

Bahrain

Bahrain Real Estate Sector

Proactive Policies, Investment Friendly Climate May 2006

Global Investment House KSCC

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Summary

Bahrain's economy continued its positive momentum in 2005, with a 5.6% growth in nominal GDP reaching BD4.37bn on the back of high oil prices coupled with ongoing public and state-backed industrial and infrastructure projects. The burgeoning economy has spilled over the real estate market, which has been witnessing increased activity with several projects in the pipeline in the residential, commercial, industrial, and tourist segments. The total value of traded land permits in Bahrain have shot up in the last five years, it grew at a CAGR of 27.4% during the period from 2001-2005 and stood at BD517mn in 2005. Total construction permits stood at 10,728 in 2005 compared to 9,374 in 2004, with most of the construction activity taking place in the Northern and Middle areas which constituted 33% and 30.7% of total construction permits in 2005 respectively. It is worth mentioning that the bulk of activity is mainly concentrated in "Addition to existing buildings" or "New construction" constituting 53.9% and 31.2% of total construction permits in 2005 respectively.

Key drivers of the real estate sector in Bahrain includes growing population, rising expatriate workforce, growth in credit facilities, a multitude of financing options, and a foreigners' friendly environment.

The residential sector has been witnessing a lot of speculative activity driven mainly by trading by Kuwaiti, and Saudi investors. Land prices have appreciated by about 3 to 4 times, for example land prices in high end low rise residential areas such as Saar, and Budaiya have increased from BD2.5 to BD10 per sqft. In Busaytin, another residential area; prices have gone up from BD2 to a range of BD10-20 per sqft. In Manama, land prices are in the range of BD15-22 per sqft. In largely expatriate and middle class area such as Juffair, land that was selling for BD4 to BD5 per sqft is today selling at a range of BD25-37 per sqft. Looking at the liquidity levels in the GCC region fostered by high oil prices, and the high surpluses coming from the stock market, we expect the trend of speculative activity by GCC investors to continue further. Demand for residential properties has been increasing considering the increasing population growth and influx of foreigners, especially those who come from Saudi Arabia through King Fahd causeway. A lot of upscale residential projects are in the pipeline. We believe that the residential sector in Bahrain has been crowded with high-profile commercial properties and luxury residential properties leaving the country short of housing for low income groups. We believe that the real opportunity for the residential sector in Bahrain lies within low end residential properties.

The office sector is currently facing a shortage of supply driven by a flourishing business environment, improved macroeconomic environment, and increased foreign investments. Commercial rents have increased 10-15% in 2005. Monthly rents for office space ranges between BD4-7.5 per sqm in Seef area, BD5-10 in the Diplomatic area, and BD4-7 in Central Manama. Monthly rentals for prime office space have gone up y-o-y from BD6.5 to BD8.5 per sqm in 2005. There is a lot of supply of office space coming up shortly in Bahrain at the same time, the Bahrain financial harbor (130,000sqm), The World Trade center (35,000sqm), and another 35,000sqm by different developers. However, we believe that the upcoming new supply might not have enough demand to support the viability of these new projects.

The retail sector has been quiet buoyant, supported by the expatriate population, and the Saudi and Gulf travelers coming for vacation in Bahrain. There is a lot of retail activity in Bahrain, with most of the shopping malls mainly concentrated in al Seef area such as Seef mall, Dana mall, Bahrain mall, Marina mall, Sheraton complex, Gosi mall, Citra mall, and Isa town mall. Most of these shopping malls are high end except for marina mall and Isa town mall. A new retail outlet, City center is expected to come up in al Seef area in 2007. The average monthly rent for retail space in Bahrain is BD16 per sqm, while in the upcoming City Center; it is expected to range between BD22-24 per sqm. We believe that there is still room for growth in the retail sector; as the majority of shopping in Bahrain is done by foreigners and other GCC nationals who visit on the weekends.

The industrial sector has picked up lately with lots of projects in the pipeline such as the Alba line six expansion, upgrading Bahrain's oil refinery, expansion of "Bahrain Petroleum Company (Bapco)", and the privatization of Al-Hidd power and Water Station. The mega projects in the pipeline are expected to play a significant role in driving the industrial sector in Bahrain. The government has been pushing the manufacturing sector, liberalizing its policies and is targeting the private sector to improve its infrastructure. Signing a free trade agreement with the US in September 2004 has also left many positive about Bahrain's potential of attracting foreign investments. An open economy, along with the flexible regulations allowing full foreign ownership of industrial land are expected to drive the real estate market directly through the increase in demand for industrial land in Bahrain, and indirectly through the inflow of foreign businesses to Bahrain which could bode well for the commercial sector as well as the residential sector.

Tourist arrivals in Bahrain has increased for the last four years from 4.3mn in 2001 to 5.6mn in 2004, and stood at 4.79mn in 9M-05. Total Tourist nights rose from 1.57mn in 2001 to 2.29mn in 2004. The Bahraini tourism scene is mainly dominated by business visits and weekend and holiday getaways from the Saudi causeway. The bulk of tourist arrivals in Bahrain, around 80% are through Saudi causeway, which is used by expatriates living in Saudi. We expect to witness increased activity in the tourism sector in the coming years with increasing number of visitors from Saudi along with the government efforts to relax its measures with regard to foreign ownership. Major events such as the Formula1 Grand Prix event are also expected to generate tourist interest in Bahrain, and with another causeway linking Bahrain to Qatar in the horizon, Bahrain's tourism sector will be strengthened even further.

To sum up, we think that there is potential for the residential sector especially in the supply of low end residential properties which is facing a shortage in Bahrain. The industrial sector is also picking up, and is expected to witness further activity driven by the government's proactive measures regarding privatization, and foreign direct investments. Tourism in Bahrain is also poised for growth giving the government's proactive policy initiatives, and foreigners' friendly environment.

Macro-economic Overview

The government of Bahrain has been taking impressive steps towards economic reforms through the implementation of fundamental labor market reforms, opening the market through multilateral and bilateral trade agreements, and liberalizing its telecommunications market. High oil prices coupled with ongoing public and state-backed industrial and infrastructure projects have helped in boosting the GDP growth. Real GDP of Bahrain increased by 5.4% in 2004 reaching BD3.24bn, which was the second highest growth recorded in the past five years. In nominal terms, Bahrain's GDP increased by 13.5% in 2004 to reach BD4.141bn. In 2005, the Bahraini economy continued its positive momentum in terms of nominal GDP growth which grew by 5.6%, reaching BD4.37bn.

