Tourism - A Game Changer for Retail in Bahrain

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Foreword

The Bahrain retail real estate market has grown steadily, with the addition of at least one retail mall each year since 2007. Given the demographic characteristics and the size of the economy, this indicates the presence and impact of external drivers on the retail sector.

We explore tourism as a key factor that drives a significant share of the country's retail business. At least 65% of tourists arrive from Saudi Arabia, accounting for a dominant revenue share of retail business. As a result, the sector is vulnerable to upcoming transformations in Saudi Arabia, such as the liberalization of the tourism visa regime, investments in hospitality and retail, and the development of integrated tourism destinations. As such, being proactive is not only the primary call to action, but a necessity for being resilient to any changes in the external environment which have an impact on the sector.

While examining the current state of the retail real estate market, this paper raises questions for leaders about market maturity and highlights the impact of tourism on the sector. It is intended to bring new perspectives and generate responsible course of action choices. It also reflects on six breakthrough ideas to help grow the future retail market through tourism.

The current state of retail in Bahrain

Bahrain's retail sector at a glance

Retail is one of Bahrain's most dynamic sectors, with a 13% average annual growth in terms of gross leasable area (GLA) over the past decade. An annual population growth of 3.5%, coupled with household income growth* of 5% per annum and a 7% increase in tourists, have led to the tripling of retail capacity between 2007 and 2017.

As shown in Exhibit 1, the market size is currently estimated at 1 million square meters (GLA). Nearly 80% of the offering is concentrated in large[1] to medium-sized[2] malls which mostly attract residents of Bahrain and visitors from Saudi Arabia's Eastern Province and Riyadh.

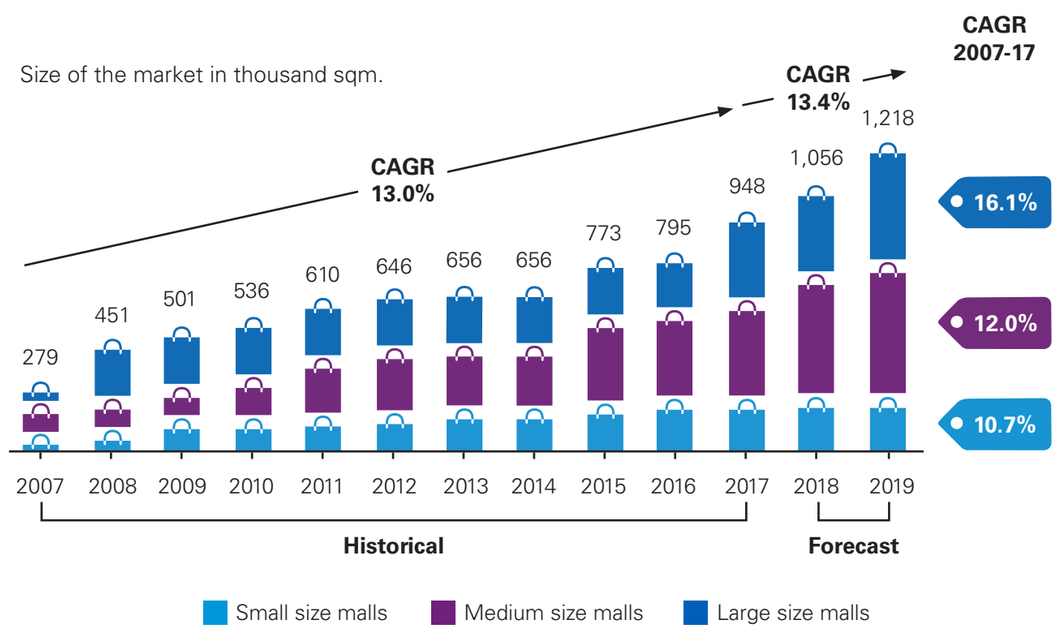
In terms of geographic location, half of the offering is concentrated in the prime regions of Seef, Juffair and Muharraq. Other micro-markets such as Sitra, Isa Town and A'ali, concentrate community and neighborhood shopping complexes, which are mostly grade B or C in terms of positioning.

The largest malls benefit from high occupancy rates.

The top 10 malls in terms of size have occupancy levels ranging between 95% and 100%, as of June 2017. On the other hand, there is a high variability in terms of occupancy rates amongst small and medium-sized malls which are located outside the prime regions.

