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A photograph of a modern building under construction. The structure features a complex wooden timber frame with numerous beams and trusses. Below the roofline, there are concrete walls and two levels of balconies with wooden railings. A staircase is visible on the left side. The sky is clear and blue.

THE CONSTRUCTION SECTOR

IN THE UNITED ARAB EMIRATES

FLANDERS INVESTMENT & TRADE MARKET SURVEY



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UAE Construction Sector Overview and Outlook

December 2016

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1. The previous years

The construction sector in the UAE - and especially in Dubai - suffered a major blow in 2009, following the worldwide financial crisis and the Dubai World debt crisis. A large number of planned projects were cancelled or put on hold.

High oil and gas revenues in the years 2008-2014, the expanding tourism sector, flourishing industry and re-exports aided the UAE's economic recovery. By end 2012 consumer confidence had returned and real estate activity and prices had picked up again, in turn benefitting the construction sector. Growth is now slower paced than before the 2009 downturn, investments are undertaken more cautiously and are focused on infrastructure, retail, hospitality and commercial projects.

The outlook for the UAE construction sector is positive for the years to come. Although the low oil prices pose real challenges for a country in which the hydrocarbons sector still contributes 34.3% to the nominal GDP (2014), the construction sector is set to benefit from further development of tourism, international events such as Expo 2020, major government investments in transportation infrastructure and even from the current political unrest in the region, in which the UAE continues to have a 'safe haven' status.

This concise study will look into ongoing construction activity in the UAE, spread across residential, commercial, hospitality, healthcare and infrastructure segments. Opportunities and challenges will be highlighted. Anyone wanting to explore the construction market in further detail, is most welcome to contact the FIT-office in Dubai.

2. Construction Industry: an overview

2.1 Infrastructure

A large number of infrastructure works have been started in recent years in the United Arab Emirates. Major roadway, airport, and port (upgrade) projects are ongoing in preparation of further expected population influx and of the upcoming Expo 2020 event in Dubai. The ongoing airport expansion project at Dubai International, worth USD 7.8 billion, will increase the airport's current capacity from 60 to 90 million passengers per year by 2018. Dubai's second airport, Al Maktoum International, was opened for cargo operations in 2010 and opened its doors to passengers in 2013. When the USD 32 billion expansion will have been completed, the airport will be the largest in the world, able to accommodate more than 160 million passengers and 12 million tonnes of cargo per year.

Today the UAE's infrastructure already boasts an impressive international ranking: worldwide first place for roads, second for ports and third for airports.

Across the GCC, infrastructure accounted for the highest share of GCC construction in 2014. A crucial project is the GCC pan-Gulf network, a US \$ 25 billion railway network connecting Saudi-Arabia, UAE, Oman, Kuwait, Qatar and Bahrain.

Project	Value in US \$ million	Expected completion
Dubai Metro	14,352	2030
Emirates Road	12,000	2016
Etihad Railway Network	11,000	2018
Airport Expansion Project	7,800	2018
Abu Dhabi Metro	7,000	2020
Abu Dhabi Airport Expansion: Midfield Terminal	2,960	2017

2.2 Residential

Residential projects accounted for the highest number of projects completed in 2013-2014 and the number of residential projects is expected to rise further in the coming years. The residential segment, however, does not represent the largest share of construction projects in the UAE anymore. Larger investments are now being made in the hospitality, education and healthcare sectors.

The residential construction market is dominated by the UAE's two major cities, Dubai and Abu Dhabi.

The UAE's government has taken measures to bridge the gap between supply and demand of housing for the lower income groups, by allocating land in Al Quoz and Muhaisnah (Dubai) to affordable housing units. There have also been reports of a law being prepared, making it mandatory for developers to offer 15-20% of their projects in the affordable housing category.

The upper-mid and high-end of the market of the Dubai residential market, meanwhile, is experiencing oversupply, with a demand and supply gap of 13%. Another 51,000 units are expected

to be released in the years leading up to 2020. The increased supply is forecasted to be absorbed by the ever-growing population of Dubai and the UAE, especially in the light of the Expo 2020 event.

Abu Dhabi, on the other hand, is experiencing an under-supplied market, in the affordable housing as well as in the mid- and higher end segments. A number of projects are expected to be finished in 2016, and total stock of residential units should reach 264,000 by end of this year.

Project	Value in US\$ million	Expected completion
Capital District- Abu Dhabi	40,000	2030
Mohammed bin Rashid City	55,000	2023
Al Reem Island	37,000	2023

2.3 Office

In 2014 the UAE office market was undersupplied as far as high-quality offices in prime locations are concerned. Overall, however, the office market was oversupplied. This led to a year-on-year 20% rent increase of prime location offices, whereas other offices were offered at a lower rent in 2014 than the year before.

