



Q2 2020: Middle East & Africa Construction Monitor

Workloads decline though infrastructure seen as a catalyst for recovery

- New business enquires fell sharply during Q2
- Activity in the infrastructure sector anticipated to rise over the next twelve months
- Tenders seen coming in below construction costs, particularly in the Middle East

Key indicators in the Q2 2020 RICS Global Construction Monitor suggest that the ongoing effects of the Covid-19 pandemic and the related economic lockdowns are having a significant impact on the construction sector. The Global Construction Activity Index* (CAI), an amalgamated measure of current and expected construction market conditions, came in at -24 in Q2.

For the Middle East and Africa (MEA) region, the CAI registered a reading of -40 in the second quarter. This is indicative of both a lack of current activity in the industry as well as a subdued outlook.

Chart 1 shows that behind this downbeat picture is a predictable decline in headcount, business enquiries and profit margins. Payment delays have reportedly risen in Q2, as has the cost of construction materials.

Activity seen falling sharply amid lockdowns

Aggregate workloads were seen falling in Q2 in the MEA as Covid-19 related lockdowns led to a broadbased decline in activity. Indeed, contributors reported a pullback in private residential and private non-residential workloads over the past three months.

Workloads were also reported to have fallen across the infrastructure and other public works categories across the majority of countries covered in this survey.

However, the infrastructure market activity was seen as being more resilient in Ghana and Qatar than elsewhere in the MEA.

Infrastructure could help to drive recovery

Expectations for workloads over the next twelve months are mixed across countries. As shown in Chart 2, private residential and private non-residential workloads are envisaged to decline in Oman, Qatar, UAE and South Africa over the course of the next twelve months.

A consistent global theme is the expected expansion in activity in the infrastructure sector over the next year. These expectations may be a result of governments' pledging to allocate funds for infrastructure investment in order to stimulate economic recovery. Feedback from Qatar, Saudi Arabia and South Africa suggests that infrastructure workloads are expected to rise in the year ahead, while the outlook for the private residential and private non-residential segments is substantially more subdued.

In Ghana and Nigeria, workloads are expected to rise in all segments over the course of the next twelve months. Though the increase in infrastructure workloads over the next twelve months is expected to outpace the increase in private residential and private non-residential

Chart 1: Current Conditions

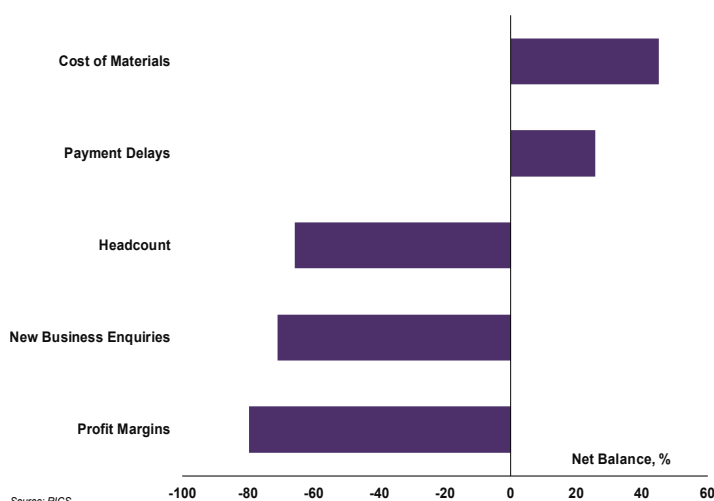
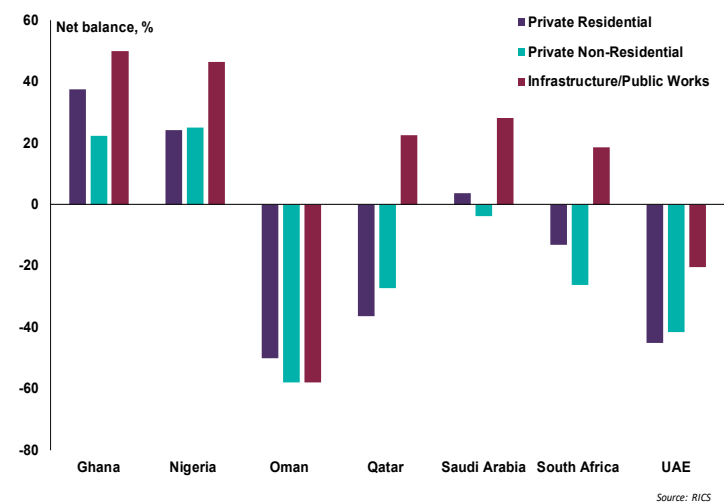


