Interview: David Richter, president and CEO, Hill International

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A strong year for project management consultants shows the worst of the downturn is over for the construction sector

After nearly three years of downturn, 2012 was when the construction sector finally showed signs of recovery.

While most contracting companies still faced diminishing order books, project management consultants enjoyed a good year picking up major contract awards.

“In 2012, we won some large contracts,” says David Richter, president and chief operating officer at the US’ Hill International.

“The airport work in Oman, Doha Metro Green Line, the Midfield Terminal at Abu Dhabi airport; these are $40m-100m. They are huge assignments not only for us, but for the whole industry, and on the basis of that we are going to have a strong 2013.”

Winning work on major projects brings challenges that many firms in the region have not had to wrestle with since 2008. “We have got to find staff,” says Richter. “We have made a major investment in our recruitment, especially for the Middle East because we see the market for our services getting stronger in the short term.

“We need to bring in a lot of people, we have an immediate need for 400 people across the firm, and of that 300 are in Middle East. Good people are going to be in strong demand.”

Improved conditions

The improved market conditions are the result of three key factors, according to Richter. “One, a bounce back from a very weak market, with pent-up demand in a lot of areas,” he says. “Second, the market tends to go up and down based on the price of oil, and over time that is going up, so you are going to see more spending across the Middle East. Third, the overall global economy is major driver.”

If you look at North Africa … we see 2013 as the year Libya comes back

The performance of project management firms like Hill International is an indicator of what contracting companies should expect over the next two years as construction contracts are tendered and awarded. This trend has already started on some projects. Hill International won work on the Jabal Omar Development in Mecca in 2010. Last year, there were more than $1bn of construction awards on the project.

Jabal Omar differs from much of the work on which Hill is now working. While real estate projects are still a key source of business for contractors in Saudi Arabia, for the region as a whole, government-backed projects and infrastructure schemes have become more prominent as the real estate market remains depressed in smaller markets that do not have the same population as the UAE and Qatar.

"One of the reasons we feel good about the new work is it is different work to what we saw five or six years ago," says Richter. "That was primarily developer work, retail and residential type projects; and they tended to be very quick projects, lasting just two or three years. What we are seeing now are more infrastructure projects: public buildings; airports; rail; hospitals; and schools. These programmes tend to be much longer. Doha Metro is a 10-year project."

The increasing volumes of government-backed work should mean that construction companies are less exposed to private sector clients that encounter financial difficulties. "Our portfolio of work in the Middle East is much more balanced that it has ever been. Much more balanced between the private and the public sector than it was before 2012," says Richter.

The nature of the work is also changing as governments focus their efforts on civil infrastructure projects such as roads, bridges and tunnels, together with public building works, such as airports, hospitals, schools and universities. "If the work we are getting is any indicator, the projects are moving from the private sector to the public sector and that ought to be any contractor's focus," says Richter. "Transportation, healthcare and education are the key areas."

Good balance

These projects are expected to create opportunities for local and international contracting companies. Traditionally, the region has relied on home-grown firms to build smaller, less complex schemes and international firms working in partnership with local contractors for the major multibillion-dollar projects.

For example, at Abu Dhabi International airport, the local Arabtec is working with Turkey's TAV and Athens-based Consolidated Contractors Company (CCC), and at Muscat International airport, the local Bahwan Engineering is working with US-based Bechtel and Turkey's Enka.

"There is a good balance between local and international contractors in the marketplace and I think that is a reflection, and this is a positive thing, of clients that want the best things done for the best price, which is a healthy sign for the market," says Richter.

Geographically, he says the fortunes of the region will be mixed. The core GCC markets will continue to perform well, together with selected emerging markets that have large amounts of building work to be done – notably, Egypt, Iraq and Libya.

“Saudi Arabia, Abu Dhabi and Qatar are our three strongest markets there,” says Richter. “If you look at North Africa, we have had a lot of success in Egypt, but we see 2013 as the year that Libya comes back. We expect them to start spending money and building again, and we are very well-positioned towards Libya.”