

# intersec

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## GCC CONSTRUCTION MARKET

PREPARED BY VENTURES ONSITE

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## GCC ECONOMIC OUTLOOK

According to the International Monetary Fund (IMF), the GCC's GDP is expected to increase by 1.9% in 2018 and 2.6% in 2019, over a dip of 0.2% in 2017. Despite improvements in the fiscal situation, most GCC countries are continuing economic diversification and reforms that are required to improve their business environments and encourage investment.

While the UAE and Kuwait are set to return to fiscal surpluses in 2018 due to the recovery in oil prices, Saudi Arabia (KSA) is expected to register modest deficit, according to analysts. Bahrain and Oman are likely to continue to report mid to single-digit deficits, keeping their balance sheets under pressure. Qatar is likely to register larger fiscal boost in 2019 due to the lag between gas revenues and oil prices, add industry experts.

According to the IMF, the introduction of 5% VAT is expected to translate into revenues of approximately 1.6% of the GCC's GDP. Currently only the UAE and KSA have introduced the 5% VAT from January 1st, 2018. Bahrain is set to become the third GCC member state to introduce a VAT system.

The Bahrain parliament has voted to approve a draft law that will lead to the introduction of the new taxation system on January 1st, 2019. In early 2018, Oman's Ministry of Finance postponed the introduction date of the new VAT system, which is expected to be implemented in 2019.

There are possibilities that Qatar is likely to introduce a new VAT system before 2018-end. The remaining member states continue to work on their implementation planning. In March 2018, the Kuwait National Assembly pushed back a vote on the implementation of a VAT system. According to news reports, Kuwait is anticipated to postpone the introduction of VAT until 2021.



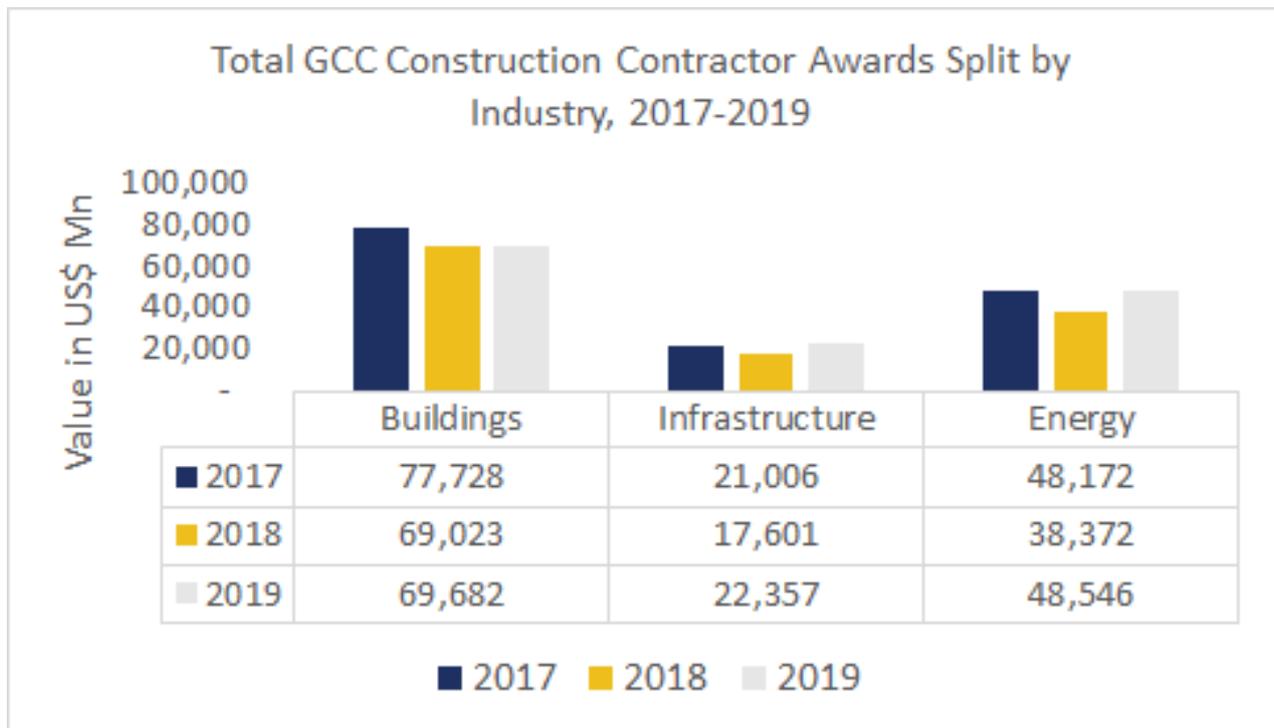
## GCC CONSTRUCTION SECTOR OVERVIEW

The construction sector is among the major indicators of economic development, which has improved over the last two years by approximately 7% (from 32% to 39%), according to Pinsent Masons' GCC Construction Survey. Rising oil prices and increased government spending are powering GCC construction sector's demand, with contractor awards across the region's building, infrastructure and energy markets expected to increase from US\$ 124,996 Mn in 2018 to US\$ 140,585 Mn in 2019. The total GCC project value across the building, infrastructure and energy is estimated to be worth US\$ 3.6 Tr.

