

UAE construction industry wants banks not to add to their cash problems

Banks raise 'guarantee margins' from contractors to a heavy 30% of project value

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Dubai: The UAE's construction sector is in need for some urgent help – from banks – to manage their cash positions and get cracking on projects. But the situation right now is not helping their cause.

“Banks have steadily increased the ‘guarantee margins’ from contractors on projects – from 5-10 per cent earlier to 25-30 per cent of the project value

now,” said the general manager at one of country’s Top 5 construction firms. “This means that the 25-30 per cent of what the bank provides is stuck as deposits with them.

This in no way helps the contractors, unless they are flush with cash reserves. In today’s market, that’s not the reality.”

Heavy on guarantees

Banks take the guarantee margins as a hedge against any difficulties the contracting business might fall into and which prevents it from meeting financial obligations. Contractors have no issues with the need to place these deposits with their lenders – but having to put up to 30 per cent is what’s hurting them.

Apart from the guarantee to the banks, the contractors will also have to take out performance bonds on behalf of the project promoter. “With all these funds tied up, a contractor starts with a vastly reduced cash situation when starting on a project,” said the contractor.

Burdened by costs

These upfront requirements only add to the contractors’ plight – the most alarming is seeing the continuing increase in building material costs since October last year. The industry was unprepared for the suddenness with which these costs shot up, brought on by the supply disruptions from China and other import markets.

Building materials that are mostly imported have seen their delivery costs increase by more than 20 per cent in these 12 months. So far, contractors are not passing on these costs in full, fearing that if they do so, they might lose projects to someone who will under-price.

A helping hand

This is why the decision by Emirates Steel to reduce the price on its core product will offer some respite for contractors. More so, if other leading manufacturers/suppliers play their part in keeping a lid on costs.

“We reduced the prices of rebar (8-32 mm) for September delivery to Dh2,610 compared to Dh2,956 for August delivery,” said Saeed Ghumran Al Remeithi, CEO of Emirates Steel. “Due to our continued efforts, the prices of rebar in the UAE are among the lowest regionally and globally.

“Emirates Steel strives to support the UAE’s construction sector by providing a reliable and sustainable supply of steel products, maintaining the balance across the local market, and ensuring the best prices of rebars. The construction sector is the major contributor to steel consumption in the region with a dominating percentage of 92 per cent, and thus its developments predetermine steel consumption trends.”

This is one message that will resonate in the construction sector...

Encouraging signs

Even with all the cost and supply uncertainties, the UAE’s construction activity has been on a steady improvement. “The construction industry in 2020 represented 8.1 per cent of UAE’s GDP, which is expected to grow in 2021,” said David Clifton, Vice-President for Business Development at the consultancy Hill International.

“Project activity in the UAE is starting to show signs of recovery (after) having contracted 4.8 per cent in 2020 - which is better than a significant proportion of the economy. [That was] due to the continuation of site works through the whole of the year.”

Big hitters

Oil, gas and renewables – that's where a lot of the recent project pick up has been. Real estate development could soon be joining in, with talk about new towers and residential communities filtering out in construction industry chatter.