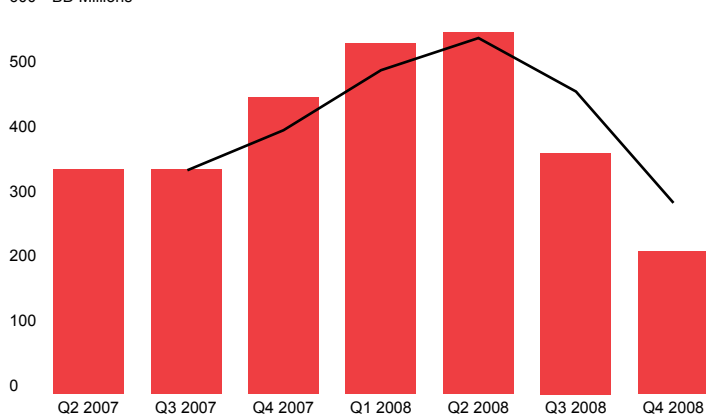
DTZ predicts that the off plan villa sales market will remain particularly slow over the course of the year. This is due to a combination of reasons not least the fact that many of the initial purchasers were speculators looking to profit off the back of capital value growth, during the construction phase and "flip" their contract when they had achieved their desired level of return. This market is all but dead for the time being with a number of purchasers holding multiple units which in certain cases they cannot afford.

In addition to the above, many other potential purchasers, having witnessed delays in the delivery of certain schemes are holding back until such schemes are completed and beneficial occupation can be secured. DTZ believes this pattern is particularly significant for residential developers

Figure 1

Total real estate transactions in Bahrain, Q2 2007 to Q4 2008

600 BD Millions

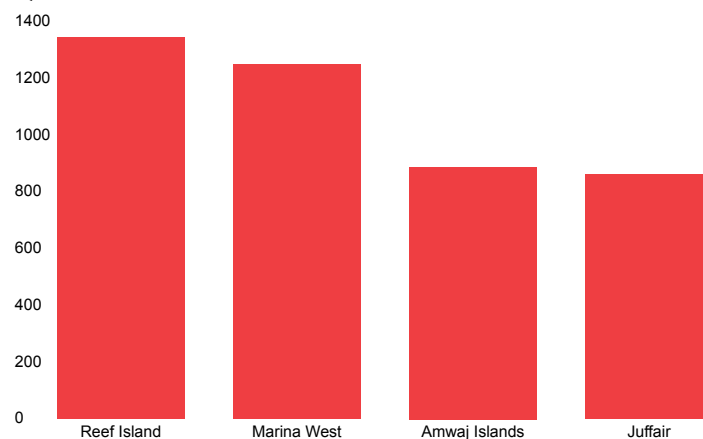


Source: DTZ

www.dtz.com

Figure 2

Average quoted sales prices for apartments, Q3 2009



Source: DTZ

Property Markets Overview

going forward as it could potentially signal an end to off plan phased payments against specific dates, and move to phased payments against construction milestones or even relative small deposits paid pre construction with the balance on delivery of the product.

The Leasehold market

Following a long period of growth there are now signs of weakness especially within the apartment sector. This has been driven mainly by large volumes of new stock being delivered to the market as well as stalling demand exacerbated by job losses in the mid to high income bracket, which by and large represent the main target audience for this product.

Juffair and Amwaj Islands have been particularly susceptible to falls due to their significant supply pipelines, with certain properties registering declines in rent of 15-20% from their peak in Q2 2008.

In Q3 2009, average rents for good quality fully furnished apartments stood at BD 630 pcm for one-bedroom apartments, BD 780 pcm for two-bedrooms and BD 1,025 pcm for three-bedrooms.