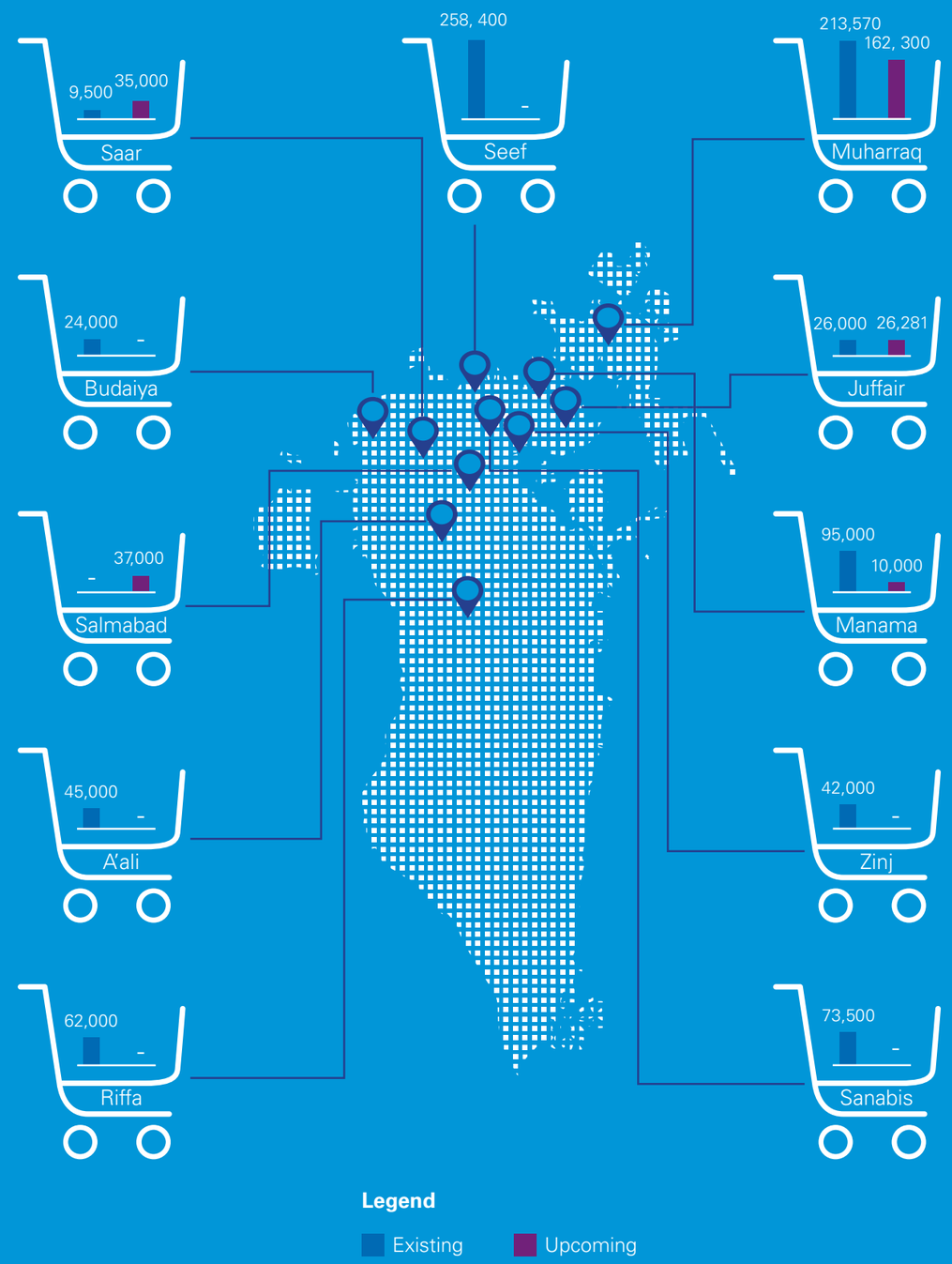
Thanks to an influx of investment in malls, the sector is expected to continue to grow by 13% per annum over the next 2 to 5 years. Marassi Galleria and Dilmunia Mall and several other malls, together account for 270,000 sqm of GLA, that is expected to be delivered in the next 2 to 3 years.

Exhibit 1: Overview of the retail market in Bahrain (by size)



Source: MECSC, secondary and primary research, KPMG analysis

[1] *Large-sized malls: malls totaling a GLA above 50,000 sqm*
[2] *Medium-sized malls: malls totaling a GLA between 20,000 sqm and 50,000 sqm*
[3] *Small-sized malls: malls totaling a GLA below 20,000 sqm*
** source: LMRA*



Source: MECSC, secondary and primary research, KPMG analysis

As of 2017, Grade A and Grade B malls account for around 90% of the GLA in Bahrain.

Interestingly, Grade A malls are expected to grow four times faster than Grade B malls in terms of GLA over the 2017-19 period. This is an indication that consumers are eager for a more upscale shopping experience.

Exhibit 2: Overview of the retail market in Bahrain (by grade)

Source: MECSC, secondary and primary research, KPMG analysis

[1] Grade A malls: malls which offer a number of international retailers (at least one upscale department store and several reputed tenants such as Zara, H&M, Debenhams), a number of food and beverage franchise options and a selection of entertainment options (cinemas, family entertainment centers etc.).
[2] Grade B malls: malls which have a supermarket or/and a department store, but offer a limited number of international retail brands.
[3] Grade C malls: malls which only offer local / regional retailers (local brands, unorganized retail) and are mainly targeting the local catchment population (grocery shopping mainly). These malls do not have a supermarket or a flagship department store.

Footfalls in malls

Bahrain's top ten malls account for a total footfall of 51 million per year, with City Center Mall accounting for ca. 30% of that figure.

The majority of footfall is generated on weekends because of inbound traffic from the King Fahad Causeway. The key attractions for the seven million Saudi visitors per year are cinemas, food courts and Family Entertainment Centers (FECs).

When comparing the footfalls to the GLA in Bahrain, the market has an average annual footfall ratio of 125 per sqm. Seef Mall stands out with a ratio of 167 footfalls per sqm, while City Center, with a ratio of 97 footfalls per sqm, falls below the market average. Interestingly, Seef Mall and Country Mall - the two malls with the highest number of parking spots to GLA - have the highest ratio of footfalls per sqm (see Exhibit 3).

