GCC Construction Industry - Trends & Challenges for 2015

The GCC construction industry is set to witness increased activity in the building and infrastructure sectors regardless of the predicted adverse economic impact of the consistent plunge in oil prices. While education, infrastructure, healthcare and residential projects form top priority for the GCC governments; shortages in labour and labour policy issues continue to constitute a major challenge.

GCC Construction Market Leaders

Qatar, UAE and The Kingdom of Saudi Arabia (KSA) are expected to continue to remain top markets in the coming years due to the following reasons:

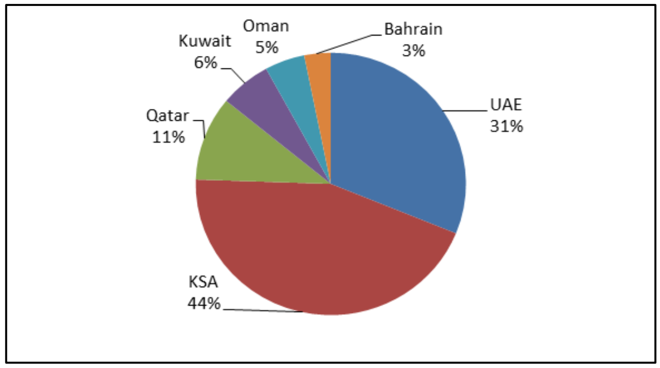
- Qatar is expected to be the fastest-growing projects market in 2015. Qatari officials have said they plan to spend billions on transport, electricity generation, water supply, housing and other projects between 2013 and 2018.
- UAE, especially Dubai, offers attractive investment opportunities due to its sophisticated infrastructure, encouraging investment, and regulated real estate market. Dubai hosting the World Expo 2020 is likely to accelerate construction growth in the next five years.
- Saudi Arabia's construction sector registered the highest non-oil GDP growth rate at 6.7 percent in 2014, and the 2015 budget shows the continuation of the previous year's diversification plan, which provides major spending on construction in key government segments.

Trends & Challenges in the Building and Infrastructure Sectors

The total value of construction contracts awarded across the GCC is expected to increase from US$ 195.8 billion in 2014 to US$ 204.6 billion in 2015 (see Figure 3). Expo 2020 Dubai and the 2022 FIFA World Cup are expected to stimulate the demand for large-scale commercial and residential building construction.

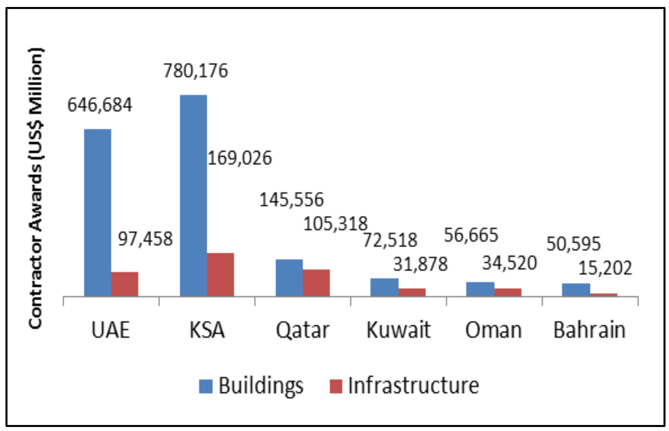
The GCC contractor awards in the building and infrastructure sectors alone are estimated to increase from US$ 143.7 billion in 2014 to US$ 153.3 billion in 2015 (see Figure 4).

