



APEX REAL ESTATE  
DEVELOPMENT CO.

# MARKET MONITOR

JULY

**2010**



# INTRODUCTION

We are pleased to bring to you our first issue of the Market Monitor, aimed at providing an overview of Bahrain's real estate market. We, at APEX, believe market knowledge is key to success; as such, we have been committed to building strong internal teams specializing in monitoring and analyzing local and regional developments in the real estate arena to keep our clients well-informed of the continuously changing market dynamics. Our first issue provides a general overview of the three main sectors within the real estate market: residential, commercial, and retail markets. We believe that the residential sector is well poised for potential growth due to strong, local demand for housing projects. We also believe that the office sector is saturated, and the current economic conditions play a vital role in manipulation of demand causing downward pressure on rental and occupancy rates. The retail

market on the other hand, after having experienced explosive growth over the last couple of years, is set for a new mission; the reviving of major cities around the Kingdom and the attraction of spending from surrounding GCC.

We hope you enjoy reading through this issue.

## Contact Information:

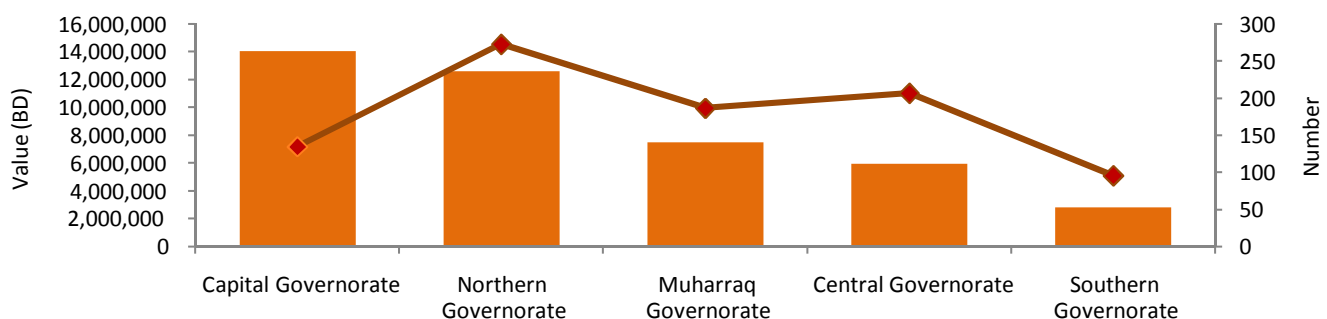
APEX Real Estate Development Company  
Business Development  
Tel: +973 17 58 77 95  
Fax: +973 17 58 77 96  
P.O. Box 75894  
[www.apexbahrain.com](http://www.apexbahrain.com)

# MARKET OVERVIEW

During the economic boom, Bahrain has been an attractive hub for investors in the region particularly within the real estate industry. Large inflows of regional liquidity combined with an attractive, transparent and regulated market has led to considerable growth. For the period between 1H2007 and 1H2008, the value of monthly transactions within the real estate market has jumped from approximately BD97m to over BD180 m, recording a growth of over 85%. Today, however, monthly transactions are valued at approximately BD40m, a drop beyond 70% from the peak rates in 2008.

The Capital governorate takes the lead by contributing 33% of the total value of transactions during May 2010. Large ticket transactions within the Capital Governorate included Sanabis and Juffair, contributing over 40% of transactions in the governorate. For the Northern Governorate it was Janabeya at 65%, for Muharraq it was Amwaj at 56%, Central was Salmabad at 39% and finally Southern with Mazroeya and East Riffa at 95%.