Chart 2: Workload expectations - next 12 months



*The Construction Activity Index is a weighted composite measure encompassing variables on current and expected market activity as well as margin pressures.

workloads (in net balance terms).

Headcount expected to fall further

Further job losses are seen highly likely across the MEA construction sector in the coming year. That being said, there is some variance in the outlook between countries as only a modest decline in employment is seen in Ghana while no change in hiring is expected in Nigeria over the coming year.

Financial constraints and insufficient demand were cited by a majority of respondents as holding back activity. Regulation and the cost of materials were also noted as significant obstacles for the sector.

Pandemic weighs on productivity

The Q2 survey included extra questions to get a more comprehensive view on the impact of the Covid-19

outbreak on productivity on construction sites. In the MEA 90% of the contributors felt that onsite productivity will suffer in the wake of the pandemic. As Chart 3 shows, almost half of respondents see a contraction in productivity in the range of 10-30%.

Tenders are beginning to come in below cost

Globally, 44% of contributors said that they were consistently receiving bids below realistic cost estimates (Chart 4). Reported underbidding was higher in the MEA as more than half of the contributors in the region noted that they were receiving tenders/bids below realistic cost estimates for a project.

As shown in Chart 4, underbidding appears to be more of an issue in the Middle East, particularly in Oman, where more two thirds of contributors reported they were receiving bids below cost.

