



The Ministry of Works focuses on large-scale infrastructure projects

Bricks and mortar

The move into new segments bodes well for future expansion

Bahrain's Vision 2030, the country's long-term economic plan, calls for a complete overhaul of the country's infrastructure. Already under way, this programme will create work for the sector.

Despite the lingering effects of the global economic downturn and the recent unrest in the Kingdom, Bahrain's contractors, property developers and other construction-related players are optimistic about the future. New buildings and large-scale projects have continued to go up over the past few years, despite a number of major challenges and constraints, which points to the fundamental strength of the market. While demand has fallen off in some segments, such as luxury residential and high-end office developments, it has grown substantially in other areas, including affordable housing, industrial development and infrastructure.

VISION: This shift from the high-end residential market to a handful of niche segments is in line with Vision 2030, the Kingdom's long-term economic development plan, which is overseen by the Economic Development Board (EDB). Among other things, the plan calls for a complete overhaul of the country's infrastructure, work which is currently under way and will likely supply local construction companies with work for years to come.

The government, which has been a major mover in the construction sector for years, has continued to invest heavily in a variety of developments, including transport projects, industrial zones and, perhaps most importantly, large-scale affordable housing projects. Ongoing work in these segments bodes well for the Kingdom's construction sector.

REGULATORY OVERSIGHT: A number of government bodies are involved in Bahrain's construction sector. The Ministry of Municipalities Affairs and Urban Planning acts as the industry regulator, overseeing land and property registration, issuing building and land reclamation permits and developing policy. The Ministry of Works (MoW), the government's construction arm, has launched numerous major transport projects in recent years.

"For the past few years we have focused on large-scale infrastructure expansion projects," Essam

bin Abdulla Khalaf, the minister of works, told OBG. "In the coming years we will continue to play a major role in infrastructure development, and we will also work to implement projects that create jobs, in line with the government's plan to increase employment throughout the country."

The Ministry of Housing, which was part of the MoW until 2007, oversees the country's affordable housing programme, which supplies low-income Bahrainis with housing units. The EDB also plays an important role in the construction sector. Under Vision 2030, the board oversees the National Planning Development Strategy, a blueprint for future infrastructure development. Designed by the US-based architecture and engineering firm Skidmore, Owings and Merrill in 2007, the strategy outlines large-scale, sustainable infrastructure upgrades throughout the country and lays out a zoning policy for ongoing development in a number of areas.

However, some remain sceptical about the government's planning efforts. Mohamed Salahuddin, president of the board at Mohamed Salahuddin Consulting Engineering Bureau, a local engineering and architecture company, told OBG, "Bahrain has never been successful at urban design. There are no proper regulations to control building design. Architecture and urban layouts need to be managed. This involves better integrating the road network into the urban layout and enhancing transportation."

PROPERTY RISING: The construction industry in Bahrain, like the rest of the Gulf, was negatively affected by the downturn, which hit the region in mid-2009. By mid-2010 around 25% of the building projects under way in GCC countries had been shelved or cancelled entirely. Demand for high-end property, which rose substantially through the early and mid-2000s, fell off, as did prices for land and construction materials. Banks and other lending institutions, which played a major role in funding the pre-2008 property boom, quickly tightened their purse strings,

instituting conservative lending requirements almost immediately. Between 2008 and 2009 the total value of new construction contracts in the country fell from \$2.2bn to approximately \$1.2bn, according to a report from Research and Markets.

BUFFERED: Bahrain fared better than many of its regional neighbours in this new climate. Developers in the Kingdom had only begun to experiment with the speculative practices that were already in widespread use in some markets when the crisis hit. Similarly, Bahrain's financial regulatory regime, which is widely regarded as one of the best in the region, insulated the country from most of the complex financial products that affected Wall Street and other markets in late 2008 and 2009.

