

Dilmunia Development Fund I L.P.



Objective: This report is intended to update Dilmunia Development Fund I L.P. Investors on highlights of fund related activities.

March 2011

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1. Fund Overview

- Dilmunia Development Fund I L.P. (the “**Fund**”) is a \$185 million Fund that was launched on the 8th November 2007 and closed in late December 2007.
- Ithmaar Development Company (“**Fund Developer**”) is the Developer of the project and mandated to manage and among others, develop the infrastructure on the Development Land.
- The Fund’s objectives were to:
 - Purchase approximately 650,000 m² of land on the Island (the “**Development Land**”). This was achieved in late 2007, transaction value: US\$ 180.37 million.
 - Develop infrastructure in respect of the entire island, up to the boundaries of each parcel within the Island. [The preliminary concept envisaged that the total cost for infrastructure would be approximately \$118.25 million].
 - Sell the sub-divided parcels within Development Land in order to exit the Fund investors; originally it was contemplated that there were to be approximately 25 parcels of land.

1. Fund Overview

Fund Objectives	Status
Purchase approximately 650,000 m ² of land on the Island (the “ Development Land ”).	This was achieved in late 2007, transaction value: US\$ 180.371 million. Subsequently 165,000 m ² of the Development Land was sold later in 2007, and Approx 15,000 m ² was sold since.
Sell the sub-divided parcels within Development Land in order to exit the Fund investors; originally it was contemplated that there were to be approximately 25 parcels of land.	The master planning is progressing and preliminary approval has been obtained. The land was subdivided to approximately 100 sellable parcels of land. Further details presented in the [Development status section]
Develop infrastructure in respect of the entire island, up to the boundaries of each parcel within the Island.	Part of the infrastructure works including earthworks for road network has already progressed. Further details presented in the Infrastructure Development section.

2. Development Status

Review of the Island Reclamation & Masterplanning Progress

2. Development Status

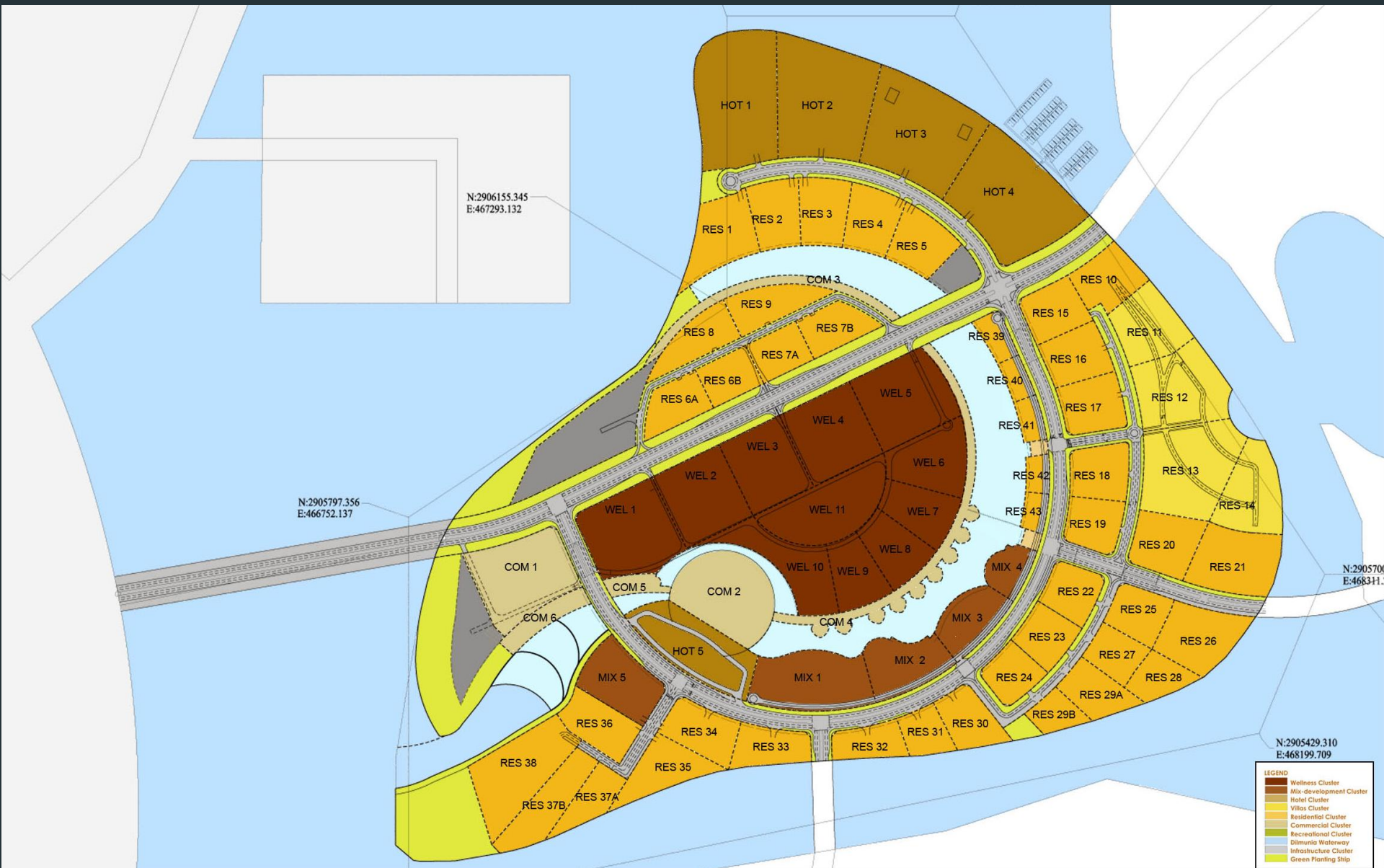
(As on March 30, 2011)

