

Bahrain: Homing in on construction growth

The construction sector looks set to receive a welcome boost, with Bahrain's state and private developers planning to increase investments in residential projects to meet growing demand for affordable housing.

According to a recent report by the Economic Development Board (EDB), almost 350,000 new residential units will need to be added to existing stock by 2030 to keep up with the growing demand for affordable housing in the Kingdom. Currently, the report said, there is a deficit of 40,000 units, a figure set to swell in coming years if the state and private developers do not move quickly.

"Total housing demand is expected to increase to 263,536 housing units in 2020 and then to 346,718 in 2030 from the current stock of 145,181," the EDB forecast in its report, which was released in late November.

To clear this backlog and meet the new calls for affordable housing units, at least \$1.1bn will have to be spent every year up to 2020, and then \$242m annually up to 2030, the EDB stated.

Two factors contributing to the increasing gap between supply and demand are the slowing of activity in the building industry and the growing population. The EDB has reported that demand for more homes is due to the expected rapid growth in the number of Bahrainis, compounded by a slow-down in the residential construction sector".

The extent of this slowdown was shown in a report issued by the Economic Planning and Development Department, a unit of the EDB, in mid November. Though the study found that much of the Kingdom's economy was gaining momentum, with a number of key sectors performing strongly, the construction industry was still in decline. The sector posted 7% negative growth year-on-year in the second quarter, a marked contrast with the utilities sector, which expanded by 17%, or transport and communication, which expanded by 8.6%.

This contraction may soon be overcome though, with the state committed to resolving housing shortages by bringing in private sector involvement. At a recent conference discussing the housing and social infrastructure needs of the Middle East and North Africa (MENA) region, Bahrain was identified as an example of flexibility in meeting building challenges.

Though Bahrain's housing shortfall is far less than that of larger countries such as Saudi Arabia, it poses a major challenge for a relatively small state, said Stephen Watson, an executive director with Ernst & Young. One of the answers found by the government and the local construction industry is public-private partnerships (PPP).

"What we can learn from Bahrain is its application of a variety of procurement methods, as it understands that using a single method like design-and-build is insufficient to meet its total needs," said Watson. "The key aspect of PPP in Bahrain is that the private sector is bringing very innovative solutions to bear that also take into account community development."

One of those with direct experience of PPP projects is Bahraini developer Naseej, an integrated real estate and infrastructure development company, which is working on the details of such a scheme with the government to roll out at least 4500 housing units.

Christopher Sims, the CEO of Naseej, said such cooperative ventures are the answer to the housing needs in Bahrain and the rest of the region. "The private sector has to get involved in affordable and social housing," Sims told OBG. "The Ministry of Housing (MoH) should act as a legislator and create incentives to get the private sector engaged in this sector by establishing the specifications it requires, facilitating a fast track permitting process and then paying the developers upon completion, provided the MoH's specifications have been achieved. Only governments have the ability to create such a public-private environment."

Though PPPs may change the dynamics of Bahrain's residential construction segment, some developers may hang back until the outcome of the initial run of projects is clear. However, if demand for their services does not pick up in 2012, firms may be encouraged to shift their focus from the more traditional upper end of the property market to affordable housing schemes, especially with reports that up to \$7bn worth of projects are in the pipeline.

While affordable housing may be the new driving force, it will be a challenge to keep the emphasis on affordability. Construction costs in Bahrain are the highest in the Gulf region, according to a 2011 survey by consultancy EC Harris.

The problems of land shortages will ease with the government releasing land plots from its own holdings, which could serve as a major contribution to any joint projects with private developers. Other incentives and support for the Kingdom's construction industry could also be offered by the state to entice developers away from luxury villas and into affordable homes, helping to revitalise the industry and bridge the housing gap.