RESEARCH

BAHRAIN MARKET REVIEW 2019

RENTAL RATES STABILISE THROUGH 2018 • OVERSUPPLY CONTINUES TO WEIGH ON MARKET PERFORMANCE • OCCUPANCY RATES STAND AT Circa 40%
On the back of reforms, easing of regulations, continued investment in large scale projects and higher oil prices, GDP growth is expected strengthen to 2.8% and employment is expected to expand by 2.5% in 2019.

Over recent years Manama’s office market has become favoured towards tenants. As a result of the more tepid economic backdrop we have seen subdued demand, with rents across all market segments seeing significant declines. In 2018 we have witnessed rents remain relatively stable.

Bahrain’s hospitality sector has traditionally attracted regional GCC visitation, particularly from Saudi Arabia via the King Fahd Causeway. As a result of Bahrain’s overnight stay sources, its hospitality market has historically had challenges in relation to driving occupancy rates.

Looking ahead we may begin to see international visitation from outside the region increase as the country’s national airline expands its network alongside Bahrain International Airport’s expansion.

“Bahrain continues to be an attractive and cost effective location for firms looking to setup a base in the GCC. Particularly as the region’s largest economy, Saudi Arabia continues to open up, Bahrain will increasingly be considered as a hub location given its direct access to Saudi Arabia.”

Please refer to the important notice at the end of this report.
fiscal consolidations. Finally, whilst the introduction of VAT is likely to increase the rate of inflation, we do not expect this to be a substantial increase given the relative consumer friendliness of the VAT regime in Bahrain compared to other GCC nations.

Regional competitiveness

Bahrain continues to be an attractive location for firms looking to setup a base in the GCC. Particularly as the region’s largest economy, Saudi Arabia, continues to open up. Bahrain will increasingly be considered as a hub location given its direct access to Saudi Arabia via the King Fahd causeway.

International firms are attracted by Bahrain’s favourable business environment, which offers effective regulations, lack of Free Zone restrictions alongside a favourable tax regime.

Figure 2 highlights the competitiveness of doing business in Bahrain, where in the World Bank’s Ease of Doing Business rankings Bahrain ranks 62nd out of 190 countries, up from 66th in 2018. Bahrain’s trading across borders and protecting minority investors scores have also improved over the last year. Starting a business, dealing with construction permits, registering property, trading across borders and getting electricity are all areas in which Bahrain scored well. With the broad range of reforms enacted in 2018, we expect Bahrain’s ranking to continue its ascent.

The main areas where Bahrain must continue to develop in the future are the areas of resolving insolvency, getting credit and enforcing contracts – the World Bank has highlighted that performance in most of these areas has already begun to improve since 2016.

Finally, the island is a firm favourite with expats, with the Expat Insider’s 2018 survey ranking it as the best place to live and work for the second year in a row.

"The introduction of VAT is likely to increase the rate of inflation, however we do not expect this to be a substantial increase given the relative consumer friendliness of the VAT regime in Bahrain compared to other GCC nations.”

TAIMUR KHAN
Research Manager

Overall DTF, total
Trading Across Borders, DTF
Dealing with Construction Permits, DTF
Starting A Business, DTF
Enforcing Contracts, DTF
Resolving Insolvency, DTF
Getting Credits, DTF
Registering Property, DTF
Getting Electricity, DTF
Protecting Minority Investors, DTF
Paying Taxes, DTF

FIGURE 2
Ease Of Doing Business: Distance To Frontier Score 2019

FIGURE 3
GCC Countries, Ease of Doing Business Rank
Real Estate market overview

Commercial

Bahrain’s commercial office market continues to be dominated by weak occupier demand coupled with oversupply, a legacy of the 2001 to 2007 construction boom. This supply-demand imbalance has endured since 2010 when the full effects of the global economic downturn hit Bahrain.

Starting in 2010, Manama’s office market became increasingly favourable to tenants with headline rental rates falling by circa 45% to 50% from the peak in 2008. However, 2018 saw the market stabilise with rent falls abating, a sign that the market has bottomed out, though it remains to be seen when rental growth will return to the market due to the elasticity of the supply pipeline.

As a result of the economic backdrop, the rate of completions has slowed dramatically since 2014 which has avoided any compounding effect of the supply-demand imbalance.

Demand for commercial office space continues to be limited and largely centred on small, fitted out units as tenants look to avoid cap expenditure. This trend has been prevalent for the past seven years and looks set to remain in the short to medium term.

Vacancy rates across the market continue to hover around the 40% mark with best in class schemes commanding better occupancy levels. Conversely, older buildings with inefficient floorplates and poor parking arrangements look set to suffer from lower occupancy levels and higher falls in rental rate.

As a result of these market conditions and the lower cost of doing business in Bahrain when compared to other regional financial centres, the Kingdom is well placed to take advantage of new entrants to the market that are seeking access to the GCC.

Using KPMG’s cost of doing business in Bahrain (Financial Services) 2018 report it can be seen that on a total costs basis, when looking to accommodate one CXO, two Heads of Department, two Directors, five Managers and 10 Analysts, Bahrain is 35% cheaper than Abu Dhabi Global Market (ADGM) and Dubai International Financial Centre (DIFC). Commercial rents for accommodating these 20 employees are 60% and 61% lower in Bahrain compared to ADGM and DIFC respectively (Figure 6).