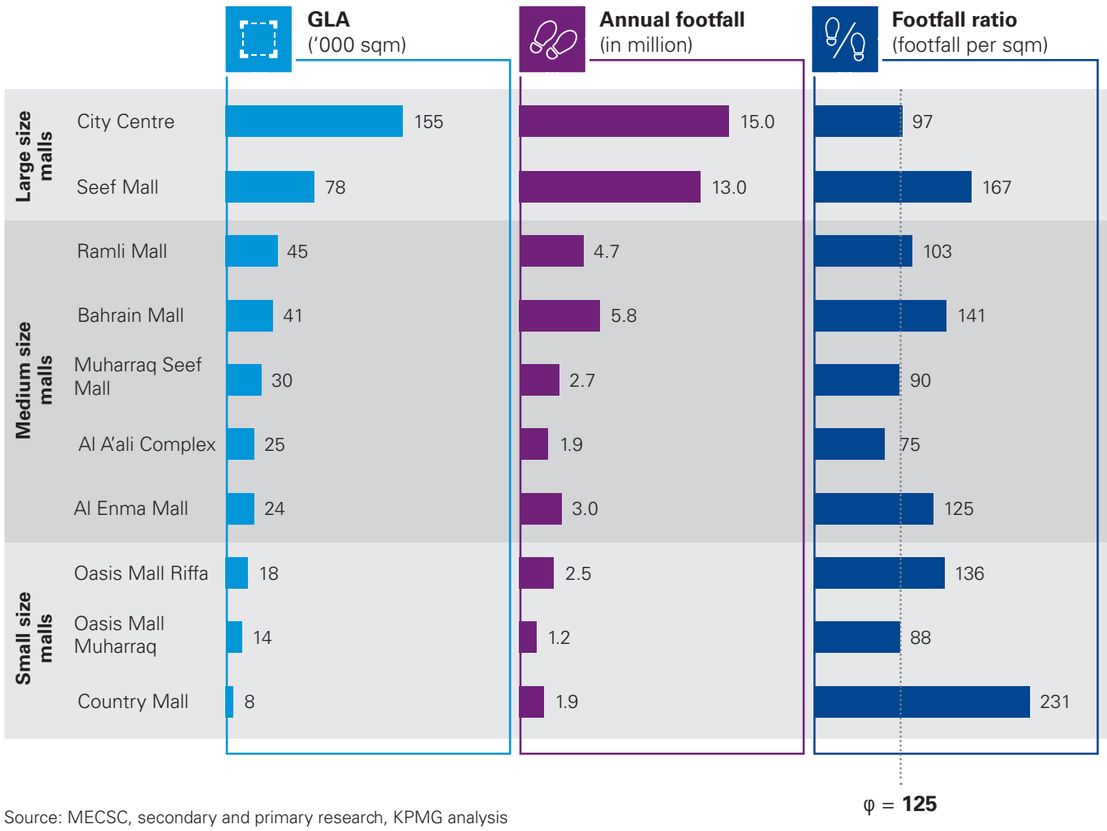
Market maturity

From 2007 to 2017, the average retail GLA per capita in Bahrain increased substantially, from 0.27 to 0.66 sqm per capita. Nonetheless, occupancy levels are relatively low for several small to medium-sized malls. The retail supply in Bahrain is expected to continue to grow significantly, as announced upcoming malls total 270,000 sqm of GLA.

What can be inferred from these trends? Is the market so hungry for new concepts and more retail space? Or is the current situation a sign of a retail bubble waiting to burst? For many, Bahrain and the GCC are defined by one of these hypotheses. But, how accurate is either one?

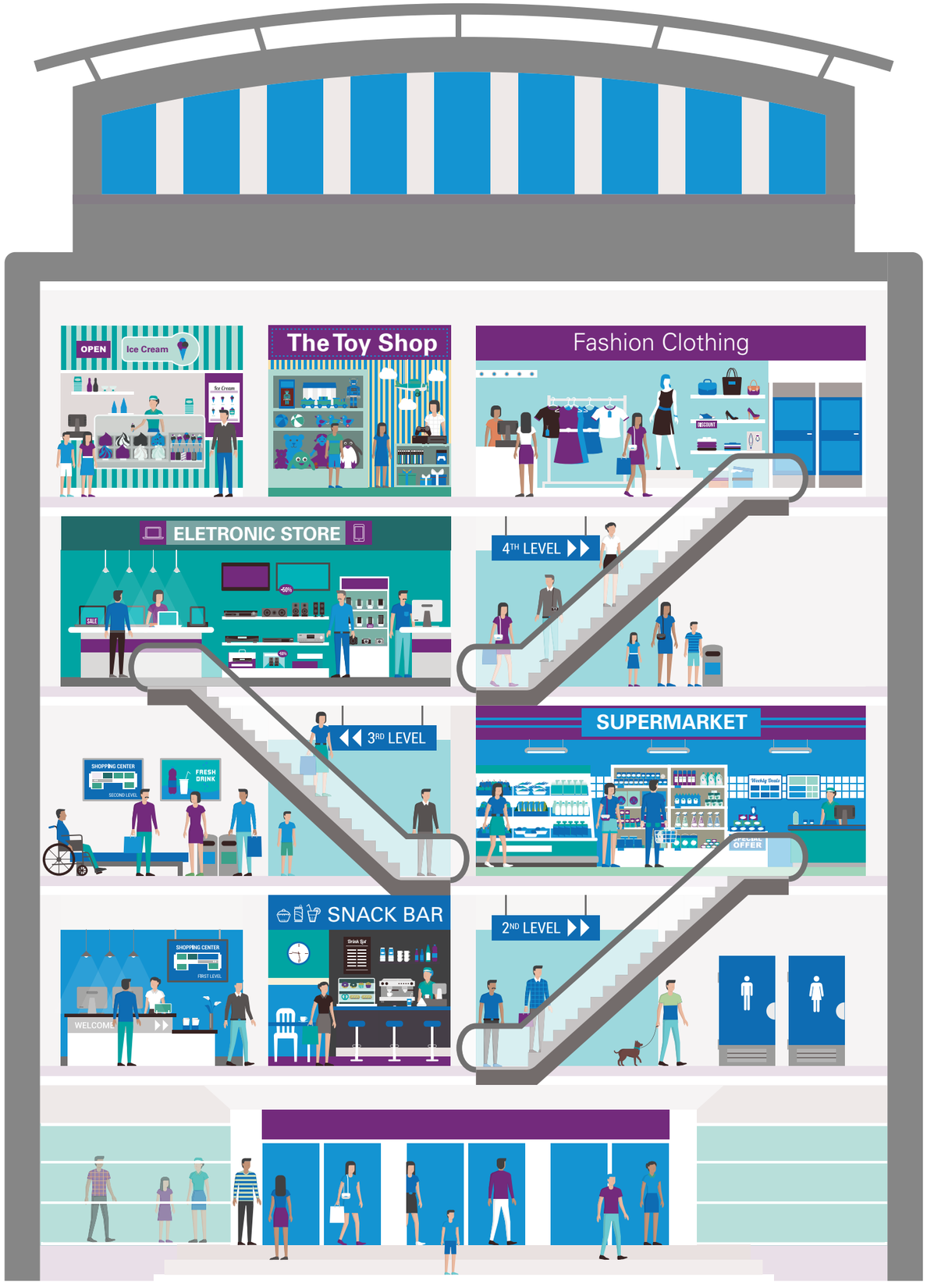
Next, we will compare Bahrain to other regional and international retail destinations and explore whether the market has reached its maturity.

