

Improving the Real Estate Market in the Kingdom of Bahrain by applying International Property Measurement and Valuation Standards

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Key words: property, valuation, measurements, standards, Bahrain

SUMMARY

The implementation of Standards into the Real Estate Market is core to improve the transparency, to give confidence to all the related parties, to secure the value of the properties transactions and to attract investors.

The Kingdom of Bahrain is investing in the creation of a healthy Real Estate Environment. The establishment of the Real Estate Regulatory was the first step.

In 2019 Bahrain managed to adopt and start the implementation of both the IPMS and IVS, becoming the first country in the Middle East to fully adopt both the International Property Measurement Standards and the International Valuation Standards, publishing the Bahrain Property Measurement Standards and the Bahrain Valuation Standards.

The Standards have now been in the implementation phase with the acceptance of all the stakeholders. Clear rules are the secret of faster and successful processes.

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1. Introduction

Bahrain is a small island country in the Middle East a population of over 1.6 Million and a rapid growing Real Estate Sector. Bahrain was the first Country in the GCC Countries to reclaim land because of its small size.

The government is investing in a strong infrastructure environment in order to build a sustainable economy based on transparency, clear regulations, globalization and modern technologies.

The Real Estate Sector is identified by the Government as a core sector for the Kingdom of Bahrain's 2030 Economic Vision.

Over the last two decades, the Kingdom of Bahrain has been implementing a number of development projects, so that the real estate and construction sectors contribute more than 8% of GDP to the country's economy. It was a common secret that the absence of unified standards with international reflection created a lot of controversy and insecurity for potential international investors. The publication of IPMS and IVS was welcomed with enthusiasm by the Government of Bahrain and their adoption became a goal to create a safe environment for all parties involved in the real estate market.

The first action in order to regulate the Real Estate Sector was the publishment of the Real Estate Sector Regulation Law (2017) and the establishment of the Real Estate Regulatory Authority (RERA) to undertake all functions and powers necessary to regulate the real estate sector in the country. Among their other regulations, RERA published the BVS (Bahrain Valuation Standards) adopting the IVS (International Valuation Standards).

The Valuation of the properties rely on a common language in measurements of the properties, therefor an intergovernmental team studied and published the BPMS (Bahrain Property Measurement Standards) adopting the IPMS (International Property Measurement Standards). Bahrain adopted the International Property Measurement Standards by publishing the Bahrain Property Measurement Standards for Residential, Office and Industrial Buildings (2019). BPMS is to be updated over time to comply with other IPMS Standards on a regular basis.

2. Methodology

1.1 The idea

The idea to create a healthy environment for the real estate sector, by adopting international standards, presented in the Ministerial Committee on 1st of November 2017 taking into consideration the real estate disputes and the Real Estate Sector Regulation Law (2017).

The Deputy Prime Minister ordered Survey and Land Registration Bureau and Municipalities to deliver the Standards.

In the meantime the RERA team studied and adopted the International Valuation Standards by publishing the Bahrain Valuation Standards (2009).

On February 2019, an intergovernmental Task Force was established, consisting of a technical team (committee) from the Municipalities, to work with a coordination team from SLRB. After studying the IPMS the team decided to adopt the IPMS in principle, whilst proposing some amendments and adding new sections to make them relevant to the Bahrain market.

1.2 Review of the International Standards

Review of the International Valuation Standards was clear without any complexities, based always on to the Property Measurement Standards.

Regarding the Property Measurement Standards, the stakeholders were agreed in principle, and the adoption fragmented for each type of building so that,

1. Determine the appropriate standard for each type of building while adjusting the approved standard in accordance with the nature of work, laws and legislation adopted in the Kingdom of Bahrain.
2. Apply the proposed standards to engineering models for all areas required for measurement.

As detailed in the following table:

| Area Type | Use |
|---|--|
| Total Gross Area | Calculating the estimated cost of projects and Municipal fees |
| <ul style="list-style-type: none"> – Net Area – Built up percentage – Units area | <ul style="list-style-type: none"> – Calculating the infrastructure fees – Implementing building regulations as per approved area zone |
| Area of independent, distributed units | Property Ownership |

1.3 Application of the standards

The Bahrain Property Measurement Standards sets up Property Measurement Standards for the Kingdom of Bahrain, adopting the International Property Measurement Standards. Bahrain is adopting IPMS (for Residential, Office and Industrial Buildings) in principle, with amendments in order to reflect the needs of the local market.

