

Located on the northeastern coast of Bahrain, Manama is the capital and largest city of Bahrain, and has long been an important trading center in the Arabian Gulf. Approximately 89% of Bahrain's population (estimated at 1.34 million as at June 2014) live in the capital city. Whilst oil related industry has decreased in importance in recent years due to depleting reserves and growth in other industries, it is still the mainstay of the economy. Manama is the longest-established financial centre in the Gulf and arguably has one of the most rigorous systems of financial regulation in the Middle East. In addition to the financial services sector, the logistics, insurance, IT, manufacturing and professional services sectors are important economic drivers. Bahrain has also long been a strategic regional naval base for the US and other countries.

## Economy

Strong economic growth in 2013 was primarily driven by the hydrocarbon sector due to increased production capacity. Future growth in Bahrain is primarily tied to infrastructure projects related to the expenditure of the GCC Development Fund allocation to Bahrain (estimated at over US\$4bn). In addition to this, investment into the oil refinery, aluminium, and manufacturing sectors is further expected to drive growth. Due to increased regional competition, and the not so distant political and social uprisings, growth in the financial services sector is expected to be limited.

## Airport Statistics

Passenger movements continued to grow during the onset of the global financial crisis in 2008 and 2009 until they experienced a one percent decrease in 2010. This decrease was compounded by a further 12.5% in 2011 as the effects of the political and social uprisings in April 2011 discouraged travel to the country. This was short lived however, and passenger movements increased by 9.2% in 2012 as the country returned to relative political stability. In 2013, the cessation of Bahrain Air operations due to financial difficulties resulted in a decrease in passenger movements of 12.9% in 2013. The first eight months of 2014 however indicate a positive reversal in passenger movement growth of 8.9% versus the same period in 2013.

Bahrain International Airport is shortly due to undergo extensive modernisation and expansion. The new, 150,000 m<sup>2</sup> passenger terminal is expected to begin construction in late 2014 and is scheduled for completion in late 2018. The BHD13million project is expected to increase the airport's capacity from nine million to 13.5 million passengers per year.

## Market Performance

Manama hotel market reached its RevPAR peak in 2008. Between 2008 and 2012, the market experienced sequential RevPAR declines, the most notable of which were those in 2009 and 2011 due to the global economic crisis and political instability respectively. During this period, marketwide ADR maintained a level of support underpinned by the rate agreement in place between a number of major five-star hotels in the country. Marketwide RevPAR currently sits at 26% below its 2008 peak. Occupancy however has suffered significantly as a result of the political instability in the country since 2011. However, with a return to relative stability, accommodated room nights have increased year on year in 2012 and 2013, and occupancy growth year-to-date September 2014 is 16% higher versus the same period in 2013.

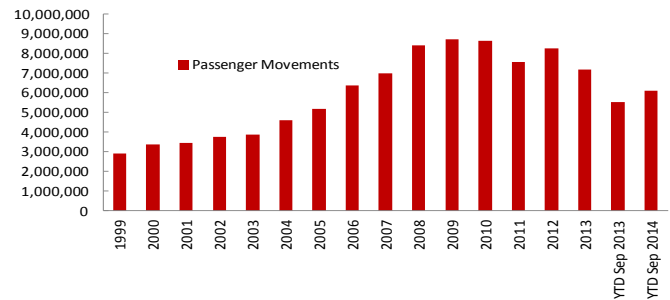
Whilst accommodated room night growth is expected to be strong over the foreseeable future, primarily driven by infrastructure related projects, a general improvement in macro-economic conditions as well as growth in the manufacturing sector and to a lesser degree in the financial and professional services sector, occupancy levels will be challenged by a significant increase in room supply that is expected to enter over the next three to four years. We note that this, in concurrence with the recent cessation of the rate agreement between various hotels, may lead to increased rate competition. However, we note that the majority of future supply is expected to enter in the upper-upscale and luxury segments and we do not expect these hotels to enter below the current marketwide average rates which should support marketwide ADR levels.