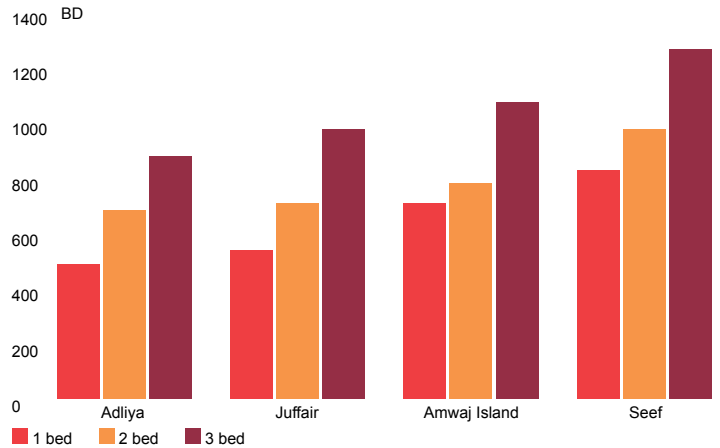
With no signs of immediate recovery in the freehold market, it is likely that the oversupply of apartments in the rental market will be exacerbated as Landlords seek to generate income from those units which they cannot sell. As such, it is expected that there will be downward pressure on apartment rents, particularly in areas such as Amwaj Islands and Juffair, where a large number of apartments have been purchased by speculative investors.

DTZ estimate that approximately 23,000 apartments will be delivered by Bahrain's major master planned schemes between now and 2012 (see Figure 5). It is expected that recovery, when it comes, will be gradual with significantly lower rates of absorption and capital appreciation than has been experienced during the recent boom years. On the positive side this should lead to more sustained long term growth, thus creating a more robust market structure.

With regards to the villa market, rents have remained more stable with Saar, Budaiya and Janabiya, proving particularly resilient, with prime rents appearing to be holding firm due to a potential undersupply of quality stock. Prime rents in these areas are currently averaging from BD 1,000 pcm for 3 bedroom villas, up to BD 2,500 pcm for 5 bedroom villas. (See Figure 4).

Figure 3

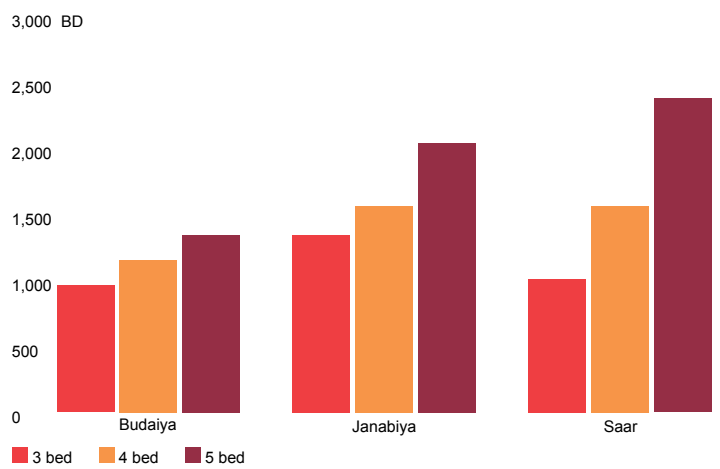
Average monthly rents for apartments, Bahrain, Q3 2009



Source: DTZ

Figure 4

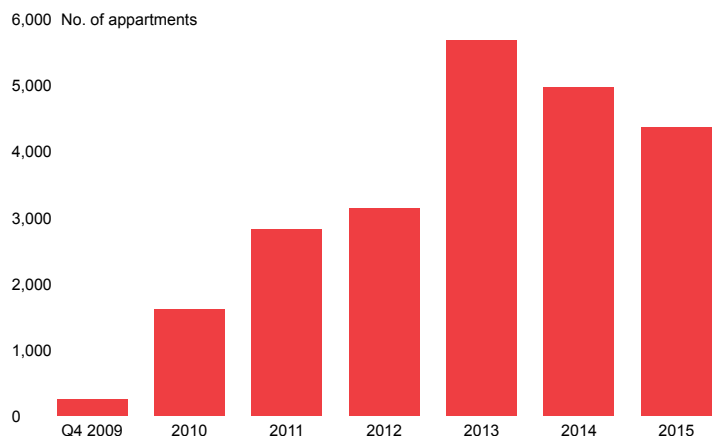
Average monthly rents for villas, Bahrain, Q3 2009



Source: DTZ

Figure 5

Supply pipeline for major freehold apartment schemes in Bahrain



Source: DTZ

Retail Sector

Bahrain's retail market has seen huge growth in the last 10 years, increasing from 185,000 sq m GLA in 1999 to 510,500 sq m GLA today. Although the bulk of this can be regarded as speculative, the main drivers have been a growing population, increased income and possibly the most significant - proximity to the Eastern Province of Saudi Arabia, which boasts a population of circa 4 million.