Table 1: GDP Composition

<i>In BD mn</i>	2000	2001	2002	2003	2004*	2005**
GDP at current market prices	2,996.9	2,981.2	3,176.5	3,646.9	4,140.5	4,373.5
Change (%)	20.4%	-0.5%	6.6%	14.8%	13.5%	5.6%
Oil	835.7	731.8	774.0	899.5	963.1	na
% of GDP	28%	25%	24%	25%	23%	na
Non-Oil	2,161.2	2,249.4	2,402.5	2,747.4	3,177.4	na
% of GDP	72%	75%	76%	75%	77%	na
Non-Financial Corporations	2,221.5	2,198.7	2,370.0	2,619.9	2,957.4	na
Manufacturing	342.8	358.1	374.8	405.0	439.4	na
% of GDP	11.4%	12.0%	11.8%	11.1%	10.6%	na
Transportation and Communication	211.0	224.2	248.9	262.6	300.9	na
% of GDP	7.0%	7.5%	7.8%	7.2%	7.3%	na
Trade	240.7	252.4	288.5	320.5	410.1	na
% of GDP	8.0%	8.5%	9.1%	8.8%	9.9%	na
Real Estate & Business Activities	273.0	285.3	303.3	320.6	374.6	na
% of GDP	9.1%	9.6%	9.5%	8.8%	9.0%	na
Financial Corporations	640.0	556.9	558.5	772.2	1,018.5	na
% of GDP	21.36%	18.68%	17.58%	21.17%	24.60%	na
Government Services	455.0	472.4	507.2	555.1	582.3	na

Source: Ministry of Finance

* Provisional

** Source: MEED Economic Indicators 2005

With limited oil and gas reserves, Oil contribution to GDP is much lower than other GCC countries and is also decreasing. It stood at 23% in 2004, decreasing from its previous share of 25% in 2003. On the other hand, the financial services contribution to GDP increased to 25% in 2004 from 21% in 2003. It is safe to say that Bahrain has positioned itself as a financial hub for the Middle East, and it has become an attractive location for the global Islamic banking community. In 2002, it was chosen as the home of the new International Islamic Financial Market (IIFM), a joint venture between the governments of Bahrain, Malaysia, Indonesia, Sudan and the Jeddah-based Islamic Development Bank, which came into formal being in August 2002. IIFM is designed to develop products for the purpose of easing some of the liquidity management issues faced by Islamic financial institutions. In October 2002, the Bahraini Prime Minister announced the development of the US\$1.3bn new financial district, the Bahrain Financial Harbor, to attract the kingdom's offshore banking community. In addition, the Bahrain Monetary Agency (BMA) continues to provide attractive incentives

designed to attract major international financial institutions, such as eliminating the taxes applied against the interest earned by depositors and those levied on the Offshore Banking Unit's (OBU's) income. The BMA has recently introduced a new licensing framework, which will provide for greater flexibility for those wishing to do business in or from Bahrain.

Real estate and business activities contribution of GDP increased from 8.8% in 2003 to 9% in 2004. We believe that the real estate and construction sector contribution to GDP is set to increase further, looking at the increasing number of projects in the pipeline such as the Bahrain financial harbor, Al Areen resort, Amwaj Island, and Abraj al Lulu. Furthermore, the government has ambitious plans for industrial developments such as the Hidd complex power and desalination plant, and Aluminum Bahrain (Alba).

Moving away from oil...

Looking at public revenues and expenditures in 2005, and those forecasted for 2006, it shows that oil revenues are projected to witness a slight increase of 0.6% in 2006, reaching BD895.73mn, while non oil revenues are projected to witness a 4.3% hike in 2006, reaching BD360mn. These projections reflect Bahrain's strategy of diversifying its revenue stream away from Oil. Also, projects expenditures, which are projected to increase by 16.6%, are expected to boost the economy even further. The share of infrastructure sector spending stood at 70.4% of total projects expenditures by Bahraini ministries in 2005, reaching BD294.22mn, and is projected to increase to 73.7% in 2006, reaching BD359.37mn. Reflecting the burgeoning real estate market, the ministry of works and housing expenditures alone accounted for 41.6% of total projects expenditures in 2005, reaching BD173.85mn, and is projected to increase further to BD214.76mn, capturing 44.1% of total projects expenditures in 2006. Likewise, survey & land registration bureau expenditures are projected at BD557 thousand in 2006, increasing from BD123 thousand in 2005.

Table 2: State Revenues & Expenditures

<i>In BD mn</i>	2005 Budget	2006 Budget
Oil	890.23	895.73
Non Oil	345	360
Grants	19	19
Total Revenues	1254.23	1274.73
Total Recurrent Expenditures	1044.72	1090.26
Projects	418.11	487.31
Total Expenditures	1462.83	1577.57
Surplus/Deficit	(208.60)	(302.84)

Source: Ministry of Finance

Expanding Credit Portfolio...

The healthy macroeconomic environment coupled with high oil prices have enhanced the liquidity position of the country which was reflected in the expanded credit portfolio. Total loans and advances by commercial banks to various sectors increased by 17.6% in 2005, standing at BD2.62bn, compared to BD2.23bn in 2004. The distribution of total outstanding loans indicates that 46.8 % of the loans were in the form of business lending, while lending to personal and government sector accounted for 45.5% and 7.7% respectively. The business sector is mainly driven by trade, manufacturing, construction and real estate sectors, together

they account for almost 83.2% of the total business segment lending. The trade sector accounted for the largest share among the three sectors of the commercial banks credit to the private sector. It accounted for almost 35.6% of the total credit to the business segment followed by the construction and real estate and manufacturing sectors, constituting 24.6% and 23% of the total business lending respectively. The booming real estate and construction sector witnessed a 61.5% jump in lending from BD187.1mn in 2004 to BD302.1mn in 2005. The lending market is expected to remain buoyant in the near term due to the expected increase in government spending, high liquidity levels, and a vibrant economy.

Table 3: Commercial Banks Credit to Various Sectors

<i>In BD mn</i>	2002	2003	2004	2005
Business	842.7	837.1	1008.6	1226.9
Manufacturing	255.7	251.1	298.2	282.6
Mining & Quarrying	0.6	1	2.3	2.3
Agriculture, Fishing & Dairy	5.9	6.3	8.5	9.0
Construction & Real Estate	176.9	165.8	187.1	302.1
Trade	299.6	286.2	341.3	436.2
Non-Banking Financial Institutions	27.9	41.1	71	67.7
Transportation & Communication	13.2	85.6	41.5	44.4
Hotels & Restaurants	24.4	15.1	27.5	27.0
Other Sectors	38.5	26.7	31.2	55.6
General Government	108.4	154.3	207.4	202.6
Personal	678.7	807.5	1014.7	1194.0
Total	1,629.80	1,798.80	2,230.70	2,623.50

Source: Bahrain Monetary Agency

Bahrain Real Estate Market

The Bahraini real estate market witnessed increased activity in the past years. The total value of traded land permits have shot up in the last five years, it increased at a CAGR of 27.4% during the period from 2001-2005 and stood at BD517mn in 2005, while the total number of land permits decreased by 11.8% to 14,576 in 2005 compared to 16,532 in 2004.

Table 4: Trading in Land

	2001	2002	2003	2004	2005
Total Value of Traded Land Permits (BD)	196,481,738	246,949,287	329,562,235	431,005,214	517,161,211
Total Number of Permits	13,432	14,987	16,084	16,532	14,576

Source: Ministry of Municipalities Affairs and Agriculture

Total construction permits in 2005 stood at 10,728 compared to 9,374 in 2004, with most of the construction activity taking place in the Northern and Middle areas which constituted 33% and 30.7% of total construction permits in 2005 respectively. It is worth mentioning that the bulk of activity is mainly concentrated in “Addition to existing buildings” or “New construction” constituting 53.9% and 31.2% of total construction permits in 2005 respectively.