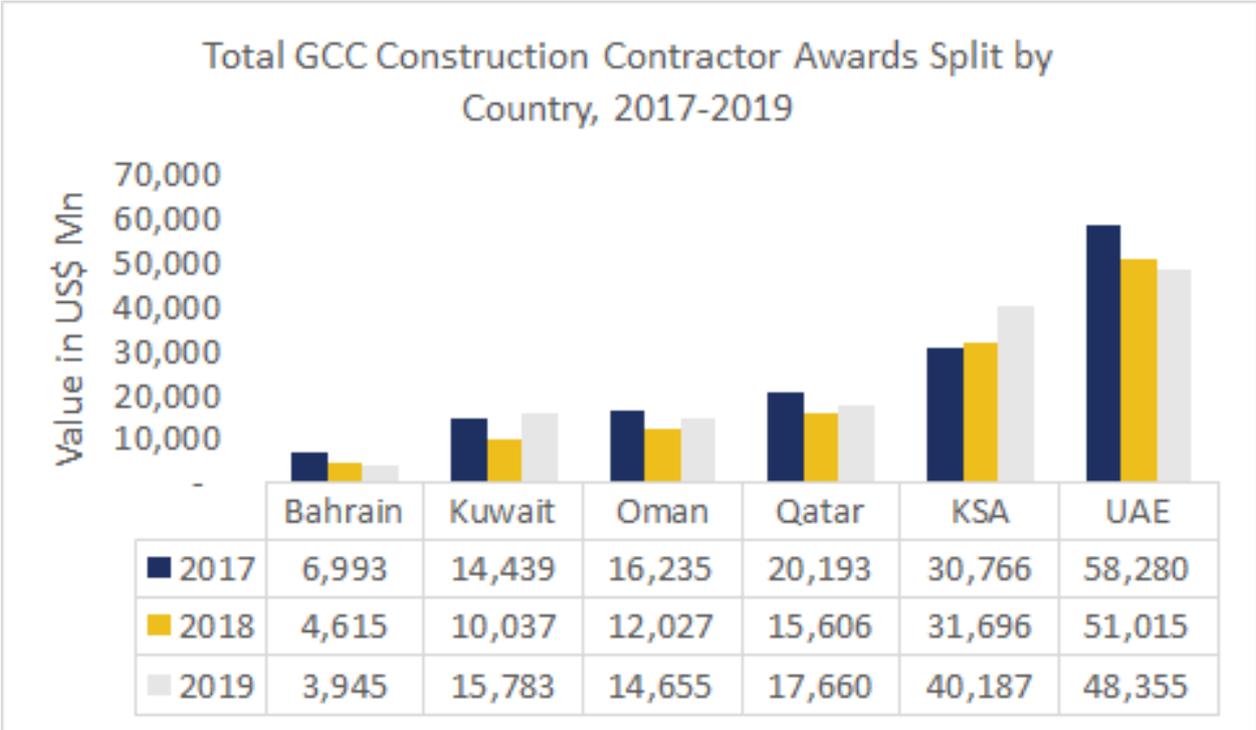
The increase in population, ongoing investments in infrastructure and energy, as well as upcoming mega events such as Dubai's Expo 2020 and Qatar's FIFA World Cup 2022 are other factors that continue to drive GCC's construction activity.

In 2018, the building construction market (US\$ 69,023 Mn) is likely to constitute that largest market followed by the energy (US\$ 38,372 Mn) and infrastructure (US\$ 17,601 Mn) markets. The UAE, KSA and Qatar remain the top three markets in the GCC construction industry.

### GCC Construction Contractor Awards Split by Industry and Country from 2017 to 2019 in US\$ Mn



Source: Ventures ONSITE Project Intelligence Platform: [www.venturesonsite.com](http://www.venturesonsite.com)



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The UAE remains the leader in GCC’s construction market, which is expected to witness an increase in projects during 2018 in the run up to Expo 2020, according to Pinsent Masons' GCC Construction Survey. The total construction contractor awards in the UAE across the three sectors in 2018 are estimated to be worth US\$ 51,015 Mn.

