

**28 June 2010**

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- Bahrain's economy appears to have weathered the global financial crisis relatively well. Economic indicators are expected to improve in 2010, signalling a modest revival. Real GDP growth in Bahrain is expected to average 3.9% over the next five years.
- Bahrain's main retail destination, Seef District, has reached saturation point. As a result, future retail development is being planned within the main master planned projects or larger residential areas.
- In the office sector, DTZ expects to see further downward pressure on office rents during the remainder of 2010 as large volumes of supply continue to increase total stock and levels of occupier demand remain low relative to historic levels.
- The freehold residential market continues to be characterised by general malaise and demand has shifted from speculative investor to end user. This is likely to continue as lack of finance, investor apathy and oversupply continue to have a depressing effect on the market. There is also evidence of weakness in the leasehold market with rents in the apartment sector experiencing declines of up to 15-20%, whilst villa rents have shown signs of easing.
- The industrial sector has experienced a fall in demand which can be attributed to a general decline in trade due to the economic downturn. Over the past 18 months, rents have fallen by as much as 30% for good quality stock. For the remainder of 2010 and 2011, DTZ predict rents will stabilise at BD 2.5-3 per sq m.
- Following a sustained period of high occupancy and Average Daily Rates (ADRs) over the period 2004 to 2008, Bahrain's luxury hotel market softened in 2009 as a result of the global financial crisis. Whilst there is a potential danger of oversupply of 5 star hotels in the medium term, opportunities exist in the 4 star and boutique hotel market segments.

# Economic overview

Bahrain's economy appears to have weathered the global financial crisis relatively well. Although economic indicators are expected to improve in 2010, signalling a modest revival, Bahrain's economy is not expected to return to trend growth rates for several years to come.

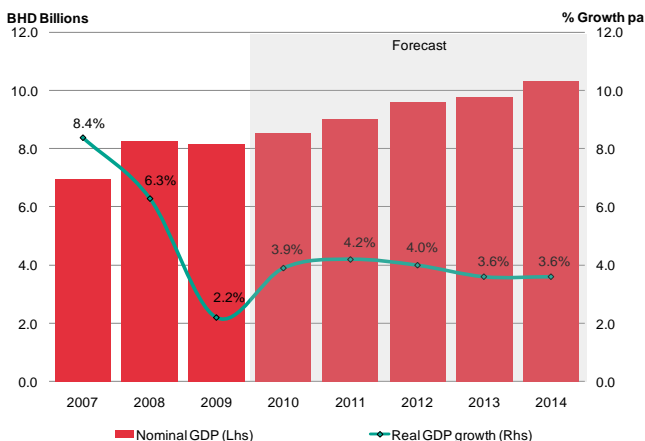
According to estimates by Oxford Economics, Bahrain's economy is expected to grow by 3.9% in 2010 after slowing considerably in 2009 to 2.2% from the 6.3% recorded in 2008. Real GDP growth is not expected to return to trend for several years, as the country's oil and gas sector has been in long-term decline and is not expected to record any major increases in output until 2014. Figure 1 shows Bahrain's historic and forecast real and nominal GDP growth.

Furthermore, low levels of market liquidity and reduced appetite for risk have all but stifled investor interest. However, market risks are weighted to the upside and growth rates over the next five years could potentially outperform current expectations.

Inflationary pressure in Bahrain has fallen in recent years, largely on the back of falling import prices. This has helped to partially offset the impact of higher unemployment levels in the Kingdom. Inflationary pressure is expected to remain subdued over the forecast period, with consumer price inflation averaging 2% per annum.

Figure 1

**Historic and forecast real and nominal GDP growth, 2007-2014 (April 2010 forecasts)**



Source: Oxford Business Group, DTZ

For most residents, national and foreign, personal wealth growth is expected to remain sluggish over the next five years. Falling property and stock prices have also damaged savings as well as confidence and will further compound the effects of job losses and pay cuts across the economy.

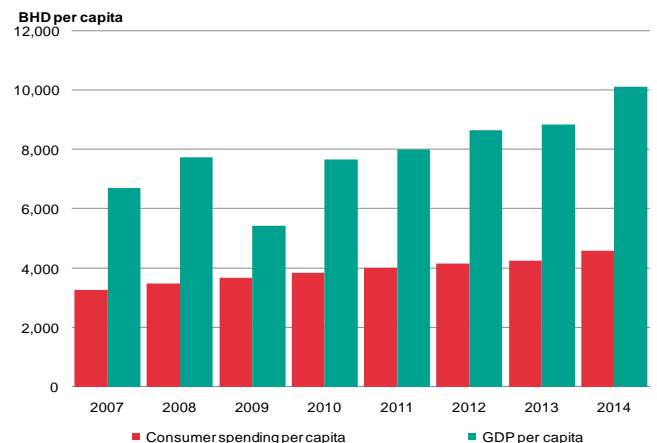
Despite this, Bahrain still has one of the world's highest consumer spending rates per capita, which stood at BHD 3,850 in 2010. This is expected to grow by 20% over the 2010 to 2014 period to BHD 4,600. Figure 2 illustrates Bahrain's historic and forecast consumer spending per capita and GDP per capita rates.