Table 5: Construction Permits by District

	2004				2005			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Manama	330	373	359	334	352	393	404	304
Middle	636	672	694	627	835	952	806	702
Muharraq	430	454	399	435	486	559	520	412
Northern	830	875	788	750	972	1,034	823	712
Southern	76	114	96	102	125	134	112	91
Total	2,302	2,488	2,336	2,248	2,770	3,072	2,665	2,221

Source: Ministry of Municipalities Affairs and Agriculture

Table 6: Construction Permits by Permit Type

	2004				2005			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Addition	908	1,121	1,241	1,215	1,570	1,838	1,515	1,253
Demolition	122	116	125	117	179	160	192	161
Demolition & New Construction	59	50	34	33	31	46	45	54
New Construction	1,140	1,100	863	833	941	943	910	779
Reclamation	12	11	20	6	8	9	12	1
Renovation	195	217	198	167	228	245	195	135
Total	2,436	2,615	2,481	2,371	2,957	3,241	2,869	2,383

Source: Ministry of Municipalities Affairs and Agriculture

Key Drivers of the Bahraini Real Estate Sector

Population, Demography & Labor Force

Bahrain's population has grown at a CAGR of 2.6% during 2001-2005, reaching 724,645 in 2005. The expatriate population constitutes around 38% of total population. It grew by 2.7% in 2005, whereas local population grew by 2.3%, indicating high inflow of expatriates. Around 68% of the Bahraini population is between the ages of 15-65.

Table 7 : Population & Demography

	2001	2002	2003	2004	2005
Bahraini	407,959	417,940	427,955	438,209	448,491
Non-Bahraini	246,660	254,184	261,463	268,951	276,154
Total	654,619	672,124	689,418	707,160	724,645
Annual Population Growth(%)	2.7	3%	2.6	2.6	2.5
Annual Bahraini Population Growth(%)	2.4	2.4	2.4	2.4	2.3
Annual Non-Bahraini Population Growth(%)	3.0	3.1	2.9	2.9	2.7
Population Under Age 15	180,974	187,105	190,107	206,325	na
Population Abover Age 65	16,586	16,869	17,376	17,798	na

Source: Central Informatics Organization & Bahrain Monetary Agency

Rising expatriates work force...

The Bahraini work force have been losing share to expatriate work force over the last couple of years. Share of expatriate work force stood at 69% in 2005 compared to 65% in 2004. Total working force stood at 285,390 in 2004, and grew by 17.9% to reach 336,508 in 2005. The rise in total workforce in general, and in expatriate workforce in particular is a reflection of the vibrant and open economy of Bahrain.

Table 8: Employment

	2001	2002	2003	2004	2005
Private Sector	173,090	195,889	212,964	247,814	299,080
Bahraini	55,059	57,794	62,279	66,229	71,900
Non- Bahraini	118,031	138,095	150,685	181,585	227,180
Public Sector	32,078	33,990	36,529	37,576	37,428
Bahraini	29,085	30,742	33,034	33,754	33,691
Non- Bahraini	2,993	3,248	3,495	3,822	3,737
Total Bahraini	84,144	88,536	95,313	99,983	105,591
% of ToT.employment	41%	39%	38%	35%	31%
Total Non-Bahraini	121,024	141,343	154,180	185,407	230,917
% of ToT. Employment	59%	61%	62%	65%	69%
Total Employment	205,168	229,879	249,493	285,390	336,508

Source: General Organization for Social Insurance and Civil Service Bureau

High population growth rates, along with a high inflow of expatriates means increasing demand for the real estate residential market. We expect this trend to continue along with the government efforts to open up the economy.

Interest Rates

Growth in lending despite rising interest rates...

The inter-bank rates in Bahrain have been on the rise since 2004. Inter-bank rates stood at 2.6% in Q4 2004, and reached 4.5% in 2005, increasing by 190 basis points. Following the same trend, deposit rates and lending rates have been increasing significantly in the last couple of years. The deposit rates for the 3-12 months category increased from 2% in Q4 2004 to a high of 3.7% in Q4 2005, increasing by 170 basis points. Interest rates on personal loans stood at 8.3% in Q4 2005 compared to 7.7% in Q4 2004. Following the same trend, interest rates on business loans segment stood at 5.3% in Q4 2004, reaching a high of 7.2% in Q4 2005. Although rising interest rates should slow down the activity in the real estate market, activity in the sector has been witnessing record performance. The real estate and construction sector witnessed a 61.5% jump in lending from BD187.1mn in 2004 to BD302.1mn in 2005. The growth in lending is not expected to slow down as the projects in the pipeline large scale will continue reinforcing growth and lending for the real estate sector.

Table 9: Interest Rates

	2004	2005			
	Q4	Q1	Q2	Q3	Q4
Money Market Rate/ Inter-Bank Rate (%)*					
3-Month	2.6	3.1	3.5	4.0	4.5
6-Month	2.8	3.4	3.7	4.2	4.7
Repos	2.5	3.0	3.5	4.0	4.5
Yield on short term Treasury bills (%)					
3 Month	2.5	3.0	3.4	3.9	na
6 Month	2.7	na	3.6	na	na
Return on Short term Islamic Al Salam Securities	2.4	3.0	3.4	3.8	4.4
Return on Long term Islamic Leasing Securities	2.3	2.3	3.2	2.6	4.1
Commercial Bank Lending Rate (%)**					
Personal loans	7.7	8.2	8.3	8.2	8.3
Business loans	5.3	5.5	6.0	6.7	7.2
Commercial Bank Deposit Rate (3-12 month) (%)**	2.0	2.6	2.9	3.4	3.7

Source: Bahrain Monetary Agency

* Interest Rates on US \$

** Weighted average rates (Deposit rates offered and loans rates charged on loans extended during the last month of each quarter)

Financing Options

The upward trend in real estate transactions is a direct result of the number of incentives and financing options offered by banks and financial institutions for nationals to take out mortgages and other types of loans to finance their house purchases. Islamic financing for the real estate market is a growing segment of the sector, with Bahrain taking the leading role in its development. Two thirds of the Islamic financial institutions operating in the GCC are based in Bahrain. A recent example of Islamic financing is the agreement between “Pearl Real Estate Development Company”, and a consortium of investors from Bahrain, Saudi Arabia and the UAE, who have entered into an agreement with Bahrain-based Shamil Bank to provide Islamic home financing to buyers in the BD95mn Abraj Al Lulu development, one of the major freehold apartments project in Bahrain. Under the terms of the agreement, Bahrainis, other GCC nationals and expatriates residing in the GCC would be offered Shamil

Bank's Islamic financing product "Shamil Tamweel Aqari", which is based on the Sharia principle of Ijara.

The committee of public facilities and environment has also approved a draft law that will allow the government to provide interest-free housing loans for families earning less than BD600 a month. The law is part of an effort to ease the financial obligations of the low-income families, and solve the housing problem. The Ministry of Works and Housing provides up to BD20,000 purchasing, building or renovation loans for 25 years payable in easy monthly installments. It also reduces the installments and the loan period. This would enable more families who cannot afford other types of loans to apply for housing loans.

