

Constructing the future

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- 2021 was a year of rebounding activity throughout the GCC. The recovery of oil prices, increased government spending (around USD 70B as of March 2021) and growth in non-oil sectors dominated headlines.
- The construction sector contributes significantly to growth throughout the MENA region, particularly within the GCC, a trend which is set to continue.
- Yet despite the tremendous value of construction projects, scepticism remains regarding their sustainability and direction.

To diversify, one must build

To counter the COVID-19-related fiscal and monetary losses in 2020, MENA countries have transitioned from energy-focused policies to concentrate on those which are more sustainable, including construction.

- The construction sector accounts for 56% of the region's future contracts, followed by transport and power at 14% and 8%, respectively.
 - The biggest project awarded in 2021 was by Qatargas for the expansion of liquefied natural gas (LNG) production in the North Field.
 - Other projects include the construction of a high-speed rail network in Egypt (valued at around USD 4.5B), the expansion of the Borouge 4 Petrochemical Complex in the UAE (valued at around USD 1.6B) and the Guggenheim Museum, also in the UAE (valued at around USD 1B).
 - It is worth mentioning that there are still several projects in Egypt, Iraq, Kuwait, Libya and Morocco undergoing bid evaluation or prequalification.
- As of June 2021, the GCC's construction market was estimated to be valued at around USD 3.2T.
 - Activity in 2022 will primarily consist of work in residential, commercial, mixed-use, airports, sports facilities, hotels, healthcare and education facilities.
 - New contracts are estimated to be valued at around USD 45.1B.
 - Oil and gas projects are estimated to be valued at around 22.6B, with infrastructure projects valued at around USD 17.5B.
 - As such, contract awards have continuously increased since 2014, reaching a high in 2019.
- While the impacts of the COVID-19 pandemic have greatly affected project spending, recent activity has compensated for any loss. Around USD 115.2B and USD 111.8B of contracts were awarded in 2021 and 2022, respectively.

Figure 1 - GCC GDP growth (%)¹

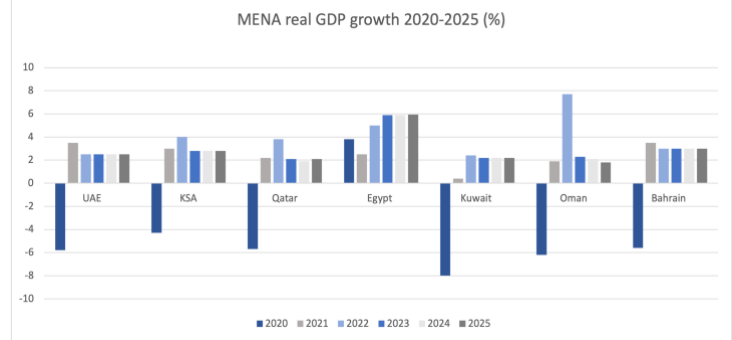
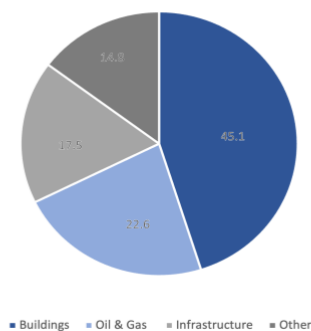


Figure 2 - GCC Construction Market 2022 (%)²

GCC Construction Market 2022



Construction pivotal to Emirati, Saudi visions

Although the pandemic derailed a plethora of projects that were key to their 2030 visions, Saudi Arabia and the UAE picked up where they left off in 2021 in order to fulfil their ambitions.

- Construction projects in Saudi Arabia account for roughly 54% of all such projects across the GCC. The kingdom undoubtedly leads its peers in this regard.
- Of these projects, the following are the most prominent:
 - Neom is a roughly USD 500B project which aims to build a smart 'city of the future' centred around advancements in biotechnology, education, entertainment, tourism and health, among others. The first part of the project is set to be completed in 2025.
 - The Red Sea project, which includes 22 developed islands, 48 hotels, is set to be completed by 2030.
 - By 2023, 16 of the hotels and two of the inland sites are due to be completed. Furthermore, in a bid to attract more tourists and investment, the project endorses itself to have a zero waste to landfill policy, 100% carbon neutrality and a ban on single use plastics.
 - The Jabal Omar Project comprises 40 towers, among which are hotels, residential units,

¹Arabia Monitor; Middle East Business Intelligence

²Arabia Monitor; MEED

apartments, and malls. The project aims to host up to 36K guests yearly and over 100K visitors during Hajj season, generating up to USD 4.4B in revenues.