## Real Estate Transactions in Bahrain (May 2010)

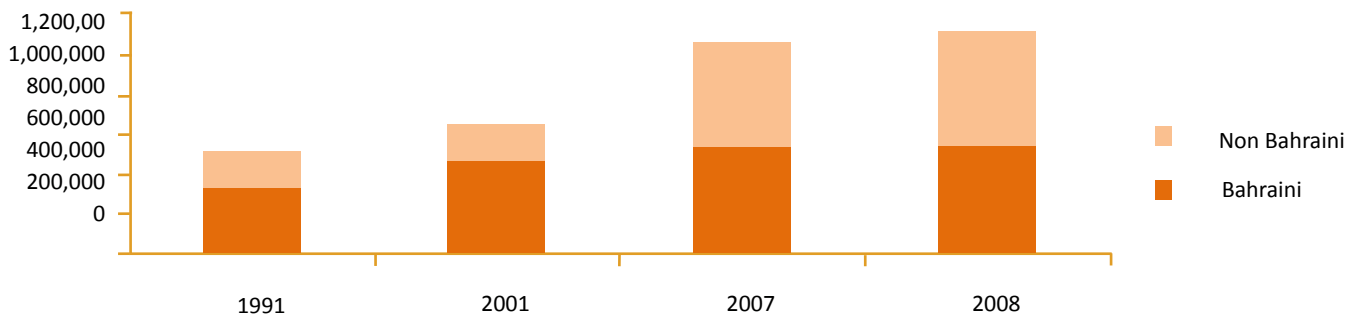


# RESIDENTIAL MARKET REVIEW

## Changing Demographics...

Between 2001 and 2008, the population of Bahrain has grown by 70%. The composition of Bahraini / Non-Bahraini population has slowly reduced from 62% to 49% for the same period. This is mainly due to an influx of foreigners into the Kingdom, many of whom were employed to satisfy the explosive growth in real estate projects.

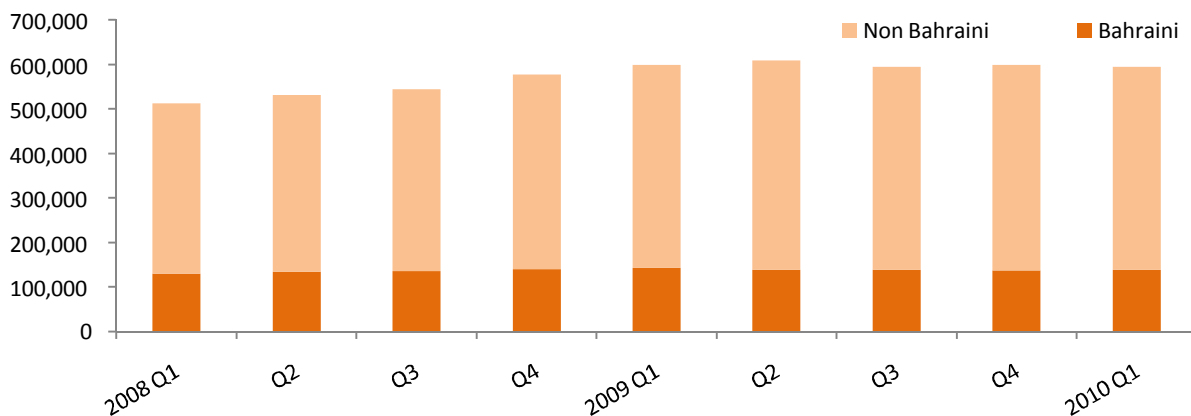
### Bahrain's Population Growth



Source: Central Informatics Organization

By 2010, there has been a noticeable decrease in foreign employment, driven mainly by the global crisis aftermath, while on the other hand, the Bahraini working population has increased in the first quarter of 2010 compared to the previous quarter. This increase still represents an annual decrease of 3% from the first quarter of 2009.