FIGURE 1: MACRO-ECONOMIC INDICATORS FORECAST 2014 -2018

	Forecast				
	2014	2015	2016	2017	2018
Real GDP growth (%)	3.6	3.2	3.9	4.9	4.4
Consumer price inflation (av %)	2.9	2.7	3.0	3.2	3.1
Budget balance (% of GDP)	(5.3)	(6.2)	(6.4)	(6.4)	(6.7)
Current-account balance (% of GDP)	8.0	3.8	2.0	1.9	1.8
Short-term interest rate (av %)	0.7	1.6	3.1	4.1	4.9
Exchange rate BHD:US\$	0.38	0.38	0.38	0.38	0.38
Exchange rate BHD:€	0.50	0.46	0.44	0.45	0.46

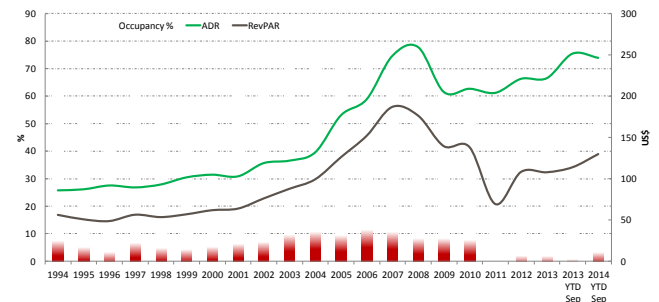
Source: Economist Intelligence Unit, November 2014

FIGURE 2: BAHRAIN INTERNATIONAL AIRPORT PASSENGER MOVEMENTS 1999 - YTD SEP 2014



Source: Bahrain International Airport

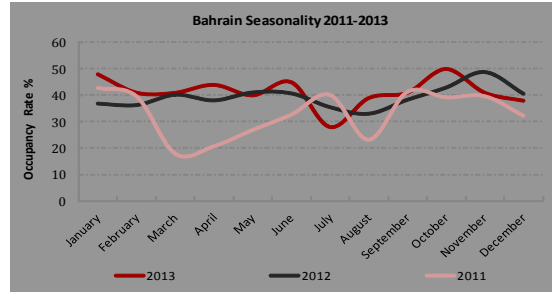
FIGURE 3: MARKETWIDE PERFORMANCE 1994 - YTD SEP 2014



## Seasonality

The months of July and August represent the weakest occupancy periods during the course of the year. This also currently coincides with the Holy month of Ramadan. Peak demand periods typically occur during periods of major international and regional events such as the Formula One Grand Prix and the Spring of Culture Festival in April, the Jewellery Arabia Exhibition in November, Eid Al Adha (occurring in August in 2013) and Eid Al Fitr (occurring in October in 2013). All religious festivals occur approximately 11 days earlier each year.

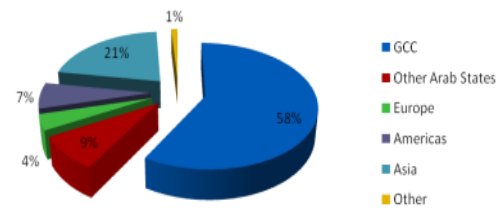
FIGURE 4: BAHRAIN HOTEL OCCUPANCY SEASONALITY 2011 - 2013



## Source Countries for Bahrain

The main source markets for Bahrain were visitors from the GCC countries, which accounted for more than 58% of the total number of arrivals in 2013. Asian countries represent the second largest source markets accounting for approximately 21% of total visitation in 2013. European visitation dropped significantly in 2011 in light of the unrest but has since recovered. The most important visitor source country in terms of visitor numbers is Saudi Arabia, the majority of which arrive to Bahrain from the causeway. Furthermore in terms of total visitation, 81% arrive to Bahrain via road networks.

FIGURE 5: BAHRAIN VISITOR SOURCE OF ORIGIN



## Current and Proposed Hotel Supply in Manama

Between 2008 and 2010, hotel room supply remained relatively stable. However, significant increases in supply between 2010 and 2013 have increased total room supply in all scale levels by 53%. The Manama hotel room pipeline is equally significant with approximately 4,000 additional rooms expected to enter the market over the next four to five years. The majority of this supply is expected to enter the market in the upscale, upper upscale and luxury segments, and includes the Rotana Amwaj Islands, Four Seasons Bahrain Bay, JW Marriott Bahrain Bay, Reef Island Resort, Wyndham Grand Bahrain Bay and the DoubleTree Juffair. The Kempinski Grand & Ixir City Centre were respectively rebranded as a Westin and Le Meridien in July 2014.

## Outlook

After a challenging half decade starting in 2009 with the global economic crisis and compounded by an extended period of political and social instability, it appears that some level of stability and growth has returned to the Manama hotel market. However, the strong growth in occupied room nights in 2012 and 2013 has been offset by a significant increase in room capacity which has constrained hotel occupancy levels during these periods. Whilst the economic outlook is positive despite an increasingly competitive regional tourism landscape, further increases in supply are expected to keep stabilised occupancy levels at slightly below their 10 year rolling average of 63.5%.