The recent opening of the Bahrain City Centre in Seef has accounted for 150,000 sq m GLA. Regarded as a mid to upper market offer it provides 350 units, to include multiple food and beverage outlets and is anchored by a Carefour supermarket as well as the largest indoor/outdoor water park in the region. It will also be complemented by two hotels from the Kempinski chain, one a 260 room five star hotel and the other a 200 room four star hotel.

At the upper end of the scale Moda Mall, forming part of the Bahrain World Trade Centre mixed use site provides 16,000 sq m of top end brands and is regarded as Bahrain's only boutique mall.

Pipeline

New retail development across Bahrain for the next 5 years is estimated at 412,000 sq m GLA and represents an 80% increase on existing stock. Of this, 83,000 sqm GLA of retail is due for completion by end of 2010, and 329,000 sqm GLA by end 2014. However due to delays and in certain cases cancellations, the full extent of the volume of this accommodation cannot be gauged for maybe a further 12 months when developers will have a clearer picture as to their anticipated activity.

Name of Scheme	Location	Estimated Completion	GLA (sq m)
Bab Al Bahrain Mall	Manama	2009	2,500
Centrepont	East Riffa	2009	12,000
Palm Square	Budaiya	2009	1,500
Ramli Mall	A'ali Town	2010	40,000
Enma Mall	Riffa	2010	27,000
Muharraq Shopping Mall (Centrepont)	Muharraq	2011	15,000
Villamar	BFH	2011	9,500
Amwaj Retail Centre	Amwaj Islands	2012	67,000
Raffles City	Bahrain Bay	2012	70,000
Saar Mall	Saar	2012	14,000
Diyar Al Muharraq	Diyar Al Muharraq	2013	27,500
Sh. Hessa Girls School Commercial Complex	Riffa	2013	27,000
Reef Mall	Reef Island	2014	24,000
Durrat Al Bahrain	Durrat Al Bahrain	2014	52,500
Water Garden	Water Garden City	2014	22,500

Retail Sector

As Bahrain's main retail destination, Seef, is nearing saturation point, future retail development is generally planned within the major master planned schemes across the island such as Amwaj, Reef Island, Durrat Al Bahrain, Raffles City, Villamar, Water Gardens, Riffa Views and Diyar. These all have planned retail components which collectively account for circa 56% of the total estimated development pipeline over the next 5 years.

Additional stand alone planned retail development is largely made up of out-of- town schemes serving their immediate domestic markets in Riffa, Budaiya, Saar, A'Ali and Muharraq. Currently these account for approximately 136,500 sq m GLA representing circa one third of the development pipeline.

Rents

Rental rates vary from one scheme to another generally reflecting the respective location, age and the level of the offer within each scheme. In most up market developments prime rents average between BD 20 and BD 25 /per sq m pcm and whilst it is possible to point to peaks at BD 40 per sq m pcm these levels are the exception and not the norm. Historical rents in less prestigious developments can be as low as BD 6 per sq m pcm and DTZ's research puts average rents across mall classes at BD 15.1 per sq m pcm.

Figure 1

Distribution of Retail Space, 2009

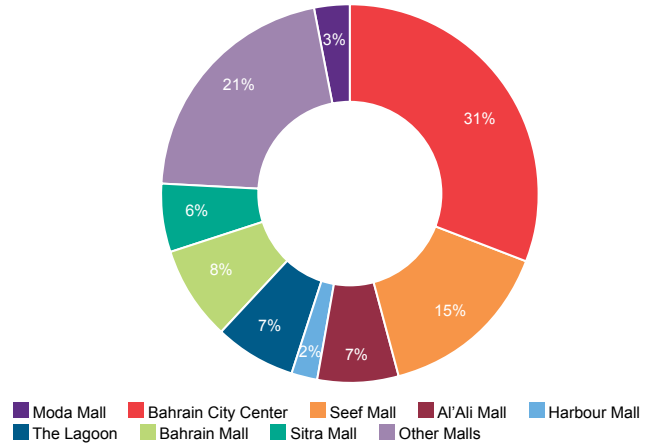
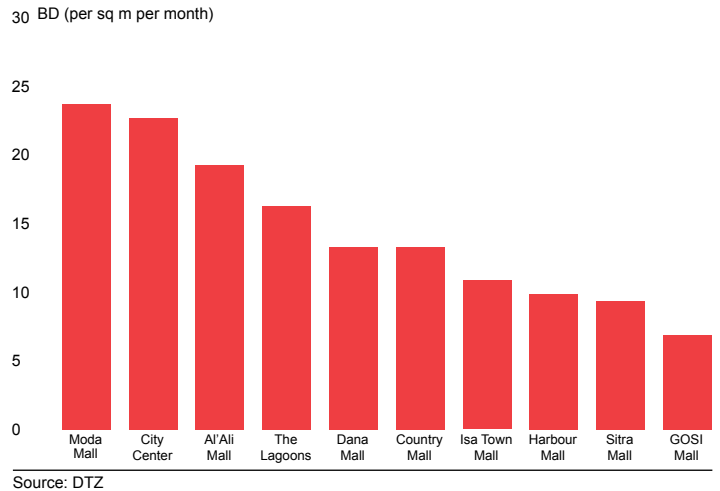