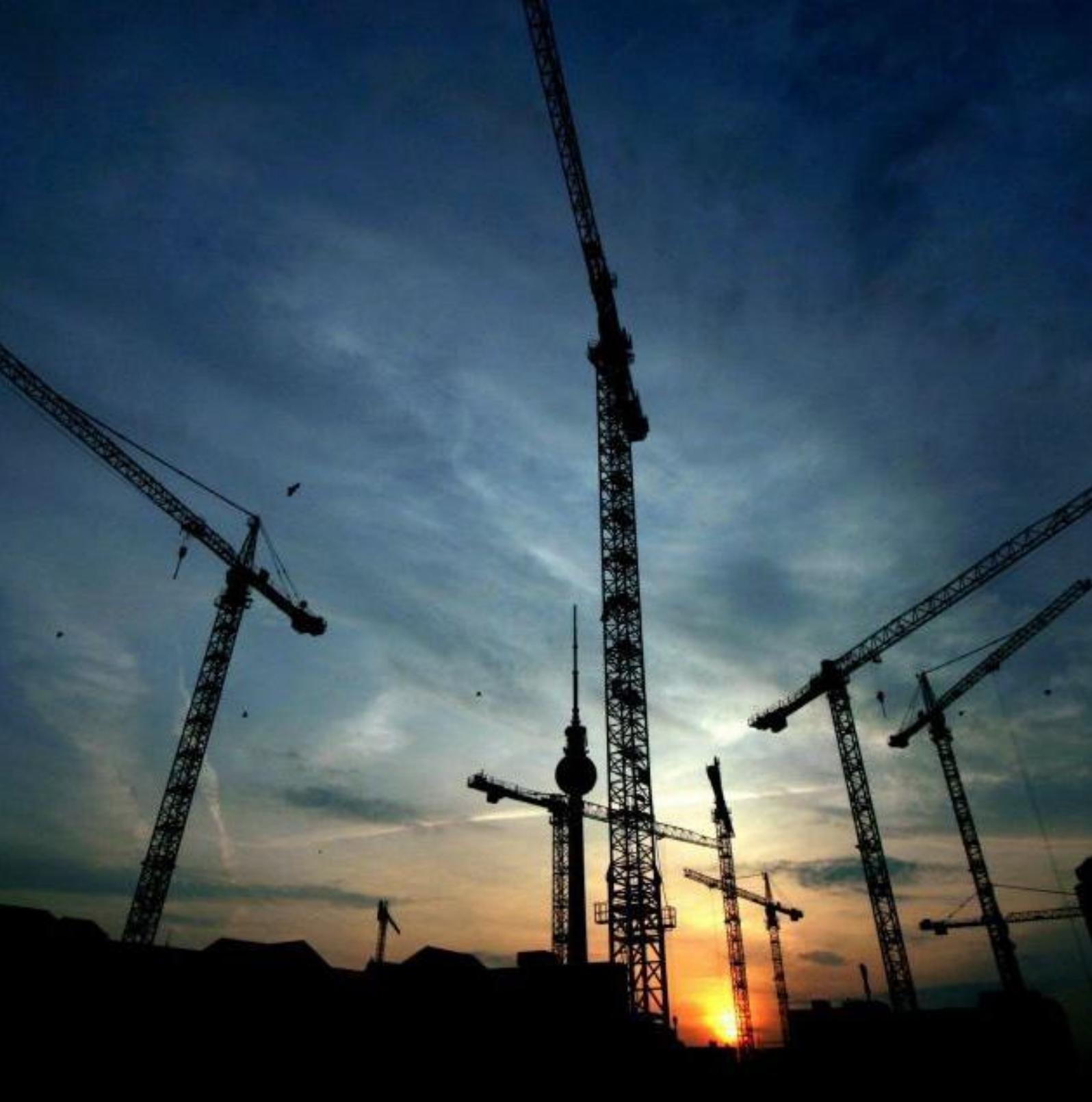
The UAE's construction industry has not been impacted by VAT, which will witness over 10% expansion in 2018 and is expected to increase revenues by 1% of GDP (according to the Minister of Economy). Dubai unveiled US\$ 15.4 bn budget for 2018, with a main focus on infrastructure projects led by the Expo 2020.

The budget includes an increase in infrastructure spending, which makes up 21% of the total government expenditure. The budget is expected to offer more than 3,100 jobs, with salaries and wages amounting to 30% of the total government spending in 2018.

KSA’s 2018 budget is expected to be its largest ever, as the kingdom is prepared to increase spending to record levels next year to US\$ 261 bn. At least 25 deals worth more than US\$ 50 Bn have been signed at Future Investment Initiative (FII) in Riyadh.

The deals were struck across the energy and transportation sectors. A number of major public transport projects, including the development of the Saudi Land Bridge project, a rail line connecting the Red Sea coast with Riyadh, were among the raft of deals signed. Oil giant Saudi Aramco signed 15 initial agreements worth US\$ 34 Bn.