Though not quite used actively in the market yet, mortgage financing is another form of financing that has started to gain momentum. A mortgage loan agreement was signed recently between Bahrain-based Bank Muscat International (BMI) and the developers of Amwaj Plaza. As per the agreement, BMI will have exclusivity over the disbursing of loans to prospective residents of Amwaj Plaza-1, which is amongst the first ever private residential towers to be built within the 3mn sqm man-made Amwaj Islands in Bahrain. BMI would offer financing options to all buyers at very competitive interest rate and a repayment period of up to 25 years provided that the customers meet the set criteria. Further, a MOU was signed recently between the Ministry of Finance and the Housing Bank to establish a real estate mortgages scheme in the Kingdom of Bahrain. Under the scheme, the Housing Bank would guarantee the loans. In the event of a householder defaulting, the Housing Bank would meet the payments for a limited period. If the householder continued to default, the lender would be free to seize the property. The loans would be insured, at the borrower's expense.

Construction Costs

Bahrain Saudi Sand Company, easing the shortage...

In Bahrain, construction costs have been pushed up partly by the shortage of sand, a key ingredient in concrete. Bahrain has been importing sand mainly from Saudi Arabia; however imports from Saudi were halted in 2003 creating a massive shortage and forcing the construction industry to rely on the expensive process of treating sand from the sea. In a recent initiative to ease the shortage, the Bahraini Saudi Business Council decided to establish the first Bahrain-Saudi Islamic Trade Bank, the "Bahrain-Saudi Sand Company" and the "Bahrain-Saudi Holding Company". The proposed BD5mn "Bahrain Saudi Sand Company" is likely to be set up shortly, and will be listed on the Bahrain Stock Exchange. It will help reduce drastically the construction costs in Bahrain. According to the agreement, the bank and the holding company will be based in Bahrain and the sand company will be headquartered in Saudi Arabia with offices in Bahrain. The official launch of the bank and the holding company is expected after approvals from the regulatory authorities in both kingdoms.

Large scale projects driving the demand for cement...

Another important ingredient for construction is cement, which has witnessed substantial increases in prices over the last couple of years. Demand for cement has increased by 50% during the last two years in Bahrain. The boom in the construction sector has been driving up the demand for cement, and with large scale projects in the pipeline, the demand for cement is not expected to slow down. In response to the increase in demand, "Khaleej Finance

and Investment (KFI)” and “Bahrain Motor Company (BMC)” have agreed to set up the Kingdom’s first cement manufacturing factory, called “Falcon Cement Co.”. The US\$45mn cement project will produce clinker directly from basic raw materials such as limestone, iron ore, bauxite and other additives. Construction is scheduled to start in 2006. The initiatives taken to ensure adequate supply of building materials are expected to ease the rising trend in construction costs, which will help boost the real estate market.

The Legal Environment

Bahrain has been very flexible in enacting laws allowing foreign ownership in the country. Laws have been passed allowing nationals from other GCC countries to own property in Bahrain. Another decree was passed recently allowing foreigners and foreign investors 100% ownership of land in predetermined areas. This law sets out areas where non-Bahrainis can own land, and property. Investors setting up their operations in Bahrain may choose either to lease government land through the Ministry of Finance and National Economy, or to purchase land in one of several sites designated by the government and open to non-Bahraini ownership. The areas that are open for foreign ownership are Ahmed Al-Fateh district, Hooraa district, Bu Ghazal district, Seef district and the district of Northern Manama, including the Diplomatic Area, which houses the main international corporations. International investors may also own residential property in tourist developments such as Durrat al Bahrain, Dannat Hawar and Amwaj Islands. In addition, the government will provide the owner with a permanent resident permit in Bahrain for as long as the person remains the owner of the property. Further, foreigners may sell the property at any time afterwards to another foreign passport holder, but in that case his resident permit will be terminated along with the sale of the property. The easing in property ownership is a definite boost to the Bahraini real estate as more foreigners especially those residing in Saudi would wish to relocate to a more liberal environment in Bahrain as opposed to Saudi.

Sector Performance and Outlook

Residential Sector

GCC investors driving up land prices...

Land in Bahrain is mainly owned by individuals, where the government holds only 10%, while the remaining 90% is privately owned. Recently, the market has been witnessing a lot of speculative activity driven mainly by trading by Kuwaiti, and Saudi investors. Land prices have appreciated 3 to 4 times, for example land prices in high end low rise residential areas such as Saar, and Budaiya have increased from BD2.5 to BD10 per sqft in 2005 on year on year basis. In Busaytin, another residential area; prices have gone up from BD2 to a range of BD10-20 per sqft. In Manama, land prices are in the range of BD15-22 per sqft. In largely expatriate and middle class area such as Juffair, land that was selling for BD4 to BD5 per sqft a year ago is today selling at a range of BD25-37 per sqft.

Mega projects under development in Bahrain such as Durrat Al Bahrain and Al Amwaj Island have been spurring speculative activities in adjoining lands. Lands surrounding Al Amwaj Island have witnessed a y-o-y increase in prices from BD8 to BD17 per sqft in 2005. Al Sakhir area which hosts the annual Formula1 race in the track owned by the “Bahrain International Circuit”, is witnessing a hike in the price of adjacent lands. The government is pushing hard for the development and marketing of this area.

Another hot area that has been attracting a lot of interest lately is the Seef area, which is a mixed use area, having high rise commercial and residential buildings including “Al Moayyed Tower”, the tallest office tower in the country’s skyline. Most of the shopping malls are also concentrated in Al Seef area including the most successful of all, “Seef Mall”, and the one in the pipeline, “City Center”. Accordingly, Al Seef area witnessed the highest price appreciation, reaching as high as BD88- 110 per sqft.

Looking at the liquidity levels in the GCC region fostered by high oil prices, and the high surpluses coming from the capital market, we expect the trend of speculative activity by GCC investors to continue further.

Table 10: Residential & Commercial Land Rates (2005)

Area	Residential Land (BD/sqft)	Commercial Land (BD/sqft)
A'ali	8-10	13-20
Adliya	12-15	25-35
Adhari	7-10	18-20
Al Diraz	8-9	9-10
Al Istiqlal Avenue	N/A	12-14
Al Janabiya	8-9	8-12
Al Muqarkah	6	20
Al Mahooz	10-12	20-25
Al Malkiah	4-6	9-10
Al Seef Area	10-15	35-50
Segaya	10-12	18-20
Zinj	8-12	18-23
Arad	6-11	10-14
Barbar	6-10	15
Bar Saar	7-9	8
Buddaiya	6-9	9-12
Buri	5-7	7
Busaytin	10-12	16-20
Demestan	3-5	7
Dih	9-10	15-20
Diplomatic Area	N/A	35-45
East Riffa	8-9	11-14
Exhibition Area	N/A	25-30
Exhibition Avenue	N/A	40-45
GCC Highway	N/A	10-14
Hamad Town	6-8	9
Hamalah	4-6	8-10
Hidd	7.5-10	10-13
Hoora	11	24-30
Isa Town	7-9	11-15
Jarsa	5-6	12
Jiddhafs	6-9	15-20
Jid Ali	7-9	14
Juffair	10-15	20-25
Jurdab	9-10	15
Karbabad	10-15	30
Karranah	9-10	15
Musaila	8-9	12
Magsha	7-9	11-13
Maqaba	8-10	12
Nabih Salieh	5-7	N/A
Qalali	8-10	10-12
Gudaibiya	9-10	20-25
Saar	8-10	10-14
Sadad	3-4	6
Sanabis	8-10	20-25
Sanad	6.5-9	11-13
Salmabad	6.5-9	14-19
Tassan	7-9	9-10
Tubli	6-9	10-13
Umm Al Hassam	10-12	19-24
West Rifa	6-8	10

Source: Cluttons Sales Review

* Prices are calculated according to what has been sold lately averaged from real estate agents specialized in land appraisal.