Exhibit 3: Top 10 malls in Bahrain in terms of annual footfalls (2016 data)



Source: MECSC, secondary and primary research, KPMG analysis

φ: represents the average annual footfalls per square meter



Maturity of the retail sector in Bahrain

Retail density comparison

Comparing the retail density of Bahrain with other cities in the region and across the world, would allow a better understanding of whether the market has a surplus of retail stock.

Exhibit 4 shows that Bahrain falls behind regional cities such as Dubai in terms of retail stock and density[1]. The retail density in Bahrain is less than half that of global cities such as New York and Dubai, and is similar to cities like Singapore and Hong Kong.

This may indicate that there is a room for retail growth in Bahrain. By the standards of New York and Dubai, Bahrain can double its retail stock by increasing the current supply by a million square meters of GLA.

However, a more accurate analysis would examine fundamental city characteristics, such as resident purchasing power and tourism attributes (i.e. average length of stay, spending patterns, seasonality).

Tourism attributes

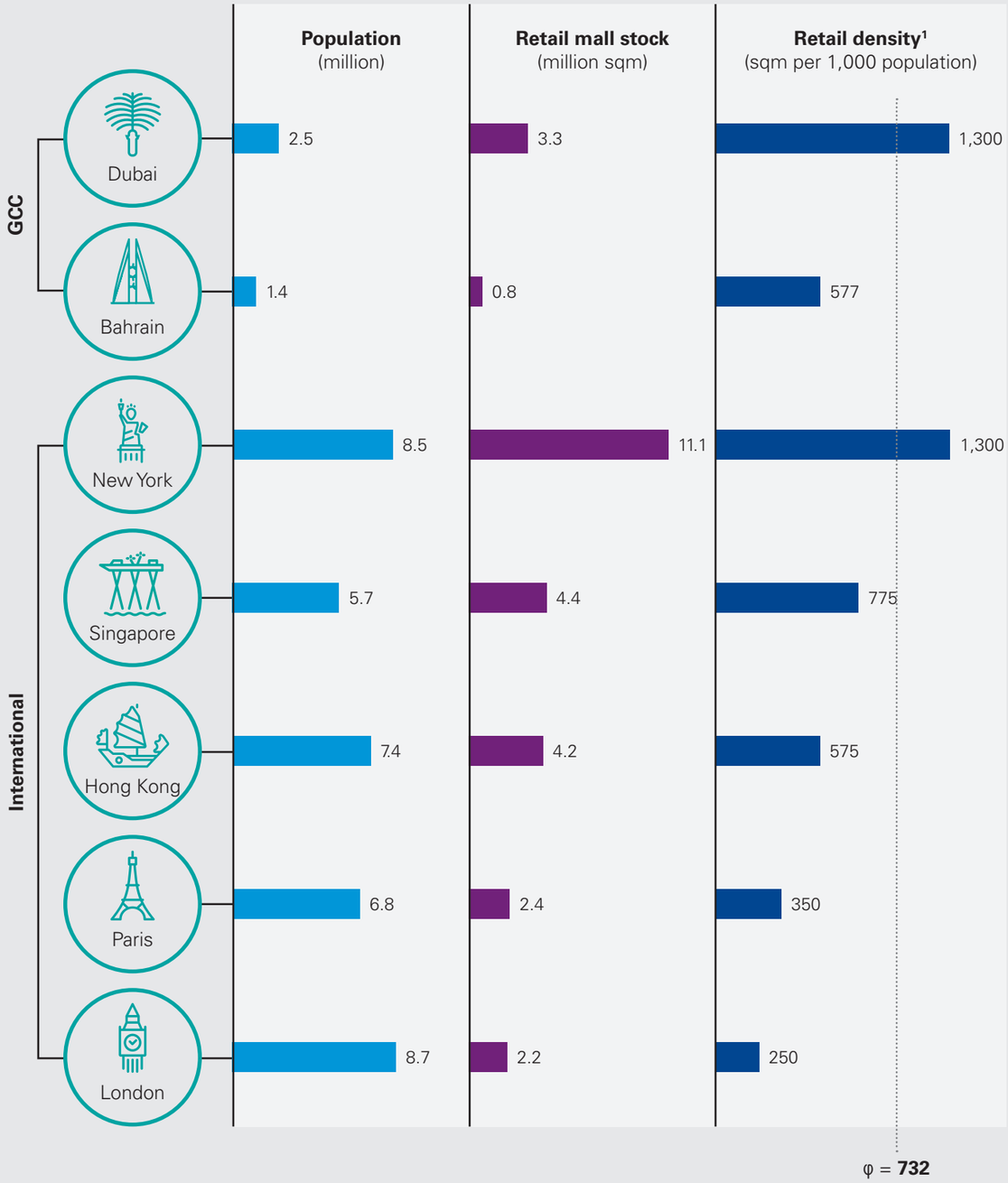
As shown on Exhibit 5, cities such as London, Paris, New York and Dubai have recorded outstanding performances in terms of tourism arrivals. For instance, in 2016:

London received around 20 million overnight tourists and Singapore hosted 12 million.

Dubai attracted 15 million overnight tourists, while Bahrain received about 7.5 million.

Tourist arrivals coupled with high average length of stay (ALS) lead to higher tourist spending on retail. Exhibit 5 shows that Bahrain has an average length of stay of 2.6 days, which is lower than regional and international benchmarks due to its proximity to the major source of visitors (Eastern Province).

Exhibit 4: Comparison of Bahrain's retail with select cities (2015/16 data)



Source: Savills, JLL, KPMG analysis

[1] *Retail density refers to the average number of retail square meters per resident*

Multiplier effect

In spite of smaller population, Bahrain has one of the highest tourist-to-population multipliers (refer to Exhibit 5):

- Across benchmarked cities, only Dubai has a higher multiplier.
- Interestingly, there is a sizable gap between Dubai / Bahrain as a cluster, and the remaining international cities.

The Kingdom receives an additional 2.7 million 1-day visitors annually. As a result, the adjusted tourist to population multiplier for Bahrain is 7.3, one of the highest in the world. When 1-day visitors are included, Bahrain's tourist-to-population multiplier surpasses that of Dubai.

As a result, the adjusted tourist to population multiplier for Bahrain is 7.3, one of the highest in the world. This shows that Bahrain has a significant room to grow its GLA.

Tourism spend

According to the Bahrain 2015 Tourism Survey, the total average expenditure per tourist is BHD 119 per day. Spending patterns differ between tourists coming through the King Fahad Bridge and the ones flying to Bahrain. Airport tourists tend to stay, on average, four days longer than the tourists arriving through the causeway. In addition, the latter group accounts for more than 90% of the 1-day visitors per year. The average spend per tourist per day for arrivals through the causeway is 13% higher than for airport tourists, possibly because the latter spread their spend over a greater number of days.

In terms of the spending mix, causeway visitors dedicate 75% of their budget to shopping, F&B and entertainment, whereas, airport visitors tend to spend 43% of their budget on the same.

Exhibit 5: Comparison of Bahrain's tourist arrivals with select cities (2016 data)

		Overnight tourist arrivals[1] (million)	**Average length of stay** (in days)	**Tourist-to-population multiplier**[2]
GCC	DUBAI	15.3	3.6	6.1
GCC	BAHRAIN	7.4	2.6	5.4
INT'L	NEW YORK	12.8	6.4	1.5
INT'L	SINGAPORE	12.1	3.0	2.1
INT'L	HONG KONG	8.4	3.3	1.1
INT'L	PARIS	18.0	2.5	2.6
INT'L	LONDON	19.9	6.2	2.3

Source: MasterCard report, Savills, KPMG analysis

[1] Refers to the annual number of tourist arrivals - this excludes 1-day visitors.
[2] Multiplier calculated by dividing the annual number of tourists by the total resident population.

Consequently, the average spend on retail per tourist for causeway arrivals is about BHD 90 per day. This is nearly double the retail spend of airport visitors.

Exhibit 6 indicates that Bahrain's tourist spending is 45% lower than Dubai, as the average spend per tourist in Bahrain is BHD 119 vs. BHD 216 per day in Dubai. While the retail market is developed and well diversified in Dubai, tourists spend 45% of their budget on shopping, which is lower than the 70% that Bahrain's visitors dedicate to shopping. The higher figure for Bahrain is explained by the large number of 1-day visitors coming through the causeway.