New Dubai office projects are heavily focusing on the currently undersupplied high-end/prime location market. Once these projects are completed, rents for high-end offices are expected to fall. Dubai's gross leasable area is expected to reach 8.2 million sq m in 2016.

Project	Value in US\$ million	Expected completion
Capital District- Abu Dhabi	40,000	2030
Business Bay (mixed use) - Dubai	30,000	2016
Renaissance City (mixed use) - Abu Dhabi	25,000	2020
Masdar City - Abu Dhabi	22,000	2025
Masdar City (mixed use) - Abu Dhabi	22,000	2026

2.4 Retail

2014 witnessed a high number of retail project completions in the UAE. More retail projects are being announced for the years to come, among others the world's biggest mall 'Mall of the World'. The project will offer 8 million m² retail space and is worth US\$ 6.8 billion. As the UAE wants to further diversify its economy away from hydrocarbons, these major retail investments are crucial for the country to consolidate its status of favourite regional and global retail hub.

Dubai is still favoured over Abu Dhabi by most international brands and the Emirate of Dubai has been dealing with a shortage of retail space in recent years. 2,800,000 m² of retail space was available in 2012 and ongoing and announced projects should increase this supply to 3,700,000 m² by 2017. The increased supply is expected to be fully absorbed by the flourishing and expanding retail market.

Abu Dhabi experiences similar shortages and has similarly announced major projects in the retail segment.

An external factor which should be taken into account is the general retail market slowdown in the GCC and the UAE, as fewer tourists from the Euro-zone and Russia have visited the region in 2015-2016 (largely due to a weaker euro).

Project	Value in US\$ million	Expected completion
Yas Island Development	37,000	2025
Mall of the World	6,800	2022
Reem Mall	1,000	2018
Deira Islands Mall	355	2018
Al Futtaim Community Mall	Not announced	2018

2.5 Hospitality

The UAE profits from its strategic geographic location as a transit point between East and West, and from its status as a safe haven in a volatile region. As such, it attracts a large number of visitors from all over the world.

In spite of the ever growing number of visitors to both Dubai and Abu Dhabi and consequently of growing demand for hotel rooms, UAE hospitality is an oversupplied market.

Project	Value in US\$ million	Expected completion
Al Habtoor City	3,000	2017
Jewel of the Creek	1,360	2017
Paramount Hotel & Resorts	1,350	2018
Viceroy Dubai	1,000	2018

2.6 Healthcare

The UAE has seen US \$ 1.8 billion healthcare projects completed in 2015. The government has invested extensively in healthcare projects over the last years. 49% of the 2015 budget was allocated to social spending, which includes healthcare, education and social services. Still, overall supply in the UAE is not growing at the same rate as the population. Moreover, some oversupply is recorded in certain specialities such as dentistry in Abu Dhabi and Dubai and undersupply is problematic in Emirates such as Ajman, Sharjah, Fujairah, Umm Al Quwain and Ras Al Khaimah.

Project	Value in US\$ million	Expected completion
Al Burjeel Hospital	1,500	2017
Mediclinic Parkview Hospitality	Not announced	2018
Aster Hospital	Not announced	2018
Saudi German Hospital Ajman	Not announced	2017
Al Ain Hospital expansion	Not announced	2017

2.7 Leisure

With the growing population comes an increasing number of opportunities for the leisure market as well. Up to 20 theme parks are in the pipeline in the UAE alone. One of the biggest and best known projects is 'DreamWorks Zone', the first part of which has been completed during the 4th quarter of 2016. Dreamworks Zone spans parks such as Legoland, Legoland Water Park, Motiongate and Bollywood Parks. Additional announced projects such as a Holy Quran Park, a number of museums, a large new skiing slope in the Meydan development and multi-use attractions should help Dubai reach its goal of 20 million tourists by 2020. In Abu Dhabi, a Warner Bros. theme park has been announced.

2.8 Conclusion

Forecast for the UAE construction sector remain largely positive. The continuous growth of the population, along with major government investments, makes for a large number of projects in healthcare, leisure, hospitality and residential sectors. More care is being taken by investors and developers with regards to feasibility and correlation of supply and demand.

3. Opportunities, challenges and trends

3.1 Opportunities

3.1.1 Expo 2020

Residential and commercial construction is expected to benefit from the Expo 2020 event. 25 million international visitors are expected to visit Dubai during the event, and as many as 20,000 new businesses will be or are being set up in the run-up to it.

Flemish companies can benefit from this added construction boost. For any company interested in acting as a supplier for Expo 2020 itself: all potential suppliers need to register through <https://esource.expo2020dubai.ae>

3.1.2 Green Building

For the last 8 years, there has been more attention for green building and environmentally sustainable products, services and building practices in the UAE.

A number of organisations have been set up, rules and regulations have been developed. Still, in practice the industry still has a long way to go and guidelines and intentions set out by the government are not as easily adopted by the private sector.