Bahrain also remains the most cost effective operating base in the GCC and its growing reputation for ease of doing business and financial regulation, allied to its strategic location, will ensure it provides an attractive and cost effective business location for companies wishing to relocate or to establish a presence in the Middle East.

Generally speaking, we expect that 2010 will see a modest improvement in economic performance as the effects of the global slowdown begin to diminish, although overall the market will remain subdued.

Figure 2

**Bahraini consumer spending and GDP per capita, 2007-2014 (Q1 2010 forecasts)**



Source: Business Monitor International, DTZ

# Retail market overview

Bahrain's retail market has seen huge growth over the last 10 years, with total stock increasing from 200,000 sq m gross lettable area (GLA) in 2000 to 536,000 sq m GLA in 2010. This expansion has been driven by strong population growth, increased disposable incomes and a continual supply of retail tourists from Saudi Arabia and other GCC countries. Figure 3 shows the distribution of GLA, by mall, in Bahrain.

## Supply

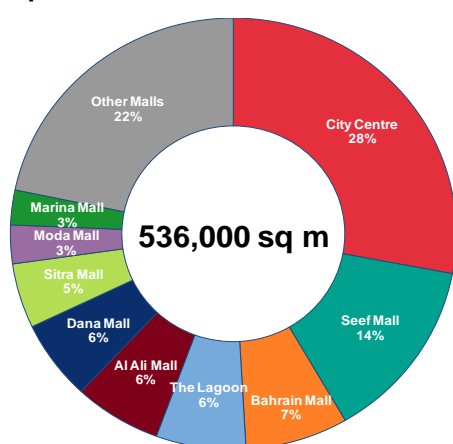
Bahrain's mall culture has continued to gain momentum in recent years surpassing traditional retail souks and in-line shops. In September 2008, Bahrain City Centre Mall became the Kingdom's newest and largest retail outlet. With more than 150,000 sq m GLA of retail space, City Centre has changed Bahrain's retail landscape. It offers 350 brands for shopping, recreation, entertainment and food and beverage under one roof, including the largest indoor/outdoor water park in the region, as well as two planned hotels.

Bahrain's main retail destination, Seef District, has reached saturation point with the success of any individual mall being at the expense of another. As a result, much of the future retail growth is being planned within the major master planned developments or larger residential areas in order to offer local residential populations a retail choice closer to home.

Amwaj Islands, Reef Island, Durrat Al Bahrain, Raffles

Figure 3

**Distribution of gross lettable area (GLA) by mall in Bahrain, April 2010**



Source: DTZ

City, Villamar, Water Gardens, Riffa Views and Diyar Al Muharraq all plan to incorporate significant retail elements into their schemes. Retail within these developments accounts for 51% of the total planned retail growth over the next 5 years. The sustainability of this amount of retail space does need to be examined. Whilst the delivery time of this additional supply is uncertain, retailers who have been affected by the global economic situation are displaying much less appetite for new ventures. Other planned retail growth is largely focused on out-of-town developments serving more local markets in locations such as Riffa, Budaiya, Saar, A'Ali and Muharraq which accounts for 136,500 sq m GLA of pipeline development.

## Rents

Achieved retail rents in Bahrain vary significantly by retail mall scheme, reflecting their relative age, location and retail catchment market. Rents range from as low as BHD 6 per sq m per month in parts of Sitra Mall and Isa Town Mall up to as much as BHD 36 per sq m per month for the most expensive units in City Centre Mall. DTZ estimates the average rent across all mall classes to be BHD 14.7 per sq m per month.

Table 1

**Future supply of selected shopping malls in Bahrain**

| Name of scheme          | Location    | GLA (sq m) | Est. date of completion |
|-------------------------|-------------|------------|-------------------------|
| Rami Mall               | A'Ali Town  | 40,000     | 2010                    |
| Riffa Mall              | Riffa       | 13,000     | 2010                    |
| Downtown Al-Areen       | Al Areen    | 46,500     | 2011                    |
| Muharraq Shopping Mall  | Muharraq    | 15,000     | 2011                    |
| Enma Mall               | Riffa       | 11,250     | 2011                    |
| Raffles City            | Bahrain Bay | 70,000     | 2012                    |
| Villamar at the Harbour | BFH         | 9,500      | 2012                    |
| Durrat Al Bahrain       | Durrat      | 52,500     | 2014                    |
| Reef Mall               | Seef        | 24,000     | 2014                    |
| Water Gardens           | Seef        | 22,500     | 2015                    |

Source: DTZ

# Office market overview

Bahrain's office market continues to undergo significant readjustment. Falling occupier demand, caused by the fallout from the economic crisis, coupled with a significant development pipeline has caused increasing vacancy rates and falling rents across the Kingdom's main Central Business Districts (CBDs).