### Bahrain's Employment Levels (2008-2010)

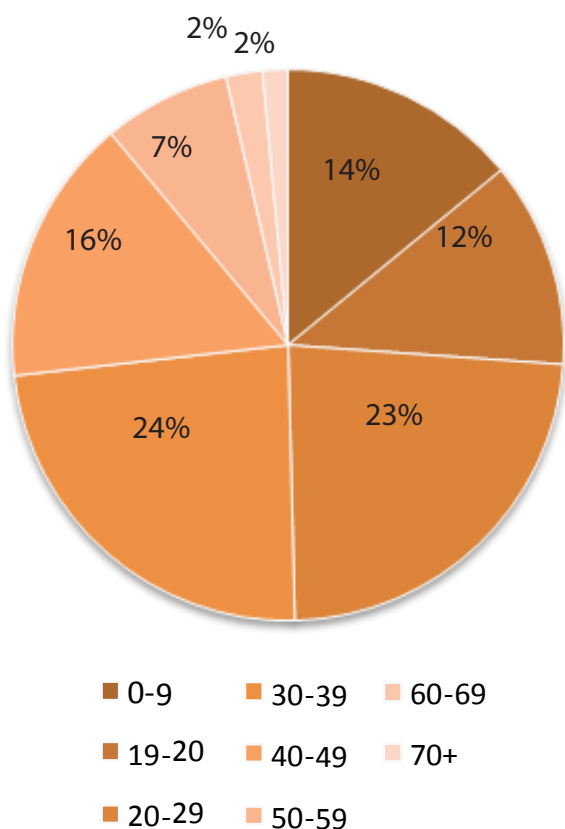


Source: Labour Market Regulatory Authority

With the ongoing efforts of the Ministry of Labor to reduce unemployment in the Kingdom and to increase Bahrainisation, it will be a challenging task given the current market situation and the glooming effects of the global crisis. A recently launched recruitment portal targeted at Bahraini's only reiterates the growing demand for jobs and the lack of sufficient vacancies to absorb the growing bracket of the Bahraini working population.

The growth in demand for jobs is driven by a relatively young Bahraini population. According to the latest estimated population statistics issued by the Central Information Organization, it is estimated that in 2008, the population under the age of 30 comprises close to 50% of Bahrain's total population. This leads us to conclude that there will be continued growth in newcomers into the job market as well as an increase in demand for housing in the immediate short term.

### Bahrain's Population Age Distribution



Source: Central Informatics Organization

### Low Income Levels...

By 2010, there has been a noticeable decrease in foreign employment, driven mainly by the global crisis aftermath, while on the other hand, the Bahraini working population has increased in the first quarter of 2010 compared to the previous quarter. This increase still represents an annual decrease of 3% from the first quarter of 2009. As per statistics issued by the LMRA for March 2010, over 85% of non-Bahrainis and 47% of Bahrainis earn less than BD300.

### Bahraini/Non-Bahraini Earnings By Wage Bracket (as of March 2010)

Wage Bracket	Bahrainis	Non-Bahraini
Less than 100	0.7%	64.9%
100 to 200	9.7%	14.9%
200 to 300	36.6%	7.9%
300 to 400	12.4%	3.8%
400 to 500	7.1%	1.7%
500 to 700	9.9%	1.9%
700 to 900	6.2%	1.1%
900 to 1500	10.1%	1.6%
1500+	7.4%	2.3%

Source: Labour Market Regulatory Authority

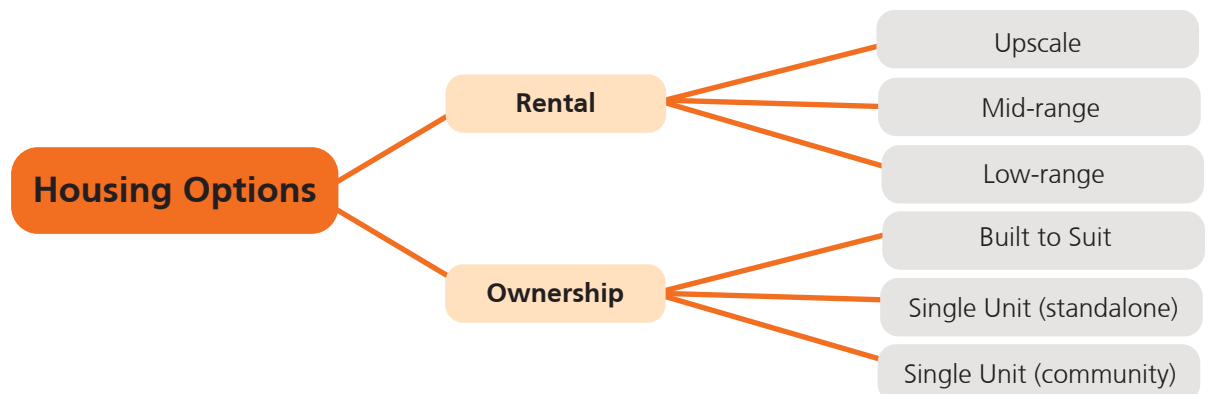
When translating these statistics into an estimated budget for the average Bahraini individual with respect to housing demand, we find the following:

- Close to half of the Bahraini population earns less than BD400.
- Combined household income is assumed to be around BD800.
- Borrowing levels should not exceed 50% of the combined household income.
- Borrowing rates stand at 9% and repayment terms extend upto 25 years.
- The Consumer is required to pay 20% of the property's value upfront, bringing leverage ratios to 80%.