Abu Dhabi: Pearl Rating System by Estidama

Estidama is the Arabic word for 'sustainability' and refers to a building rating programme specifically designed for the Middle East by the Abu Dhabi Urban Planning Council. The Pearl Rating System has been developed by Estidama:

- Pearl Community Rating System
- Pearl Building Rating System
- Pearl Villa Rating System
- Temporary 1 Pearl Building & Villa Programme

For more information: www.estidama.org

Masdar

Masdar is a commercial enterprise, a wholly owned subsidiary of the Abu Dhabi government-owned Mubadala Development Company, and consists of three units:

Masdar City is a high density working and living community for 40,000 residents and numerous businesses where current and future renewable energy and clean technology solutions are showcased, marketed, researched, developed, tested and implemented.

Masdar Clean Energy is the Middle East's largest exporter of renewable energy. It is a leading developer and operator of utility-scale, grid-tied projects, small-scale applications providing energy access to communities away from the electricity grid and carbon abatement projects.

It has invested around US \$ 2.7 billion (AED 10 billion) in projects around the world over the last ten years, with 1-gigawatt (GW) of installed capacity and 0.7 GW under development. Masdar's renewable energy projects span Abu Dhabi, Oman, Jordan, Mauritania, Egypt, Morocco, the UK, Spain, Seychelles, and the Pacific Islands.

Within the UAE, Masdar Clean Energy projects include:

- The 100-megawatt Shams 1 solar power project with Abengoa Solar and Total that stretches over more than 2.5 km² in western Abu Dhabi;
- Masdar City's 10-megawatt solar photovoltaic plant in Abu Dhabi;
- Masdar City's 1-megawatt solar rooftop installations;
- And carbon capture and sequestration projects that seek to add value to the national economy while also reducing industrial carbon emissions.

Masdar Institute is an independent, research-driven graduate institute developed with support and cooperation of the Massachusetts Institute of Technology (MIT), which focuses on the science and engineering of advanced alternative energy, environmental technologies and sustainability.

Dubai Green Building Code

The Dubai Green Building Code sums up the regulations set up by Dubai Municipality for green buildings aimed at implementing environmental design for buildings by using energy-efficient construction materials and methods to reduce consumption of power and water.

The Code was first established in 2008 and has been implemented in phases as from 2011. The aim is not to implement the regulations in all buildings, but rather to put them in practice gradually as the Dubai Municipality aims to educate the public as well as the construction sector on the subject.

The Code can be downloaded from the municipality website, www.dm.gov.ae, or is available at FIT Dubai.

Dubai World: EHS Green Building Regulations

EHS is the regulatory arm of Dubai World Units such as Nakheel, DMCC, DMC, Limitless, DP World, Jafza, Istithmar, ect, which controls, regulates and enforces rules and regulations related to all aspects of Environment, Health, Safety and Fire Protection. EHS has an in-house certification facility for green buildings following the LEED rating system.

For more information and details: www.trakhees.ae

Emirates Green Building Council

The Emirates Green Building Council was established in 2006 and organises network events, training and conferences. The organisation has a website with information on the subject of green building practices in the UAE.

More information : www.emiratesgbc.org

RSB for Electricity and Water

Regulatory & Supervisory Bureau for Electricity and Water aims to improve efficiency of consumption by 30% by 2030. RSB has developed a regulatory framework intended to support the ESCO market. ESCOs are Energy Service Companies, which offer 'performance contracting,' meaning they assume part of the risk for the delivery of the energy saving measures they propose to a client. There are opportunities for Flemish suppliers of energy sufficient building materials to supply these ESCOs.

3.1.3 Specialist Opportunities

Overall, there are opportunities for Flemish companies specialising in roads, bridges, lights, metro, port infrastructure, green building, sustainable infrastructure, schools, universities, public parks, hospitals, power production, water saving devices, water treatment plants, etc.

3.2 Challenges

3.2.1 A competitive market

The market is very competitive: many service and product suppliers from all over the world have already found their way to the UAE in the last 20 years. If you want to be a successful new player in the market, you need to be very competitive and visibly present: an agent, a local branch or a reputable distributor are indispensable if one wishes to get to know and penetrate the market thoroughly. In case of government contracts, local representation is mandatory: companies not established in the UAE cannot bid for any government tender.

In addition, the construction market has recently seen some major mergers of developers like Sorouh and Aldar. These mergers have made for enormous organisations which have vast negotiating power. For small and medium sized subcontractors and suppliers this means ever decreasing margins.

3.2.2 Labour force

Success proves very difficult for foreign contractors who do not wish to set up their own company in the UAE. Acquiring the necessary visa and accommodation for foreign labourers is extremely expensive, so in order for foreign contractors to work cost-effectively, they need to employ local labour. However, it is hard to find qualified labour force able to work with often highly specialised and technical European products.