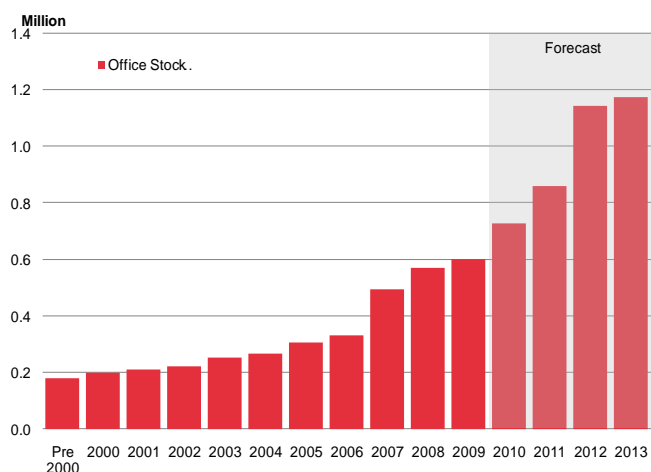
## Supply

DTZ estimate the total office stock in Bahrain, as of April 2010, stood at approximately 630,000 sq m. Central Manama accounts for around 46% of total office stock (approximately 290,000 sq m), with the rest of the stock split between the Diplomatic Area (24%) and Seef District (30%). Total office stock in Bahrain has grown significantly in recent years and has more than tripled since 2000. A significant proportion of this growth has originated from sizeable developments such as Almoayyed Tower (26,250 sq m), Bahrain World Trade Center (31,100 sq m) and Bahrain Financial Harbour (122,000 sq m).

The Bahrain office market is currently experiencing a significant oversupply situation. During the past 6 months, approximately 47,000 sq m of new office stock has been delivered to the market with a further 100,000 sq m due to be delivered by the end of 2010 as a large number of projects near completion.

Figure 4

### Total office stock in Bahrain 1995 to 2013



Source: DTZ

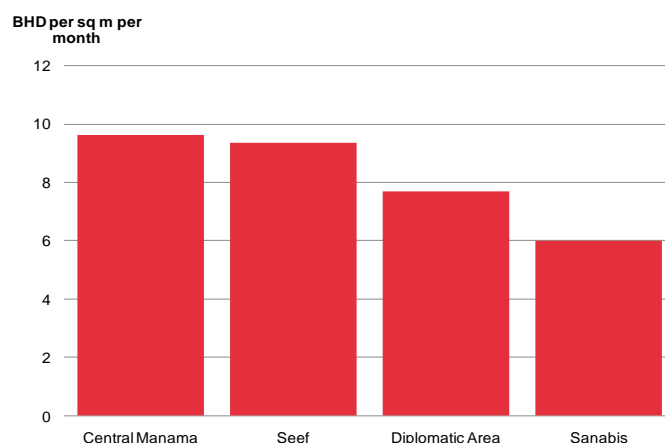
Looking forward, DTZ estimate that approximately 548,000 sq m of new stock will enter the market over the period Q2 2010 to Q4 2013. DTZ is aware of approximately 377,000 sq m of additional stock which has been put on hold or cancelled indefinitely over the past 12 months as a result of deteriorating market conditions. It is likely that more projects will be cancelled, phased over longer development periods or scaled down in size if current market conditions prevail.

## Demand

Take up of office accommodation in the Kingdom has reduced significantly since the peak of the market, with 2009 levels down 23% on the previous 12 months. Leasing activity remained limited in Q1 2010 and we anticipate continued low levels of take-up over the remainder of the year. Overall, current average vacancy rates are circa 7-10% for Bahrain's main Central Business Districts (CBDs) having risen from the 4-5% recorded 12 months earlier. These average figures are distorted by the relatively low vacancy rates in the established business districts of Central Manama and the Diplomatic Area, whilst a number of office developments completed in recent months, particularly in Seef District, have yet to attract any occupancy at all at the time of writing.

Figure 5

### Average quoting rents for office space by location, Bahrain Q1 2010



Source: DTZ

# Office market overview

Vacancy rates are likely to increase over the course of 2010 with older stock in the Diplomatic Area and Central Manama expected to experience the most significant rise as tenants relocate to newer buildings offering space at increasingly competitive rents.

## Rents

The new office space which has emerged over the past 12 months is now starting to create significant downward pressure on office rents across the 3 main CBDs with 20-30% decreases in achieved rents being recorded within some of Bahrain's highest quality office buildings.

A review of good quality stock in Central Manama shows prime rents averaging BHD 11 per sq m per month, with Seef at BHD 10 per sq m per month and the Diplomatic area at BHD 8.8 per sq m per month. Older stock in each of these areas achieves rents at between 15-30% lower.

The market is currently experiencing a significant readjustment in rental levels as landlords lower their expectations in light of increasing vacancy rates and substantial competition from other schemes. Current average quoting rents range from BHD 6–9.5 per sq m per month for good quality office stock in the main CBDs. A selection of current quoting rents is shown in Figure 5.