As such, the average Bahraini household affords to acquire mortgage financing of upto BD50,000, and can therefore afford acquiring homes valued at a maximum of BD70,000. Our analysis below places such budget within the various housing options available to the potential homeowner.

## Housing Options...

Below, we lay out below the different housing options available for both the expat and local population in Bahrain:



## Rental Market

The rental market can be subcategorized into three tiers: Upscale, Mid-range and Low-range. In determining a given property's classification, we rely on several factors including the property's age, quality of the construction works, amenities and facilities provided and finally its location. We consider the residential rental market in Bahrain as one that offers a good mix of units within the three tiers we define above. In recent years, there has been a surge in the number of apartment buildings and this has led to a sizeable supply in the market.

# Ownership Market

The ownership market can be classified into three categories: Built to Suit, Single Unit (standalone) and Single Unit (community), and are described as follows:

**Built to Suit** homes define properties that are constructed according to the homeowner's likes and preferences. It gives the homeowner the ability to plan their homes according to their needs as well as to include personal touches with regards to architecture, style as well as landscaping. This category of homes is more suited to the mid and upper segments of the market due to the associated costs related to such personalized homes.

**Single Unit (standalone)** homes are those properties that are already constructed by an individual or an institution for investment purposes, and follow more general standards in terms of construction and finishing. These homes target a wider range of consumers compared to the previous type and come in a variety of price ranges.

**Single Unit (community)** homes are properties that lay within either an open or a gated community such as villas within a compound. Properties within a community are usually similar in design and style. Several of these units can enjoy common facilities such as a swimming pool, gym, security and plenty of open space. This type of property is more suited for the modern day family seeking value added facilities in their home environment.

We give the term economic housing to any unit, whether classified as rental or ownership, that meets certain criteria. The term, often interchangeably used with affordable housing, is internationally accepted and defined as when a homebuyer pays no more than 30% of their income for associated housing costs. Therefore, land and construction cost plays a major role in determining the sale value of such homes. When allocating the bulk of the Bahraini population into these housing options, we believe that the most suitable category for homeownership would be to

purchase a single unit within a community. We justify this by the fact that such units would appeal to the younger population of Bahrainis and will also, based on the developer's strategy, be reasonably priced to suit the budgetary limitations of the targeted market. Given the demographic and economic structure of the Kingdom, many developers have attempted to seize this opportunity by initiating housing projects that meet the demand of the increasing low income bracket. Several projects have been launched early this year. However, the pressures of low income combined with stringent borrowing criteria, particularly after the global crisis, have limited the acquisitions of such Projects. The pricing of such projects is also far beyond the reach of the average Bahraini consumer. Most projects which, during the real estate boom, were labeled as affordable or economic housing were priced in an average range of BD120,000 to BD160,000. A project by Capital Real Estate Projects, Beyotat Al Fereej, is offering 85 units at prices ranging between BD55,000 and BD95,000, which we believe is a more realistic approach to target the demand in discussion.

The government, on one end, is seeking to fulfill the surge in number of applications for housing services. It is estimated that over 45,000 applications are still pending since last year. In an effort to provide a speedy resolution to the problem, the Ministry of Housing in collaboration with Eskan Bank, the Islamic Development Bank and a China-based company, introduced the smart homes concept to the market. However, the concept has been faced by strong resentment from the public claiming these homes do not meet the region's climate and domestic needs.