Figure 1: Share of GCC Construction by Country, May 2015 (%)



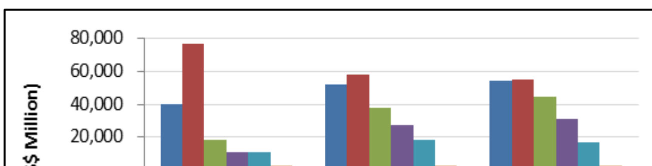
Source: Ventures Onsite Projects Database www.venturesonsite.com. Note: The value of the project in the pie includes: planned, design, tender for construction, under construction, on hold (but likely to be activated)

Figure 2: Buildings and Infrastructure Construction Projects by Country, May 2015 (US$ Million)



Source: Ventures Onsite Projects Database www.venturesonsite.com

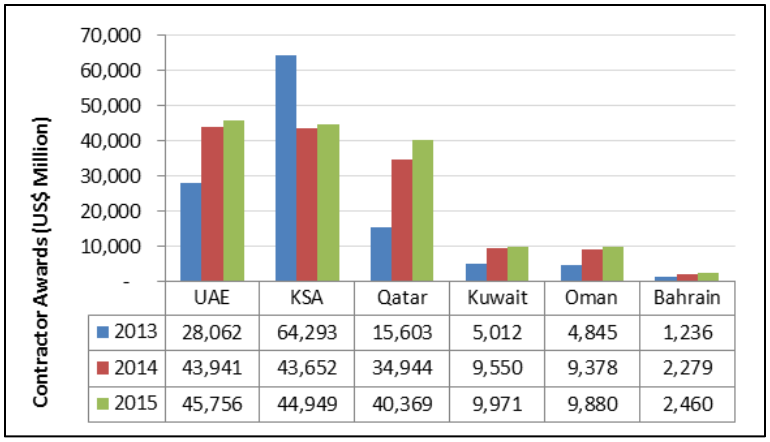
Figure 3: Construction Contracts Awarded in GCC by Country, 2013-2015 (US$ Million)



	2013	2014	2015
UAE	40,338	52,081	54,166
KSA	77,137	58,198	54,905
Qatar	18,022	37,873	44,969
Kuwait	11,169	27,210	31,089
Oman	10,922	18,022	16,940
Bahrain	2,284	2,469	2,585

Source: Ventures Onsite Projects Database www.venturesonsite.com

Figure 4: GCC Construction Contractor Awards (Buildings +Infrastructure Only), 2013-2015 (US$ Million)



	UAE	KSA	Qatar	Kuwait	Oman	Bahrain
2013	28,062	64,293	15,603	5,012	4,845	1,236
2014	43,941	43,652	34,944	9,550	9,378	2,279
2015	45,756	44,949	40,369	9,971	9,880	2,460

Source: Ventures Onsite Projects Database www.venturesonsite.com

The buildings and infrastructure sectors, together are expected to witness a 6.7% increase in contractor awards in 2015 due to the following reasons:

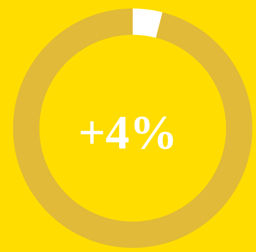
- GCC population is estimated to grow from 350 million to 602 million by 2050, which is likely to stimulate growth in construction activity in the buildings and infrastructure sectors, especially in housing, education, healthcare, and infrastructure to support the communities.
- Airports in the GCC are expected to expand massively by 2020 due to increasing number of passengers and cargo traffic, driven by strong growth in tourism. This will also act as a growth driver for increased construction activities in the hospitality, residential and commercial sectors.
- GCC governments are estimated to spend a total of US$ 90 billion on building schools and universities as they form top priority in 2015. This will stimulate construction opportunities for each GCC nation in the coming years.
- The GCC member states are pressing ahead with plans to develop an integrated railway network between Oman and Kuwait. The network will run down the Gulf coast from Kuwait, through Saudi Arabia, to the UAE and Oman, with branches linking Bahrain and Qatar which is likely to boost trade within the GCC states.

As the GCC construction industry and its activities are growing rapidly, heavy demand for materials and human resource shortages, leading to project delays and cost overruns, are likely to pose as major challenges in 2015 and 2016.

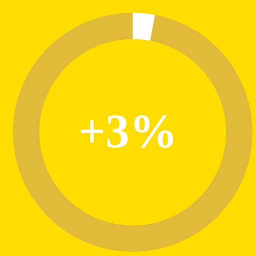
Growing GCC Construction Activity: Contractor Awards (Building and Infrastructure sectors only), 2014-2015 (%)

+6.7%

Qatar



UAE



KSA


Analysis and Outlook by
GCC Country

UAE

Construction in the hospitality and retail sectors is likely to register strong growth as the country gears up for the Expo 2020.