DTZ is aware that tenants are securing space at 20-25% discounts on quoted rents as landlords offer increasingly flexible lease terms in order to secure the limited amount of demand currently in the market.

## Conclusion

DTZ expects to see further downward pressure on office rents during the remainder of 2010 as large volumes of supply continue to increase total stock and levels of occupier demand remain low relative to historic levels.

As the competition intensifies, we expect to see landlords offering more tenant incentives such as base fit-outs and extended rent-free periods.

In addition to a general decline in office rents, there is also likely to be a further polarisation between old, poor quality stock and well specified office product as the market witnesses a "flight to quality".

# Residential market overview

The freehold residential market in Bahrain continues to be characterised by general malaise and negative sentiment as it struggles to emerge from the downturn. The market place has moved from the speculative investor to an end user market which has resulted in falling sales prices. There is also evidence of weakness in the leasehold market with rents in the apartment sector experiencing significant declines in some locations whilst villa rents have shown signs of easing.

## The freehold residential market

The inertia in the residential freehold sales market is likely to remain as a lack of finance, investor apathy and over supply continue to have a depressing effect on the market. Off-plan sales have disappeared from the market eliminating the primary source of funding for the large majority of developers who were heavily reliant on staged payments from purchasers to pay construction costs.

Developers are also now facing significant levels of default on staged payments as purchasers cannot, or refuse, to make payments due to stalled construction. The disappearance of this source of cash flow has led to the cancellation or delay of a large number of residential projects with many now in a state of inactivity.

Despite low sales volumes, many developers have not publicly lowered their asking prices with most cancelling all marketing efforts in the hope of market recovery.

Nonetheless, developers are willing to offer heavily discounted prices on application, particularly to cash buyers or bulk investors.

Completed residential schemes have a much higher chance of securing purchasers and there are signs that an end user market is starting to emerge for well specified residential properties in good quality developments. This is already being evidenced at Riffa Views, Amwaj Islands and certain projects in Juffair where transactions are being recorded. It should be noted however, that transaction volumes remain very low and at significantly reduced levels from that seen in 2008.

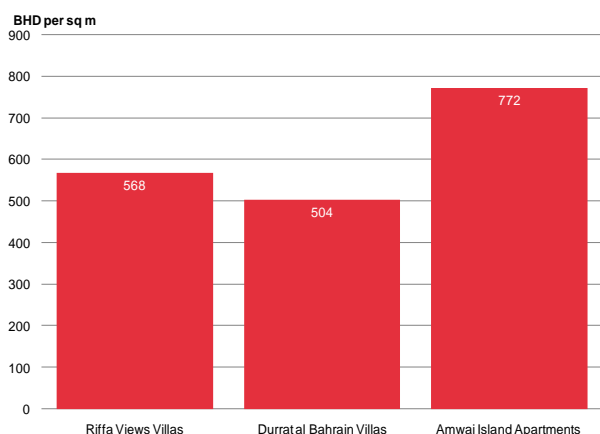
Villas at Durrat al Bahrain are achieving an average of BHD 504 per sq m, Riffa Views BHD 568 per sq m and apartments at Amwaj Islands (Tala Island, Zawia II and Floating City) BHD 772 per sq m (Figure 6). These averages are based on Q1 2010 achieved sales.

Low levels of investor activity are also being witnessed in the market from investors seeking distressed sales or income generating properties with secured tenancies.

However, the freehold market is a long way from recovery and is likely to experience further downward pressure on sales prices before any substantial recovery takes place. Sales prices are likely to be suppressed further by the large volume of stock remaining in the development pipeline.

Figure 6

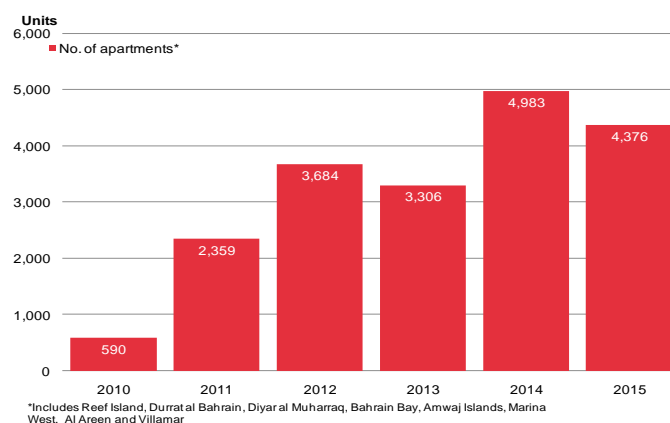
**Average achieved sales rates by selected scheme, Q1 2010**



Source: DTZ

Figure 7

**Bahrain residential apartments pipeline Q2 2010 – 2015**



\*Includes Reef Island, Durratal Bahrain, Diyaral Muharraq, Bahrain Bay, Amwaj Islands, Marina West, Al Areen and Villamar

Source: DTZ

# Residential market overview

DTZ estimates that approximately 19,300 apartments will be delivered by Bahrain's major master planned schemes over the period 2010-2015, if current commitments are delivered (Figure 7).