Saudis and foreigners driving the demand for properties...

The Bahraini residential property market is mainly dominated by rental activity, and witnessing minimal sales. Demand for residential properties has been increasing due to the growth in population and influx of foreigners, especially these who come from Saudi Arabia through the King Fahd causeway. Due to the country's proximity and convenience to many foreign expatriates that work in Saudi Arabia, many of those expatriates live in Bahrain, traveling daily or weekly to their work place. Additionally, the US military still remains a major client for renting flats in the country. Saar, Budaiya, and Busaytin are among the areas witnessing increased activity in the construction of low rise compounds and villas, and are inhabited mainly by Saudis and expatriates. Villas in high end areas such as Busaytin and Saar are selling in the range of BD80,000 to BD325,000, while monthly rents for villas are in the range of BD1,000 – BD2,000. For a 200sqm plot, with 60% of the plot area being built up, and with a price of land ranging BD8-10 per sqft, an average villa will cost BD60,000-75,000, while an apartment should cost BD30,000-50,000. Residential returns are in the range of 8-10% for investors, and 15-20% for developers. The new areas are currently attracting interest away from Manama city which used to be the favorite residential area. The aging housing stock in Manama has forced people who are interested in higher quality properties to shift to new areas such as Seef, Saar, Budaiya, and Busaytin. Currently, Manama city is inhabited mainly by low income expatriate population.

Juffair is mainly attracting expatriates especially from the US due to its proximity to the US Navy base. Rentals in Juffair have dipped recently since the US Navy revised the guideline regarding rental agreements for its personnel entailing that no more than 25% of any residential block can be occupied by US Navy personnel at any point of time as opposed to the previous 50% limit. Therefore, rentals in Juffair dipped by 15%, and occupancy fell from 80% to 60-65%. Seef area is one of the new areas experiencing increased activity, Al Seef is a high end mixed use area (Residential, Office, and Retail). The area is attracting huge demand, due to its proximity to the Saudi causeway. Al Seef area is mainly rented out; however, there is a growing concern that the area might suffer from over-density.

Table 11: Residential Rental Rates (2005)

	1 BHK	2 BHK	3 BHK	4 BHK
Juffair	250-375	450-600	600-900	NA
Central Manama	250-350	350-450	500-650	NA
Seef	NA	350-550	400-550	NA
Saar	NA	NA	650-850	1000-3000

Source: M&M properties

* Rates may vary according to location, building facilities and services.

Residential projects in the pipeline...

Seef properties and Singaporean award-winning Fraser-Serviced Residences signed an agreement to construct a BD7mn service apartments - Fraser Suites - as part of the ongoing expansion of the Seef Mall. The construction work on the ground and first floor of the 20-storey building that consists of expansion of Seef Mall, car park is on the third floor, and other facilities is under way. The actual construction of the 91 service apartments that will begin from the sixth floor onwards will conclude in January 2007.

Another project, Marriott Executive Apartments project is expected to be completed by the end of 2006. The 21-storey twin-tower Marriott Executive Apartments project with an estimated value of BD17mn is designed to meet the housing needs of business executives on long-stay assignments of 30 days or more and for family leisure travelers.

The Orchid Tower Condominium in Juffair is a residential complex housing 52 luxurious 2- and 3-bedroom apartments that will be on offer to expatriates, foreign investors and citizens of Bahrain. These luxurious apartments will be offered for sale to individual investors and buyers unlike earlier when apartments could not be purchased by individual buyers and investors except on recreational island properties. The 15-storey residential project is scheduled to be completed by the first quarter of 2007.

More houses needed for low income groups...

Despite the increasing activities in the residential sector, there is a shortage of housing for low income groups. The focus on high-profile commercial properties and luxury residential properties has left the country short of housing for low income groups. Currently, 40,000 housing loan applications are on the waiting list with the ministry of housing. Density in Bahrain is also very high, the highest among GCC, increasing the demand even further. Concerning developments serving low income groups, there have been few projects targeted at low income groups in Muharraq, Hamad, and Al A'ali. The ministry of housing is also constructing 600 houses that are targeted for low income groups. However, the demand is too big for the government to handle on its own, and there is a need for the private sector to step in and resolve the issue.

We believe that the real opportunity for the real estate sector in Bahrain lies within the residential sector especially in the supply of low end residential properties. There is a lot of supply of high end luxurious residential projects coming up catering mainly to GCC nationals wishing to own a second home or a weekend getaway. We believe that the liberal environment of Bahrain and the easing of property ownership regulation could generate demand for the new wave of supply coming up, however, for an upcoming project to succeed, it needs to be differentiated by a unique feature, an example is the Marina west project, which is a high rise building on the beach, and surrounded by greenery. It includes 1,340 apartments, and is 15 minutes drive from the Seef district, and is also accessible from the Saudi causeway. We believe that the market have been already crowded with luxurious high end projects, while the real shortage lies in the supply of housing for low income groups. Investors have shied away in the past from building houses for the poor, however, with expanding credit portfolio, and the development of financial products allowing low income groups to afford purchasing properties, we expect activity in the low end housing segment to pick up.

Commercial Sector

The business environment in Bahrain have been flourishing lately along with the improved macroeconomic environment, the positioning of Bahrain as the financial hub for the region, and attracting foreign investments. Previously, Central Manama (Government Avenue) included most of the commercial activity in Bahrain, however, the commercial activity shifted to the Diplomatic area, then to the Seef area, due to traffic and parking problems. Yields on the office segment ranges between 15-20% for developers, and 10-12% for investors. Due to the current shortage in office space, commercial rents have increased 10-15% in 2005. Monthly rents for office space ranges between BD4-7.5 per sqm in Seef area, BD5-10 in the Diplomatic area, and BD4-7 in Central Manama. Monthly rentals for prime office space have gone up from BD6.5 to BD8.5 per sqm in 2005 on year-on-year basis.

Lots of Office Buildings Coming up..

