Forbes Middle East

Middle East Construction Market Outlook

Based on current data from MEED projects, it appears that construction companies can look forward to a cautious recovery in the market following a challenging period of subdued performance. Long-term positive factors such as demographic demand drivers and government support combined with a modest rise in oil prices remain key drivers for capital spend and will remain the catalyst for spend on capital and infrastructure projects. The industry has been awaiting the award of a range of projects identified by each GCC country as part of their defined long-term vision, with transport, social infrastructure and tourism programmes among the key priorities.

Saudi Arabia currently represents the biggest potential in the Middle East, with capital projects worth more than $1.2 trillion in the pre-execution stage, compared to $713 billion in the U.A.E., $578 billion in Egypt and $215 billion in Kuwait. Saudi's Public Investment Fund is taking a leading role in delivering Vision 2030 for the Kingdom. Large-scale infrastructure projects outside the oil and gas sector are being planned and will have a substantial impact on the construction awards.

If we look at the value of contracts awarded in 2018 to date, awards in Saudi Arabia are lower than the value of projects awarded to date in the U.A.E., which amount to $20.7 billion. Saudi Arabia is actively seeking to improve its rail, airport, port and other transport-related infrastructure, as well as increase residential supply, healthcare and leisure facilities driven by the development of major mixed-use compounds such as Neom, The Red Sea Project, The Qiddiya Entertainment City and Maritime city among others.

As the country moves ahead with their NTP and Vision 2030 ambitious plans, local and international construction cannot ignore the significant opportunity that the planned projects present. The value and quantum of building work yet to be awarded in the next 12 months should make the Kingdom the most active construction market in the region.

PIF, Saudi Aramco, Saudi Electricity Company, Makkah & Medina Development Corporation and the Saudi Railways Organization are the top project owners in the Kingdom, owning around 70% of the total amount of planned projects. Several contractors will no doubt be considering their strategy on how to enter the Saudi market and participate successfully in these opportunities while managing the risks of delivering capital projects in a new market for several of them.

The U.A.E. and Egypt markets remain stable. $31.6 billion has been awarded in the U.A.E. so far this year compared to $28.6 billion during the same period of 2017. Dubai's robust projects pipeline boosts sentiment with demand continuing to be strong and supported by new residential areas, hotels and other leisure related projects such as Dubailand and Dubai South. The country's efforts to increase tourism numbers and complete Expo 2020 related projects and infrastructure should continue to stimulate construction activity levels.

However, there is a need to assess the ROI on these planned projects to ensure they are being built based on the strength of a feasibility study that provides the desired ROI to its owners, as well as developing an appropriate leverage model to secure funding for these anticipated projects.

Egypt’s construction industry has seen a rapid expansion, with demographics driving demand and growth in its residential and utilities sectors. The Egyptian government is keen to leverage foreign investment to fund major projects considered critical to the country’s development. Construction and power are the focus sectors with a project pipeline of over $490 billion. The construction of thousands of residential units is already underway in the outskirts of Cairo and new supply is expected to enter the market in the next few years.

Kuwait has the initiative to develop a number of new residential cities, an $18 billion railway system and $12 billion northern airport. Both projects are in their early stages, with plans to involve the private sector to create a leveraged model. The projects market has expanded in recent years to support the countries’ future economic growth and population increase. $3.7 billion worth of contracts were awarded in the first half of 2018 mainly in transport, oil and power, and a number of potential PPP projects are in their preliminary stages. The government has been increasingly looking at PPPs as a way of encouraging private sector participation and ensuring they secure the necessary investments with sound commercial returns.

Oman and Bahrain have similar sized project pipelines. Bahrain plans to carry out infrastructure work mainly in the transport and housing areas. The Ministry of Transportation owns the two largest planned projects—the airport expansion and the light rail system, which amount to circa $18 billion and are anticipated to be awarded in late 2019.

Oman’s economic diversification goal is also the main driver for their project activity. Construction, together with oil and gas projects, make over 50% of its pipeline that amounts to $118 billion. In the coming years, the development of the industrial zones in Duqm and Sohar that continues to move forward will drive project activity.

The current $2.5 trillion transport, buildings and infrastructure projects planned across the GCC suggest inevitable growth in the construction industry that offers abundant opportunities for construction businesses and investors. When combined with plans for further economic diversification and privatization in a number of sectors including transportation, energy and utilities, education, healthcare, residential, industrial and tourist development, this region offers significant opportunities which need to be balanced against the delivery of projects that will generate a sensible and sustainable ROI for the project owners. Assessing the whole life cost of the asset is key to sustainable investments in infrastructure and capital projects for the region, which can form the basis for privatization and PPP models that have been much talked about over the recent years.

Economic and population growth creates increased infrastructure requirements driving the involvement of the public sector towards citizen delivery and the need for private sector participation to help each country access the finance required to deliver successful cities. Several countries in the region have already adopted or are in the process of finalizing their PPP legislation, with the aim of promoting effective interaction between the public and private sectors. By creating this mature approach to designing and assessing the feasibility of projects, the countries in the region can apply their proven PPP models used in power and water projects, which are all based on these fundamentals, to deliver their visions to their citizens.

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