



RESEARCH

FIRST HALF 2011 BAHRAIN PROPERTY

Highlights

Knight Frank

FURTHER DECLINES IN BOTH RENTAL AND SALES PRICES, MIXED IN WITH SOME MARKET POSITIVES

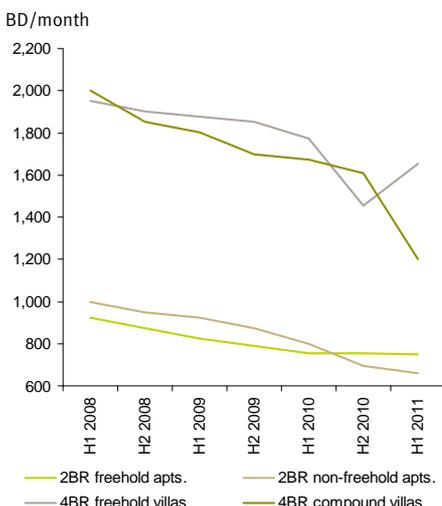
Residential sector

Rental market

- Rental premiums of up to 25% are now being paid by families and individuals who are choosing to live in mixed use gated communities like Amwaj Islands and Riffa Views. This highlights a growing move away from the more established residential neighbourhoods of Saar and Budaiya by predominantly expatriate groups who are renting in this prime end of the market.
- The average rental rates of properties on these master planned projects, especially villas, have subsequently increased in value

Figure 1

Residential rental market (asking) – Q2 2011



Source: Knight Frank

over the last six months since January 2011 with a four bedroom detached unit rising in price by some 14% to BD1,650 per month (US\$4,376), reacting to demand pressures.

On the other hand, same sized units on more traditional gated compounds have seen rental prices fall the most out of all property types surveyed.

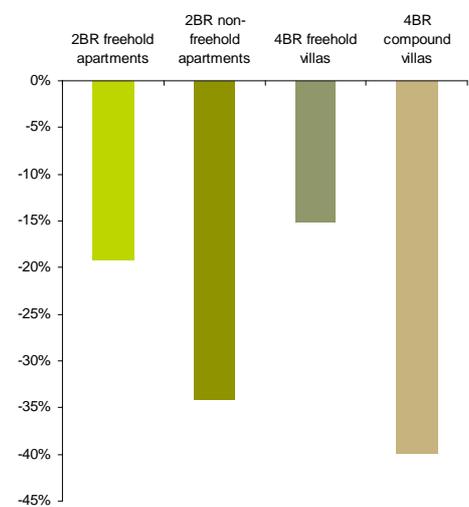
The average rental rate is now BD1,200 per month (US\$3,183) which is a drop of -25%, down from BD1,600 per month (US\$4,243) in the second half of 2010.

- Rental price changes in the apartment market have been less dramatic than villas over the last six months but non-freehold units have seen the rate of price depreciation slow to -6% between H2 2010 and H1 2011 compared to -12% for the previous six months. As with freehold villas it is encouraging to also see rental prices of freehold apartments showing gains during this period of continued economic and political uncertainty with a 5% growth being registered.
- The largest shifts in rent since the start of the year have been seen in the three bedroom apartment market with freehold units increasing by 20% while non-freehold stock has seen prices fall by -17%. It can be inferred from this that families occupying larger apartments have chosen to move location over the last six months to master planned gated communities.

The average rental rate of a prime two bedroom non-freehold apartment offered on a fully furnished basis is now BD650 per month (US\$1,724) in Juffair and

Figure 2

Rental price change H1 2008 to H1 2011



Source: Knight Frank

Al Seef compared to BD750 per month (US\$1,989) for a similar freehold property on one of the islands mixed use schemes.

- This indicates that a rental premium is also being paid for apartments located on these larger developments, although at a margin of 14%, it is smaller than that recorded for villas due to that fact that there is still a large over supply of stock in the market.

Sales market

- The downward trend in sales prices for both villas and apartments, experienced since the middle of 2008 in Bahrain, has continued over the last six months although the rate of decline has begun to slow, at least in the short term.

Overall, average asking prices for property fell by -6% from January 2011 to June 2011 compared -13% for the previous six months.

- Villa prices declined the most over apartments with both three and four bedroom detached homes seeing half yearly falls of -11% as owners have tried to tempt prospective investors into a purchase in what remains a challenging market.

Residential and Commercial Research

Jim Lynn Head of Research and Consultancy
+973 1710 7337
jim.lynn@me.knightfrank.com

www.knightfrank.com

Knight Frank Middle East W.L.L. is registered in Bahrain under CR No. 70236.
Suite 2, 5th Floor, The Financial Centre, Bahrain Financial Harbour,
Manama, Kingdom of Bahrain

FIRST HALF 2011 BAHRAIN PROPERTY

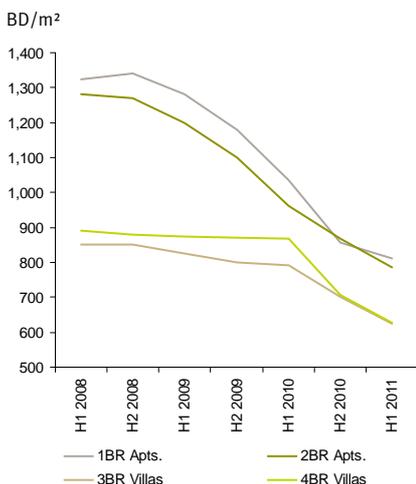
Highlights



- The average prime apartment now has a quoted sales rate of BD790 per square metre (US\$2,095) while villa rates have fallen to BD625 per square metre (US\$1,658) in the first half of 2011.