- Work on the Project has progressed well despite the difficult economic climate.
- *Reclamation:* The island was fully reclaimed by May 2009 and all dredging, reclamation and rock protection works were completed by July 2010, as per the original schedule.
 - The Fund Developer received the reclamation completion certificate from the Municipality of Muharraq in April 2010.
 - The Survey Certificate was received from the Survey and Land Registration Bureau in October 2010, officially marking Dilmunia on the map of Bahrain.
- *Masterplan:* Approvals were obtained on the preliminary masterplan in April 2009 and detailed masterplanning for the Island has also been completed. The final masterplan iteration has been submitted to the relevant authorities for approval (*see December 2010 Masterplan*)
- *Grand Canal:* The final layout of the canal has been fixed and detailed design work is progressing. Land preparation and earthwork on the canal have also commenced.
- *Landscape:* Preliminary designs for the landscaping design on Dilmunia are progressing and will be finalized soon.
- Final Master Plan issued in Dec 2010 by the Fund Developer and AECOM.

Way Forward

Development Guidelines	Q3 2011
Finalizing Landscaping Design	Q3 2011

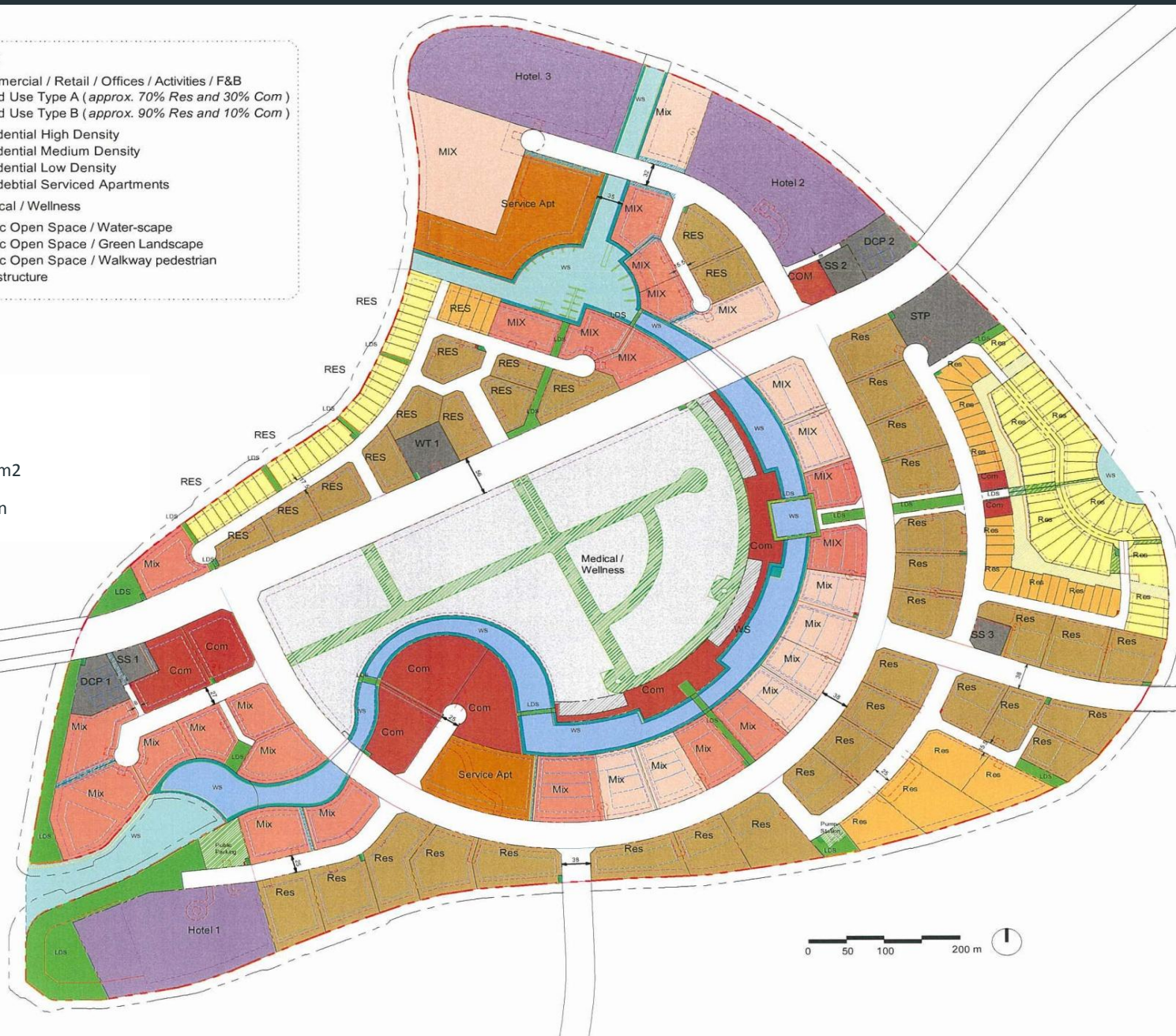
- Currently, the development guidelines for the island and individual plots are in progress.
- Planning Permission and final Master Plan approvals are in progress
- The upcoming slides detail the Masterplanning & Reclamation progress since the closing of the Fund.