- Other projects include the King Salman Park (which will reportedly be four times the size of Central Park in New York City), the Jeddah Tower (which is set to overtake the Burj Khalifa with a target height of one kilometre), the Jeddah Metro (which was set to be completed in 2020 but has been extended to 2025) and the Sharaan Nature Reserve.
- Alongside Saudi Arabia, the UAE has witnessed a rising demand in construction services within the tourism and hospitality sectors, as well as increased government spending on infrastructure.
- The UAE successfully rebounded in 2021 after a sharp decline in the value of contracts awarded during the previous year due to the COVID-19 pandemic.
 - While the value of contracts picked up again last year, the construction sector in the UAE has generally plummeted compared to previous years.
 - Of the USD 505B of construction and transport plans, roughly only USD 17B has been tendered.
 - We assess that this drop is a result of resourcing and funding challenges facing the UAE. The situation could yet rebound in line with projected GDP growth.
- In particular, the value of contracts awarded in Abu Dhabi surpassed those of Dubai, amounting to approximately USD 12B by the end of 2021. Dubai sustained a value of approximately USD 5B throughout the same period.
- Some of the UAE’s most significant 2022 projects include:
 - Reem Mall, which is due to stretch across 2M square feet in Al Reem Island.
 - Construction began in 2017 and was set to be completed in 2020. It was then extended to 2021 due to the COVID-19 pandemic. The mall is expected to open in Q1 2022.
 - The Royal Atlantis Resort on Palm Jumeirah, valued at roughly USD 1.4B, is expected to open in September 2022. It includes 230 residences and over 700 guest suites.
 - Tourism in the town of Hatta, near the border with Oman, is undergoing development for biking and kayaking activities.
 - Jubail Island, located between Saadiyat Island and Yas Island, is set accommodate more than 5K residents by 2023.
 - Etihad Rail will connect the UAE with other GCC countries for freight purposes, and possibly even public transport.
 - The project was launched in December 2021 and should create around 9K jobs while supporting various sectors by 2030.
 - Other projects include Dubai CommerCity, which involves the construction of office

Figure 3 - Contract Awards³

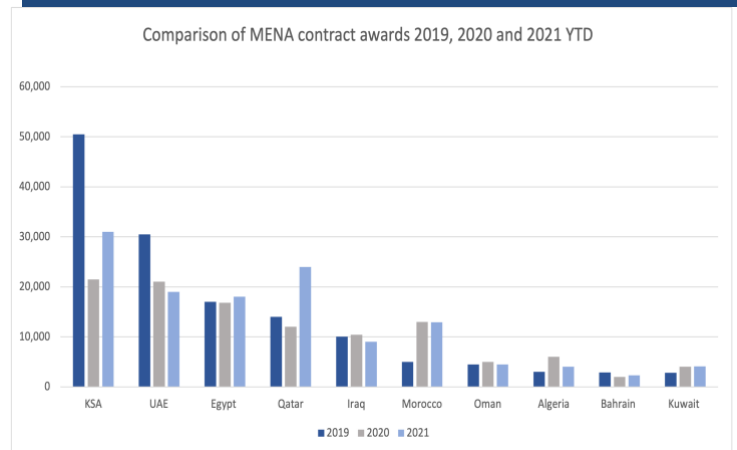


Figure 4-Contract Awards by Sector⁴

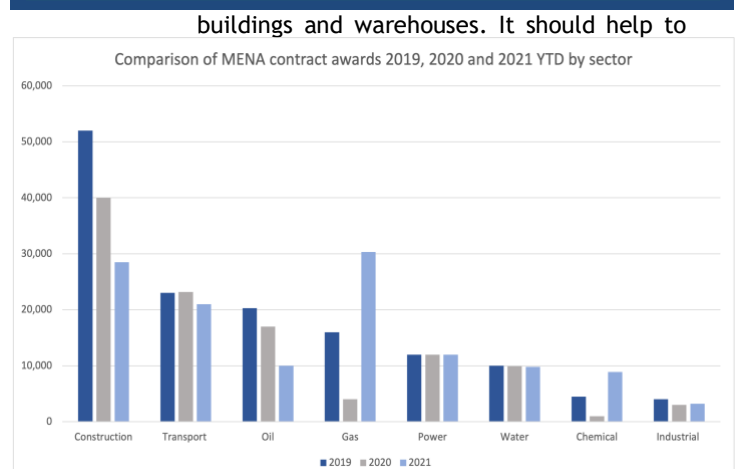


Figure 5 - Value of GCC Contracts (\$m)¹



regenerate economic activity in Sharjah.

- Importantly, most projects in Saudi Arabia and the UAE are based on partnerships which include both the public and private sectors.
- This provides a plethora of fiscal and non-fiscal benefits including value for money, innovation and risk management.
- While both countries’ 2030 visions continue to drive growth in their respective construction sectors, the timelines may be unrealistic.

³Arabia Monitor; MEED

⁴Arabia Monitor; MEED

⁵Arabia Monitor; MEED

- One of the most challenging aspects of these highly ambitious projects is delivery. The bigger the project, the more arduous it is to monitor, communicate and plan with stakeholders.
 - While project delays are a natural part of the project management process, additional delays may be expected due to supply chain disruptions, lack of resources and uncertainty about movement restrictions.
 - Moreover, the region is grappling with a serious shortage in skilled labour, rising costs of raw materials and the need for better safety standards. All these factors play a salient role in extending the timelines for many projects.
- In fact, there have been multiple instances in the past two years in which various construction projects have been delayed due to the challenges facing the industry in the region.
 - o This includes projects like Jeddah Metro in KSA, Bahrain International Airport's new terminal and Reem Mall in Abu Dhabi.
- Nonetheless, it is undeniable that these projects will fuel considerable expansion that will be felt for years to come.

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