Chart 3: Covid-19 expected impact on productivity

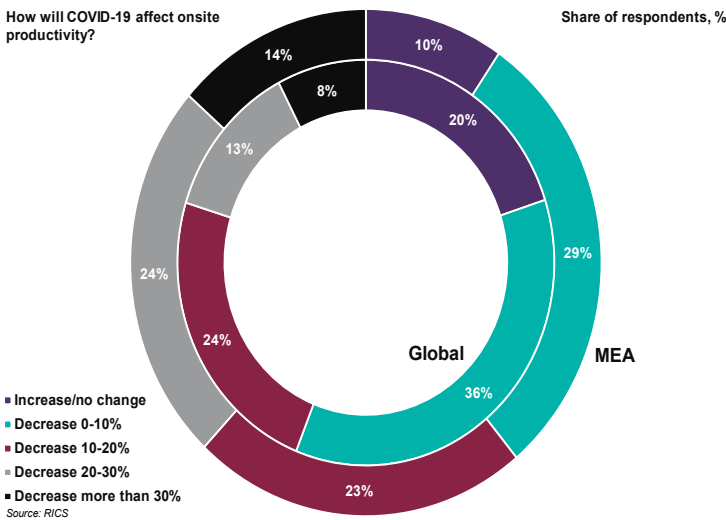


Chart 4: Underbidding

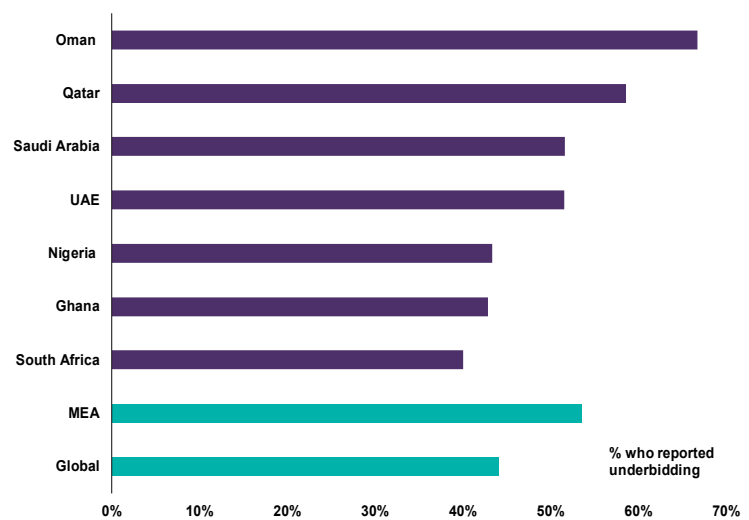
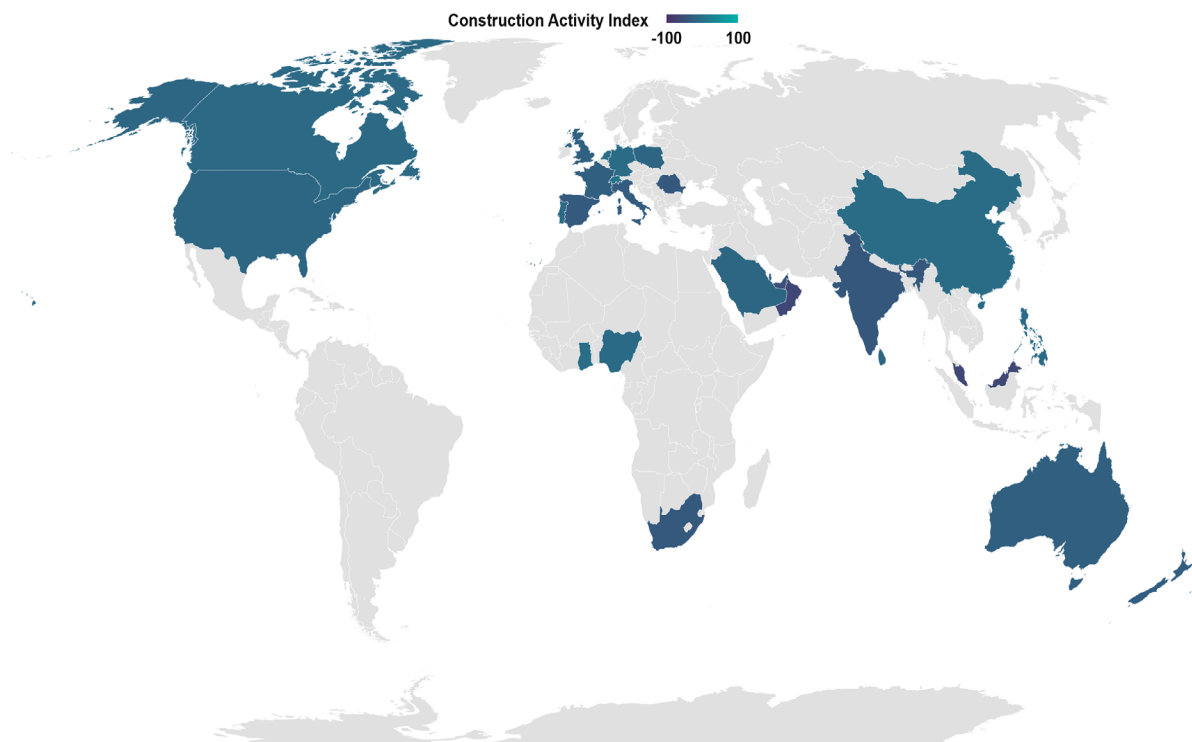


Chart 5: Construction Activity Index by country



Ghana

Feedback from Ghana points to a drop in construction activity in the second quarter of 2020 with contributors reporting a fall in private residential and private non-residential workloads. Alongside this, infrastructure workloads were seen as remaining more or less stable in Q2 after having declined in Q1.

These results appear to reflect the detrimental impact of the economic shock from the Covid-19 pandemic on the sector. Contributors also noted a sharp drop in profit margins while business enquiries and employment were also reported to have declined in the latest results. Material costs were seen rising while instances of payments delays were reported to have increased.