Thanks in large part to these advantages, the Kingdom's property market began to see signs of improvement by late 2009. In December 2010, prior to the political disturbances, Research and Markets published a report projecting that new construction contracts awarded in the Kingdom would total \$1.6bn in 2012. Since the events of early 2011, the government has announced that the country is on still track to post GDP growth of 3% in 2011.

Before the downturn, most construction firms were focused on the luxury villa and apartment segment. Today, however, most local developers have worked to realign their business towards middle- and low-income end-users. Additionally, many firms have begun to focus on a handful of other segments, including industry and education, both of which are key development areas under Vision 2030.

This realignment has paralleled a number of new building trends. While sustainability was important in development circles before the downturn hit, in the three years since 2008 it has become a central tenet at many firms. The importance of "green" building in the Kingdom was on display at the inaugural Green Building Forum, which was held in May 2010 at the Bahrain International Exhibition Centre.

"Green building technology is huge right now," said the MoW's Khalaf. "Green development has had a major impact on the construction sector over the past few years, and we only expect it to become more important in the future."

LARGE-SCALE PROJECTS: While Bahrain was more insulated from the downturn than other countries, a number of major construction projects were put on hold in the wake of the crisis, including Uptown



Work on some large-scale developments continued despite the global financial crisis

Bahrain and Downtown Al Areen. At the same time, work at some large-scale projects has continued, although financing arrangements have been modified in certain cases. "The fact that some projects, such as Bahrain Bay, survived the downturn and some did not is related closely to the strength of individual developers and available revenue and equity," Bob Vincent, the CEO of Bahrain Bay, a mixed-use development located close to Manama's central business district, told OBG.

INFRASTRUCTURE: As part of the government's National Planning Development Strategy, the state has rolled out a wide variety of large infrastructure projects in recent years. In 2010 the Kingdom budgeted BD152m (\$405m) on road construction and maintenance, which included the completion of the Sitra Bridge and Umm Al Hassam interchange.

At the same time, other projects are ongoing, including efforts by the MoW in Mina Salman. Khalaf, the minister of works, told OBG, "Currently, the ministry is planning a road network upgrade in Mina Salman. This will be a 30-month project to build a three-level interchange, which will have a positive impact on traffic flows in a key area of Bahrain." Another major project under way is the North Manama Causeway, being developed by the MoW in conjunction with BESIX, the Belgian construction company, and the Haji Hassan Group. The causeway will link Bahrain Financial Harbour and Bahrain Bay with the Al Fateh highway.

Perhaps the most important road development in the coming decade is the Qatar-Bahrain Causeway, a \$3-5bn bridge project that will connect the two countries via a 40-km, four-lane link. The project has been delayed a number of times since 2008, when it was first launched. As of April 2011, however, construction is expected to begin by the end of the year, and to be completed by 2015. Overseen by the Qatar-Bahrain Causeway Foundation, the project will be carried out by multiple international construction and

The government's budget for road development in 2010 amounted to more than \$400m. Major projects included the Sitra Bridge and Umm Al Hassam interchange project.

Construction of the Qatar-Bahrain Causeway, a project valued at \$5.5bn, is expected to begin by the end of 2011 and be completed by 2015.

Construction permits by type, 2008-10

	2008	2009	2010
Addition	5187	5737	5156
Demolition	1128	650	732
Demolition & new construction	118	64	67
New construction	3840	2936	2493
Reclamation	35	9	12
Renovation	1234	984	879
Total	11,542	10,380	9339

SOURCE: Ministry of Municipalities Affairs & Urban Planning

Materials prices fell significantly in 2009. However, they stabilised in 2010 and may rise in 2011 as demand increases in Bahrain and regionally.

consulting firms, including COWI, Qatari Diar, Vinci Construction Grands Projets and Halcrow.

Other recently completed or ongoing developments include an airport expansion project, a sewage project, the \$1bn Green Line monorail project and a new service zone at Khalifa bin Salman Port. "Infrastructure projects will be the driving force in the construction industry," said Hasan Al Bastaki, the managing director of Manara Developments, a local developer. "They add value to the country overall, create employment and are a much-needed asset."