Construction is expected to be one of the biggest contributors to the GDP with renewed upgrades and projects in 2015. Major projects such as the Expo 2020 are likely to drive development and create over 277,000 new jobs. With renewed confidence in the market, new projects are being announced on a regular basis. Some of the major projects announced in 2015 include Park View in Saadiyat Island, Cayan Cantara, Oia Residences, Nshama Integrated Community, Ras Al Khaimah Marriott Resort etc. In addition to the new projects, lot of projects put on hold during the 2008-2010 period are being brought back to life either by the same developers or new developers after purchasing the projects from the old developers.

Construction is likely to register strong growth due to the expanding retail sector, continued development of tourism and hospitality sectors, upgrades to airports, transport and logistics framework. Competition for high-end retail space is expected in the coming years due to growing affluent population, steady economic growth and increasing tourism.

2015 is also likely to be the year for increased affordable housing construction. For example, in March 2015, Dubai Municipality (DM) had allocated over 100 hectares of land for affordable housing in Muhaisnah. Construction of the Route 2020 project to extend the Dubai Metro Red Line from Nakheel Harbour & Tower Station to the site of Expo 2020 is expected to begin in the Q1 2016.

Some of the major contracts awarded to contractors in 2015 include Polo Residences in Meydan City, Warner Brothers Entertainment Theme Park, Marsa Al Seef, various packages in Damac's Akoya and Meraas' Bluewaters Islands, United Square in Khalidiya etc.

Qatar

Infrastructure and construction projects in preparation for the 2022 World Cup and 2019 Athletics World Championships are likely to help sustain Qatar's growth past 2022.

Construction represents Qatar's fastest growing sector as its National Vision 2030 has outlined construction spending to reach US$ 200 billion as part of its infrastructure expansion scheme. In addition, Qatar is continuing to invest in large-scale infrastructure and construction projects in preparation for the 2022 World Cup and 2019 Athletics World Championships despite the fall in oil prices. Infrastructure projects are likely to help sustain Qatar's growth past 2022. Qatar is likely to give priority to health, education, infrastructure, transportation including rail projects, and projects related to the 2022 World Cup. Contractor confidence is also high in Qatar and real estate firms are cashing in on the pre-World Cup 2022 construction boom. This is expected to continue in the next five years.

Qatar is committed to its long-distance rail network agenda with construction already progressing on few of the packages. The network consists of a mixed passenger and freight line from the Saudi Arabia border to Doha, and from Doha to Dukhan and Al Shamal, a dedicated freight line from Port Mesaieed to Ras Laffan and a high-speed line via a new causeway to Bahrain.

Some of the other major contracts awarded to contractors in 2015 include Metro Phase 1 Systems, Rolling Stock & Track Work, New Doha Port Buildings & Infrastructure packages, Lusail Infrastructure packages, Marina Mall in Lusail etc.

KSA

Major construction companies are likely to benefit from the US$ 66 billion housing programme.

KSA is likely to remain the dominant construction market in the GCC. In order to enhance its economy, the Kingdom is continuing its investments in the buildings and infrastructure sector.

The US$ 66 billion affordable house-building programme is likely to provide major business opportunities for construction companies in the coming years.

Infrastructure spending has received a boost with the commencement of construction on the rail projects. With projects like Riyadh Light Rail Network worth US$ 23 Billion under construction and Makkah Mass Rail Transit, phase 1 of which was recently awarded to contractor and waiting to start mobilization, the transportation sector is expected to witness high activity in the next few years.

Some of other major projects awarded to contractors in KSA in 2015 include South Obhur project, MMRT Phase 1, King Abdulaziz Road Project – South of Makkah, Riyadh Airport Terminal 3&4 Expansion.

Construction is a key economic driver contributing towards the employment of Saudi nationals. The Ministry of Labor has begun implementing its new Saudisation programme in February 2015 which softened its Saudisation drive in favor of businesses. The new regulation has come into force to reduce the country's dependence on foreign labour and increase the participation of Saudi nationals in the private sector.