Figure 2

Avg Monthly Retail Rental Rates, Q3 2009



Bahrain's office market has also suffered the effects of the global recession moving from its boom status in mid 2008 when vacancy rates were extremely low and rents rising to one of oversupply and softening rental levels.

The take up of office accommodation in the Kingdom is to a certain extent reliant on new start ups typically within the Financial Services sector, generally acquiring between 250 and 350 sq m units. Significantly, the level of such start ups has gone down dramatically with only 92 operations being licensed in the first two quarters of 2009 compared to 226 in the same period in 2008. This level of decline has also been mirrored by the level of enquiries received by DTZ for new office accommodation over the past 12 months, which is down by 23% on the previous 12 months.

In contrast to the above enquiry levels from Government bodies and Professional Services companies has increased which is not untypical during recessionary times.

Whilst overall take up to date for 2009 remains stable in comparison to last year, this may be somewhat distorted due to various companies making forward commitments on space well in advance of this year. Having regard to the market dynamics and global issues DTZ anticipates a sharp reduction in take-up over the coming 12 months. The following table provides a comparison by Tenant sector for office take-up. As liquidity across many businesses has become relatively scarce and Tenants attempt to avoid having to lay out large amounts in fit out costs, DTZ has seen a major shift in interest from shell and core accommodation to fully fitted space i.e. with a minimum of carpets, ceilings and lighting.

In terms of supply, DTZ estimate that approximately 270,000 sq m of planned office development over the past 12 months has been delayed or cancelled. This figure combines developments that were both planned for owner occupation as well as the speculative letting market.

In parallel it would appear that certain developments are slowing down their rate of construction and currently DTZ estimate approximately 50,000 sq m of office space due for delivery over the past 12 months has been pushed back into Q4 2009 and beyond.

The pipeline for office development still stands at 520,000 sq m by 2012. In the event all these projects come to fruition it will represent a 90% increase on the existing stock and therefore potentially create significant oversupply. However, the delivery of all of these projects within the given timeframe is extremely unlikely.

Rents

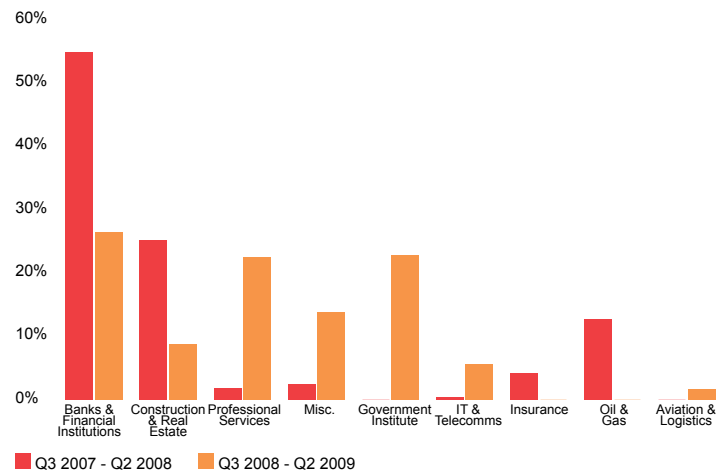
Average rental levels have remained surprisingly stable over past 12 months, with many Landlords holding out for the same rental levels they were achieving last year, meanwhile incentives have increased only marginally. Currently good quality stock in Central Manama is averaging BD 11 per sq m pcm, with Seef at BD 10 per sq m pcm and BD 8.8 per sq m pcm in the Diplomatic area. Older stock in each of these areas rents at between 15 - 30% lower.