3.2.3 Lower oil prices

Lower oil prices make for lower income levels across the GCC, which might negatively affect private investment in real estate and construction.

Likewise, less disposable income makes for less tourism from the region, which can in turn again affect construction and real estate in a negative way.

4. Useful Information

4.1 Useful websites

Construction Week

www.constructionweekonline.com

Construction Week is a specialised weekly magazine on the construction sector in the Middle East, covering Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates. The magazine can be consulted online.

Interesting features include:

- tenders: can be searched according to country and category
- projects: can be searched according to country and category
- events: including awards, conferences, project launches, trade shows and exhibitions
- directory: can be searched according to company name, products/services, brands
- knowledge centre: contains information about government ministries, industry software, online training and trade associations

Facility Management Middle East

Printed Issue separate

Online version: www.constructionweekonline.com (under 'Magazines')

The magazine informs FM contractors, developers and property agents about market trends, products and strategies.

Mechanical Electrical Plumbing Middle East (MEP)

Printed Issue separate

Online version: www.constructionweekonline.com (under 'Magazines')

The magazine targets MEP contractors and specifiers.

Plant, Machinery, Vehicles Middle East (PMV)

Printed Issue separate.

Online version: www.constructionweekonline.com (under 'Magazines')

Meed

www.meed.com

Meed - or Middle East Business Intelligence - is a weekly printed and online magazine, covering general business, economy, and several sectors in the MENA region.

Interesting sections:

- Tenders and contracts
- Country and sector special reports
- Sectors: construction, finance, industry, oil and gas, transport, power & water, government, legal, leadership, petrochemicals

Subscription required.

Meed Projects

www.meedprojects.com

Offers information on values, timelines, stages, key contact persons, updates, owners, shareholders, etc. of projects in the Middle East.

Subscription required.

Middle East Tenders

www.middleeasttenders.com

A listing of tenders and project information covering the Middle East. Subscription required for full information.

Emirates Tenders

www.emiratestenders.com

A listing of tenders and project information covering the United Arab Emirates.

Subscription required to access all information.

Middle East Architect

www.designmena.com

Architecture, interiors and industrial design in the MENA region.

Abu Dhabi Chamber of Commerce and Industry

www.abudhabichamber.ae

Abu Dhabi Department of Transport

www.dot.abudhabi.ae

Abu Dhabi Municipality

www.adm.gov.ae

Abu Dhabi Plan 2030

www.upc.gov.ae

Dubai Chamber of Commerce and Industry

www.dubaichamber.com

Dubai Municipality

www.dm.gov.ae

4.2 Exhibitions

The Big 5

The largest building and construction exhibition in the Middle East, 26-29 November 2017, Dubai
www.thebig5.ae

FM Expo

Facilities Management, 25-27 September 2017, Dubai
www.fm-expo.com

Hospital Build Middle East

Planning, Design, Construction, Operations, Management, Supply & Refurbishment of Hospitals, 11-13 September 2017, Dubai
www.hospitalbuild-me.com

Cityscape Abu Dhabi

Real Estate Investment & Development Event, 18- 20 April 2017, Abu Dhabi
www.cityscapeabudhabi.com

Trenchless Middle East

For trenchless technology or NDRC non-disruptive road crossing technology, 13-14 March 2017, Dubai
www.trenchmiddleeast.com

Gulf Traffic

Roads, Parking, Public Transport Sectors, 4-6 December 2017
www.gulftraffic.com

Windows Doors and Façade

25-27 September 2017, Dubai
www.windowsdoorsandfacadevent.com

Light Middle East

17-19 October 2017, Dubai
www.lightme.net

4.3 Major companies

Name	Profile
Al Futtaim Carillion	Civil and electromechanical contracting for buildings and infrastructure projects; Real estate property management
Al Naboodah Contracting	Civil contracting for buildings and infrastructure projects
Al Jaber Group	Holding company with interests in civil and electromechanical contracting for commercial buildings, offshore, heavy and infrastructure projects
Arabtec Holding	Holding company with interests in engineering, procurement, construction for the oil & gas, power and utilities projects; civil and electromechanical contracting for buildings and infrastructure projects ...
HLG Contracting	Civil contracting for infrastructure, buildings, heavy industries, marine and offshore projects.

5. Sources

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Disclaimer:

The information in this publication is provided for background information that should enable you to get a picture of the subject treated in this document. It is collected with the greatest care on the bases of all data and documentation available at the moment of publication. Thus this publication was never intended to be the perfect and correct answer to your specific situation. Consequently it can never be considered a legal, financial or other specialized advice. Flanders Investment & Trade (FIT) accepts no liability for any errors, omissions or incompleteness, and no warranty is given or responsibility accepted as to the standing of any individual, firm, company or other organization mentioned.