

Bahrain Residential Market

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Q2 2009

Quick Stats

Bahrain Residential Trends			
Grade	Sale Price (completed units)		
	2009	2010	
Upper Income Units	↘	→	
Middle Income Units	→	→	
Grade	Rental Rates		
	2009	2010	
Upper Income Units	→	→	
Middle Income Units	→	→	
Lower Income Units	→	→	

Hot Topics

- The Government has announced plans to build 50,000 low-cost housing units by 2014.
- Private sector developers are claiming that the Kingdom needs 80,000 social housing units by 2020.

GENERAL OVERVIEW

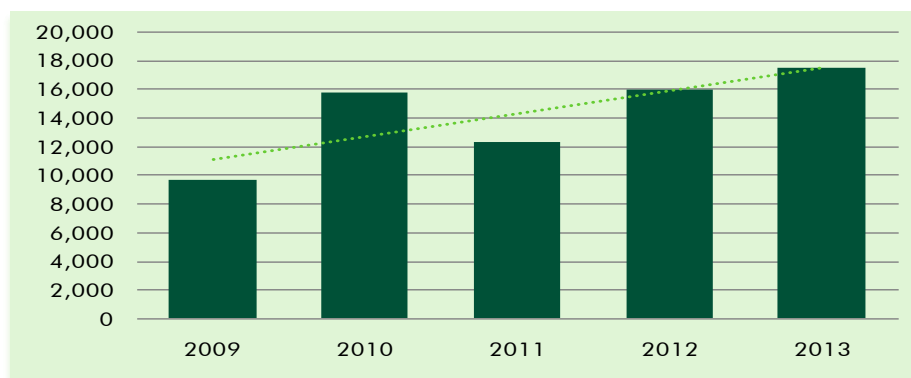
During Q2 2009 there was much debate as to the future direction of the residential real estate sector in Bahrain. By the end of the quarter some clarity has begun to emerge as the status of most projects became clearer and macroeconomic figures provided positive indicators.

HIGHLIGHTS

During this quarter, a number of new projects were announced while others were placed on "hold". The number of project cancellations in Bahrain has been minimal when compared with other regional centres.

- 1st April 2009: Announcement of Marsa Al Seef developed by GBCORP covering approximately 2.6 million square metres. The development comprises a waterfront mix of retail, leisure, and residential.
- 1st April 2009: Announcement of Kenaz Homes located in Al Qadam area and developed by Manara Developments. The project will comprise 75 semi-detached homes, the units will be three bedroomed and sold exclusively to Bahraini and GCC nationals.
- 2nd May 2009: Postponement of Seef Garden project developed by Eskin Bank. Development planned to offer 670 apartments, 42 villas and Eskin Bank's head office building.
- 17th May 2009: Nurana project developed by Manara Developments wins environmental approval. 60% of the project will be dedicated to residential use.
- 19th May 2009: Abraj Al Lulu declared ready for delivery but residents not allowed to move in until 1st August. The development has been under construction since May 2005 and comprises two 50 storey towers and a single 40 storey tower with 862 apartments units in one, two and three bedroom layouts.
- 24th May 2009: Ahad Holding launched La Reef project comprising two 10 storey towers each with 142 residential apartments and two penthouses. Completion date set for end 2010.
- 10th June 2009: First Bahrain postponed their 21,000m² development in Seef District. The project was due to feature a five star hotel, serviced apartments, offices and residential towers.
- 16th June 2009: Councillors reported to be pushing for the decision granting permission to the Up Town project in Al Dhahh to be revoked. The project comprises two 75-storey towers and a third 70-storey tower coupled with 20 residential towers, a shopping mall, and five star hotel. The project is led by the Qatari-Saudi company Al Thara Investment House.

Delivery Pipeline Residential Units, Bahrain 2009 - 2013



Source: CB Richard Ellis

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MORTGAGE MARKET

The mortgage market in Bahrain experienced a slowdown in the first and second quarters of 2009, and this is expected to continue at least in the short term. The mortgage market in Bahrain continues to be dominated by Sharia-compliant products in which development risk is carried by the lender. This is making the products both expensive and scarce.

The mortgage market was at an embryonic stage in its evolution when the current banking and finance crisis took hold with a relatively small variety of products and options for potential buyers. This could be considered a significant upside factor for prices over the next few years as the market settles down, risk levels drop and cost of finance reduces. The residential mortgage market is forecast by leading providers to double by 2012 to over BD700 million.

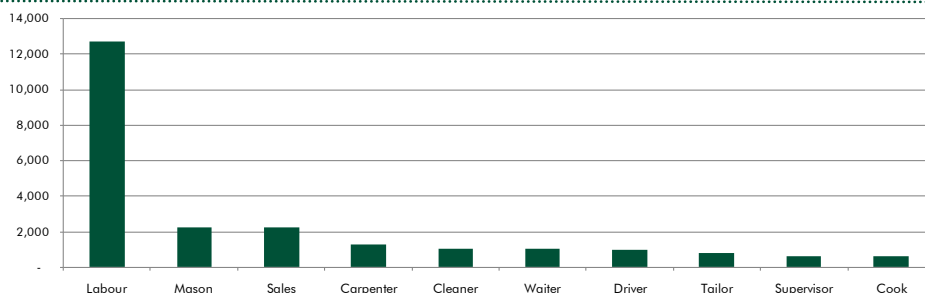
Employment Growth, Bahrain – 2009

The need for new housing in Bahrain is largely driven in terms of numbers and type by employment growth and it is important therefore to understand the dynamics of this growth. In the year to Q1 2009, employment grew overall by 34,463 to 596,224, a rate of 16.3%.

However, the nature of this employment was somewhat concentrated in the low-skilled, low-income sector with obvious implications for housing demand. Average salaries remained static during this period.

The top 10 professions generating new employment (and representing almost 70% of total employment growth) in the year to end Q1 2009 were as follows:

Top 10 Professions, Bahrain - 2009



Source: LMRA

DOES IT GET ANY BETTER?

Transaction activity during Q2 2009 came to a standstill in the off-plan market although secondary market transactions are still taking place in small numbers. Developers have not generally cut off-plan prices in order to maintain market confidence but they are increasingly likely to be facing cashflow difficulties and in many cases will need to seek refinancing to continue with their projects.

Entering the summer and subsequent Ramadhan period it is unlikely that this situation will change with transaction activity likely to remain at historic lows. There is some debate as to whether the expatriate population will drop significantly during the summer to the extent that many schools have been seeking clarification from parents to establish whether they will be requiring places for the 2009-2010 school year.

If the number of professional expatriates (especially those employed in the troubled banking sector) declines significantly, this will have a knock-on effect in the quality apartment and compound rental sectors which will then take the heat out of the sales market. Some of this effect will be ameliorated by project delays and postponements but the precise demand-supply dynamics will be unclear for some time.

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