Whilst the market has shown signs of stabilisation throughout 2018, this has come as a result of dramatic falls in rental rates. This stability looks set to continue in the short to medium term though it is unlikely to translate into rising rents or capital values in the foreseeable future as the market struggles to absorb existing stock.

“Commercial rents are 60% and 61% lower in Bahrain compared to ADGM and DIFC respectively.”
**Hospitality**

Bahrain’s hospitality sector has traditionally attracted regional GCC visitation, particularly from Saudi Arabia via the King Fahd Causeway. From an international perspective, demand has largely been attributable to corporate visitation and the Bahrain Grand Prix, which is the largest inbound demand generator in the Kingdom. Looking ahead we may begin to see international visitation from outside the region increase as the country’s national airline expands its network and improvement works are completed at Bahrain International Airport.

**FIGURE 7**

Key Performance Indicators

<table>
<thead>
<tr>
<th>ADR (USD)</th>
<th>Occupancy (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>2016</td>
</tr>
<tr>
<td>150</td>
<td>120</td>
</tr>
</tbody>
</table>

Source: Knight Frank Research/ STR Global

Due to the nature of visitation in Bahrain, the hospitality market has historically had challenges in relation to driving occupancy rates. Over recent years we have seen average occupancy decline from 56% in 2014 to 52% in 2018. Over the same period, ADR and RevPAR decreased by 23% and 28% respectively.

This softening in key performance indicators (KPIs) was attributable to falling oil prices which not only impacted the domestic market, but also the wider gulf economies, which in turn has resulted in subdued corporate demand. Leisure demand has been impacted by the rift between Qatar and Bahrain (among other nations). More so, in the medium to long term we expect demand will be further impacted as entertainment led destinations are delivered in Saudi Arabia.

As of year-end 2018, Manama’s hospitality supply consisted of 13,000 keys (11,000 hotel keys and 2,000 serviced apartment keys) primarily composed of 4 and 5 star hotels which account for 40% and 39% of the total room supply respectively.

**Demand generators**

Bahrain is considered to be a well-regarded leisure destination and Manama has been established as a trading outpost for the Middle East since the early 1970’s. As the government continues to diversify the economy and promote the location as a credible tourist and leisure destination, it will be able to drive demand beyond its traditional base.

The expansion of supply, where there are several key tourism related projects that have already been completed, are highlighted in figure 10.
various urban regeneration initiatives. Although there was an improvement of upcoming supply falls within this pressure since 2016, with the trend occupancy levels have been under pressure since 2016, with the trend.

In Saudi Arabia, market wide rents and transactions throughout 2018, as key occupiers both from the public.

Saad Al Ghamdi, MRICS
Senior Consultant
+966 55 0893 297
saad.alghamdi@knightfrank.com

Matthew Dadd, MRICS
Partner
+971 50 1823 043
matthew.dadd@knightfrank.com

HOSPITALITY & LEISURE

Ali Manzoor
Partner
+971 50 4202 314
ali.manzoor@knightfrank.com

VALUATION & ADVISORY SERVICES

Stephen Flanagan, MRICS
Partner
+971 50 1833 402
stephen.flanagan@knightfrank.com

CAPITAL MARKETS / INVESTMENT

Joseph Morris, MRICS
Partner
+971 50 3036 351
joseph.morris@knightfrank.com

MEDIA & MARKETING

Nicola Milton
Head of Middle East Marketing
+971 56 6116 368
nicola.milton@knightfrank.com

Important Notice

© Knight Frank 2018 - This report is published for general information only and not to be relied upon in any way. Although high standards have been used in the preparation of the information, analysis, views and projections presented in this report, no responsibility or liability whatsoever can be accepted by Knight Frank for any loss or damage resultant from any use of, reliance on or reference to the contents of this document. As a general report, this material does not necessarily represent the view of Knight Frank in relation to particular properties or projects. Reproduction of this report in whole or in part is not allowed without prior written approval of Knight Frank to the form and content within which it appears.

Knight Frank UAE Limited (Dubai Branch) Prime Star International Real Estate Brokers (PSIREB RERA ORN: 11964 trading as Knight Frank with registration number 653414. Our registered office is Unit 103, West Tower, Abu Dhabi Trade Center, Abu Dhabi, PO Box 487207, Dubai, UAE.

Knight Frank UAE Limited (Abu Dhabi Branch) is a foreign branch, with registration number 1189910. Our registered office is Unit 103, West Tower, Abu Dhabi Trade Center, Abu Dhabi, PO Box 105374, Abu Dhabi, UAE.

Regional offices include:

Botswana • Kenya • Malawi • Nigeria • Rwanda • Saudi Arabia • South Africa
Tanzania • UAE • Uganda • Zambia • Zimbabwe

KnighFrank.com/Research

RECENT MARKET-LEADING RESEARCH PUBLICATIONS

KSA Commercial Market Review 2018
Makkah Hospitality 2018
UAE Real Estate Investment 2019
Dubai Office Market Review 2018

(Y)our Space
The Wealth Report
Global Outlook
Urban Futures ME

KnighFrank.com/Research