The Bahrain Valuation Standards (BVS) fully adopts and implements the International Valuation Standards (IVS). The BVS consist of mandatory requirements that must be followed in order to state that valuation was performed in compliance with the BVS. Certain aspects of the standards do not direct or mandate any particular course of action but provide fundamental principles and concepts that must be considered in undertaking a real estate valuation.

1.3.1 Aims of BVS and BPMS

The aim of the BVS is to provide further details on the application of IVS within the Kingdom. BVS provides further details on practical implementation and adoption of IVS where necessary

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and in accordance with IVS comprises “standards for undertaking valuation assignments using generally recognized concepts and principles that promote transparency and consistency in valuation practice.”

The aim of the BPMS is to provide guidelines to all the Professionals working in the Real Estate Market in the Kingdom of Bahrain. As what to measure in Residential, Office and Industrial buildings in accordance with IPMS. To provide a consistent and transparent global basis for measurement.

The BPMS will provide a basis to support the valuation of property, the analysis of market transactions on a globally accepted basis and the functional requirements of others, including owners, occupiers, facility managers, property managers, asset managers, agents, brokers, space measurement professionals, cost consultants and architects. This BPMS document is mandatory in the Kingdom of Bahrain. It adopts IPMS: Residential, Office and Industrial Buildings and includes detail on their practical implementation.

1.3.2 Application of the Standards

The full implementation of BPMS will take time to be adopted by the Bahrain market. Therefore, the application will take place in a dual reporting basis, during a non-defined transition period. In the event of a physical change to a building then professionals must take the opportunity to adopt BPMS as the primary basis for measurement. Professionals must also use BPMS for any new event requiring the use of building measurements. In circumstances where BPMS is not adopted, due to instructions by clients or/and any special project’s terms, then the report must state the reason for departure. In any case, this must be in a direct discussion with the related Governmental Authority.

The implementation of the BVS aims to achieve the following objectives; 1) Place clear procedures and policy for real estate valuation. 2) Establish a reliable database for the property prices to be considered as historical documentation which can be referenced to when necessary to know information about a certain area. 3) Provide a legislative framework which enables the real estate Valuer to appraise the properties at an accurate and certified manner. 4) Enhance confidence with the Valuers, leading to avoiding the random valuation. 5) Enhance the transparency in dealing with the concerned persons in the market and ensuring their rights. 6) Assist the Valuers in submitting a reliable valuation and complete reports containing the required data and requirements, which will provide greater transparency for the investor and resulting in reduced risk. The BVS are following BPMS in their constraints, otherwise are fully applicable.

1.3.3 Scope of the Standards

The (BPMS) Standard, deals only with measurement practice for Residential, Office and Industrial Buildings. Valuation techniques such as the adoption of different rates of value for areas with limited headroom, special uses, and particular forms of construction, basement rooms and the like do not form part of the BPMS. These matters and the value, if any, to be attributed to any particular floor areas because of their special characteristics are part of the

value's, agent's or developer's judgment. However, such areas may be separately identified within IPMS and BPMS as "limited use areas".

The Standard is meant as a manual to guide the owner of any project on how to meet the requirements of the Real Estate and Property Market in the Kingdom of Bahrain.

The Real Estate Regulatory Authority call for International Valuation Standards to be adhered to throughout the Kingdom. These standards though largely centred around tangible asset valuations also relate to the valuation of intangible assets and the valuation of financial instruments such as Real Estate Investment Trusts (REIT's) and Initial Public Offerings (IPO's).

1.3.4 Use of the BPMS and BVS Documents

BPMS Document defines what to be measured in a Building (Residential, Office, Industrial) and the measurement parameters and it does not dictate how measurements are to be obtained or used.

BVS adopts "IVS 103 Reporting" and as stated in Section 20.1 General Requirements: "The purpose of the valuation, the complexity of the asset being valued and the users' requirements will determine the level of detail appropriate to the valuation report. The format of the report should be agreed with all parties as part of establishing a scope of work (see IVS 101 Scope of Work)."