Qatar will continue to use its preparations for the 2022 FIFA World Cup as a catalyst for diversification, investing heavily in the construction of sports facilities, transport, and tourism infrastructure. Doha is expected to plan expenditures worth US\$ 200 Bn for the 2022 FIFA World Cup.



# CLASSIFICATION OF THE GCC CONSTRUCTION MARKET

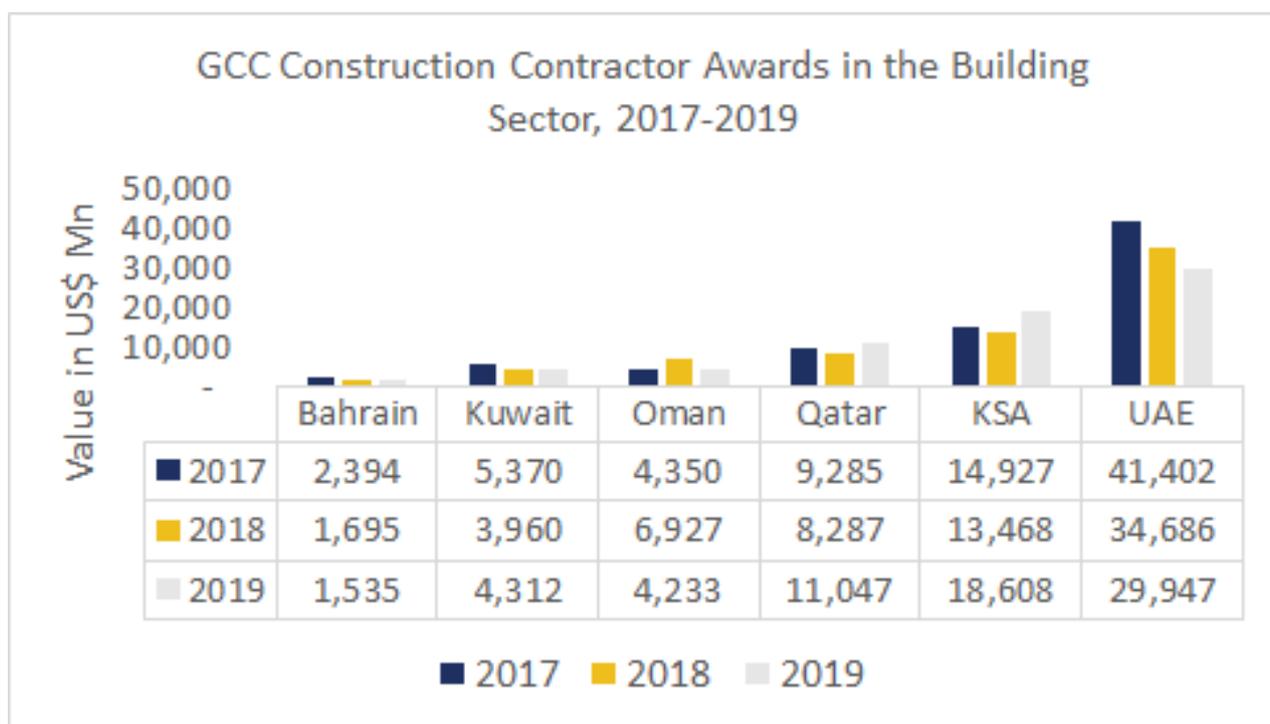
The construction industry for this report is classified into the building, infrastructure, and energy construction sectors, which are further classified as follows:

- Building construction includes residential, commercial, mixed use, airports, sports facilities, hotels and recreational facilities , healthcare, education facilities and industrial projects
- Infrastructure construction includes roads, bridges, railways, ports, wastewater and sewerage
- Energy construction includes oil and gas, and power and water

## GCC BUILDING CONSTRUCTION MARKET OUTLOOK

The outlook for the GCC building construction market remains largely positive, with a growing young local and expat population, and rapid diversification away from oil. This is evident in GCC economies retaining expenditures on key sectors such as hospitality to promote tourism, education, affordable housing, and healthcare

### GCC Construction Contractor Awards in the Building Sector from 2017 to 2019 in US\$ Mn



Source: Ventures ONSITE Project Intelligence Platform: [www.venturesonsite.com](http://www.venturesonsite.com)

The GCC building construction contractor awards are expected to increase from US\$ 69,023 Mn in 2018 to US\$ 69,682 Mn in 2019. The UAE (US\$ 34,686 Mn) is likely to register the highest contractor awards in 2018 followed by KSA (US\$ 13,468 Mn) and Qatar (US\$ 8,287 Mn)

Rapid economic development and demographic changes due to rise in expat population has resulted in an increase in the demand for residential units across the GCC region. A study by Marmore Research has predicted that the GCC will need 6.16 Mn housing units by 2022, led by KSA (3.96 Mn), UAE (0.98 Mn), Kuwait (0.47 Mn), Oman (0.4 Mn), Bahrain (0.2 Mn) and Qatar (0.15 Mn). The GCC governments are significantly focussing on improving the housing situation in the region and are currently making it a national priority in their agendas. Affordable housing schemes for the middle, lower income groups and expats are on a growth trajectory in 2018, with huge demand in both segments being met with increasing supply.

