Major construction programmes keep firms busy in 2016

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Hill International is working on long-term projects across the region

It is not all doom and gloom for the construction sector in 2016. Although lower oil prices have slowed the market, the outlook for firms working on long-term projects remains positive.

US-based project management firm Hill International is managing major construction programmes across the region, and although there are less opportunities for new work in 2016, there are still significant volumes of work to complete on existing projects.

"Clearly there is a slowing of the market with respect to new projects moving forward and new work coming out for firms like us," says David Richter, president and CEO of Hill International. "It is clearly related to the price of oil and as a result you have public and private sector clients reviewing capital spending in the short term."

The good news for firms like Hill, which were able to secure contracts before oil prices began to dip in mid-2014, is that unlike 2009, when ongoing projects were cancelled, construction on existing schemes is continuing.

"In Saudi Arabia, we haven't seen any impact," says Richter. "Our existing work is long-term; they are more programmes than individual projects. From the King Abdullah Financial District in Riyadh, to the Jabal Omar development in Mecca, and our kingdom-wide programme for hospitals and medical cities, where we are doing 12 separate schemes, these are long-term programmes that have not been affected at all by current oil pricing."

Financial pressure

Progress should not lead to complacency, however, and as oil prices remain low, the financial pressure on existing schemes will build.

"We have not had any impact on our existing work," says Richter. "We have heard cash is slowing down in the Middle East, but have seen very little of that from our perspective. However, the longer oil stays below $40 a barrel, the more of an impact it will have on the region."

Time will also be a factor as clients look to reduce pressure on their budgets by extending delivery times to spread out spending commitments. "The major projects we have in the region will continue, but on a different timeline than was initially expected," says Raouf Ghali, chief operating officer at Hill International.

Hill received several contract extensions in 2015. “There were a lot of extensions on megaprojects, and they will continue for a couple of years,” says Richter. ”There have been extensions on Muscat International airport in Oman and the Jabal Omar development in Mecca.”

The focus is not entirely on existing projects, and the region still offers new opportunities. “We have heard very positive things on two major transportation tenders that we submitted offers for in 2015, so it is not all doom and gloom,” says Ghali. “If they do come in then we will be possibly looking for more robust growth.”

Dubai limelight

Unlike 2009, when Dubai’s property market slump and debt crisis meant that its construction sector ground to a halt, in 2016 the emirate is determined to keep on building. Already this year, it has awarded construction contracts for major schemes such as the Atlantis resort expansion and the ICD Brookfield Place at Dubai International Financial Centre, as well as a new tall tower designed by Spanish architect Santiago Calatrava.

“Dubai could be a breath of fresh air,” says Ghali. ”There is an aggressive schedule for Jebel Ali Aviation City; with the expansion of the airport and the Expo there is going to be significant growth and there will be a lot of spending.”

Other markets have struggled to match Dubai’s drive. “Oman continues to be a good viable market for us,” says Ghali. ”The market hasn’t been affected that much. In Qatar we are seeing some movement, but not as strong as when you have $100 (a barrel) oil prices. However, it is not flat yet.”

A market that also offers promise is Kuwait, although it is held back by bureaucracy. According to the World Bank, Kuwait takes about three times the global average to prepare, tender and award schemes. “Kuwait has been asleep for a long time,” says Ghali. ”It is still a target, but we are very cautious because the tender period in the country tends to extend itself over a very long time.”

The market most affected by oil prices is Saudi Arabia. This is expected to be a short-term impact as long-term population growth means the government has to keep investing in new infrastructure.

“Saudi Arabia Is the one calming down a lot and reacting to the oil prices,” says Ghali. “It will take some time for the dust to settle in the kingdom and it will take some time for them to come up with their strategy and priority. Once that happens, there will be a wave of new opportunities.”

One of the great hopes for the GCC market in 2016 is that the private sector and models such as public-private partnerships (PPP) will be used to deliver some of the infrastructure that in the past would have been completed using direct state funding.

The region has looked at PPP before with mixed results. “The UAE has got quite a bit of traction with PPP and has done quite a few projects, and there have also been some in Saudi Arabia and Kuwait,” says Ghali.

“We have been talking about them for some time. They come in waves, and we haven’t seen too many come up and be realized. I am skeptical because at the end of the day they need to be subsidized heavily because there is a big difference between the pricing for locals and expatriates for many of those infrastructure and utilities schemes. It becomes a case of pay me now or pay me later, and whether governments want to control the pricing or not, and that is a difficult question to answer.”

Egypt potential

Outside the GCC, the regional market offering the best prospects for Hill International is Egypt. “The problem with Egypt is finding the source of funding,” says Ghali. ”As the political situation stabilizes, you will find funding agencies coming back and being willing to fund projects. Overall growth in Egypt is not in doubt, with the population is growing by 800,000 a year. What little infrastructure they have is old and decaying, so you name it they need it.”

The country’s infrastructure deficit has been exasperated by the hiatus in construction work since 2011. “In the past six years there has been very little construction going on,” says Ghali. “There is going to be a boom, but 2016 is going to be about finding bankable projects and attracting ERDB [European Bank for Reconstruction & Development], and other agencies such as EIB [European Investment Bank] and the World Bank,. That is going to be the first step. By the middle or end of this year we will start to see projects roll out.”

The other regional market offering growth is Iran, but as a US company, it remains off limits for Hill International. “Our position is obvious,” says Richter. ”We are not going to do business in countries where we are not legally allowed to. As and when that [US sanctions are lifted] happens, we certainly see opportunities in Iran. When US companies can do business there fairly, impartially and collect their money, I can’t think of any reason why we shouldn’t do business in Iran.”