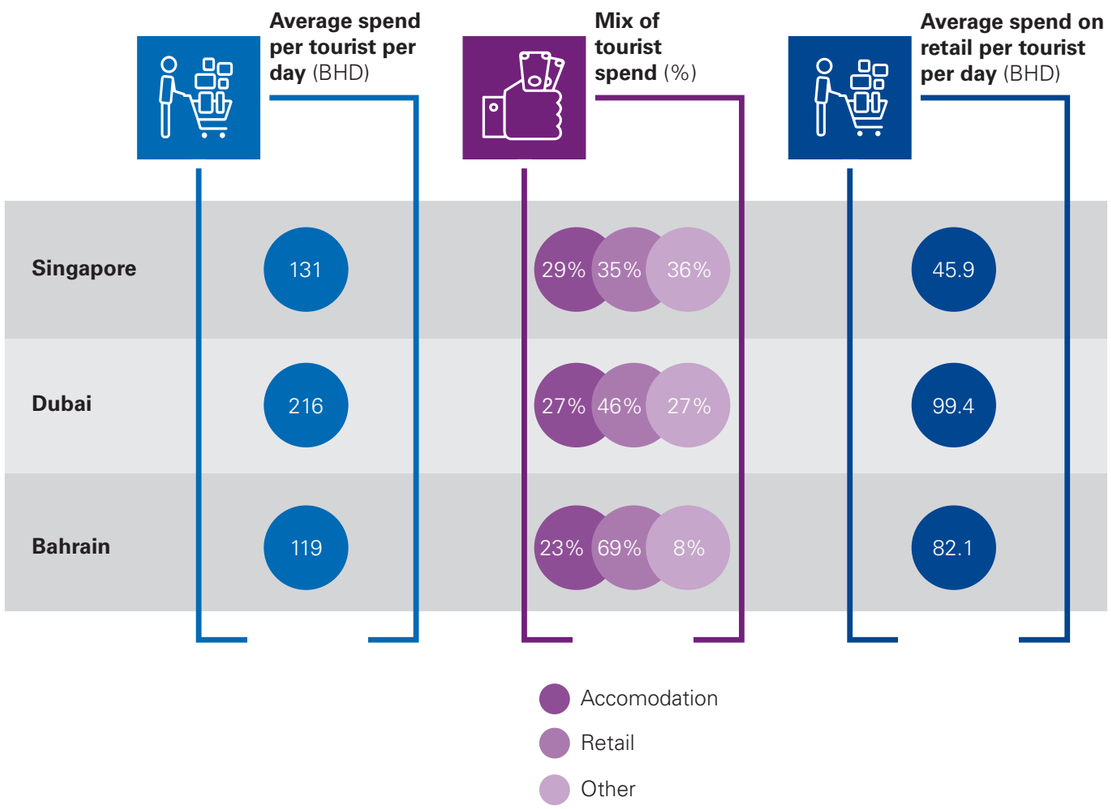
Retail sales performance

To measure the net effect of these indicators, the sales performance of Bahrain needs to be estimated and compared to regional and international standards.

Sales per square meter is usually a measurement of retail maturity. As of 2016, annual store sales in the range of BHD 1,150 per sqm is considered a respectable result in the U.S.. Apple, a top bricks-and-mortar retailer, achieves annual sales of BHD 15,850 per sqm.

In Bahrain, retail sales per sqm averages BHD 2,800 per annum. In contrast, Dubai achieved BHD 3,900 sales per sqm and Singapore reached BHD 2,700 (in 2016).

Exhibit 6: International overnight tourist spend (2016 data)



Source: Mall operators, MasterCard report, KPMG analysis

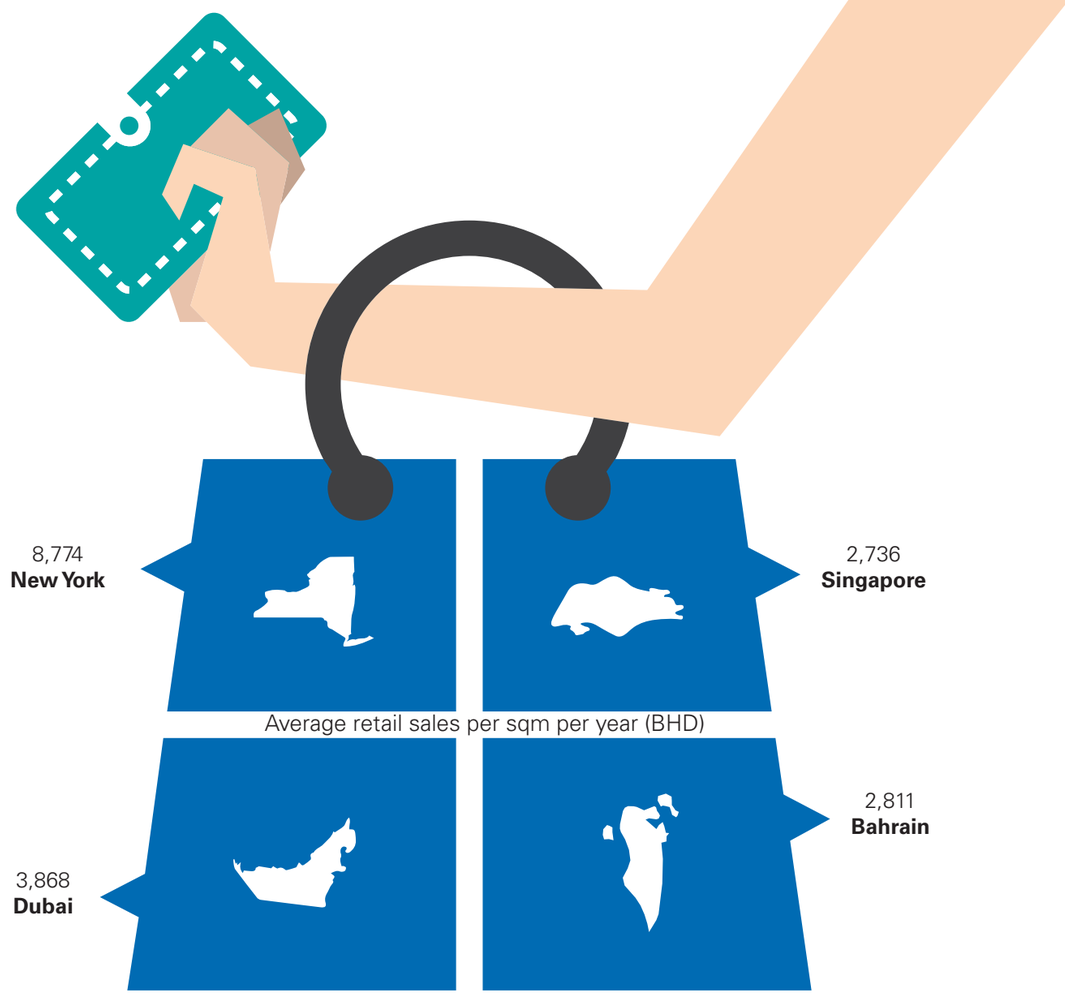


Exhibit 7: Retail sales (2016 data)

