

# Housing and Construction

# Investment Overview of Iraq

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### Key Stats and Figures

**Population growth rate:**

At the projected growth rate, almost 2 million housing units will be needed by 2015.

**Private sector involvement:**

The government estimates that 85% of home building will be carried out by the private sector.



*Photo credit: Tina Hager*

## Sector Overview

Iraq's reconstruction has created a huge demand for construction expertise and capital. The real estate development, construction, and building material industries are all ripe for investment. The large number of construction projects in industrial sectors and infrastructure will require vast amounts of building materials, design capacity, and construction expertise. Opportunities are available across all geographic areas and the already high demand will continue to grow.

Private sector investment dollars as well as expertise are greatly needed in all sectors to augment the Government of Iraq's (GoI's) efforts. Prospects exist to provide for the great number of over-crowded existing households, rehabilitation of transportation infrastructure and the ever growing need for development of the industrial base. This will substantially increase the demand for efficient designs and competent completion of sizeable construction projects from a large number of industrial sectors. The huge long-term business potential, coupled with the real need for outside capital and expertise, promises unique investment opportunities for those who pioneer the construction sector.

### Building Sector Materials

Iraq formerly produced a significant range of minerals used for basic building materials such as gypsum and cement, and composite materials of glass, tile, piping, and bricks. Today most building materials are imported by multiple and unorganized traders with little government control on quality and proper labeling. Distribution channels are non-existent and inefficiencies exist throughout the entire sector from extracting the base material, production, or importing and distribution, and create market distortions and little reliability for builders needing supplies. As a result, efficiency is poor, quality is questionable, and domestic producers cannot keep pace with existing demand, let alone the demand expected in the near future.

As a result of domestic bottlenecks, Iraq imports most building materials. Most cement comes from abroad, mainly from Turkey, Iran, and other nearby producers. It is estimated that demand for bricks exceeds local supply fourfold.

### Construction

The post-2003 reconstruction was dominated by large, foreign builders, who have played a major role in rebuilding

the Iraq's power and water facilities, bridges, roads, schools and other infrastructure. A domestic construction sector has begun to grow alongside the large foreign builders, but few have developed the capacity for the kind of large scale development that will be needed. Estimates of reconstruction expenditure in Iraq run into the tens of billions of USD, with USAID conservatively estimating at least \$150B USD.

The development needs of Iraq run across the spectrum of construction projects; small to mega projects including new dams and considerable additional infrastructure. Modern office buildings, industrial parks, new universities, sports stadiums, municipal buildings, port facilities, and regional development hubs are all part of the national development plans in Iraq.

### Housing

Housing is a key need for the Iraqi people and will be a key driver of the construction boom. Iraq is facing a serious housing shortfall due to:

**High population growth rates:** At present rates (2.6% annual growth), the population of Iraq will reach 40 million by 2025, creating a need for almost 2 million new housing units.

**The return of refugees:** The United Nations has estimated that 0.5 million of the 4.2 million refugees will return by 2010 if stability continues.

**Displaced persons:** Internally displaced families will need new housing.

**Increasing urbanization:** Oil revenues, agricultural surpluses, and Iraq's various conflicts have all hastened the trend toward migration to the cities, especially to Baghdad and Basrah.

The GoI built some housing projects in the 1970s and early 1980s, and has also granted land, but most residential development has since been led by fragmented, small-scale builders. These builders have not yet developed the financial and technical wherewithal for the large-scale development now needed to satisfy rising demand. Housing prices and rents have been rising, especially in Baghdad, defying global trends. Demand for housing is growing apace, with the need estimated at more than three million homes nationally over the next five years.



## The Role of Government in Housing and Construction

Much of the boom in construction in Iraq over the next five years will be led by government investment in infrastructure. The needs are great:

**Water and sewage:** Water treatment plants cover only six percent of the population and most sewage plants are outdated and poorly functioning.

**Public facilities:** Many public buildings are in disrepair or were damaged during the war.

**Transportation:** Iraq's transportation infrastructure (roads, airports, and train system) are in dire need of repair and modernization.

**Ports:** Iraq's six ports need to be upgraded in order to handle modern shipping methods and high expected volumes.

The GoI has earmarked over \$16B USD for reconstruction in its 2009 budget, and the government can also avail itself of more than \$100B USD in funds from international donors, including the Development Fund for Iraq, U.S. appropriations, and funds pledged at the Madrid donor conference. Additionally, the provinces are increasingly financing infrastructure and housing projects.