There is a lot of supply of office space coming up shortly in Bahrain at the same time, the Bahrain financial harbor (130,000sqm), The World Trade center (35,000sqm), and another 35,000sqm by different developers. Coming up on 202,272sqm on the Manama Corniche, the Bahrain Financial Harbor (BFH) is an important project for the regional banking and financial industry. The Government of Bahrain has designated BFH as a “Strategic Investment Zone” offering investors a relaxed regime of rules, particularly in immigration and labor formalities. Investors will have right to ownership of their assets in BFH and they will also be granted residency permits on a freehold basis. The first phase to be developed by BFH is the Financial Centre, constituting the Financial Mall, the Dual Towers and the Harbor House. The Financial Mall will be the engine of BFH, housing the Stock Exchange and the Capital Market comprising a trading hall, clearing and settlement house, brokerage and trading firms. The Dual Towers will be Bahrain’s tallest building with 50 floors and will have corporate offices, penthouse suites, business centers, health and recreational facilities. The Harbor House will offer 10,000sqm of office space for media-based enterprises specializing in business, finance and investment. It will have direct access to the Financial Mall and will be linked to the harbor with a suspended bridge.

The Bahrain World Trade Center (BWTC), a 50-storey, twin tower development is currently under construction. The building is scheduled for completion in 2006. The twin towers will have 34 floors of office space in each tower as well as an expansion of the existing shopping venue of the Bahrain Commercial Complex to more than double its current size. The Sheraton Hotel will also be re-furbished to become an integral part of the BWTC.

Potential oversupply of office space looming ahead...

Despite the current shortage of office space; the upcoming new supply might not have enough demand to support the viability of these large scale new projects, which will be partly occupied by existing tenants migrating from Seef to these new projects, due to the current traffic problem in Seef. Further, though the country is opening up to foreign companies, lots of them are representative offices that do not actually require a lot of office space. Illustrating the expected demand/supply gap, last year there was an increase of 400 employees working mainly in the financial industry, meaning an incremental space of 8,000sqm was needed in 2005 (assuming 20sqm per employee) as opposed to an upcoming supply of 200,000sqm once these projects are completed and ready for operational activities.

Retail market, lots of places to shop...

Although, most of the Bahraini population falls into the low income group, the activity in the Bahraini retail market has been quiet buoyant, supported by the expatriate population, and the Saudi and other GCC countries travelers coming for vacation in Bahrain. There is a lot of retail activity in Bahrain, with most of the shopping malls mainly concentrated in Al Seef area such as Seef mall, Dana mall, Bahrain mall, Marina mall, Sheraton complex, Gosi mall, Citra mall, and Isa town mall. Most of these shopping malls are high end except for marina mall and Isa town mall. A new retail outlet, City center is expected to come up in Al Seef area by 2007. The average monthly rent for retail space in Bahrain is BD16 per sqm, while in the upcoming City Center; it is expected to range between BD22-24 per sqm.

The BD150mn City Centre Bahrain, the largest urban shopping and entertainment project launched by the UAE-based regional property developer “Majid Al Futtaim Investments”, is set to become Bahrain’s biggest retail outlet. Bahrain City Centre will house the Middle East’s largest 20-screen Cineco Cinema, and more than 350 stores, including six anchor stores. It features a 5,000sqm Magic Planet, and two hotels with a total of 700 hotel rooms combined, which will directly link to the mall. The resort will also be home to the largest indoor water park in the Middle East, covering an area of 12,500sqm. Other facilities will include 30 international restaurants and Bahrain’s first Carrefour hypermarket, which will span 16,000sqm, as well as 6,000sqm for car parking spaces.

Although the purchasing power in Bahrain is very low, we believe that there is still room for growth in the retail sector; as the majority of shopping in Bahrain is done by foreigners and other GCC nationals who visit on the weekends.

Industrial Sector

Lately, the Bahraini industrial sector has picked up with a number of projects in the pipeline such as the “Alba line six expansion”, upgrading “Bahrain’s oil refinery”, expansion of “Bahrain Petroleum Company (Bapco)”, and the privatization of “Al-Hidd power and Water Station”. The government has been opening up for private and foreign investments which are expected to drive the sector further. Non-Bahraini investors in industrial projects may fully own buildings and land with the aim of setting up economic projects. They may also lease government land through the Ministry of Finance. Long term land leases for the purpose of establishing approved industrial projects are administered by the Industrial Areas Directorate of the Ministry of Industry and Commerce. Land is available on a long-term basis for a maximum lease of 50 years. These arrangements are governed by Legislative Decree Number 28 of 1999, with respect to the establishment and organizing of Industrial Areas, which sets out the rights and obligations of contracting parties.

Table 12: Industrial Land Rates

	Rates
Industrial Land	BD 1.02 (US\$2.7) per sqm per year
Industrial Building Cost (hangar type structure)	BD 126 (US\$333) per sqm

Source: Bahrain Economic Development Board

Industrial projects in the pipeline...

Aluminum Bahrain (Alba) started a due diligence study on a sixth smelter line. Alba is trying to increase its production capacity from currently 830,000 tons per year (tpy) of aluminum to a potential final production capacity of 1.1mn tpy through the line 6 project. It is worth noting that after the inauguration of Alba's US\$1.7bn Smelter line 5 in September 2005, Alba has now become the world's largest aluminum smelter.

"Bahrain Petroleum Company" (Bapco) plans to expand the gas production and distribution system with an estimated cost of more than US\$150mn. The expansion project involves drilling of eight gas wells plus the installation of eight gas dehydration units. In addition, the company also plans to undertake a major improvement in the gas distribution network, in order to deal with the increasing demand for gas projected by 2010.

A consortium of three international firms won a bid at an auction for acquiring the power and water station in Bahrain. The three will form an International Power Company, Belgium's "Suez-Tractebel" and the Japanese firm "Sumitomo" submitted the highest bid of US\$738mn. The group will acquire the existing power and water station which has a production capacity of 1,000 megawatts of electric power and 30mn gallons of water per day. The consortium will also embark on the construction of the third phase of Al-Hidd power and water Station. The third phase consists of the construction of a new associated desalination plant which would boost water production capacity to 90mn gallons per day.

The government plans to invest over US\$1bn on upgrading the Bahrain's oil refinery. Nearly US\$180mn of this has already been used for initial upgrades and the remaining amount will be used over the next three years to modernize the refinery. Top on the list is Bapco's US\$685mn Low-Sulphur Diesel Production (LSDP) project which is the largest project undertaken in the company's recent history. The aim of the project is to enable Bapco to produce low-sulphur diesel and other high-value products in a bid to gain a larger share of the world market for high-quality diesel. The Ministry of Oil is also working on plans for a sulphur pellitiser plant that will utilize the excess sulphur produced by the new processes. Other projects include US\$4mn upgrading of the Fluid Catalytic Cracking Unit.

Government pushing for more foreign investments...

The mega projects in the pipeline are expected to play a significant role in driving the industrial sector in Bahrain. The government has been pushing the manufacturing sector, liberalizing its policies and is targeting the private investment to improve its infrastructure. Signing a free trade agreement with the US in September 2004 has also left many positive about Bahrain's potential of attracting foreign investments. An open economy, along with the flexible regulations allowing full foreign ownership of industrial land are expected to drive the real estate market through the inflow of foreign businesses to Bahrain and the increase in demand for industrial land.

