Introduction

Cluttons has partnered with Trowers & Hamlins to produce a guide to investing in the property market in Bahrain.

This has been a cross team effort, working with Trowers & Hamlins in Bahrain to simplify the obligations for those investing in the Kingdom’s residential and commercial markets.

The document also includes an update on the residential and office markets in Bahrain and aims to provide a quick and easily digestible resource for all investors and purchasers.

Undoubtedly, as we enter the fourth year since the shock collapse in oil values, Bahrain is still working its way through a challenging period, with positive Government intervention programmes being rolled out across the Kingdom. The benefits of this intervention are being dampened somewhat by a slight widening in the country’s GDP-to-debt ratio, however there are some encouraging signs emerging.

The Government is putting the pieces of its vision for Bahrain into place and we are already seeing this in many segments of the economy. For instance, with the aid of the GCC Support Fund, the non-oil sector has remained buoyant, growing by 3.7% last year, lifted by wide-ranging infrastructure and construction projects around Bahrain (Oxford Economics). In fact, in early August, the Economic Development Board (EDB) announced that some USD 80 billion worth of construction and infrastructure projects are currently underway or planned for Bahrain, which is expected to help underpin economic growth over the short to medium term.

With this in mind, we wanted to delve further in to the investment obligations for Bahrain, given its emerging profile as not only a gateway to Saudi Arabia, but also its rising prominence in the central Gulf region.
Bahrain residential market snapshot

**Rents stable after H1 corrections**

After rents retreated across the board at the start of the year, we appear to be entering a period of stability, with average rents across the Kingdom firming during Q3. Rents in general have weakened by an average of 16.2% when compared to this time last year, and are down by roughly 8% since the start of 2017.

In general, villas have outperformed apartments, with rents dipping by 11% over the last 12 months. In fact, with the exception of four-bedroom villas in Adliya (BD 1,200 per month) and on Amwaj Islands (BD 1,300 per month), where average rents dipped by BD 100 per month, rates have held stable across most expat-dominated markets during Q3. On the apartment front, rental rates in Juffair have experienced some of the sharpest corrections.

Indeed, the performance of rents in general across Bahrain has been further compounded by weaker than normal levels of demand as slower economic growth takes a toll on the rate of job creation and, therefore, overall demand for rented accommodation.

**Affordability key to success**

While requirement levels are undoubtedly weaker than this time last year, our experience in the market has shown that established communities remain the most attractive areas for tenants. In particular, those with well-managed facilities and amenities are succeeding in retaining high occupancy levels, while rents are remaining relatively stable, when compared to the Kingdom as a whole.

**Community living in high demand**

Elsewhere, at Cebcaro Tower and Segaya Views in Manama, our residential team has registered exceptionally strong demand across the 130 units in both developments. Rents at Cebcaro Tower stand between BD 650 and BD 1,500 per month, while rents at Segaya Views are at BD 650 per month. With average monthly residential rents across Bahrain standing at close to BD 650 for apartments, prospective tenants view the facilities and amenities offered at these two schemes as good value for money.

In Amwaj Islands, one of Bahrain’s most popular expat residential submarkets, while rents have ebbed by roughly BD 50 per month (for apartments) and BD 100 per month (for villas) over the last 12 months, it retains its appeal. The well-established community infrastructure, retail provisions, access to Bahrain International Airport and the rapidly emerging developments on Diyar Al Muharraq, all continue to contribute to the relatively stable demand we are recording here. Furthermore, with the rent corrections that have already taken place, we view the community as exceptionally good value for money, which is likely to support a turnaround in rental value growth sooner than other locations in Bahrain.

Developers are conscious of this ever strengthening appetite for community living in Bahrain and we are starting to see a handful of such schemes trickle on to the market. Eagle Hills, for instance, recently launched Marassi Boulevard in the Marassi Al Bahrain area of Diyar Al Muharraq.

Separate to the development of retail malls, the Gulf’s largest IKEA is on track to open next year at a cost of BD 47 million and is expected to create up to 600 new jobs.