Source: Oxford Economics, KPMG analysis

Positive retail outlook in Bahrain

Overall, the retail market in Bahrain has not reached its maturity. Our analysis revealed that:

- Retail density in Bahrain is lower than cities such as Dubai, which means there is an opportunity to grow the stock of GLA in Bahrain.
- The tourist-to-population multiplier for Bahrain is higher than regional and international destinations. This, coupled with the current retail density trend, compounds the magnitude of the opportunity.
- The ALS for tourists in Bahrain is slightly lower for the region, which represents an opportunity.
- The average tourist spend on retail in Bahrain is lower than a major regional destination, such as Dubai.
- If Bahrain invests in creating a tourism destination catering for the needs of target tourist segments, the number of tourists, the average stay and the average expenditure per tourist would continue to increase further. In this case, the retail sector could grow significantly.

The impact of tourism on retail

The economic impact of both residents and tourists showcases the magnitude of potential opportunities in retail.

of the retail market in Bahrain is driven by the expenditure of the resident population.

of retail revenue come from tourist spending.

The retail market in Bahrain is around

BHD 2.2 billion

per annum.

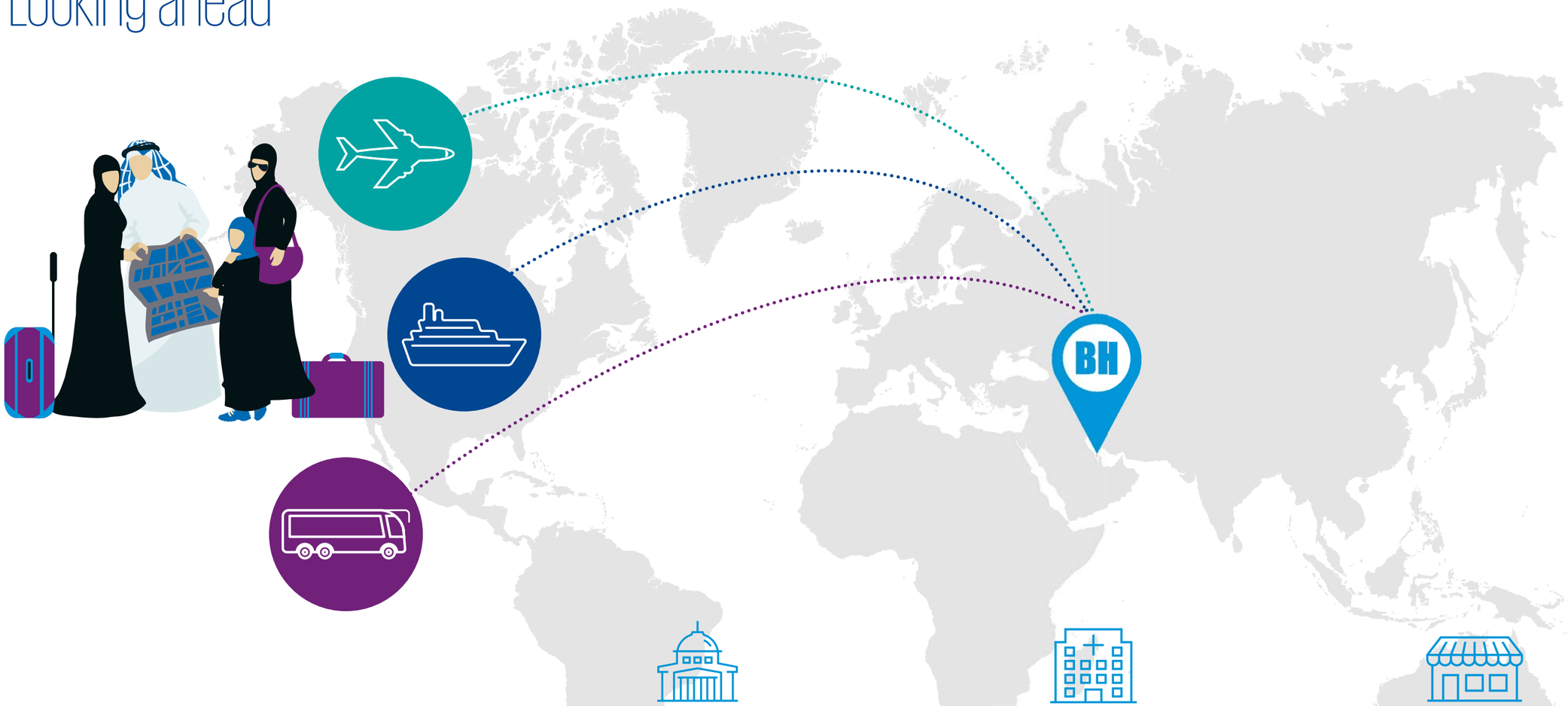
1.3 Mn Residents	10 Mn Tourists
BHD 530 Mn	BHD 1,700 Mn

Causeway tourists spend, on average, about **BHD 90** per day on retail and represent about **84%** of total tourists.

Airport tourists spend, on average, about **BHD 46** per day on retail and represent about **16%** of total tourists.

Source: CIO, e-Gov Authority Survey, LMRA, Census results, KPMG analysis

Looking ahead



1 Visa fees assumed to be BHD 29 for non-GCC tourists
2 Causeway toll assumed as BHD 2.5 per car per way
3 The average number of passengers per car going through the causeway is assumed to be four per vehicle
4 VAT percentage considered as 5% applicable on the overall tourist spend (retail and accommodation)
5 Average airport departure / arrival tax is assumed to be BHD 7 per passenger per way.