- Total Reclaimed Area : 125 Ha
- Total Gross Floor Area: Approx 1.8 M m2
- Gross Floor Area summary breakdown

- Residential and Mixed use 76%
- Office 5%
- Retail 2%
- Hotel 8%
- Wellness 9%
- Total Residential units : ~ 4850





Detailed Masterplan showing building footprint December 2010



Aerial photograph of the Island, Oct 2010. Showing Completed Reclamation, Rock Protection and earthworks for roads network.



Dilmunia Master plan superimposed on an aerial picture of the island, view looking from south to north

3. Infrastructure Status

Review of the Island Infrastructure Progress

3. Infrastructure Development

- Since the closing of the Fund, the Fund Developer has been rigorously working on completing the land reclamation and infrastructure development.
- Towards the end of 2009, Mott MacDonald Limited (“MML”) were appointed to carry out the infrastructure design consultancy services which was initially projected to be completed in approximately 16 months. However due to the recent market conditions, the program is expected to be extended by approximately 6 months.
- Key milestones have been achieved in the infrastructure development including developing demand estimates for the various utilities (Power, Water & Sewerage), developing services corridors (right of way) and several coordination meetings have taken place with the respective authorities and regulatory bodies to ensure compliance with the statutory requirements and secure network connections from the main land.
- MML submitted their conceptual design for infrastructure on the Island in April 2010 which included conceptual designs for highways and main roads, electrical network, potable water , sewage and drainage water and waste management & others.
- Preliminary Designs for infrastructure were submitted August 2010 from MML which included highways and main roads, electrical network, potable water , sewage and drainage water and waste management & others.
- Detailed infrastructure design works are ongoing by MML, with parallel infrastructure costing and cash-flow projections being prepared by Cost Consultants DJ Jones.

3. Infrastructure Development – Way Forward

- Due to the property market conditions, the infrastructure development is expected to be spread over a longer timeframe to align with projected market absorption of plots, this will allow better cash-flow management for the fund.
- Based on preliminary studies and costing, the infrastructure development has been designed to be developed in four overlapping phases.
- The phasing decision has been made with the intention of maximizing the value of the plots in the project and facilitating the development of the infrastructure around the plots that have been acquired by third parties.
- It should be noted that the infrastructure phasing is flexible and can be modified to reflect investors' and developers' expectations.
- The below table illustrates the immediate infrastructure milestones.

Detailed infrastructure design and costing completion	Q2 2011
Tendering & contractors' appointment	Q3 2011
Commencement of infrastructure Works (Phase 1)	Q4 2011

4. Dilmunia Health District

- Process of selecting partner(s) for Dilmunia Health District (DHD) began in June 2008.
- Formal expression of interest which received more than 50 responses from across the globe.
- Three rounds of shortlisting were completed in 2009.
- Request for proposal was sent to five final shortlisted entities which included internationally renowned healthcare providers, consulting firms and architects.
- Site visits to shortlisted healthcare providers were conducted in December 2009.
- Subsequent to final submissions and evaluations, the preferred partners were selected in July 2010.
 - The team consists of a healthcare entity, consulting firm and architect who offer a balanced combination of outstanding international reputation and brand value; in-depth knowledge of the international, regional and local healthcare space; and extensive international and regional experience and presence.
- A major workshop initiated the next phase of DHD progress in December 2010, in Dubai, UAE.
- The Fund Developer has finalized a team to conduct a detailed market study, feasibility analysis and preliminary masterplan, and negotiations are nearing completion to award the contract in Q2 2011.
- The initial phase of the Dilmunia Health District is targeted for commencement of operations in 2014.