## The leasehold residential market

Bahrain's leasehold residential market has also experienced a softening in demand which has caused a general fall in achieved rents over the past 12 months. The apartment sector has experienced steeper falls in rents than the villa sector with the performance of both varying across locations.

Apartments within Juffair and Amwaj Islands continue to experience the sharpest decline in rental values due to the large volume of available stock in both locations and rental declines in the region of 15-20% have been evidenced over the past 12 months. Seef and Sanabis have also experienced significant declines driven largely by the large volume of stock brought to the market by Abraj Al Lulu. In April 2010, good quality furnished apartments stood at BHD 560 per month for one-bedroom, BHD 740 for two-bedrooms and BHD 1,020 for three-bedrooms (Figure 8).

As the freehold market remains stalled and the residential apartment pipeline continues to deliver apartments to the market, the oversupply situation is set to become exacerbated in 2010.

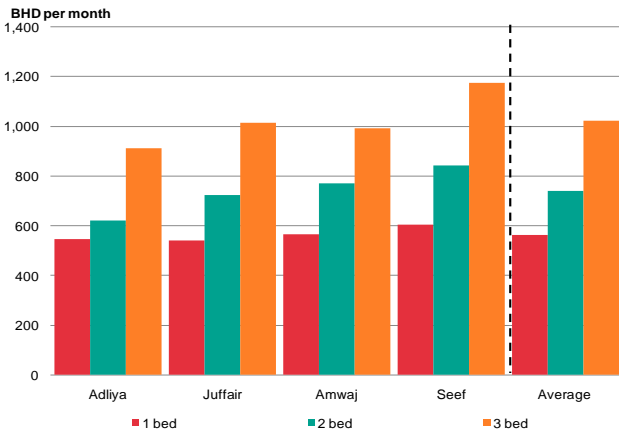
This is likely to dampen prospects for a quick recovery in the leasehold residential market and create the potential for further declines, particularly in areas of high speculative investment such as Juffair and Amwaj Islands.

The villa market has been more resilient but has also suffered declines. Some compounds in areas popular with high-income Bahraini nationals and western expatriates such as Saar, Budaiya and Janabaiya, are now experiencing vacant units after a sustained period of full occupancy and landlords are reducing rents to secure tenants. Prime rents in the Saar area are currently averaging BHD 1,200 per calendar month for a three-bedroom villa and BHD 1,600 per calendar month for a four-bedroom villa (Figure 9). One notable development in the villa leasehold market is the emergence of a rental market at Riffa Views as parts of the development reach completion. Achieved rents at Riffa Views for three-bedroom villas are circa BHD 1,000 per month and BHD 1,200 for four-bedroom villas. DTZ anticipate these levels will rise as the development completes and matures.

In light of deteriorating conditions in the leasehold market, many landlords are now offering flexible lease terms such as rent freezes and reductions to incentivise renewal. Some landlords are now willing to enter into shorter leases than the market standard of 12 months.

Figure 8

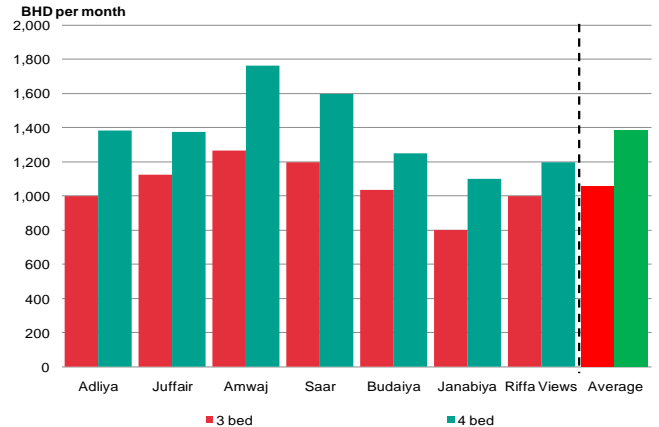
Average monthly rents for apartments, April 2010



Source: DTZ

Figure 9

Average monthly rents for villas, April 2010



Source: DTZ

# Industrial and logistics market overview

The economic development and diversification strategies of the Bahraini government has generated the need for more advanced industrial and logistics capabilities in the Kingdom, as the country increases its production and manufacturing bases. The industrial sector contributes approximately 16% of Bahrain's GDP and the government is attempting to increase this figure with continued investment in the Salman Industrial City and the Kingdom's road, sea and air infrastructure.

Significant investment in key transport infrastructure has also been driven by recognition of the country's position as a strategic transport and trade link to the Saudi Arabian market. Bahrain has become increasingly recognised as an effective point of entry for air cargo and sea freight into the Eastern Province via the King Fahd Causeway.