The GCC governments have announced increased budgets for 2018 for sector such as healthcare, education. Education has become increasingly more important as governments wish to foster inclusive growth and create job opportunities. Overall, the GCC countries have budgeted US\$ 143 bn for these sectors in 2018. KSA allocated the highest amount at US\$ 91 bn. In terms of composition, UAE has allocated the highest at 51% from its total budget while Qatar allocation stands at 20.5% (U Capital estimates).

In addition, the GCC governments are also making significant investments into the development of tourism and hospitality including airport expansions to increase the handling capacity of anticipated visitor inflow. The GCC hospitality market is projected to reach US\$ 32.5 Bn in 2022 due to the Expo 2020 and FIFA World Cup 2022, according to Alpen Capital.

In addition to events, the leisure attractions continue to be a major demand driver for the GCC hospitality industry with over 2,000 projects worth US\$ 200 Bn in the pipeline (Alpen Capital estimates). According to TopHotelProjects report, the UAE (222 projects/126,576 rooms) and KSA (143 projects/55,810 rooms) are the two most active countries for hospitality development.

By 2020, the GCC countries are set for major growth in the healthcare market, presenting a range of challenges and opportunities for those in the region. The private sector, together with government authorities, are expected to continue to be a key partner in the long-term development of the healthcare industries.

The UAE is investing more than US\$ 23.16 Bn in the aviation infrastructure that will help its four national carriers with a combined fleet size of 502 aircraft to serve more than 75 Mn passengers annually. Investments include US\$ 8 Bn in developing Al Maktoum International Airport, US\$ 7.6 Bn expansion of the Phase IV of Dubai International Airport, US\$ 6.8 Bn for the re-development of Abu Dhabi International Airport. In addition Sharjah International Airport is also undergoing US\$ 400 Mn investment in expansion of its terminal.

Project Name	Country	Client	Net Value (US\$ Mn)
Dubai Wholesale City	UAE	Tecom Investments	8,000
Tilal Al Ghaf (D4)	UAE	Majid Al Futtaim (MAF) Properties	4,000
The Avenues Riyadh	KSA	Shomoul Holding Company	3,467
Mall of Saudi in Riyadh	KSA	Majid Al Futtaim (MAF) Properties	2,800
Lusail Towers - Lusail Plaza	Qatar	Qatari Diar Real Estate Investment Company (QDREIC)	1,900

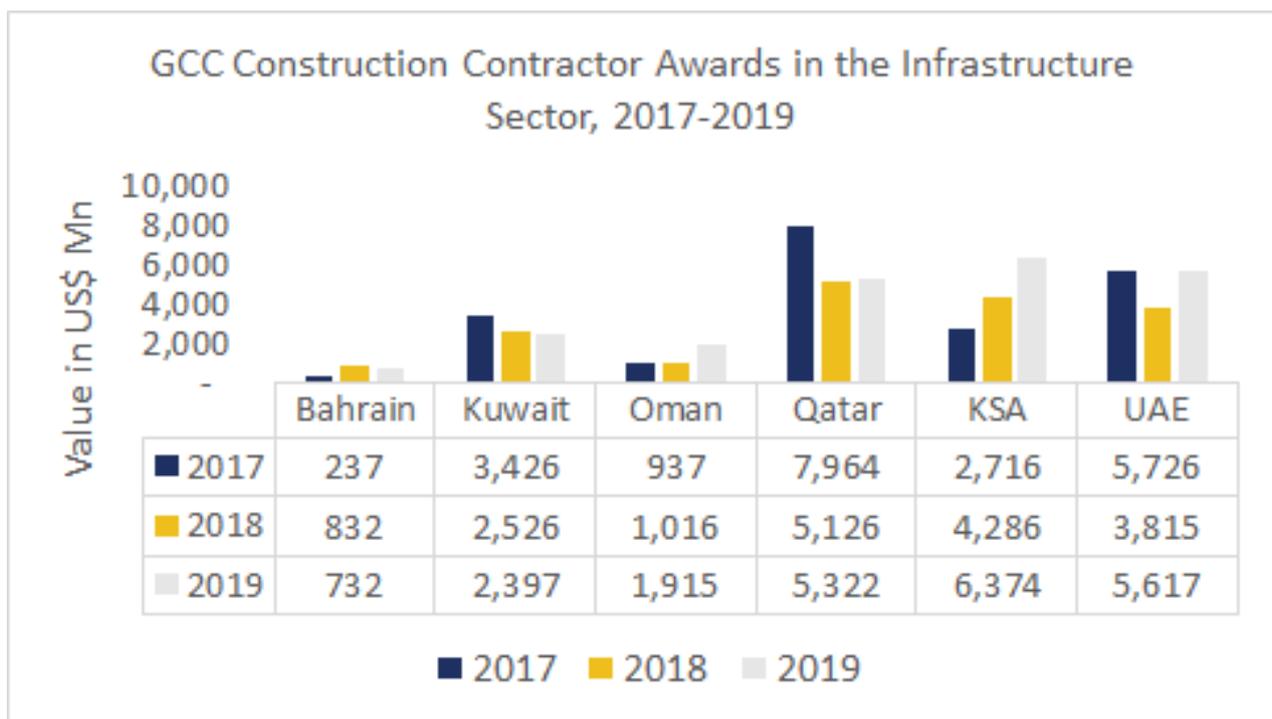
Source: Ventures ONSITE Project Intelligence Platform: [www.venturesonsite.com](http://www.venturesonsite.com)