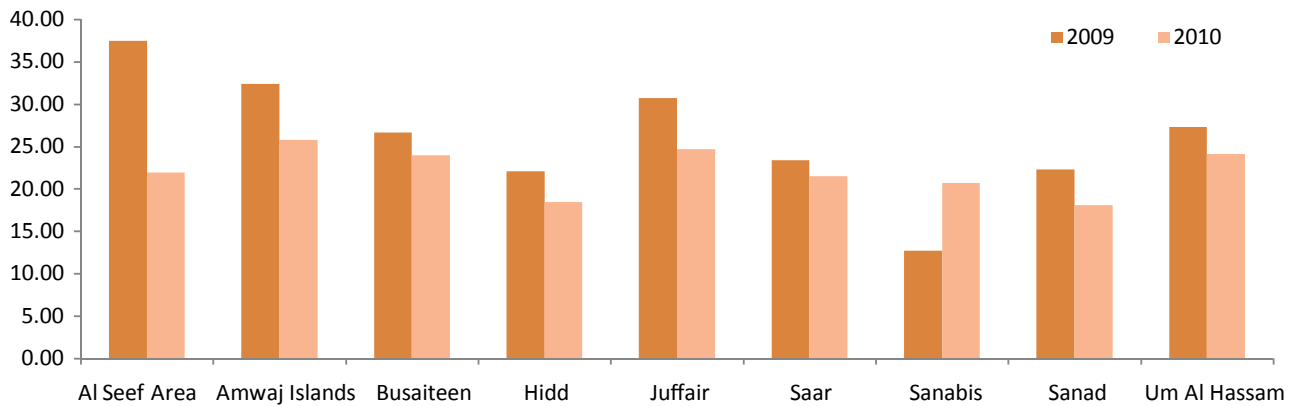
We believe that in order to overcome this situation, there needs to be collaborative effort between both the private and public sector.

The private sector, through its ability to provide low cost of materials, combined with the public sector's supply of land will create a unique consortium that can target this undersupplied market and serve its growing demand. The current decline in material prices will enable developers to provide such units at lower price ranges, thus enabling a larger portion of potential buyers to acquire these homes.

## Overall Downward Trends

A review of residential land prices conclude continued price reductions since 2009. We attribute these declines to the speculative nature of the market during the real estate boom. The majority of areas where substantial price decreases occurred were where the investors/individuals acquired lands with the ultimate aim of introducing them to a secondary market. Most of these areas were raw lands which contained minimal services and infrastructure. Primary market transactions occurred due to the belief that such areas, when infrastructure and servicing is introduced, will peak in price. Areas such Seef suffered decreases close to 40%, whilst other, more established areas such as Saar have posted a decrease of 10% since 2009.

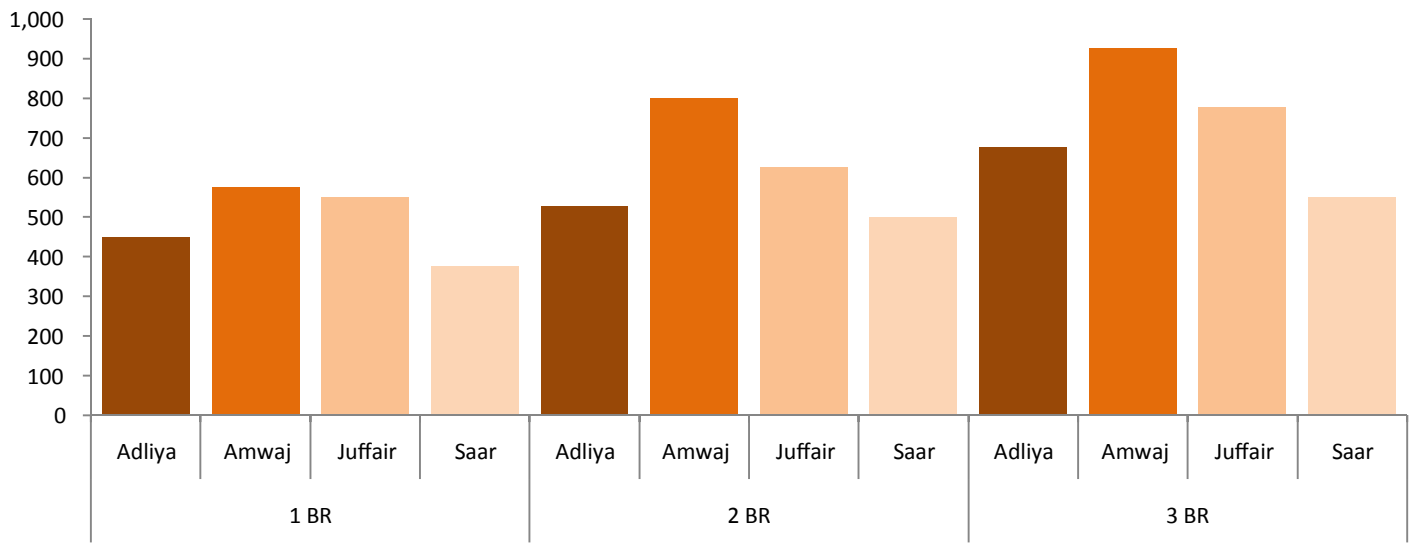
### Land Sale Prices per Sqm (2009-2010)



Source: APEX Properties B.S.C. research

Upon examining the rental market in Bahrain, it is evident that there is a downward pressure on rental rates due to increased competition with the introduction of several new buildings in the market, as well as a slowdown in demand and take up. We believe that property in Amwaj will sustain impact of the economical slowdown due to its attractive location, added facilities and growing popularity amongst both the local and expatriate population.