## Salman Industrial City

The main focus of the government's industrial investment in recent years has been Salman Industrial City (SIC) which comprises the Bahrain International Investment Park (BIIP), Bahrain Investment Wharf (BIW) and Bahrain Logistics Zone (BLZ).

SIC is located next to the Khalifa Bin Salman Port (KBSP) in Hidd. KBSP replaced Mina Salman as Bahrain's primary port when it started operations in April 2009 and is intended to develop Bahrain's capabilities as a regional shipping hub. Oxford Business Group predict that TEU traffic volumes in Bahrain will increase from 2 million to 5 million over the period 2007 to 2015.

Investment in the port and surrounding industrial infrastructure has already strengthened Bahrain's position in the regional logistics market. The country is currently ranked second in the Middle East and 32<sup>nd</sup> globally in the World Bank's Logistics Performance Index, which measures the ease of shipping goods into and out of a country.

## Bahrain International Investment Park (BIIP)

Development at BIIP is gathering pace with a number of projects on the site being approved or starting construction over the past 12 months. The government led project which is focused on attracting foreign direct investment (FDI) from export oriented companies has

approved and leased land to 80 companies since its inception.

A number of international and local companies such as Kraft, Lauscha Fiber International, Maskati Bros and Oriental Press have already established operations within the project. Over the past year, a number of new developments commenced construction with several now nearing completion including KFH's Baytik Industrial Oasis. It was announced in January 2010, that the Saudi Arabian based Amiantit Company would be moving its global engineering facility from Saudi Arabia to Bahrain occupying 60,000 sq m of land at the BIIP.

## Bahrain International Investment Wharf (BIW)

Despite selling 97% of its land plots, development at the BIW has been limited to date. Only four warehouse developments have been completed and currently the only project under construction is the BIW Business Park Phase I, a low rise office building which is being developed for the leasehold market by the BIW's master developer, Tameer. DTZ understands that approximately 50% of land buyers at BIW have been granted construction permits to develop their plots. However, a lack of project finance, investor apathy and stagnation in the occupier markets has prevented significant levels of development from taking place.

## Demand

Demand for industrial and warehouse space in Bahrain can be split into the six sectors as outlined in Table 2.

Over the course of 2009 and into 2010, demand for warehouse space has dropped with a marked fall in leasing transactions.

After a period of significant growth, the 3PL market has also experienced a fall in demand. Prior to the economic downturn, the limited availability of good quality warehouse space and associated increase in warehouse rents, led to a steady increase in outsourcing to 3PL providers. However, demand for 3PLs has slowed over the past 12-18 months, as levels of trade have declined and businesses put expansion plans on hold. More 3PL providers entering the market has also created strong competition. As a result, providers have cut storage rates with many reporting declining business volumes and falling profit margins.

# Industrial and logistics market overview

There is limited evidence available on take up rates due to a general lack of transparency in the market. The large majority of industrial requirements are for 250 sq m to 500 sq m reflecting the predomination of small to medium sized companies in Bahrain. That said, DTZ is aware of a number of recent transactions for large space requirements including 4,000 sq m at BIW and 13,000 sq m in Sitra.

## Supply

A number of warehouses developed for the leasehold market are currently offering large areas of space for rent. This includes three projects at BIW offering a total of 45,000 sq m; 15,000 sq m in A'Ali and 21,000 sq m in Sitra. In addition to this, DTZ is also aware of a number of warehouse projects under construction for owner occupation which will offer part of the space on the leasehold market including a project in Samaheej which will offer 24,000 sq m of excess space for rent.

## Rents

During the boom period, good quality warehousing was achieving in excess of BHD 4 per sq m. Due to the wider economic uncertainty, rents have experienced downward pressure over the last 18 months as reduced business activity and a general lack of confidence has created unwillingness amongst companies to commit to new leases, suppressing occupier demand. Achieved rents have fallen by as much as 30% in some of Bahrain's best quality warehouse schemes. Current achieved rents for good quality stock is in the region of BHD 2.5-3 per sq m with landlords offering shorter lease terms and greater incentives in addition to reduced rents.

Table 2

| Demand by sector |                                 |
|------------------|---------------------------------|
| Industry sector  | Major industrial occupiers      |
| Heavy industrial | ALBA                            |
| Oil and gas      | BAPCO                           |
| Retail           | Al Rashid Group, MegaMart, Lulu |
| Construction     | Nass Corporation                |
| Manufacturing    | Awal, Gulf Manufacturing        |
| Logistics        | Agility, Intercol, GAC, DHL     |

Source: DTZ

Looking forward to the remainder of 2010 and into 2011, it is likely that rents will stabilise at BHD 2.5–3 per sq m for good quality warehousing with limited upside of rental growth as occupiers remain highly price sensitive.

## Future infrastructure projects

As part of Bahrain's 2030 economic development plan, a significant level of investment is planned for the Kingdom's transport infrastructure in order to strengthen its industrial base. The ongoing upgrade of Sitra Bridge and planned increased capacity for the major arteries between the King Fahd Causeway, Bahrain International Airport, KBSP and established industrial areas is aimed at reducing traffic congestion between key transport nodes in order to reduce transit times.

