

Regaining investor confidence

Bahrain is well on the way to recovery, and YAHYA ABDULLA explores the positive developments in the real estate market and construction industry which are putting the kingdom back on track.

Despite being the smallest of the GCC member states, the Kingdom of Bahrain has long maintained a strategic role within the Middle East: pioneering social, economic and political reforms. These developments are even more impressive when viewed within the framework of the kingdom's limited oil reserves. A diversified economy including substantial investment into the banking & finance, tourism and heavy industry segments, combined with a strong regulatory framework, has given Bahrain a strong position as a regional business hub. The earlier unrest witnessed in the first quarter of 2011 has now subsided but the overall impact on the real estate market is still being felt, with a level of uncertainty prevailing. However, there is undoubtedly willingness in the country to recover from this period and get Bahrain back to business as usual.

“ There is, however, an expectation for continued consolidation within the financial segment, with a few high profile mergers due to take place in 2012 ”

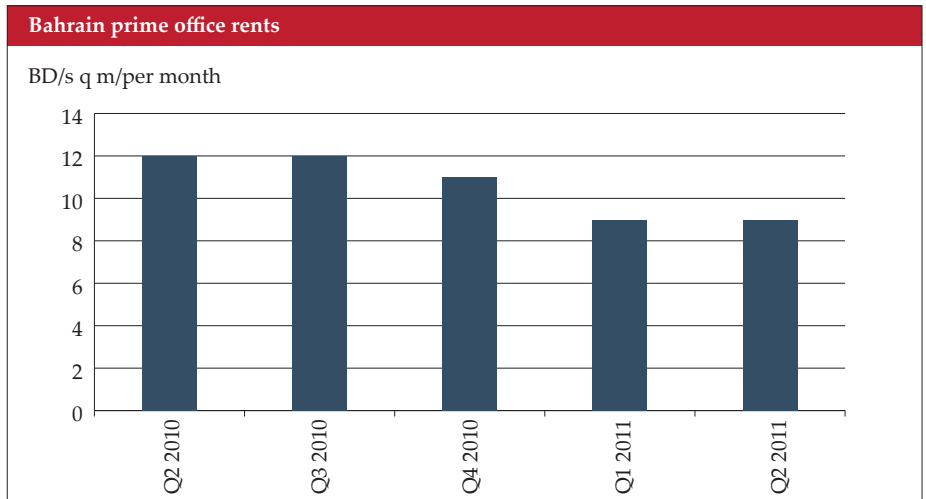
Bahrain has established itself as a regional banking hub for both conventional and Islamic finance, with more than 408 financial institutions, including 120 banks registered with the Central Bank of Bahrain, of which 26 are Islamic. For a country with a population of around one million, the concentration of financial institutions is testament to the regulations implemented by a highly accredited central bank. There is, however, an expectation for continued

Market forecasts	
Prime rents: office occupational market remains weak with continued falling rents and uncertainties following demonstrations	↘
Vacancy: Oversupply will sustain high vacancy levels	↗
Supply: Current oversupply of office space, but limited Grade A	↗
Demand: Reduced demand given current situation. Occupiers continue to demand quality and value for money	↘

Source: Cushman & Wakefield

Prime office rents – Q2 2011			
	Prime rent BD sq m/month	Prime rent US\$ sq ft/pa	12 month trend
Diplomatic Area	8.0	23.5	↓
Seef District	7.0	20.6	↓
Bahrain Financial Harbour	7.0	20.6	↓
World Trade Center	9.0	26.5	↓

Source: Cushman & Wakefield



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consolidation within the financial segment, with a few high profile mergers due to take place in 2012.

Being a relatively small island, land reclamation, infrastructure and indeed the real estate segment are important facets of Bahrain's economic development. As can be expected, there was limited activity across the market during the first quarter of the year as all corporate and retailer enquiries were put on hold. However through the second quarter, properties such as the Bahrain World Trade Center have seen an upsurge in leasing activity. Corporate companies, as ever, remain highly focused on occupational

costs, with decisions being made on the basis of the net effective rental terms offered rather than headline rents. Year-on-year rents have shown a 25% decline. Over the last quarter however, rents in prime locations around the World Trade Center are showing signs of stabilization at between BHD8-10 (US\$21.2-26.5) per square meter per month for shell and core space. Other locations such as the Seef District and Bahrain Financial Harbor are still suffering from the effects of the earlier unrest and rental levels continue to experience downward pressure. The increase in office leasing

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enquiries over the last quarter is mainly due to companies seeking to relocate to more stable areas of the city. This return in market activity is restricted to certain buildings and is not representative of the wider market. Overall we still expect to see a further decline in rental values in the coming months.

Investor interest is primarily focused on secure income-producing assets, in quality locations, leased to strong covenant tenants on long lease terms. Government-backed infrastructure, affordable housing and logistics projects are also attractive.

Related to the point above, having stalled over the past few years, Bahrain's construction industry is due to return to growth following the government's recent commitment to the affordable housing sector. As is the case in most developing nations, there is a large demand supply mismatch in this segment which the government is aggressively seeking to fill. According to ICD research, the industry is expected to grow by a compound annual growth rate of 7.76% between 2011 and 2015. Affordable housing projects worth around US\$7 billion are planned including large PPP initiatives. Earlier in the year, the GCC agreed to a US\$10 billion fund for development opportunities in Bahrain – again, it is anticipated that a substantial proportion of this will be allocated to social housing.

The real estate market in Bahrain is still under pressure but some signs of stabilization have been witnessed. During the second half of 2011 there is an expectation of a soft recovery in the office market in specific projects and locations. The prime office sector is expected to perform strongest due to the limited Grade A stock available.

As the home (and indeed headquarters) of many Islamic banks, we would hope to see the country overcome the hurdles it has faced earlier this year and continue its march towards becoming an international business destination.

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