5. Dilmunia Hospitality Developments

- The first Memorandum of Understanding (MOU) for the operation and management of a hotel on Dilmunia was signed in May 2009 with Dusit Thani Public Ltd Company, for a 5-star hotel to come up on a site on the man-made island covering more than 30,000 m² of prime sea-front land.
- To date, the Developer received the final Hotel Management Agreement (HMA) and Technical Services Agreement (TSA) from Dusit International. These documents are currently under legal review. This will to a large extent mark the start of a new phase in the hospitality cluster in Dilmunia.
- An MOU with another reputed international hotel chain for the management and development of a European-themed Resort and Spa was executed in November 9, 2010. Additionally, negotiations are ongoing with other operators at different stages including a local hotel operator who expressed its interest to be part of Dilmunia.
- The Fund Developer is intending to bring at least one of these hotel developments to market in the form of a closed Hotel Company, after conducting commercial feasibility, as a means of increasing the development's appeal.

6. Marketing & Sales

Review of Dilmunia Marketing Activities & Sales

6. Marketing & Sales Strategy: Market Review Highlights

- More comprehensive Market Review can be found in the Appendix 1.
- Following the current political unrest, it is anticipated that property prices will drop in selected areas in Bahrain.
- However, during the past month two major housing projects were launched:
 - On March 6th 2011, the Ministry of Housing announced plans to build 50,000 social housing units to meet the current social housing back log. This project is expected to cost BD 2.5 billion.
 - On March 28th 2011, Kuwait Finance House announced a BD 200 million plan to build 2,500 affordable units on Diyar Al Muharraq a master plan development on the Eastern shores of Muharraq.
- Bahrain is also set to receive a \$10 billion, spread over 10 years in the form of a “Marshall Plan” support from the Gulf Cooperation Council Countries. The Government of Bahrain intends to use this aid to stimulate its economy by injecting capital into the markets. The main uses of this support will be:
 - To increase the standard of living levels in Bahrain.
 - To create more jobs.
 - To build more social housing units.
- In the few weeks after the political unrest of February/ March, expatriates property location preferences have realigned, with purported increase in interest in Muharraq and Riffa developments; Amwaj Islands and Riffa Views. The preference re-alignment if sustained and the relocation from traditionally preferred Saar/Budaiya continue, price points for rental locations within these properties will continue to rise, creating greater demand from both end users and developers for more land, which will enhance the profile and offering rates for land in neighboring schemes.

8. Marketing & Sales Strategy: Development SWOT Review

Strength

- Good location close to the Bahrain International Airport and Manama
- High quality scheme with well designed master plan
- Rate of Progress of works is more advanced than most competing Schemes;
- Main Infrastructure works commencement to enhance project appeal & credibility
- Health District component provides a distinction from competing projects throughout Bahrain.

Weaknesses

- Competing schemes such as Amwaj and Diyar al Muharraq located just to the west
- Reduced demand for constructed end units from expatriate purchasers due to the economic downturn, political unrest
- Dependent on a high proportion of plot sales to other developers who are less active than previously

Opportunities

- Create a high quality development with competitive advantages over competing schemes
- Increasing appeal of Muharraq as location for both Bahraini nationals & expatriates
- Diyar al Moyharraq is seen as an affordable housing/ social housing targeted project, thus competition is limited.
-

Threats

- Uncertain future of the economy and the property market
- Additional schemes within the Bahrain National Land Use Strategy
- Oversupply of development land and end units from competing schemes
- Off plan sales are proving difficult to achieve

6. Marketing & Sales Strategy: Brief History & Way Forward

- In light of the current market conditions, and Dilmunia positioning amid competing schemes, the developer has initiated a marketing and sales strategy to magnify the strengths of the project.
- Since 2008, Dilmunia has been exhibited in numerous property exhibitions including Cityscape Dubai (2008 & 2009) and BIPEX (2008, 2009 & 2010) and a number of other venues, investor events and conferences throughout the region. This will continue to be a key vehicle to showcase the project.
- Currently, proposals are under-review from various marketing agencies which will re-define Dilmunia's marketing message in light of market changes, focusing activities on direct marketing methods. This will target investors/ developers on direct channels, road shows, Public Relations and through digital mediums, a more cost-effective and efficient method over paid advertising.
- Additionally the Fund Developer is looking to launch the sales and marketing centre within Bahrain to:
 - Sell and market end unit products on the Island.
 - Select a location that will attract a large volume of footfalls.
- Going forward, the Fund Developer is looking to be reach out to a larger pool of investors for sales in 2011. The following international sales agents were approached to assist in this effort:
 - Cushman Wakefield
 - DTZ
 - Cluttons
 - Jones Lang LaSalle
 - CB Richard Ellis
 - Knight Frank
- The Fund Developer is in further contacts with a number of local agents within each of the GCC countries in order to assist with the sales outreach.