Tourism Sector

Tourist arrivals in Bahrain has increased for the last four years from 4.3mn in 2001 to 5.6mn in 2004, and stood at 4.79mn in 9M-05. Total Tourist nights rose from 1.57mn in 2001 to 2.29mn in 2004. The Bahraini tourism scene is mainly dominated by business visits and weekend and holiday getaways from the Saudi causeway. The bulk of tourist arrivals in Bahrain, around 80% are through Saudi causeway, which is used by expatriates living in Saudi.

Table 13: Tourism indicators

	2001	2002	2003	2004
No. of Hotels	83	90	90	na
Labour Force	5,905	6,268	6,924	6,946
No. of Rooms	6,344	6,788	6,788	na
No. of Suites	1,024	1,092	1,092	na
Occupants	786,688	686,262	695,027	1,131,609
Tourism Nights	1,570,656	1,385,598	1,290,413	2,290,081
Average Stay per Person	2.0	2.1	1.9	2.0

Source: Ministry of Information (Tourism Affairs)

Table 14: Tourist arrivals in Bahrain

	2001	2002	2003	2004	9M-05
Arrivals (Non Bahraini)	4,388,109	4,831,025	4,844,497	5,667,331	4,799,876
By air	791,076	920,409	974,159	1,176,460	967,869
By sea	8,769	13,459	8,369	6,526	3,287
By causeway	3,588,264	3,897,157	3,861,969	4,484,345	3,828,720

Source: Ministry of Information

Foreigners' freehold ownership driving tourism activity...

The tourism scene in Bahrain has been witnessing a number of activities targeted mainly at foreigners and expatriates especially after allowing freehold ownership. The largest of these are Amwaj Island , Durrat Al Bahrain, Al Areen Spa, and Resort, and Abraj Al Lulu.

“The Amwaj Island” is a US\$1bn project that hosts 5,000 individual project units. The Island provides a range of homes, both villas and apartments, with an Arab theme. It features a community complex, a mall, an amusement park, an aqua park, cinemas, a bowling alley, health clubs, a skating rink, restaurants, hotels and a marina club and resort. The 10-story Amwaj Plaza-1 consists of 55 luxury apartments and has a gross built area of around 12,000 sqm. It offers 9 different apartment styles including one, two and three bedrooms, duplexes and 2 penthouses. The project is expected to be completed by the end of July 2006.

“Durrat Al Bahrain” is a BD451mn (US\$1.2bn) project, spread over 20sqkm and includes luxurious villas, chalets, hotels, beaches, a shopping mall and a theme park. The project is a joint venture between the government of Bahrain and Saudi Arabia’s Dallah Real Estate, which was later bought out by Kuwait Finance House. The bank provides financing option to expatriates on a 20 year basis with a required deposit of 10% at an interest rate of 5%. Foreign nationals are entitled to purchase property at the project, which would provide them with residency permits in Bahrain.

“Al Areen Desert Spa and resort” is a BD225.6mn (US\$600mn) project by Gulf Finance House, it includes a spa and hotel with residential areas and an aqua park. The project will offer an entire array of health, spa and therapeutic facility. The project is expected to be completed by 2007.

“Abraj Al Lulu” is the largest freehold luxury apartments project in the Kingdom of Bahrain. The project will cover an area of 200,000sqft and comprises of three multi-storey residential towers. Abraj Al Lulu is located in the centre of the capital - Manama - across the highway from the Bahrain Financial Harbour and close to the Al Futtain City Centre, a 20-minute drive from the Saudi causeway and less than 10 minutes away from the Bahrain International Airport. The BD95mn project (US\$252mn) is owned by a group of leading Bahraini, Saudi and UAE investors, in coordination with Bahrain-based Pearls Real Estate Development Company. Al Hamad Construction and Development Company has been appointed as the construction contractor for Abraj Al Lulu and Pegasus Realty has been appointed as the sales and marketing company in charge of promoting the project. Abraj Al Lulu has so far sold over 40% of the apartments to investors around the GCC and Bahrain.

Also, Islamic financial institutions have lately emerged as fresh investors in the development of tourism facilities in Bahrain. “First Islamic Investment Bank (FIIB)” entered into a joint venture with “Bahrain International Golf Course Company” to develop a project at an estimated cost of BD112.87mn. The project is located south of Manama, and comprises 18-hole golf course together with 500 residential units and numerous recreational facilities. This is the second golf-related project for FIIB, the first being a BD188.8mn joint venture with Dubai Sports City to set up a themed residential community, part of the mega Dubailand development. In addition, a team of investors led by Al Khaleej Development Company (Tameer) are developing Adhari Park in Manama at the cost of BD9.03mn.

The government has been pushing for wider involvement of private investors in developing the kingdom’s tourism sector. In the most recent initiatives, the authorities approved the establishment of BD249.34mn firm to acquire the government’s stakes in numerous ongoing projects. More importantly, the plan calls for selling 60% of the new company to private investors through an initial public offering (IPO). Once issued, the shares would then be traded on the Bahrain Stock Exchange. The government is expected to transfer its assets in some major projects to the new firm, including its stakes at Durrat Al Bahrain, Al Areen Desert Spa and Resort, the Southern Area Development Company, Bahrain Family Leisure Company and Seef properties.

We expect the tourist segment in Bahrain to flourish in the coming years with increasing number of visitors from Saudi along with the government efforts to relax its measures with regard to foreign ownership. Major events such as the Formula1 Grand Prix event are also expected to generate tourist interest in Bahrain, and with another causeway linking Bahrain to Qatar in the horizon will Bahrain tourism will be strengthened even further.

Bahraini Real Estate Market Outlook...

The government of Bahrain has taken several initiatives towards achieving a strong and open economy, including positioning itself as the financial hub of the region, investing in the manufacturing and infrastructure sectors, the ongoing construction of the 40km causeway linking Bahrain and Qatar, expansion of Bahrain International Airport, seeking private sector participation in the utility sector, and signing the Free Trade Agreement with the US. High oil prices, and increasing liquidity levels in the region have also contributed to the booming economy. The burgeoning economy has spilled over the real estate market, which has been witnessing increased activity with several projects in the pipeline in the residential, commercial, industrial, and tourist segments. This will allow the real estate sector to witness further growth in the short term.

Land prices in Bahrain have shot up on the back of speculative activity by GCC investors trading in the market, and we expect the trend to continue on the back of high liquidity levels in the GCC region. There is high demand for residential properties in Bahrain driven by the growing population and high density in Bahrain. GCC nationals and expatriates especially those residing in Saudi are expected to drive the demand further. However, we believe that the residential segment has been crowded with high end residential projects in the pipeline, while there is a shortage in the supply of low income housing.

The ministry of housing has already initiated few projects targeted for low income groups. However, demand is very huge for the government to handle on its own, and for the private sector to step in, more financial products need to be developed that allow low income groups to purchase properties in Bahrain. The real estate market has already seen developments of various forms of financing such as Islamic financing, and mortgage financing, and the government is also supporting low income groups through the provision of interest-free housing loans. With more developments of financial products supporting low income groups, we expect activity in the average-low end housing to pick up as investors will try to take advantage of the huge demand.