HOUSING: The residential market, and specifically the affordable housing segment, represents a major growth area in the coming years. The official waiting list for state-subsidised housing had around 55,000 people on it as of the end of March 2011. The government has rolled out around 10,000 new affordable housing units annually over the past few years, but this has not been enough to meet the needs of the Kingdom's low-income residents, who account for a substantial percentage of the population. In early 2011 the government announced that it would spend BD2.5bn (\$6.67bn) on new public sector housing programmes through 2016. A number of private companies have launched affordable housing initiatives as well, primarily as a component of larger mixed-use developments.

LAND RECLAMATION: Bahrain is a small island nation with a rapidly growing population. Consequently, for the past three decades land reclamation has been an important tool for developers, especially those planning large-scale projects. From 1981 to the end of 2008, the Kingdom increased in size by around 11.4%, or some 26 sq km, thanks to reclamation projects on the coasts.

However, land reclamation is controversial in Bahrain and the Gulf in general. As Brian Newman, the CEO of the Bahrain Real Estate Investment Company (Edamah), told OBG, "We need to focus on making the best use of the land we have instead of reclaiming new land. This involves upping densities and encouraging people to adopt a more urban lifestyle. This is a long-term process." In recent years

the government has worked to implement new rules to regulate reclamation, which can be harmful to the underwater environment. In mid-2010 Adel Khalifa Al Zayani, the director-general of the Public Commission for the Protection of Marine Resources, Environment and Wildlife, called for stricter regulations on reclamation. In an effort to enforce the existing legislation surrounding the issue, which was passed in 2008, the Ministry of Municipalities Affairs and Urban Planning introduced a new law in February 2011 that will require dredging companies to install GPS systems on their boats, which will in turn be monitored to ensure that reclamation work is being carried out within legal limits. This is in line with Al Zayani's appeal to improve industry oversight.

MATERIALS: When the downturn hit Bahrain in late 2008, the price of many construction materials was at an all-time high. In the years leading up to the crisis, steel prices doubled, for example, from BD300 (\$800) to BD600 (\$1600) per tonne. In late 2008, costs began to flatten, and in early 2009 they fell dramatically. Since then, prices have generally drifted up. According to Ali Al Tashani, the chairman of Al Tashani Holding, a local firm, "Prices have stabilised recently and are starting to improve."

During the first nine months of 2010, cement prices in the GCC averaged around \$67.20 per tonne, down 13% from \$77.30 per tonne during the same period the previous year. Perhaps in response to low prices, in early 2011 cement manufacturers attempted collectively to raise prices by 30%. However, before the price hike went into effect, the Ministry of Industry and Commerce intervened, announcing that it would not tolerate collusion. Nevertheless, market forces alone may be sufficient to increase prices in the near future. Growing demand for building materials in Saudi Arabia, which is the source of most of Bahrain's cement, could translate into rising prices for Bahrain as early as the second half of 2011.

In an effort to overcome the Kingdom's dependency on imports, in April 2011 Hassan Fakhro, the minister of industry and commerce, announced that the ministry planned to collaborate with the United Cement Company, a major local producer, on a feasibility study to form a new construction materials firm. The company, which would initially focus on cement production, could potentially post annual turnover of around \$126bn within a decade.

OUTLOOK: Despite recent economic and political challenges, players in Bahrain's construction sector are optimistic about the potential for future growth in the country. Contractors and developers have worked to realign their business toward new niche growth segments, including infrastructure, housing and industry. While the high-end residential segment has fallen out of favour since the downturn hit, it could still play a role in future growth, according to some players. "Mixed-use real estate projects still have great potential," said Salahuddin. "If a developer can combine retail, residential, commercial and office space all in one location, they will find demand."

Residential apartment pipeline, 2011-15 (no. units)