Despite the above and in line with deteriorating market conditions DTZ envisage strong competition amongst Landlords competing for fewer Tenants. As a consequence there will most likely be downward pressure on rents and greater incentives offered. Subject to the length of leases secured and the covenant strength of the Tenant, DTZ anticipate Landlords offering longer rent free periods, capital contributions to fit out, and possibly in certain cases reverse premiums.

Meanwhile Tenants will have a flight to quality preferring to move to buildings with high quality facilities and good amenities.

Figure 1

Tenant Sector for Office Take-up



Source: DTZ

Industrial Sector

Historically Bahrain's industrial market has been characterised by owner occupiers operating out of bespoke premises constructed on leasehold Government owned land.

Meanwhile the heavy industrial market is made up of mainly Government backed heavy industrial operations focused on both the up stream and down stream oil industry as well as the aluminium smelting industry.

To date the heavy industrial operations have concentrated operations in the Hidd, Sitra and Askar areas. Notably these industries form a significant and highly important part of the Kingdom's economic development plan as has been recently highlighted by the Government's recent \$1 billion investment in the modernization of the BAPCO oil refinery, the "Alba line 6 expansion", which will increase Bahrain's aluminium production from 830,000 to 1.1 million tonnes per year, and the privatization of the Al Hidd power and water plant.

Alongside this investment, and in an attempt to diversify from the hydrocarbon industry the Bahraini Government is also driving the effort to develop the country's light industrial and logistics sectors. This is reflected by the investment in the Al Hidd area and the new Sheikh Khalifa Bin Salman Port a US\$ 530 million project, which opened on 1st April 2009. This covers an area of 900,000 sq m and replaces Mina Salman as the main port of Bahrain for general cargo and containers. Adjacent to the port is the Hidd Industrial Area which covers approximately 8 million sq m. This area is home to the new Government backed Bahrain Logistics Zone, Bahrain International Investment Park as well as the privately developed Bahrain Investment Wharf.

The Bahrain Logistics Zone (BLZ) is a Customs Free logistics zone managed by the General Organisation of Sea Ports. It comprises 23,600 sq m of Bonded warehousing, as well as serviced plots available on 20 year ground leases. Its aim is to promote and develop Bahrain as a regional logistics hub and to attract local and international companies operating within this sector.

Adjacent to BLZ is the Bahrain International Investment Park (BIIP) a 2.47 million sq m light industrial park developed by the Ministry of Industry and Commerce which is focused on attracting foreign investment. The primary target industries are service and knowledge based activities, high-technology manufacturing and assembly, and processing.

In order to operate within the BIIP, companies must meet strict criteria to include the employment of Bahraini nationals as well

as create long term sustainable activities that contribute to the development of Bahrain's export market.

The BIIP offers a number of incentives to occupiers including no corporate tax for 10 years, 100% foreign ownership and duty free access to the other GCC.

Bahrain Investment Wharf (BIW) developed by Tameer covers 1.7 million sq m of land zoned for industrial, logistics and commercial uses and dedicated workers accommodation. BIW is Bahrain's first dedicated logistics and light industrial zone targeting warehousing, metal fabrication, assembly, textiles, light electronics and pharmaceutical industries. Serviced plots are offered on 50 year leases and to date approximately 96% of these have been sold Rents vary significantly between location and quality of stock with many occupiers paying historic ground rents Meanwhile good quality space tends to achieve rents in the region of BD 3.5 per sq m pcm.

The warehousing and logistics market across the Gulf is relatively immature and largely under developed. It is mainly controlled by owner occupiers and operators having experienced very limited speculative development activity. However as the populations across the GCC continue to grow a much higher degree of sophistication is demanded within the logistics sector. This can be evidenced by the recent entry of a number of international logistics developers to include amongst others Gazeley, Helios, Goodman and Agility. Looking forward it is anticipated that the logistics market will offer significant development activities, within what is currently an under supplied sector.

Project	Location	Total land area	Primary industry type
Bahrain Investment Wharf (BIW)	Hidd	1.7 million sq m	Light & medium industry, logistics,
Bahrain International Investment Park (BIIP)	Hidd	2.47 million sq m	Serviced & knowledge based activities, high-technology manufacturing & assembly, light & medium manufacturing, process industry
Bahrain Logistics Zone (BLZ)	Hidd		3PL, freight forwarding, warehousing for export/ re-exporting, logistics

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