6. Marketing & Sales Strategy

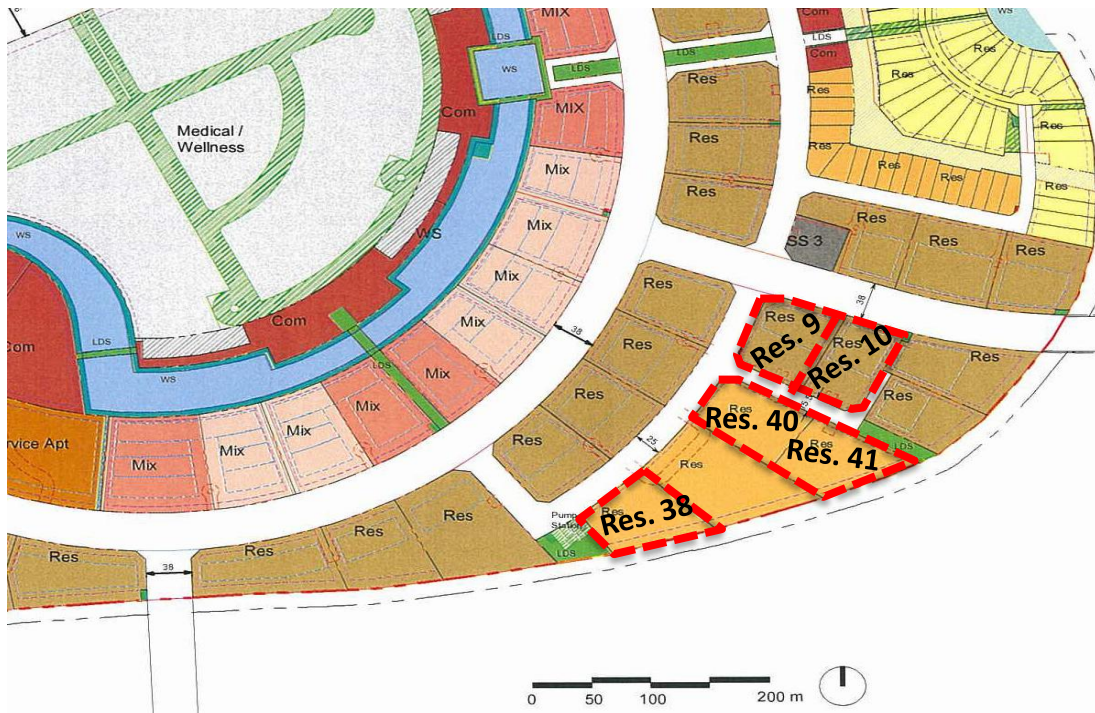
- In order to spur commercial activity on Dilmunia, the Fund Developer is initiating several schemes including its own residential project ; Seavilla at Dilmunia.
- Several plots are also being offered at competitive market rates to enhance the development momentum.
- Initiating discussions and outreach with various stakeholders with interest in Healthcare and Hospitality industries.
- During BIPEX 2010, sale of plot to Aliyah Marie Holding Company was announced; the most recent sale.
 - The developer moved quick to appoint their main consultant – URS Scott Wilson.
 - A press release was issued introducing the project 'Sky Villa' quoting a total value of BD 50 million.



Sky Villa - Dilmunia

6. Marketing & Sales Strategy

- With a view to initiate sales momentum of Dilmunia, a number of strategies were considered.
- The Fund Developer is actively seeking to offer a selected number of plots at competitive prices; this in turn will:
 - Increase the attractiveness of Dilmunia to investors and sub-developers
 - Increase the momentum of sales if more sales/projects are announced
 - This is being considered for 5-6 plots on a selective basis.



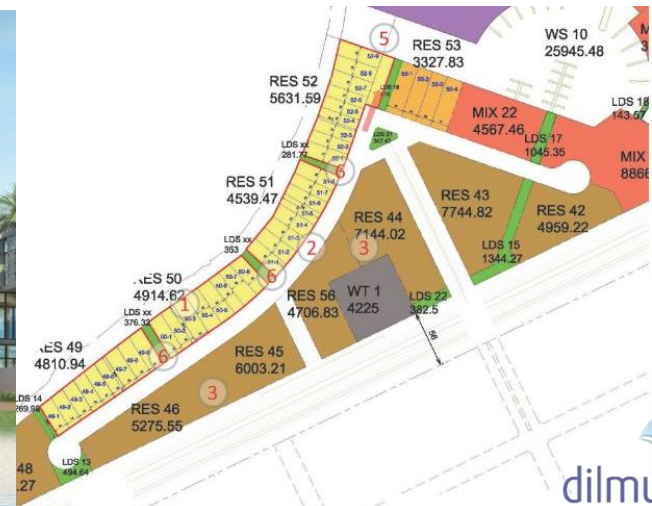
Residential Development: SeaVilla

- A Unique Residential Development, SeaVilla at Dilmunia
- First Residential Development on the Island
- Selection by Architectural Competition in Nov 2010
- **Project:** to develop 34 seafront villas in the north eastern part of Dilmunia.
- **Target:** to offer these exclusive villas to the upper-middle class.
- **Land:** the total land area proposed for this project is approximately 19,250 m²

Plots: 34 plots in total : area ranging from 480 m² to 630 m² per plot.