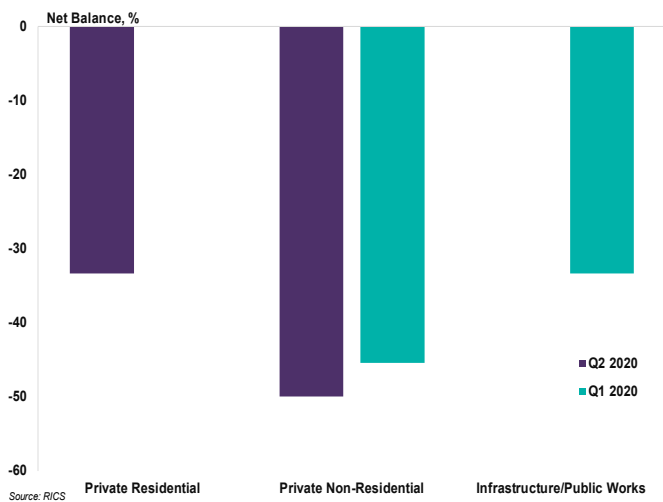
Indeed, financial constraints and costs of materials were cited as an impediment to market activity, with 90% of contributors highlighting these as constraints. Meanwhile, insufficient demand was also stated by

a notable share of contributors as hampering market activity.

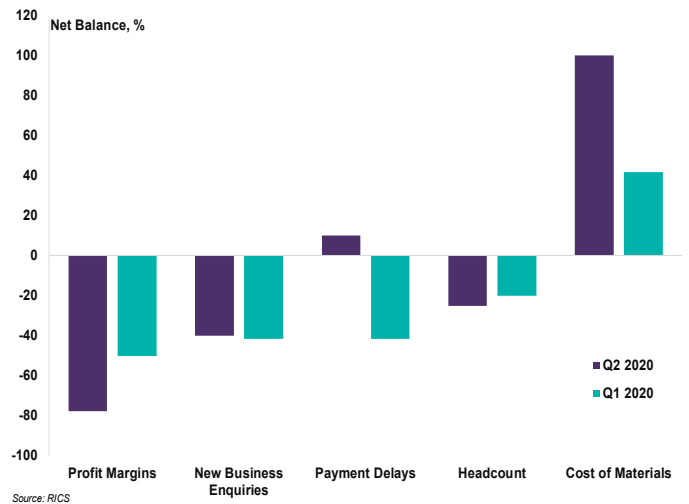
The outlook for the coming twelve months suggests that the respondents see an improvement in the coming months. A net balance of +38% of contributors expect workloads to rise in the private residential sector. Twelve month expectations are also positive for the private non-residential sector (a net balance of +22%). Meanwhile, a net balance of +50% of contributors expect an increase in infrastructure workloads in the year ahead.

In spite of this, profit margins are envisaged to remain under pressure over the course of the next twelve months. This is expected to be mainly a result of rising costs. Construction costs are seen rising by 6% in the year to come, with the costs of materials expected to rise faster than the per unit costs of skilled and unskilled labour.