# GCC INFRASTRUCTURE CONSTRUCTION MARKET OUTLOOK

Expenditure on infrastructure has been one of the key drivers for GCC 's economic growth over the past ten years. Increasing population, urbanisation, and rise in tourism are expected to propel growth of the infrastructure sector in the coming years. Large-scale infrastructure projects form a key part of economic and social diversification. It aims to reduce the GCC countries' dependence on oil and gas revenues by investing in new industries that will also provide employment for the population. The GCC governments are increasingly turning towards public private partnerships (PPPs) to fill the budgetary gaps for public transport infrastructure development.

A PAN-GCC rail network is on track to be operational by 2023-end, according to a top government official. It has also been revealed that a study on Bahrain's monorail project is likely to be completed the latter half of 2018.

The GCC infrastructure construction contractor awards are expected to increase from US\$ 17,601 Mn in 2018 to US\$ 22, 357 Mn in 2019. Qatar (US\$ 5,126 Mn) is likely to register the highest contractor awards in 2018 followed by KSA (US\$ 4,286 Mn) and the UAE (US\$ 3,815 Mn)



Source: Ventures ONSITE Project Intelligence Platform: [www.venturesonsite.com](http://www.venturesonsite.com)

Qatar's second National Development Strategy 2017-2022 focuses on the timely completion of all infrastructure projects. Transportation and other infrastructure projects were assigned the largest share with allocations of US\$ 11.4 Bn. According to the Public Works Authority (Ashghal), the plan for 2018 is to complete expressway projects worth US\$ 3 Bn, infrastructure and local roads projects worth US\$ 2.4 Bn and US\$ 0.5 Bn sewage treatment projects in the run up to FIFA World Cup 2022.

KSA stands to collect an infrastructure dividend worth Bns as it pushes ahead with its diversification drive, powered by a localisation program involving partnerships between KSA enterprises and overseas firms to ensure wealth cascades down to the wider population, say experts. Strategy& reports that KSA is likely to spend US\$ 1.1 Tr on infrastructure projects from 2019 to 2038. In July 2018, Saudi's Minister of Transport signed 23 new projects, worth US\$ 453 Mn to build a new network of roads across the kingdom.

All 23 contracts signed by the transport ministry are distributed into different areas; seven in Makkah, six in Riyadh, four in Assir, two in the Eastern Province, and one in each of Hail, Al-Bahah and Tabuk. The total number of projects signed for 2018 is 75 projects and is worth an estimate value exceeding US\$ 720 Mn.

The UAE has been named among the world's top locations in which to invest in infrastructure as Dubai continues to gear up for Expo 2020, according to the Bank of America Merrill Lynch report. Over 21% of this year's public spending of US\$ 15.5 Bn in Dubai is earmarked for infrastructure projects.

The UAE government and China State Construction Engineering Corporation Middle East (CSCEC ME) are in talks to collaborate on infrastructure and road projects. The Abu Dhabi General Services Company (Musnada) is currently working on three internal road projects, with a total value of over US\$ 96 Mn across phases 21, 22 and 23 in Al Ain city. The Phase 22 work is expected to be complete by October, while phases 21 and 23 will be completed by August 2019.