Villas:

- Three types of built-up area ranging from 280 m² to 360 m²
- Ranging from 3-5 bedrooms
- Patio overlooking the sea
- Low density, residential development



7. Fund Assets & Exit Strategy

Review of Dilmunia Development Fund I L.P Future Strategy

Financial Highlights

The financial statements of the Fund as on December 31, 2010 were prepared and the summary financial highlights appear below;

	Total (USD)
Total Assets as at 31 December 2010	178,909,002
Total Equity as at 31 December 2010	173,487,821
Loss for the year ended 31 December 2010	(2,609,078)

*it may be noted that, of the development properties forming part of the total assets above, approximately US\$ 145.9 million relates to the cost of the land held in the books of the Fund, the fair value of which as at December 31, 2010 is approximately US\$ 400.7 million.

Exit Status

- The exit strategy of the Fund is dependent on the sale of Parcels in the Development Land. However, due to the unanticipated adverse market conditions, the sale of the Parcels to exit investors/developers was slower than originally planned.
- The Fund Manager sent investors a letter on 5 January 2011 regarding the extension of the Investment Period and addressed the challenges that the Fund currently faces.
- The Fund Manager and Developer have taken drastic measures to minimize the economic conditions impact on the project by revising the original Master Plan to reflect the current and future market demands. This has resulted in creating smaller-sized Parcels and creating retail-size developments in addition to improving the land utilization.
- In light of the current socio-political climate in Bahrain, we have adopted conservative sales assumptions and our marketing and sales plans for 2011 will remain flexible to accommodate developments in the market and investors' appetite.
- The Government of Bahrain is currently making significant efforts to stimulate the economy which will mitigate the effect of recent events on the real estate sector.
- Given all of the above, we expect further interest as infrastructure works on the Island commence in the second half of 2011.

General Offer

- Certain L.P. investors expressed their interest to exit the Fund by converting their Investment Units in the Fund to land in Dilmunia. Accordingly, the Fund Manager is currently assessing the best possible mechanism to offer all investors equal opportunity to exit the Fund by converting units into plots in the form of a proposed General Offer ("G.O.").
- L.P. Investors will have the option of either converting their units to plots and exit (completely or partially) or stay in the Fund and exit as feasible in due course.
- The Fund Manager and Developer are working extensively on the G.O. to ensure that investors realize the best possible returns on their investments.

8. Market Outlook

Review of market conditions and real-estate outlook

6. Marketing & Sales Strategy: Market Review Highlights

- Following the current political unrest, it is anticipated that property prices will drop in selected areas in Bahrain.
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8. Market Review

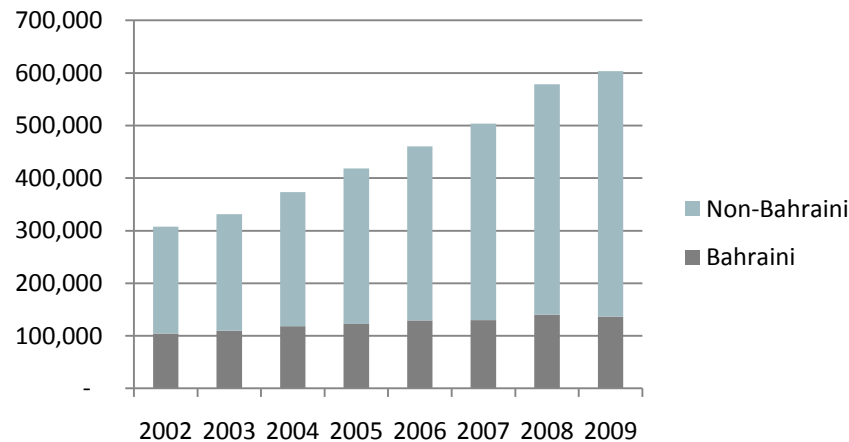
- The real estate sector has been in turmoil for around three years now combined with other adverse economic factors including difficult liquidity and credit conditions. Speculative activity has also largely reduced.
- Many master-planned developments and mega-projects were postponed or cancelled in Bahrain or the region
- Over this same time period a number of perceptions changed:
 - The business model: off-plan sales vanished.
 - The end-user demand: luxury to affordable.
 - Type of investors: changed from speculative investors to end-user buyers.
- In an effort to spur economic activity; most GCC governments have:
 - Increased their budgets to spend more on infrastructure projects.
 - Decided to keep interest rates low; increasing credit growth.

GCC Outlook						
	Bahrain	KSA	Kuwait	Qatar	UAE	Oman
GDP	↑	↑	↑	↑	↑	↑
Inflation	→	↓	↓	↑	↑	→
Unemployment	→	→	→	→	→	→
Interest Rates	→	→	→	↑	→	→