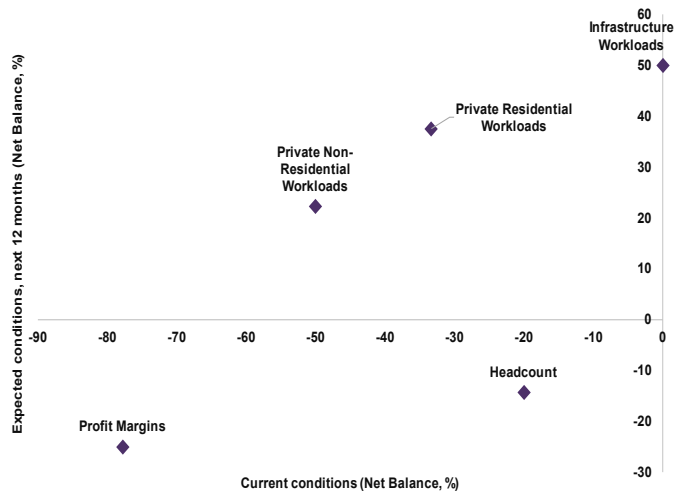
Workloads, past 3 months



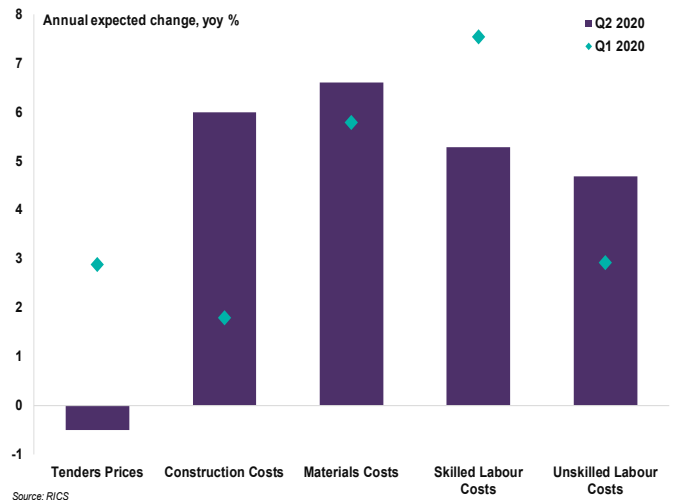
Current conditions



Past 3 months vs next 12 months (expected)



Expected cost escalations, next 12 months



Nigeria

Activity was seen falling across the construction and infrastructure sector in Nigeria in Q2 of 2020. Indeed, the Construction Activity Index slipped to -11, down from a value of +27 in Q1 consistent with a drop in output over the quarter.

Insufficient demand alongside financial constraints and costs of materials were cited by a majority of contributors as significantly impeding market activity at the present time.

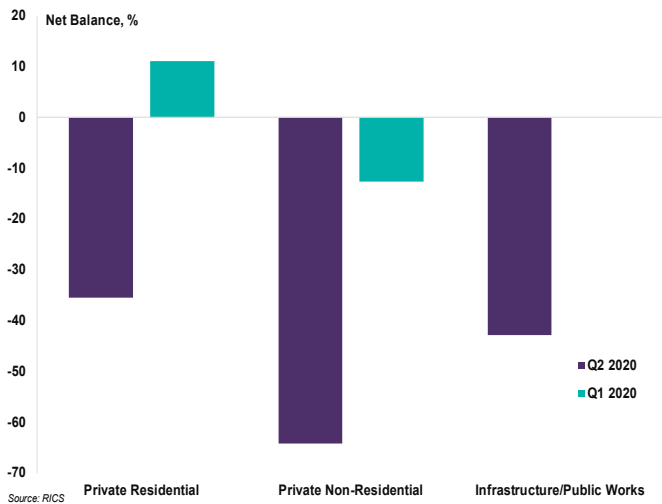
Workloads reportedly declined in all three sectors covered in the survey (private residential, private non-residential and infrastructure). However within infrastructure, some segments performed better than others. For example, contributors did report a rise in work on agribusiness projects in Q2. At the same time, activity was seen rising modestly on ICT projects while workloads on energy infrastructure were reported to have remained more or less stable. At the other end

of the spectrum, contributors reported a decline in workloads across the social, transport and water and waste categories.

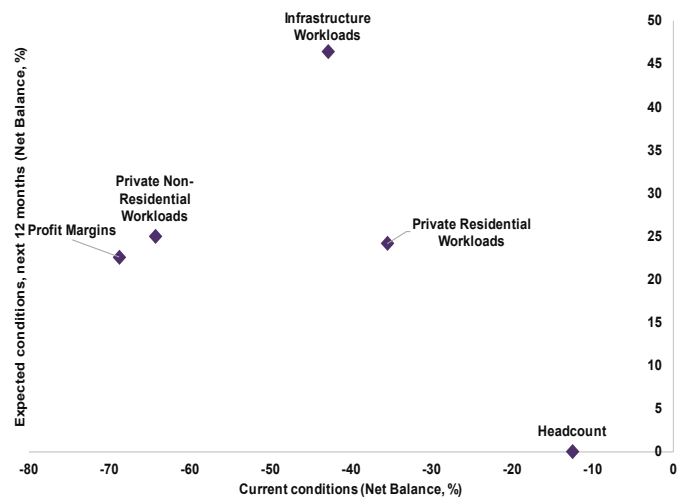
Forward looking indicators suggest that activity could begin to recover over the course of the next twelve months. Workloads are expected to rise across all three segments in the coming year. At the same time, respondents anticipate profit margins to rise in the year ahead while employment is expected to remain unchanged.