The Bahrain-Qatar Friendship Bridge, which is due to start construction in early 2011, will provide direct road and rail access to Qatar, the region's fastest growing economy and world's largest supplier of liquefied gas. It is expected that the causeway will reduce transit times between the two countries to 30 minutes.

Bahrain International Airport (BIA) is also set for significant levels of investment to upgrade its infrastructure including a new terminal to increase its cargo and passenger handling capacity. The redevelopment will be delivered in six phases between 2011 and 2038 by which time the Bahrain Airport Company (BAC) expect annual passenger capacity to have trebled from 9 million to 27 million. Part of the new masterplan includes the Bahrain Cargo Oasis which will increase cargo handling capacity at the airport from 350,000 cubic metres to 1.5 million cubic metres.

Table 3

| Bahrain key infrastructure projects     |            |                 |
|---|------------|-----------------|
| Project                                 | Investment | Completion date |
| Sitra Causeway redevelopment            | BHD 266 m  | Q2 2011         |
| Bahrain International Airport expansion | BHD 4.8 m  | 2011 – 2038     |
| Qatar – Bahrain Causeway                | BHD 1.5 bn | 2014            |
| North Manama Causeway                   | BHD 260 m  | TBC             |
| King Faisal Highway upgrade             | BHD 100 m  | TBC             |

Source: DTZ

# Luxury hotel market overview

Following a sustained period of high occupancy and Average Daily Rates (ADRs) over the period 2004 to 2008, Bahrain's luxury hotel market experienced a decline in both performance metrics during 2009.

Bahrain's high-end hotel stock can be broken down into two market classes: Luxury Class and Upper Upscale Class. The five star hotels within each category are shown in Table 4.

## Demand

Occupancy levels in Bahrain's five star hotels have experienced a decline in the post credit-crunch period. Average occupancy levels peaked in 2006 at 78.8% before falling in each subsequent year. In 2009, average occupancy rates had dropped to 60.3%. This can be seen in Figure 10 which also highlights the widening gap between total room nights supply and demand for Bahrain's five star hotels in 2009.

Historically, corporate demand has accounted for 50-60% of the total room nights of demand for Bahrain's four and five-star hotels. Demand for corporate accommodation is generally constant throughout the year, peaking from Sunday through to Thursday nights. A decline usually occurs during weekends, vacation periods and Ramadan. This segment is also typified by a high rate of single occupancy, repeat business and contract business. The average length of stay for corporate travellers is two to three nights.

Other key sources of demand include government demand (10-15%), leisure demand (10%), and aircrew and layover passengers (5-10%).

Table 4

| Hotel categories    |      |  |
|---------------------|------|--|
| Category            | Star | Hotel  |
| Luxury              | 5    | Ritz Carlton   |
|                     |      | Al Areen Palace & Spa (formerly Banyan Tree Desert Resort & Spa) |
|                     |      | Regency InterContinental   |
| Upper Upscale Class | 5    | Radisson SAS Diplomat  |
|                     |      | Gulf Hotel   |
|                     |      | Sheraton   |

Source: STR, DTZ

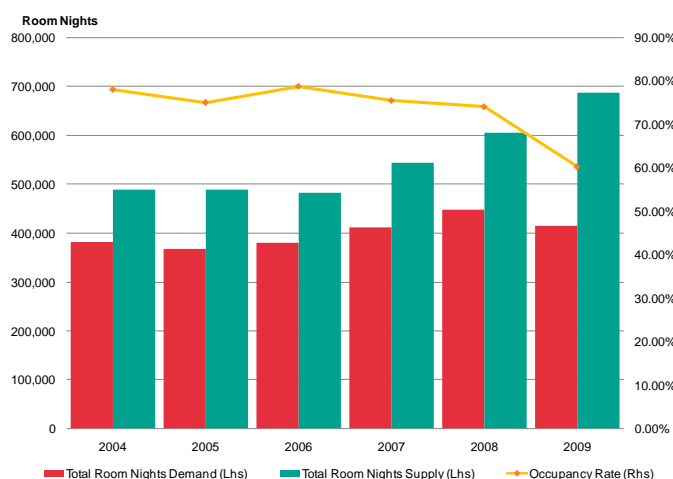
Leisure demand comprises two sub-segments within the tourist market - Group Inclusive Tours (GITs) and Frequent Independent Travellers (FITs). The majority of tourist demand in Bahrain originates from FIT overland travel from Saudi Arabia. The majority of this visitation occurs at the weekend, when some hotels report over 90% room occupancy. Both GIT and FIT segments generally share certain characteristics of demand, including high double occupancy and an average length of stay of two to three nights. However, the FIT segment is more elastic in terms of price and length of stay and is more brand-sensitive when compared to the GIT market.

