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UAE construction handled COVID-19 well, but challenges remain, says Hill International's David Clifton

Contractors who under quote will soon feel full heat of rising project costs

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Dubai: Construction sites in the UAE kept being busy right through the worst phase of the COVID-19 breakout phase last year. For an industry that has gone through its share of ups and downs in the last five years, being active during the pandemic is quite a high point.

And this shows in the numbers. Despite a 4.8 per cent contraction as an industry in 2020, this is “better than a significant proportion of the economy due to the continuation of site works through the whole of the year,” said David Clifton, Vice-President for Business Development at the project consultants Hill International. The industry in 2020 represented 8.1 per cent of GDP and which is expected to grow in 2021.

“We expect to see an overall recovery in (project) awards driven by the energy/oil and gas sector, with ADNOC’s continued investments driving awards 20 per cent higher for 2021 than 2020 - from $25 billion to $30 billion.

“We are also seeing a recovery in the buildings sector with offplan sales. Major developers - Emaar and Dubai Properties - are launching new schemes and at a strong rate. The demand profile in the buildings sector is very residential-led and driven by volume and price points.

“[But] in other sectors of the market, project awards are slow, even by the standards of 2020.”

David Clifton of Hill International: "The growth in Public Private Partnership (PPP)

law implementation is likely to continue to gain traction in the UAE and wider region. This model is likely to continue to gain traction over the coming years, although it will be a step-by-step process, not a big bang and a fix all."Image Credit: Supplied

A two-speed market

Clearly, some sectors will need time for a bit of catch up. Apart from the pandemic, UAE's construction market had to deal with the liquidation of its biggest player to date – Arabtec. The process is still in the courts and there are monies that need to be paid to erstwhile Arabtec creditors and suppliers. How this process plays out in the coming months will have a decisive role to play for the wider construction sector.

There is talk that some of the contracts Arabtec had been awarded in the recent have been farmed out to other main contractors. Clifton, however, did not want to be drawn on talking about Arabtec. "Hill International has no comments to offer as we work with both clients and contractors to ensure smooth execution of projects," he said. "Our top priority is to ensure projects are completed on time and within budget."

But he does have some pointers to deliver contractors on their near-term cash positions. "On a global level, we are seeing a reining in of liquidity - although this isn't necessarily a bad outcome. Nearly $30 trillion has been released by central banks since the start of the pandemic.

"Banks in UAE and indeed the region are in general much more exposed to the real estate and construction industry compared to their international counterparts, with some having large double-digit balance sheet exposures. Given the commencement of recovery for the industry, we are likely to see some suppliers under severe financial pressures as they had won work on the downward movement of the market.

"And the return to inflation will make their lumpsum contracts difficult to deliver."

Material burden

Inflationary pressures are already singeing contractors – and project owners. Material costs on a raft of building materials – steel, aluminum, wood panels, etc. – have been sticking to an upward trajectory since October last year. From the current highs, it could take a long while yet for prices to drop to levels that can be deemed 'normal'.

But governments will keep helping out the industry emerge through all of these crises. "We'd expect that governments will utilise stimulus packages to develop country-wide infrastructure developments as one lever to continue to stimulate the economy," said Clifton.

"The question is, how to commit to major infrastructure plans when debt-to-GDP has grown significantly over 2020? The UAE's debt-to-GDP is up from 26.8 per cent to 38.3 per cent at start of 2021 - mostly due to the Dh395 billion stimulus package - and Saudi Arabia's debt-to-GDP is up from 22.8 per cent to 32.7 per cent.

"Although still low by international standards, the GCC nations have historically been cautionary in their borrowing."

For the construction sector, that means seeing off challenges even as it takes on new projects - more complex, more ambitious - is a way of life.