Still, in spite of this positive outlook, contributors believe that onsite productivity will be negatively impacted by the Covid-19 outbreak. A quarter of respondents believe that it will fall between 10-20%. Alongside this, just over 40% of the survey contributors report they are now consistently receiving bids below realistic cost estimates.

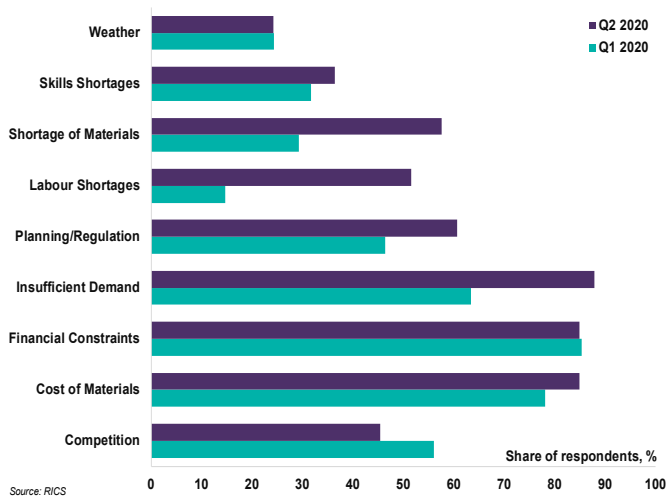
Workloads, past 3 months



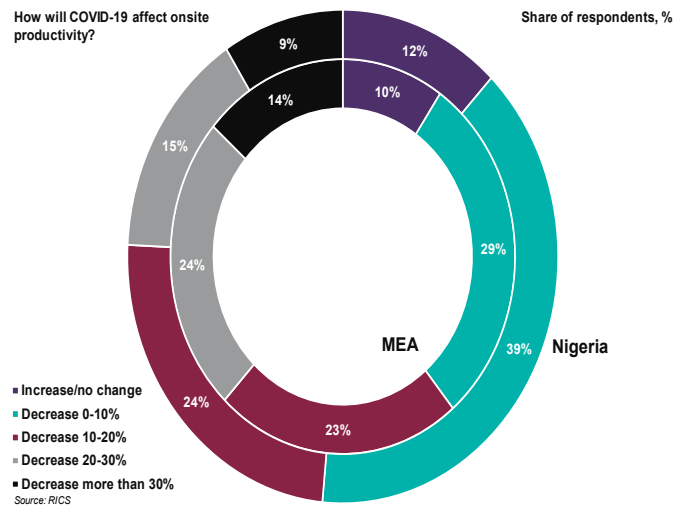
Past 3 months vs next 12 months (expected)



Factors holding back activity, past 3 months



Covid-19 expected impact on productivity



Oman

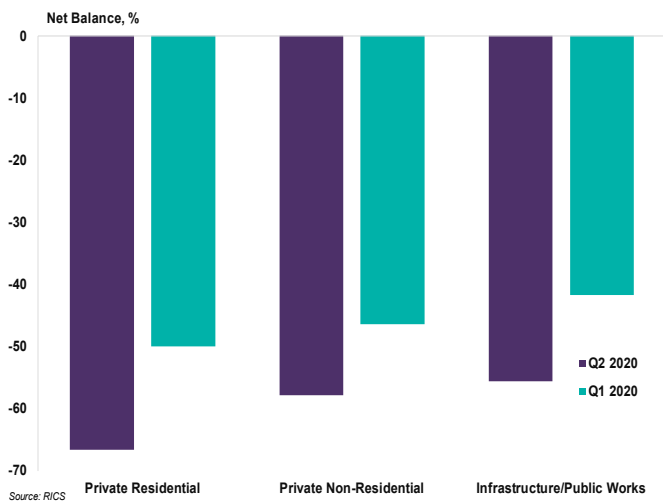
Activity across the Oman construction sector appears to have declined further on the back of the Covid-19 pandemic and subsequent lockdowns, according to the feedback from the Q2 2020 RICS Global Construction Monitor. Indeed, the Construction Activity Index slipped to -64 from -39 indicative of a sharp contraction in activity during the quarter and subdued prospects for a recovery in the near term.