8. Market Review continued ...

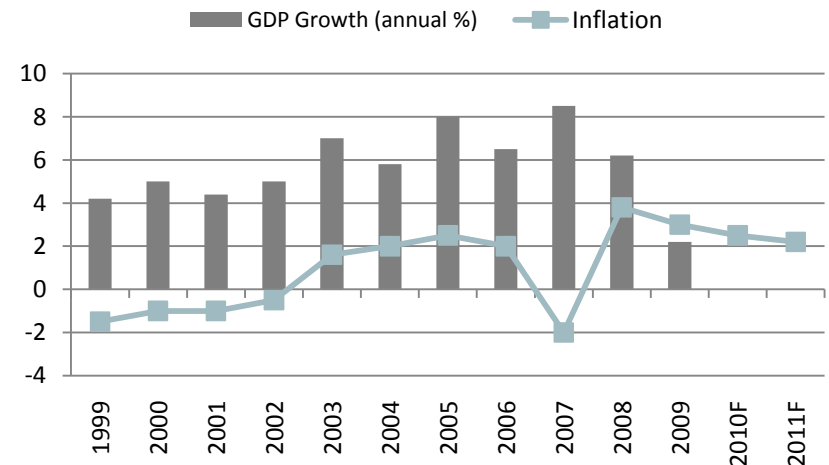
- In 2009, Bahrain witnessed the lowest GDP growth over the past few years.
- The current real estate market in Bahrain is going through a period of transition, as a result of the economic downturn.
- Certain sectors within the real estate markets have their own supply/demand characteristics.
- Sectors such as the upscale residential units are experiencing oversupply applying downward pressure on prices.
- Despite this oversupply there is mismatch between current supply of units/ location and the current demand.

Total Employment by Citizenship, Bahrain 2002 - 2009



Source: LMRA; 2010

Bahrain's Economic Activity

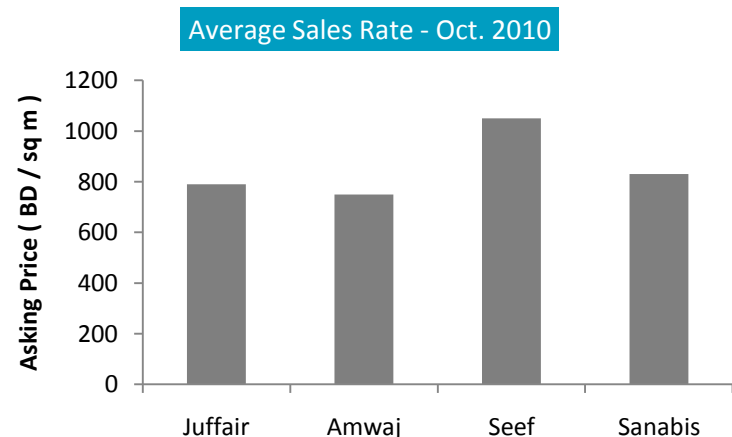
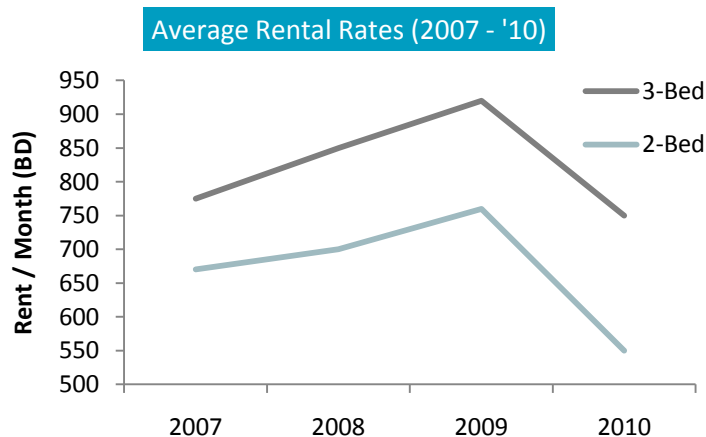


Source: Cushman & Wakefield; 2010

8. Market Review continued ...

Residential Market

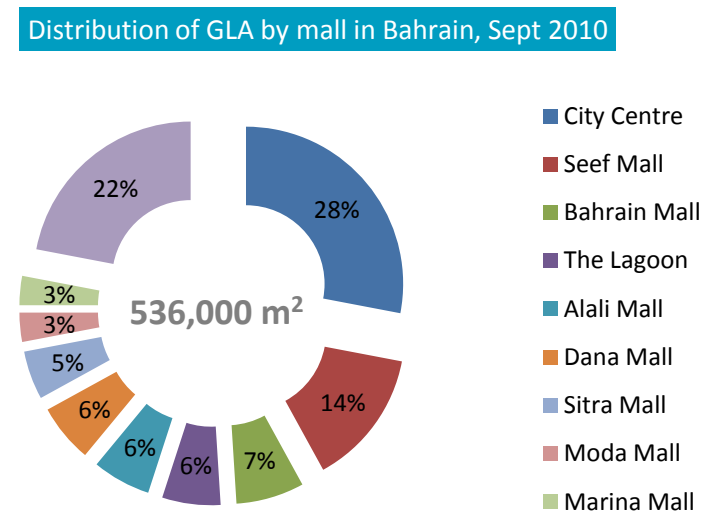
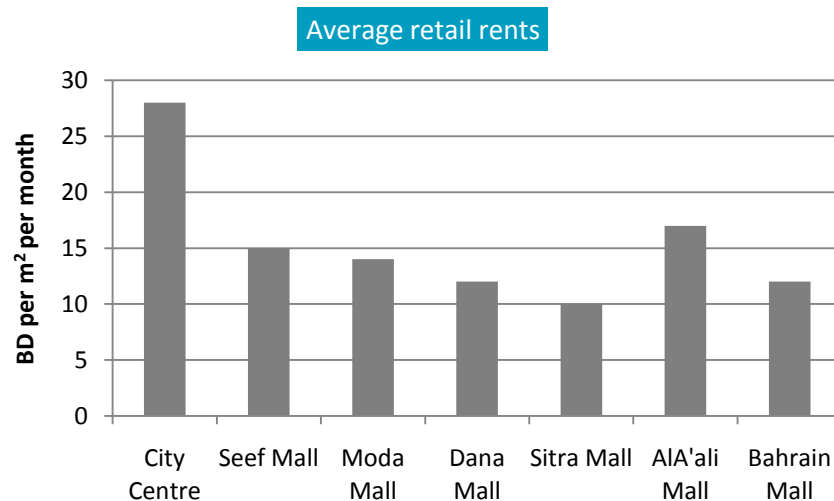
- Sales
 - Oversupply of freehold apartments; applying downward pressure on prices.
 - A limited amount of transactions took place in the past 12 months.
 - On average, the capital values have dropped by 10% in areas such as Sannabis and Juffair during 2010.
- Rental
 - Due to the limited sales in the current market, developers are rethinking their models and looking to offer their properties for rent.
 - Due to the oversupply of properties listed for rent, prices fell by 30% in 2010.