### Apartment Monthly Rentals (Upscale and Mid-range)



Source: APEX Properties B.S.C. research

## OFFICE MARKET REVIEW

### Overall Downward Trends...

Gauging the office market demand is reliant on two factors: an increase in the number of companies established as well as an increase in company profits. Each of these factors entails an increase in employment levels and subsequently an increase in demand for office space.

During the boom, and when companies benefited from favorable market conditions, profits were soaring, companies were expanding and hiring levels were increasing. This has led to an increased demand for office space, particularly bigger, more prestigious offices. In addition, several regional and international firms were encouraged to set up in Bahrain and this has resulted in a rapid increase in office supply over the short term.

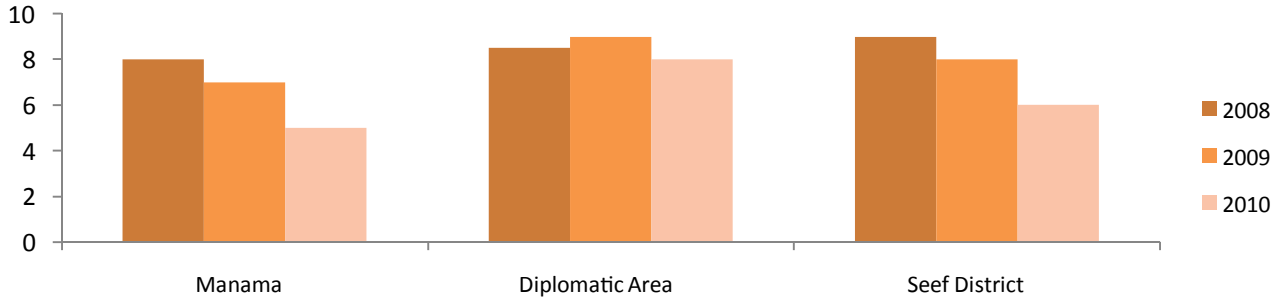
Today, as several companies struggle to become profitable, budgets are getting tighter, employee lay-off are becoming more frequent and profits are getting smaller. As a result of the unparalleled levels of commercial developments, office space has far overridden its demand and the average vacancy rates for such space are expected to go beyond the current 25% level.

### Drop in Rent rates...

With an oversupplied market faced with low levels of demand, there has been an obvious downward pressure on rental rates. Reductions varied between 6% and 30%. Seef District, for example, has experienced a drop of over 30% between 2008 and 2010. While Diplomatic Area has sustained average rental rates of BD8 per sqm, a reported decline of 6% since 2008.

Our observation also concludes that landlords are willing to adopt to the potential tenant's budgetary constraints, offer prime office fit-outs and connectivity services and offer plenty of parking space with the aim of securing longer lease arrangements.

### Office Monthly Rentals 2008-2010 (per Sqm.)



Source: APEX Properties B.S.C. research

## RETAIL MARKET REVIEW

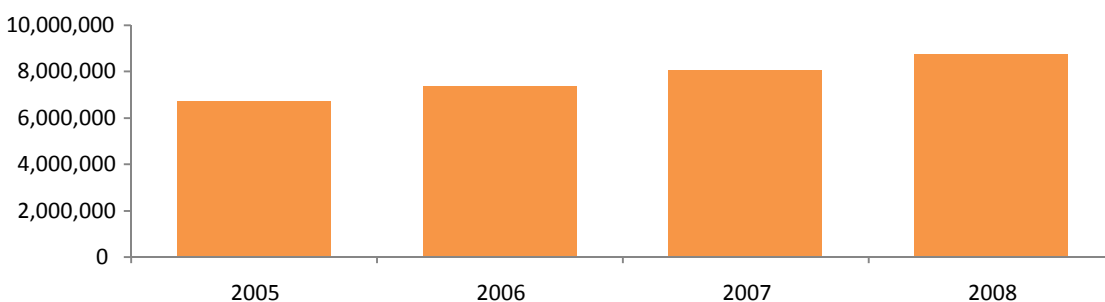
### Doubled Space In 10 Years...