Retail remains a significant area of growth in the Kingdom’s property sector and the renewed confidence amongst retail occupiers and retail developers is reflected in the fact that retail rents across all locations we monitor have remained stable over the last six months.

**Subdued demand for offices**

Elsewhere in Bahrain’s commercial market, demand for office space remains lacklustre and static, with many of which have been supported by the Tamkeen initiative. Space requirements by this subset of the office market often hover around 100 sqm, with budgets of between BD 4 psm to BD 6 psm.

The only noteworthy activity amongst international occupiers has been Amazon’s decision to make Bahrain a regional hub for its cloud computing services, which will see the creation of three data centres in the Kingdom by 2019.

This is in part linked to the sharp rent corrections that have been recorded since 2010; shell and core space is down by roughly 40-70%, while rents for fitted space are down by a third to half over the same period.

While overall demand remains weak, start-up businesses are active in the market, many of which have been supported by the Tamkeen initiative.

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Considerations for investing in Bahrain

Introduction
Ownership of private property is enshrined in the Constitution of the Kingdom of Bahrain. Article 9 of the Constitution, in particular, reiterates the right to manage and retain control of property within the limits of the law.

In the Kingdom of Bahrain, the Survey and Land Registration Bureau (SLRB) manage the registration of real estate by both Bahrainis and foreign nationals. The Ministry of Municipalities and Urban Planning and the Central Bank of Bahrain govern and implement the relevant real estate laws and regulations.

Property Ownership
Commercial, industrial and tourism companies and banking and financial institutions that are fully owned by non-Bahrainis, and are licenced to carry on business in Bahrain, are permitted to own properties and bare land in Bahrain for the purposes for which they are licenced to carry out business.

This includes both freehold and leasehold. However, this right is subject to the terms and conditions set out in the relevant laws of Bahrain; ownership is only permitted in areas allocated by a resolution of the Council of Ministers.

While Bahraini and GCC nationals are not restricted with regard to ownership of residential property, post-2006 foreign nationals are only permitted to own property and land in prescribed ‘foreign ownership zones’.

These 'zones' include popular expat locations such as the entire areas of Al Seef and Juffair as well as a broad range of master planned developments across the island such as Bahrain Bay, Riffa Views, Reef Island and Amwaj.

Registration and taxation
The process for registration of a property freehold sale was condensed and codified in 2013 to include a written application for registration in SLRB’s Property Register. Details to include in the registration application include the parties to the transaction, identification of the property, a statement on any property rights and any consideration paid for the property.

The transferee is required to pay a registration fee comprising 2% of the property’s value. However, the transferee is entitled to a 15% reduction in this fee if the registration takes place within 60 days of completion of the sale agreement.

In relation to leasehold property transactions, Law 27 of 2014 (the Leasing Law) states that all leases must be registered within one month of the date of concluding the lease agreement with a designated local Registration Office.

Under the Leasing Law, the Landlord bears the responsibility for registration; however in case of refusal, the Tenant can register the lease agreement and have the cost of the registration fee deducted from his/her rent.

Leases that are not registered are not enforceable at the Rental Disputes Committee, the committee set up under the Leasing Law to deal with all landlord and tenant disputes. A law passed in 2015 require the parties to register the following details with the relevant Registration Office:

- the duration of the lease;
- the agreed rent;
- the type of property; and
- the purpose for renting.

At present there is no tax levied on the sale of residential or commercial property in the Kingdom of Bahrain. However, the GCC countries including Bahrain will be introducing VAT pursuant to a GCC VAT Treaty. The date for the introduction of VAT in Bahrain is still not known but it is likely to be mid-2018 to early 2019. The VAT standard rate will be set at 5% across the GCC.

The VAT applicable to property transactions in Bahrain will not be known until specific regulations are issued, but generally speaking residential properties are exempt from VAT while commercial properties are likely to be taxable at the standard rate.