We believe that the office segment is likely to face an oversupply situation, with two enormous projects coming up at the same time, namely the Bahrain Financial Harbor and the World Trade Center. As for the industrial sector, we believe that the demand for industrial space in Bahrain will pick up giving the government's drive to diversify through spending heavily into the manufacturing and infrastructure sectors, and the opening up of these sectors.

The retail and tourism sectors have been attracting demand from GCC nationals, mainly visitors from Saudi who are commuting through King Fahd's causeway to spend their weekends and holidays in Bahrain. In addition, with a foreigners' friendly legislation, investors have started to see the potential, and a lot of upscale residential projects in tourist designated areas have risen to the surface catering mainly to GCC nationals and foreigners in the GCC region. The upcoming causeway linking Qatar to Bahrain could also add potential to the tourism segment along with the progress in the measures undertaken by the government to allow freehold ownership by foreigners in Bahrain.

Players Profile

Al Khaleej Development Company (TAMEER)

Reuters Code:

[TAM.BH](#)

Listing:

[Bahrain Stock Exchange](#)

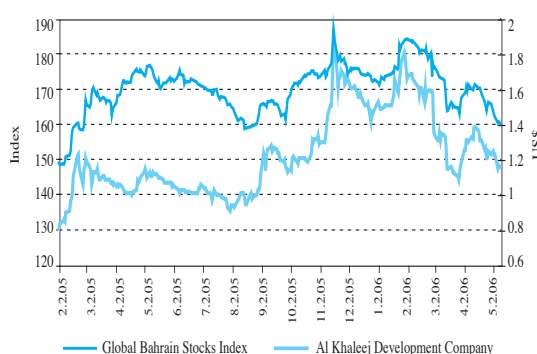
CMP:

[US\\$1.15](#)

Key Data

CMP (US\$)	1.15
Market Cap (US\$ mn)	137,928
EPS (US\$)	0.218
BV (US\$)**	0.72
P/E*	5.3
P/BV**	1.6
12 M Average Volume	127,136
Year Lo-High	US\$0.8-1.87

CMP: Current Market Price on May, 9th 2006



Company overview

- Al Khaleej Development Company (also known as TAMEER), was established in 2002, as a shareholding real estate developing company listed in Bahrain Stock Exchange. In September 2005, TAMEER was also listed on the Kuwaiti Stock Exchange. Tameer increased its paid up capital from US\$16mn to US\$ 44mn during 2004 and to US\$50mn at the beginning of 2005. The latter was effected through an IPO for Bahrainis and other GCC nationals, and was oversubscribed by 2.65 times.
- Major shareholders of Tameer include Gulf Finance House (Bahrain), Dubai Islamic Bank (UAE), Gulf Investment House (Kuwait), and Global Investment House (Kuwait).
- In May 2004, the Company acquired 99% of the equity shares of Tameer Real Estate Agency WLL, engaged in real estate activities and holds the franchise rights of Coldwell Banker in the Kingdom of Bahrain.
- The company's core business is developing and managing real estate properties in compliance with the Islamic Shari'ah laws and regulations. The main activities underlying the company's revenue stream are investment in land, properties, property funds, property management, structuring investment in real estate, and managing real estate fund.
- Some of the company's existing projects include, "Tala Island project", "SAAR villas", "Bahrain Financial Harbor", and the Seef Tower Development Ltd in Muharraq, Bahrain. Future projects include "Al khaleej tower" in Bahrain, and the "Argan 3 towers" in Kuwait.

- In an effort to expand regionally, “Gulf Investment House-Kuwait” and “TAMEER” are working closely to finalize the incorporation of the first partially GCC owned Saudi Real Estate Investment Company with an authorized capital of SR500mn. TAMEER is one of the main participants in the initial paid-up capital of SR250mn, and will assist the new company in undertaking its initial operations by providing the Know-How factor.
- In December 2005, the group entered into a lease agreement with the government of Bahrain for a 170 hectare plot of land located at an industrial area, for a period of 50 years. The plot will be developed by the group’s wholly owned subsidiary, “Bahrain Investment Wharf BSC” (under formation), as an integrated industrial and commercial complex.

Financial Highlights

- Total revenues for the year 2005 jumped to US\$36.42mn, compared to US\$6.48mn reported in 2004. The main revenue drivers in 2005 were the income from sale of lease rights reaching US\$14.32mn, and the realized gain on sale of investment properties reaching US\$9.15mn in FY05 compared to US\$2.15mn FY04.
- Operating profit increased from US\$5.61mn in FY2004 to US\$32.95mn in FY05, Operating profit margin jumped from 86.5% in FY04 to 90.5% in FY05.
- Net profit for FY05 increased to US\$26.3mn compared to US\$4.39mn reported in FY04. Net profit margin rose from 68% in FY04 to 71% in 2005. EPS for FY05 reached US\$0.218, compared to US\$0.052 in FY04.
- The company’s assets base increased substantially, standing at US\$108.7mn in FY05 compared to US\$61.3mn in FY04. This was mainly due to the increase in investment properties reaching US\$42.8mn in FY05 compared to US\$23.2mn in FY04. In addition, trade and other receivables increased from US\$1.7mn in FY04 to US\$22.7mn in FY05 as it included an amount of US\$14.32mn reported as dues for sale of lease rights.
- ROAE and ROAA stood at 36% and 31% in FY05 respectively, compared to 11% and 10% in FY04. BVPS increased from US\$0.53 in FY04 to US\$0.72 in FY05.

Summary of Financials (In US\$ '000)

	2004	2005
Operating Summary		
Income from sale of lease rights	-	14,324
Income from advisory services	648.9	2,942.8
Murabaha Profits	264.7	211.1
Rental Income	790.7	1,457.6
Project & Property management fees	467.8	643.9
Realized gain on sale of investment properties	2,154.5	9,158.1
Realized gain on sale of available for sale investment	-	1,911.3
Unrealized Fair value gain on investment properties	1,284.3	3,658.4
Fair value gain on financial assets at fair value	139.6	1,303.0
Net Income from sale of properties	-	557.9
Other Income*	735.3	256.5
Total Revenue	6,485.8	36,424.1
Operating Profit	5,610.9	32,953.4
Net Profit	4,391.1	26,031.1
Balance Sheet Summary		
Cash & cash equivalents	2,124.4	3,928.1
Investment properties	23,208.2	42,805.4
Total Assets	61,389.4	108,708.8
Total Liabilities	3,399.8	22,837.1
Share capital	44,000.0	50,000.0
Shareholders Equity	57,989.6	85,871.7
Key Ratios		
EPS (in US\$)	0.040	0.217
Book value per share (in US\$)	0.53	0.72
Operating Profit Margin	86.5%	90.5%
Net Profit Margin	67.7%	71.5%
Asset Turnover	0.15	0.43
ROAE %	10.6%	36.2%
ROAA %	10.1%	30.6%
P/E**	28.8	5.3
P/BV**	2.2	1.6

* Other income include Income from available for sale investments, Dividend income and Other income

** Market Price on May 9th 2006.

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