Workloads were seen declining across all three market segments covered in the survey (private residential, private non residential and infrastructure) as contributors reported a sharp drop in business enquiries over the quarter. On the back of this, contributors noted a contraction in profit margins while employment was reported to have been significantly cut. Perhaps unsurprisingly, a large majority of contributors cited financial constraint and insufficient demand as holding back construction activity in Q2.

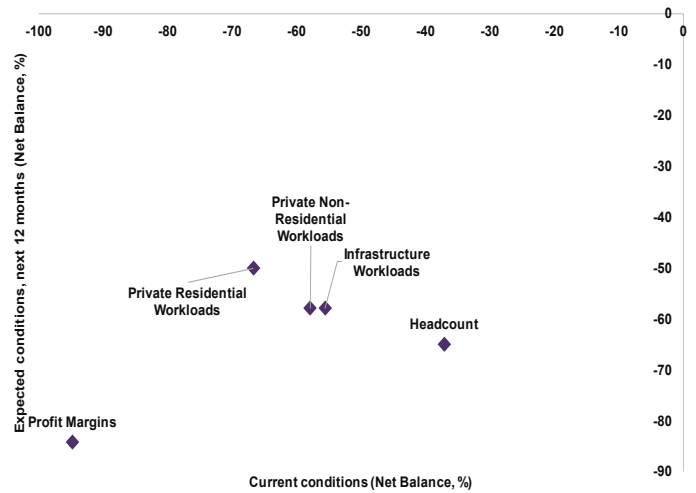
Respondents' twelve month outlook is very downbeat. Private residential, private non-residential and infrastructure workloads are all expected to continue declining over the course of the next year. The decline is expected to be one of the most acute globally (in net balance terms).

Meanwhile, profit margins are also seen contracting in the coming year. This appears to mainly driven by a decline in tender prices, which are expected to fall 3% over the course of the next twelve months. This chimes with the feedback to an additional question in the Q2 survey that aimed to track the proportion of tenders coming in below realistic costs estimates. More than two-thirds of contributors in Oman said they were receive bids/tenders below cost. This was higher than the MEA average of 42%.

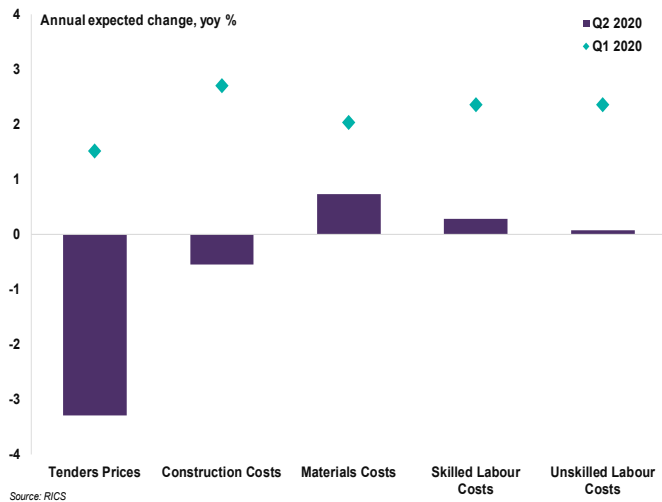
Workloads, past 3 months



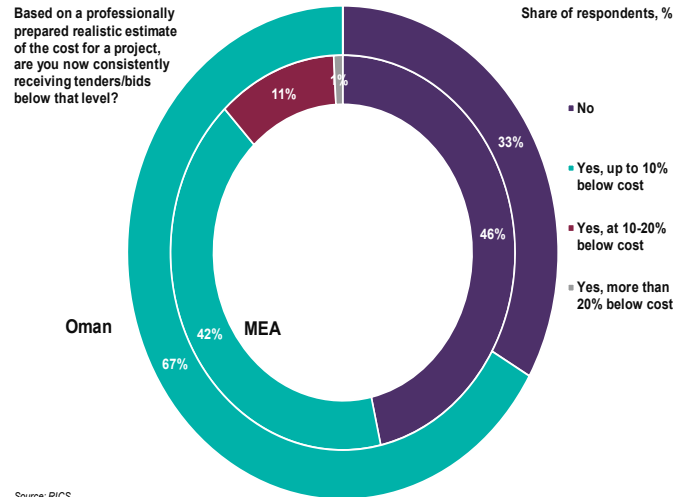
Past 3 months vs next 12 months (expected)