1.3.5 Accuracy BPMS

Service Providers must adopt appropriate measuring and computing processes to satisfy the stated Accuracy Standards of the related Governmental Authorities.

1.3.6 Responsibility to users

Service providers should follow a Code of Ethics and understood professional responsibilities to clients. In many jurisdictions, it is a criminal offence for those involved in property transactions to give false or misleading information about properties that are offered for sale. The BSE Code of Ethics also binds the Bahrain Society of Engineers (BSE) members.

1.4 The way forward

BPMS

- Establishing a permanent BPMS committee
- Updating BPMS over time to comply with other IPMS Standards on a regular basis.
- Immediate Implementation through the BENAYAT (Building Permit Portal) to every single new building in the Kingdom of Bahrain.
- Awareness of BPMS in the Kingdom of Bahrain's universities and education institutes

BVS

- RERA Instruction all Valuers in the Kingdom to adopt both the "Bases of Value" and "Valuation Approaches and Methods" as contained in IVS in order to achieve the

highest possible degree of accuracy and transparency in practicing their duties and enhance the national and international perception of real estate market in the Kingdom.

1.5 Conclusion

International Property Measurement and Valuation Standards are a common language, a tool to manage the properties. Different measurement standards for properties leads to confusion and risk for all property owners, occupiers and investors, especially those that operate across borders. For buildings, it means that the same building could be up to 27% difference in size depending on the standard used (RICS, 2019). A healthy and growing economy, based on the Real Estate and Construction Sector, depends on Valuation Property Standards, which in turn depends on Property Measurement Standards.

It is too early to derive clear conclusions; however, the initial feedback is positive, the related parties and especially the professionals are engaged with enthusiasm, their work is more secured through standardization.

The implementation of both Standards is expecting to,

- Give confidence to all parties, Buyers, Developers, Investors and Financiers regarding the value of properties
- Provide improved solutions for Planning, Permitting and Approvals by cross-government regulatory authorities and their services to the Private Sector (MUN-OSS, BENAYAT, RERA, SLRB and others)
- Streamline processes and improve the quality and efficiency of Engineers, Architects, Surveyors and Valuers work
- Reduce real estate disputes, reducing measurement related disputes that are estimated at up to 60% in the MENA region
- More accurately report and quantify the value of the Bahrain's Real Estate Sector to the National Economy
- Improve Bahrain's competitiveness, increase FDI, ease of doing business, and attract overseas Investors and Developers through increased transparency from the adoption of International Standards
- Promote investment in the real estate sector in line with a strong development march towards the Kingdom of Bahrain's Economic Vision 2030

Disclaimer

The views expressed in this paper are solely those of the author/s and do not necessarily reflect those of the Survey and Land Registration Bureau, its affiliates, and the Kingdom of Bahrain

Acknowledgement

This paper is prepared with thanks and appreciation to H.E. Shaikh Salman Bin Abdulla Al-Khalifa, Head of the Survey and Land Registration Bureau

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BIOGRAPHICAL NOTES

Mr. Khaled ALSHAIKH

- Civil Engineering graduate from University of Bahrain in 2016.
- Government Employee in Survey and Land Registration Bureau since 2016.
- Certified and licensed engineer by The Council for Regulating the Practice of Engineering Professions since 2016.
- Member of Bahrain Society of Engineers since 2008.
- Certified professional trainer by Manchester Academy for training and development since 2019.
- Youth activist under the umbrella of Ministry of Youth and Sports affairs

Ms. Eleni TZIORTZIOTI

Eleni qualified with an MSc in Geoinformatics at NTUA and graduated as Surveyor Engineer at AUTH. Eleni collaborated with the Hellenic Cadastre Projects and with the Hellenic Railways before join and serving the Greek Government from many positions for more than 17 years (Urban Planning, Environment, Cadastre, Water Agency, Contract Management and Audit of Construction Projects). She is member of the Technical Chamber of Greece and the Hellenic Association of Surveyor Engineers and has been elected in the Delegation and the Board of Directors. She has represented both TCC and HARSE in FIG since 1998 in Delegation and Commission 7. Since 2015 she has moved in Bahrain and serves as a Consultant/Cadastral Advisor to the Cadastral Directorate (CSD) of the Survey and Land Registration Bureau.

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