Even so, the Iraqi government is aware that public financing will not be enough. Private capital and expertise will be needed to build and sustain the huge infrastructure investment needed. In housing, for example, the government expects that up to 85% of home building will be carried out by the private sector.

The government is also strengthening the legal regime to support real estate development. Investment Law No. 13 (2006) permits distribution of land by either providing it as an incentive for investment in development projects or as long-term leases of up to 50 years. This is being reinforced by new legislation before the Iraqi Parliament which, when approved, will refine the procedures for land distribution for qualifying investments, enabling more efficient project planning to be undertaken.

## Opportunities for Investment in the Iraqi Housing and Construction Sector

### Building Sector Materials

Great opportunities exist for competent domestic producers of building materials, including down-streaming and extraction. Iraq has ample deposits of iron ore, copper, gypsum, bitumen, dolomite, and marble at grades suitable for commercial use. These resources remain largely unexploited.

State-owned building supply companies typically use less than 20% of their production capacities. Well-structured public private partnerships, with appropriate investment in capital equipment, technologies, and skills transfer, could yield huge productivity gains.

The Ministry of Industry and Minerals has been encouraging the licensing of new cement producers, as well as private public partnerships to rehabilitate major state-run cement factories. Lafarge, the world leader in building materials, has taken advantage of Iraq's opportunity as part of its global growth strategy, has built two plants in Iraq whose total capacity now reaches one quarter of domestic Iraqi production.

### Construction

The top five major cities in Iraq, where two thirds of the population reside, need significant reconstruction work. Baghdad alone, which some 29% of the population calls home, needs major restoration, rehabilitation, and development to provide for a modern capital for the country and enable the government and major cultural and commercial buildings to provide proper service. The need for designers, planners, developers, and engineer specialist working with the national, provincial, and city governments will identify the multifaceted opportunities to remake Baghdad into a modern and efficiently functioning city.

There will be multiple prospects for pioneering innovation where those with access to new technologies in building and design will be able to contribute to the highly imaginative and futuristic landscape distinctive in the recent showcase architecture of the Middle-East. The opportunities for the private sector to provide development are almost boundless and include: city planning, all manner of transportation facilities, convention center and visitors facilities, municipal buildings, and cultural and recreation facilities. Shopping malls and retail service clusters are also needed.

Investment licenses have been approved for \$2B USD from a total of 40 projects which range from five star hotels, commercial malls, storage and food processing, to commercial development facilities at an airport. One major UAE developer has signed an Investment Agreement. This Agreement involves Baghdad city government's most ambitious single development project to date; a \$5B USD development which includes a significant multi-specialty hospital, 65,000 apartment units, shopping malls, hotels, and sports fields on the 80-acre former Rashid military base inside Baghdad city limits. The initial round of proposals drew 16 bids from foreign companies.

### **Housing**

To achieve the economies of scale needed to overcome financing, cost, and technical obstacles, Iraq needs real estate developers that are capable of planning, designing, developing, and delivering planned community housing at the necessary price point. Though housing input prices have risen, so have wages and the large number of government employees with steady cash flow create a pool of potential buyers for moderate price-point housing units. Foreign investment can bring new designs and techniques as well as efficient lower-cost building materials for planned communities and a wide variety of creative low-cost housing units.

In recent months a significant number of investment licenses have been awarded in seven provinces for the development of housing: twelve licenses for \$1.9B USD. These units represent a coming together of the GoI, Provincial Governments, and the private sector to address an important need in Iraq and to stimulate the economy as can a robust housing and home rehabilitation program. There are estimated to be some one million housing units in need of rehabilitation in the lower 15 provinces. To date, the rehabilitation is in general being undertaken by small local developers.

Local developers, though often not versed in the latest building techniques, understand the various legal and procedural issues that builders/developers must work their way through and would be a significant asset in the permitting, licensing, and other business related issues in the construction industry in Iraq. Partnering with these local developers would enable one to bypass a rather steep learning curve that is always present when entering new markets.

Private foreign investment in Iraqi housing is expected to grow robustly, with estimated upper-range investment of \$35B USD in 2009 and \$40B USD in 2010. The slowdown in competing markets, especially in the Gulf region, and the pent up demand in Iraq seeking more efficient residential real estate development, presents an excellent opportunity for leading regional and global private builders.

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