Bahrain

The government is likely to invest heavily on infrastructure to aid the development under its Economic Vision 2030 plan and education sectors, given their economic importance.

Bahrain is at risk from the recent oil slump. The government has started to undertake remedial and preventative actions to end the dossier of stalled real estate projects.

The country has announced the creation of best conditions for the construction and real estate sectors, given their economic growth importance. The government intends to invest heavily in infrastructure over the next four years, with industrial construction set to witness high growth due to new transportation and logistics projects. Private contractors have benefitted from transport construction and expansion projects, with rail and road links set to aid development under the Economic Vision 2030 plan.

The government in 2014 announced it was going to build 40,000 social housing units by 2022. This has boosted construction in the residential segment which is expected to remain stable in the coming years. In addition, Bahrain has recently announced its plans to build 10 new schools over the next three years.

Studies for a dedicated causeway to Saudi Arabia are nearing completion. Two routes routes are proposed for the 87 kilometres (km) link, which will include 28 km of approach tracks, a 26 km causeway and 10 km bridge. Construction is expected to take five to six years to complete with a provisional opening date of 2022.

Mohammed bin Khalifa Specialist Cardiac Hospital in Awali, AMAS 14 – 577 Houses Pack 1, Ariva Tower in Amwaj Island, Comprehensive Disability Complex in A'Ali are some of the major contracts awarded to contractors in the first half of 2015.

Oman

The country is likely to focus on developing its US$ 3.3 billion tourism projects to reduce dependency on hydrocarbon revenues.

Despite a sizeable fiscal deficit in 2015 and 2016 due to decline in oil prices, Oman is likely to avoid deep cuts in spending as the real GDP grows by 4 percent in 2015 before moderating to 3.7 percent in 2016.

Oman's diverse geography, improved land, air and sea infrastructure, and position as an under-exploited tourism destination, has helped secure significant regional and overseas investments to the country. The country's non-oil growth will be primarily driven by its ambition to develop its logistics and tourism sectors and reduce dependence on hydrocarbon revenues.

National Bank of Oman headquarters, South Batinah Logistics Hub, Saraya Bandar Jissah and Omran Convention Centre various packages are among the major projects awarded to contractors in 2015 till date. In addition, Oman Rail is expected to award its first construction contract for the ambitious rail scheme this year.

As scattered housing developments are posing problems for local municipal bodies, Oman has announced solutions to solve them as part of its ninth five year plan in 2016. Residential construction is likely to be revamped over the next five years.

Kuwait

The five-year US$ 116 billion spend ending in March 2020 is likely to catapult Kuwait as a regional trade and financial hub by 2035.

Kuwait is planning the construction of 45,000 housing units, a metro system, a railway network and a large number of mega oil projects, including a new refinery as part of a five-year US$ 116 billion spend ending in March 2020. The State Minister for Planning and Development Hind Al Sabeeh said that the plan is likely to catapult Kuwait as a regional trade and financial hub by 2035. Kuwait has also many hospital and university projects under construction or on the drawing boards, which drives construction opportunities in the education and healthcare sectors.

College of Social Science & Law and Administration Facilities Buildings at Sabah Al Salem University, New Equate Headquarters are some of the major contracts awarded to contractors in the first half of 2015.

With plans to invest approximately US$ 6.2 billion in a series of motorway construction projects, Kuwait is now an attractive hub for infrastructure projects too.

Conclusion

2022 FIFA World Cup and the 2020 Expo in Dubai have energised the GCC construction sector as billions of dollars are being invested on major projects in preparation for these two events. Project activity in the GCC is likely to remain strong despite slump in oil prices. Qatar, UAE and KSA are likely to remain dominant construction markets. Top priorities for the GCC countries are expansion of airports boosted by strong tourism, spending on healthcare and education buildings and construction of affordable housing due to the growing population by 2020. Heavy demand for materials and human resource shortages, leading to project delays and cost overruns, are likely to pose as major challenges, which the GCC governments are working towards mitigating.

In conclusion, the GCC construction sector is likely to have a challenging and busy year ahead.