**GCC's major projects expected to be awarded to contractors in the infrastructure sector in 2019.**

Project Name	Country	Client	Net Value (US\$ Mn)
<b>Bahrain Rapid Transport Network</b>	Bahrain	Ministry of Works & Housing, Bahrain	8,090
<b>Etihad Rail (Emirates Railway Project) - Stage 2</b>	UAE	Etihad Rail, Abu Dhabi Department of Transport (DOT), Abu Dhabi General Services PJSC (Musnada)	5,600
<b>Improvement and Upgrade of the Federal Road (E88)</b>	UAE	Ministry of Infrastructure Development, Sharjah	1,600
<b>Doha Metro Green Line Extension - Phase 1a</b>	Qatar	Qatar Railways Development Company	1,200
<b>Road Linking 7th Ring Road and Southern Region</b>	Kuwait	Ministry of Public Works (MPW), Kuwait	660

Source: Ventures ONSITE Project Intelligence Platform: [www.venturesonsite.com](http://www.venturesonsite.com)

## GCC ENERGY CONSTRUCTION MARKET OUTLOOK

GCC's committed investments in the energy sector amounts to US\$ 171 bn, representing about 50% of the total in the MENA region, according to Arab Petroleum Investments Corporation (Apicorp). The GCC governments are expected to prioritise critical investments in their energy sectors.

According to the International Renewable Energy Agency (IRENA), the Gulf countries have rising energy demand and regional electricity consumption is increasing at almost 8% a year, and the six countries are in the top 14 per capita emitters of carbon dioxide in the world. The industrial sector accounts for the largest share (nearly half of all demand) of the total GCC final energy consumption followed by the transport, residential and commercial sectors.

The GCC region is well known for its oil and gas sector as it contains one of the major crude oil reserves worldwide and is the largest producer and exporter of crude petroleum. The industry plays a major role in the GCC, accounting for a large share of governments' revenues. Among the GCC countries, KSA's potential of further expanding oil and gas pipeline infrastructure in the country is expected to be highest in 2018.

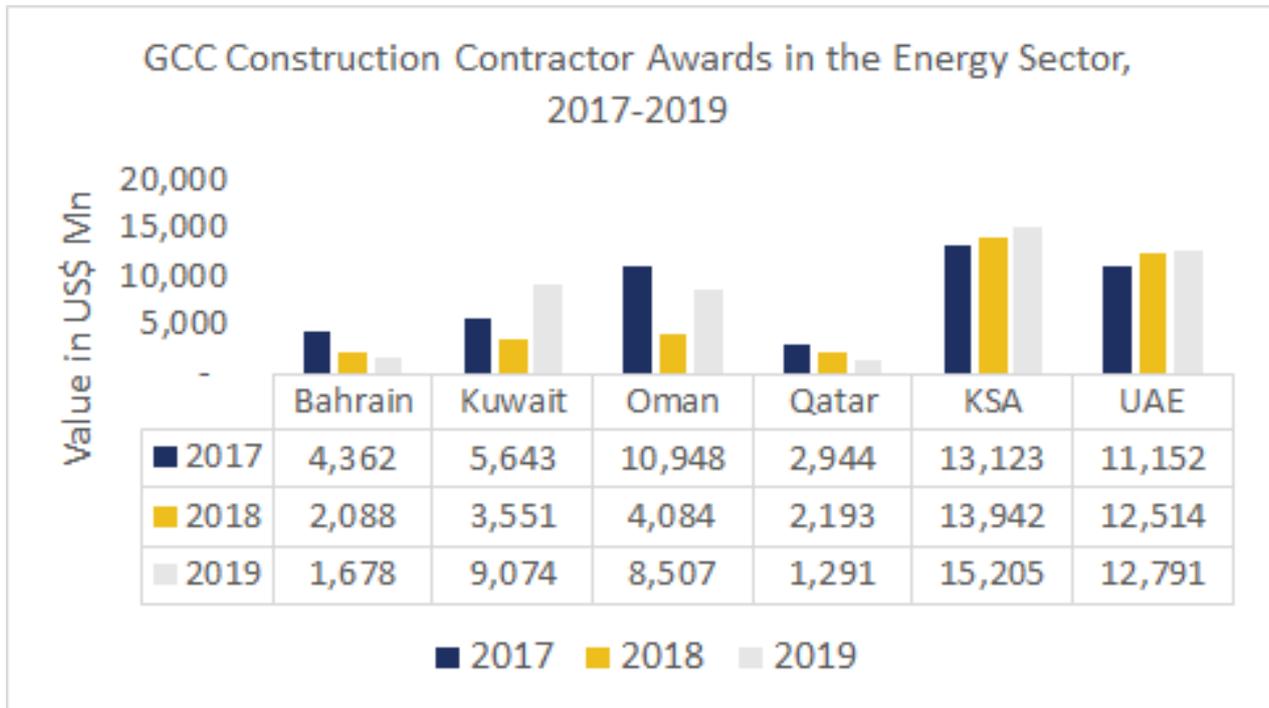
While the UAE, KSA, Kuwait and Qatar are likely to continue to increase crude oil and gas production in the coming years, Oman and Bahrain are expected to increase spending on new oil refineries, predict experts. Bahrain on 1st April 2018 announced the discovery of the largest tight (light crude) oil and deep gas quantities in its history in the Khaleej Al Bahrain Basin (west coast of the country).