Bahrain's hotels attract other forms of demand, such as military personnel, MICE (meetings, incentives, conferences and exhibitions) demand and long-stay demand. MICE demand is considered currently to be negligible in Bahrain, however, the government is attempting to address this issue by promoting the country as an attractive destination for hosting regional political and business conferences.

The Bahrain hotel market is subject to seasonal variance and experiences peak occupancies from September to April. It is during this period that the hotels are able to achieve high room rates and occupancy levels. All Bahrain hotels experience a sharp drop in their occupancy levels during the month of Ramadan, irrespective of the season.

Figure 10

## Total room nights supply and demand and occupancy rates for 5 star hotels, 2004 to 2009



Source: STR, DTZ

# Luxury hotel market overview

Christmas and New Year is also a period of relatively low occupancy along with the hot summer months of May to August which are characterised by heavy discounting.

Corporate and leisure visitors from Saudi Arabia still represent the largest market segment by nationality for hotel room nights in Bahrain, enhanced by the ease of travel between the two countries via the King Fahd Causeway, a journey which takes approximately half an hour by car (off-peak).

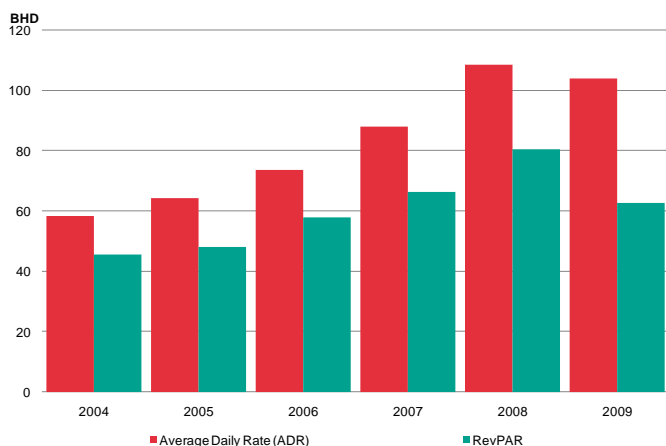
## ADR and RevPAR

The Average Daily Rate (ADR) for Bahrain's five star hotels has increased considerably over the period 2004 to 2009 as can be seen in Figure 11. ADRs increased from BHD 58 to BHD 109 between 2004 and 2008 before falling to BHD 104 in 2009. This represents an increase of 79% since 2004.

Over the same period, RevPAR (which also takes into account occupancy) has also increased as a result of the large increase in ADRs and the restricted supply of high-end hotels in the Kingdom. As can be seen in Figure 12, RevPAR has increased by 37% between 2004 and 2009, rising from BHD 46 to BHD 63. Of significance, 2009 RevPAR was 22% lower than the previous year. Given there have been no hotel closures or major refurbishment projects during this period, this is undoubtedly a result of the sharp drop in occupancy during 2009.

Figure 11

### ADR and RevPAR for Bahrain's 5 star hotels, 2004 to 2009



Source: STR, DTZ

## Hotel supply pipeline

Historically, Bahrain has had a limited supply of high-end hotels (by international standards) with the Ritz-Carlton being of a considerably better quality than any of the others. Table 5 details future hotel projects in Bahrain that are either under construction or have been approved. We have defined 'approved' as having been launched/announced in the press. It is important to note however that almost without exception, hotel developments are subject to lengthy delays. Most future hotels form part of larger mixed-use developments.

## Conclusion

Although there is currently a shortage of five-star hotels in Bahrain, there is a risk of oversupply in the medium term, with 11 new five-star hotels due to open by 2014. Despite the risk of oversupply, opportunities still exist in certain underserved market segments such as 4 star and boutique hotels with the latter segment currently served by a single hotel: L'Hotel in Seef.

Table 5

| Confirmed hotel pipeline |                     |      |              |              |
|--------------------------|---------------------|------|--------------|--------------|
| Hotel                    | Location            | Star | No. of rooms | Opening date |
| Sofitel Bahrain          | Zallaq              | 5    | 262          | 2010         |
| Hotel JAL                | Amwaj Islands       | 5    | 300          | 2011         |
| Ramee Millennium         | Seef                | 5    | 120          | 2011         |
| Marriott Renaissance     | Amwaj Islands       | 5    | 323          | 2011         |
| Kempinski City Centre    | Bahrain City Centre | 5    | 460          | 2011         |
| Rixos Marina West        | Janabiya            | 5    | 286          | 2011         |
| Domina Al Areen          | Al Areen            | 5    | 350          | 2012         |
| Conrad Bahrain           | Reef Island         | 5    | 300          | 2013         |
| Shaza Hotel              | Bahrain Bay         | 5    | 285          | 2013         |
| Four Seasons             | Bahrain Bay         | 5    | 200          | 2013         |
| Dusit Dilmunia           | Dilmunia            | 5    | 250          | 2014         |
| <b>Total</b>             |                     |      | <b>3,136</b> |              |

Source: DTZ

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