After having Seef Mall as the primary destination for most shoppers, the past 3 years have witnessed staggering growth in retail space with the introduction of Sitra Mall, Bahrain City Center, Moda Mall and the Harbour Mall amongst others. This brings the Gross Leasable Area ("GLA") to over 500,000 sq.m. of retail space. However, most of the additional space is located in heavily urbanized and developed cities such as Seef and Manama area.

### Strong Demand From GCC...

Given Bahrain's strategic location and its connectivity to the Saudi Causeway, there has been ample and strong supply from tourists and their related spending, particularly the Saudi population which consider Bahrain as the ideal shopping and entertainment destination.

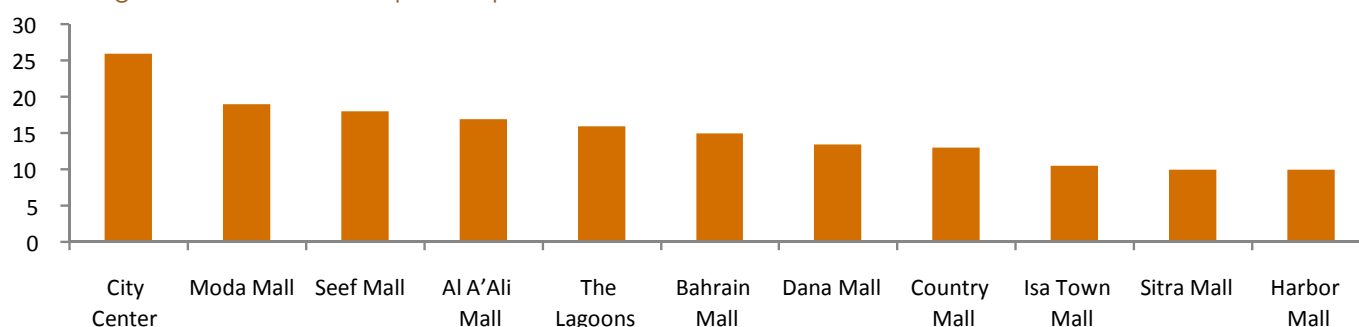
### Passengers Arriving by King Fahad Causeway (2005-2008)



Source: Central Informatics Organization

The increased demand and lack of supply which has resulted in the explosive growth of retail space has led to a sudden oversupply and heated competition between the malls. Frequent activities and events are continuously planned by mall management as an attempt to increase footfall and attract shoppers. The concept of a waterpark within a shopping mall has been recently introduced in Bahrain with the establishment of Bahrain City Center, resembling the indoor ski dome in the Mall of the Emirates in Dubai. The increased competition has led to decreases in rental rates as means of attracting tenants and increasing occupancy rate.

### Average Rental Rates (per Sqm.)






Source: APEX Properties B.S.C. research

## Overall Downward Trends...

The future supply of retail space is driven by the increased number of developments in the Kingdom as well as attempts to fulfill local retail demands across Bahrain's cities. There will be several shopping malls planned within the coming couple of years, most of which lay in residential communities such as Muharraq, A'Ali, Riffa and Saar.

Mall	Location	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	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

# REAL ESTATE OUTLOOK

- Residential**  We believe that although the residential market is poised for potential growth, it is also set for some challenges. Efforts should be focused towards satisfying local housing demand by embarking on low/mid end housing projects. Landlords, on the other hand, should focus on retaining existing tenants either by offering value-added services or adopting a going market pricing strategy.
- Office**  The office market is saturated, economic conditions are yet to be revived and demand trends are downward sloping. We believe continued downward pressure on rental rates will precede while occupancy rates will continue to drop in the medium term (3-5 years).
- Retail**  The retail market has experienced explosive growth over the last couple of years. The introduction of new malls around the Kingdom has revived cities and created additional entertainment centers for the public. On the other hand, these malls have also attracted spending from the surrounding GCC. We believe the increased competition will place downward pressure on rent rates, and current market conditions will see delays or cancellations in planned retail spaces.