Figure 3

Residential sales market (asking) – Q2 2011



Source: Knight Frank

- A number of developers who have been struggling to sell their now completed properties have eventually been forced to make the difficult business decision to offer unsold villas and apartments on the rental market in an attempt to generate some income from their multi million dollar investments.

Commercial sector

Rental market

- Office rents have continued to fall in Bahrain for the third consecutive year following the peak of the market in 2008.

Prime rates are down by a further -11% in the first half of 2011 reaching a monthly rent of BD9 per square metre which is back to where the market was over five years ago in the 2005 to 2006 years.

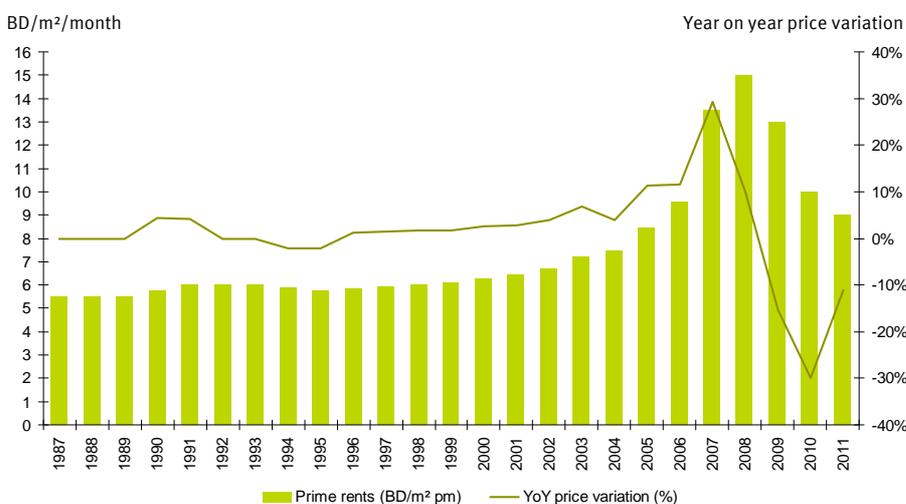
On a positive note, the rate at which rents have declined has slowed from a previous year-on-year dramatic fall of -30% for the period 2009 to 2010.

- With a continued increase in supply together with sluggish demand, vacancy rates are continuing to rise, reaching 26% for all occupiable Grade A and B space available in the market.

The growth rate of supply has however started to slow, as the last of the grand office projects conceived during the boom times are coming to construction completion and only a limited number of new schemes

Figure 4

Office rental market (asking) – Q2 2011



Source: Knight Frank

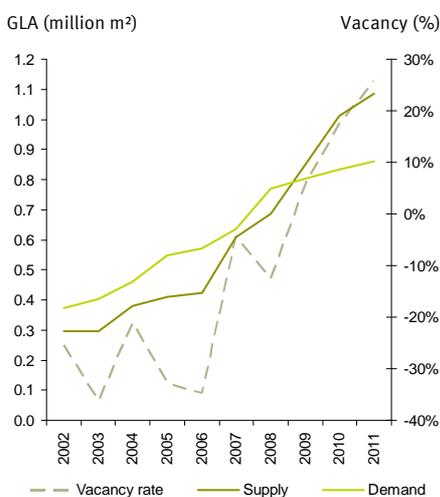
have broken ground since the economic downturn.

Increased demand for Grade A/B office spaces is currently averaging 25,000 to 30,000 square metres per year and it is therefore estimated that it would take up to eight years for the current supply to be absorbed by the market if no other buildings were introduced during this period.

- Inadequate provision of tenant and visitor parking continues to be one of the biggest issues facing many office projects across the country. Improved building regulation is required if this is to be addressed.
- Subletting space is becoming more and more commonplace, even at the prime end

Figure 5

Office supply/demand trend 2002 to 2011



Source: Knight Frank

of the market, as tenants occupying large amounts of space have downsized their workforce over recent months but do not wish to give up their premises after incurring the cost of expensive office fit-outs.

Sales market

The strata title office market continues to attract limited interest in Bahrain with very little marketing collateral available for properties. Developers continue to offer unsold units on the rental market in order to maximise the value of their asset whilst holding out for a single investor.

KNIGHT FRANK COMMENTS

The real estate industry globally has been hard hit during this prolonged economic downturn and Bahrain's market has also struggled with its residential and commercial sectors having suffered continued year-on-year negative growth in both rental and sales values since their peak in 2008.

Instilling "Confidence" back into the real estate market will be the key to any future success for the country if local, regional and international investors are to be attracted back to Bahrain's shores.

There is no doubt that this can be achieved, but it will require cohesive public and private initiatives creating transparency in the market, introducing international "Best Practice" regulation and increasing the availability of affordable finance.