If Bahrain attracts

1 million

additional tourists with the current average length of stay of **2.6 days per tourist**, the country will benefit in three-fold:

BHD 28 million

of additional revenue streams for the government, from VAT collection, visa fees, toll fees and airport departure / arrival tax.

BHD 72 million

of additional revenue could be generated for the hospitality sector.

BHD 216 million

of additional revenue could be generated from tourist spending on retail.

If Bahrain attracts

1 million

additional tourists and increases the average length of stay to **3.6 days per tourist**, the country could generate:

BHD 33 million

of additional revenue streams for the government, from VAT collection, visa fees, toll fees and airport departure / arrival tax.

BHD 100 million

of additional revenue could be generated for the hospitality sector.

BHD 300 million

of additional revenue could be generated from tourist spending on retail.

Six ideas to capitalize on tourism

Growing the retail sector through tourism

The retail sector is driven by residents' and tourists' consumption. As increasing the purchasing power of the resident population depends on the overall economy, there is merit in focusing on growing the number of tourists, the average length of stay and the average tourist spend per day.

Turning Bahrain into a tourism / leisure destination will require bold moves and significant investment. We have identified six ideas that could help reshape Bahrain's tourism sector and, consequently, unleash sustained growth for the retail industry.

1

Focus Themes

Redefine the pillars of the tourism strategy

- Redefine focus themes of the national tourism strategy.
- Develop a tourist acquisition strategy and a visitor care plan.

Travelers could be attracted to Bahrain for different reasons (sites, culture, familiarity, proximity, affordability etc.). Due to differences in behavior and attributes, one can distinguish between three tourist segments: GCC nationals, expatriates that reside in the GCC and other international travelers. Bahrain should consider tailoring its tourism strategy to each group of travelers.

In addition to developing reasons for people to visit Bahrain, the strategy should pinpoint key elements to tackle, such as tourism acquisition initiatives (e.g. visa facilitation, online marketing), focus themes, tourism product (lodging, tourism investment zone creation, sightseeing spots, events and activities), supportive regulation (e.g. dhow cruise license, visa facilitation, PPP) etc.

2

Lodging Product

Enhance the hospitality offering

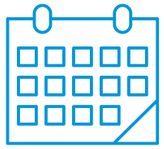
- Introduce tailored incentives to upgrade existing hotels and introduce heritage boutique hotels that differentiate Bahrain from others.

Currently, hotel classification in Bahrain is not optimized to meet the demand for varying price points and experiences. The hotel capacity is concentrated in the 4 and 5-star categories and, overall, a large share of the hotel infrastructure requires a revamp to meet international standards.

To improve the offering, Bahrain should incentivize the private sector to invest in renovation and create better experiences. As an example, France and Morocco introduced Renovotel[1] funding programs to subsidize a portion of the cost of renovation. California launched a Hotel Incentive Program whereby boutique hotel developments are subsidized.

[1] *Renovotel is a program to finance the renovation of touristic hotels and accommodation*

3



Events and Activities

Develop new events and festivals

- Upgrade existing events (e.g. Grand Prix, exhibitions, conferences).
- Establish world-class events / festivals year-round.

Bahrain needs to ensure there is no shortage of events during any period of the year. So far, Grand Prix and some exhibitions are the only events that are marketed and attract GCC tourists.

To go to the next level, the Kingdom needs to have a holistic view on all the events in Bahrain and the competing GCC markets. As such, a new event strategy should be implemented to ensure (1) there are events all year-round (2) events match the needs of target / captive tourists (3) events do not clash with major festivals in Dubai or Abu Dhabi.

Bahrain should consider launching various events such as film, comedy, music, food, sports, art, cultural, shopping, etc. An Event Development Task Force should be established to lead, finance and manage the launch of such events.

4

A New Destination

Invest in revenue generating assets

- Create a leisure destination in Bahrain to compete regionally.
- Secure funding through public private partnerships (PPPs).

Apart from hotels and malls, the tourism sector in Bahrain is still relatively underdeveloped. As there are no major attractions, the average length of stay of tourists is relatively low (2.6 days).

Funding needs to be secured to develop a leisure destination that could combine theme parks, botanical gardens, aquaria, beaches, science centers, museums, landmarks, spaces for shows etc. PPPs have been used in Singapore and UAE to establish leisure destinations (Sentosa, Dubai Parks & Resorts). Bahrain's government could leverage PPPs to speed up the investment and delivery of major tourism revenue generating assets.

5

Partnering with Agents

Develop partnerships with travel agencies based in the GCC

- Create differentiated tourist products and distribute through a network of partner travel agencies.
- Subsidize the marketing campaigns of travel agencies to 'sell Bahrain'.

To distribute the 'Bahrain Product', there is a need for government incentives. Subsidies should be focused on enriching the tourism product and supporting marketing campaigns abroad.

For example, Canada has launched a tourism fund to enhance the competitiveness of Ontario's tourism products. Subsidies are in the form of reimbursement of up to 50% of the costs related to developing new tourism products, building partnerships abroad, marketing and conference participation etc.

6

Digital Promotion

Promote Bahrain online

- Implement a digital marketing strategy for Bahrain.
- Enhance online promotion to make tourists ambassadors.

While communication with potential tourists has changed drastically in the last decade, Bahrain is still focusing on traditional marketing (billboards in KSA, static websites etc). Similar to Australia, a Digital Distribution Working Group should be formed in Bahrain to implement a digital marketing strategy. This should encourage tourism SMEs to make the shift to online distribution by enhancing their digital presence, and capabilities.

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