The new resource is forecast to contain highly significant quantities of tight oil and deep gas. International companies will be selected to partner with Bahrain for the oil production phase in December 2019. A number of wells will be installed as part of a research and evaluation phase that will start in October 2018 and will be completed in June 2019. Optimising international investment opportunities within Bahrain's energy sector is expected to contribute significantly to the kingdom's development programme.

The GCC energy construction contractor awards are expected to increase from US\$ 38,372 Mn in 2018 to US\$ 48,546 Mn in 2019. KSA (US\$ 13,942 Mn) is likely to register the highest contractor awards in 2018 followed by the UAE (US\$ 12,514 Mn) and Oman (US\$ 4,084 Mn). KSA is undergoing sweeping reforms in its energy sector in KSA. The kingdom is likely to adopt a multiple-buyer approach to reforming its power sector as it considers breaking up its state-owned utilities firm and encourage privatisation, according to APICORP.

According to the Oxford Business Group, the expansion of a major gas project, the announcement of new finds and investment in downstream oil infrastructure are expected to support fresh growth in Oman's energy sector.

GCC Construction Contractor Awards in the Energy Sector from 2017 to 2019 in US\$ Mn



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The GCC countries are aware that that they can no longer be dependent on oil resources alone for economic prosperity over the long term and hence have shifted towards economic diversification plans. As a result, the GCC countries are shifting towards renewable resources for energy generation to preserve their oil wealth.

Currently, renewables form the fastest growing energy source for electricity generation. The countries are investing heavily in renewable energy to achieve significant targets by 2030-2040. The market has reached US\$ 2.1 Bn in 2018 and is expected to be valued at US\$ 25 Bn in 2022. Solar projects account for 71% of all renewable energy projects in the GCC. 210 GW of additional power generation is planned to be achieved from solar energy in the GCC (less than 0.5% of solar potential in the Gulf), according to Research and Markets.

While the UAE is aiming to generate 75% of its electricity from renewables by 2050, KSA has ambitions of adding 9.5 gigawatts (GW) of renewable energy to the grid by 2023, which approximates to 10% of its energy mix and necessitate US\$ 30 to US\$ 50 Bn in investments.

The rates of domestic water consumption in the GCC region are some of the highest in the world, with an average per capita usage of 140 to 520 litres daily. According to the International Energy Agency, Kuwait, KSA, and the UAE together make up over one-third of the world's total desalination capacity.

Approximately 63% of the water supply in GCC countries comes from desalination. In the UAE, 96% of the domestic water consumption is supplied by desalination plants. Economic diversification efforts are also increasing industrial water demand.

### GCC's major projects expected to be awarded to contractors in the energy sector in 2019

Project Name	Country	Client	Net Value (US\$ Mn)
Oil To Chemical Complex in Yanbu	KSA	Saudi Basic Industries Corporation (Sabic) Saudi Aramco	20,000
Hail and Ghasha Sour Gas Development	UAE	Abu Dhabi National Oil Company (ADNOC)	15,000
King Abdullah City of Atomic and Renewable Energy(KA-Care) - Alternative Energy Projects - Phase 1	KSA	King Abdullah City of Atomic and Renewable Energy (KA-care)	8,400
Al Zour Petrochemical Complex - Olefins 3	Kuwait	Equate Petrochemical Company Kuwait Integrated Petrochemical Industries Company (KIPIC)	7,000
Offshore Berri Field	KSA	Saudi Aramco	6000

Source: Ventures ONSITE Project Intelligence Platform: [www.venturesonsite.com](http://www.venturesonsite.com)



# Conclusion

2018 has been a good year for the GCC construction industry, which is expected to continue to remain largely positive backed by government visions to help attract more investors into the market. The UAE, KSA and Qatar are likely to remain the top markets for construction industry investors and developers.

The UAE is expected to be the undisputed leader in the construction industry with Dubai and Abu Dhabi being among the 20 most economical cities for construction costs, cheaper than GCC cities such as Jeddah and Riyadh, according to industry reports.

While Dubai is likely to benefit significantly economically from the Expo 2020, other emirates are expected to register robust construction activity going forward mainly due to economic diversification. Among the sectors, residential, education, healthcare, transport and renewable energy are expected to emerge as sectors with lucrative opportunities for investors, developers and contractors in the coming years.

# This report was created for Intersec Dubai by Ventures ONSITE construction projects intelligence.

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