8. Market Review continued ...

Retail Sector

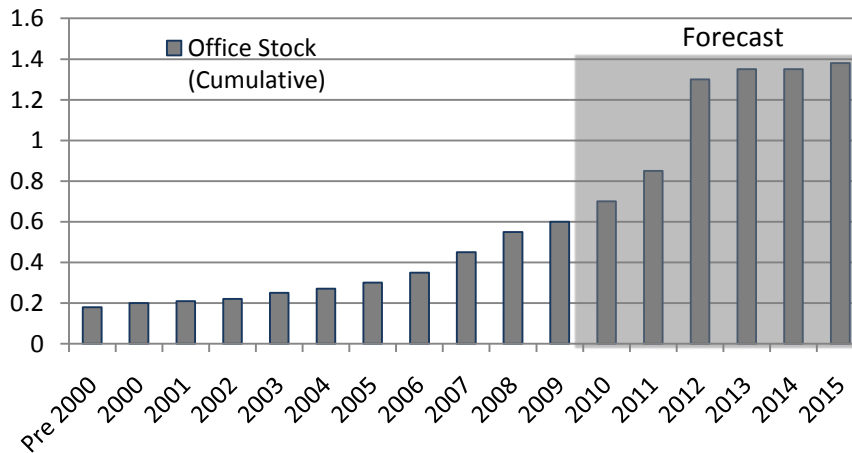
- The main retail destination Seef is highly over-supplied with retail space.
- In 2008, Bahrain City Centre Mall was opened creating 150,000 m² gross leasable area (“GLA”) of retail space.
- The supply pipeline is concentrated in large master plan developments and around residential areas.
- Retail pipeline in master planned developments account for 51% of the total planned retail growth over the next 5 years.
- The average rate across all malls is BD 14.7 / m² per month.



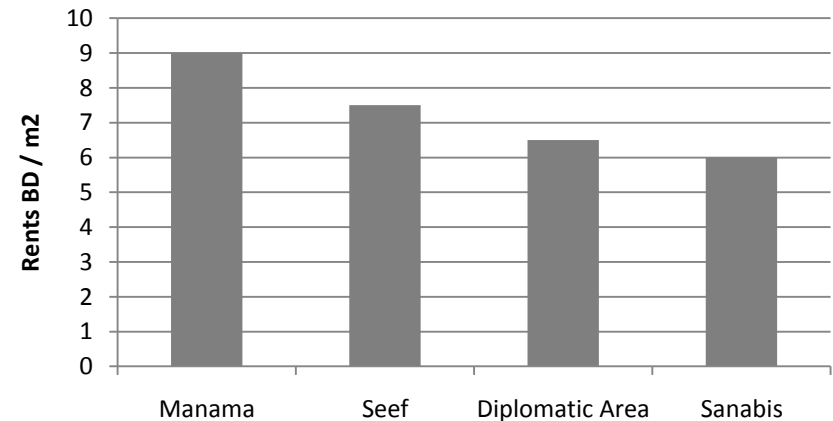
Office Sector

- The current estimate of office space in Bahrain stands at 637,000 m²
- Central Manama accounts for 46% of the total office stock; the remaining is split between Diplomatic Area and Seef District 24% and 30% respectively.
- It is estimated that 130,000 m² of office space entered the market during 2010.
- Current average vacancy rates in the Central Business District (CBD) are 7-10%, up from 4-5% twelve months ago.

Total Office Stock in Bahrain 1995 - 2015



Average prime quoting rents for office space by location, Bahrain Q1 2010



Thank You