Expected cost escalations, next 12 months



Underbidding



Qatar

The RICS Global Construction Monitor results for Q2 of 2020 are consistent a decline in momentum across Qatar over the quarter. The Construction Activity Index slipped to -32 in Q2 from -16 in Q1 indicative of a contraction in activity. Workloads reportedly declined in the private residential and private non-residential categories in Q2. Following an modest rise in infrastructure workloads during the first quarter of this year, contributors noted a pull-back in activity across this segment during the second quarter.

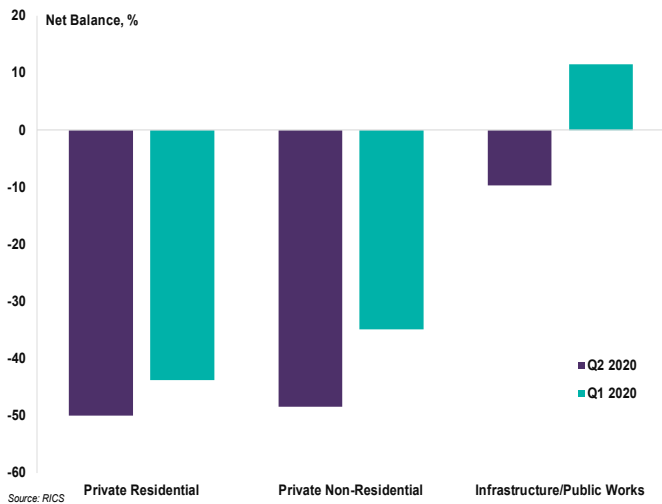
That said, average twelve months projections suggest that recovery in infrastructure workloads could materialise in the coming months. Indeed, a net balance of +23% of contributors expect infrastructure workloads to rise over the course of the next twelve months. On the other hand, both private residential and private non-residential workloads are expected to drop in the coming year.

More than 70% of the survey contributors across Qatar noted that financial constraint and insufficient demand are currently impediments to market activity.

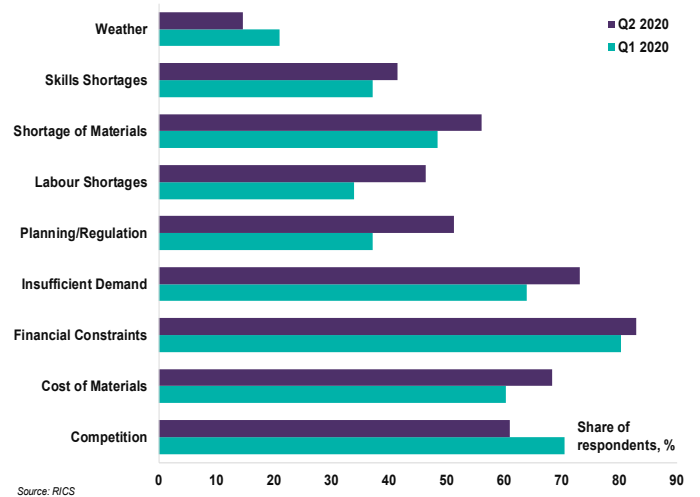
The impact of the Covid-19 pandemic and subsequent economic shocks are having mixed effects on the Qatari construction market. Respondents noted 14% of projects have been put on hold since the start of the pandemic, below the global average of 24%, and less than 1% have been permanently cancelled. Projects on hold are also only expected to remain so hold for a further 103 days, below the global average of 131.

However, onsite productivity is expected to fall 17% as a result of the pandemic, higher than the global average of an 11% decline. And margin pressure will likely remain acute in the near term with 59% of contributors reporting that they are consistently receiving bids below cost (vs a global average of 44%).

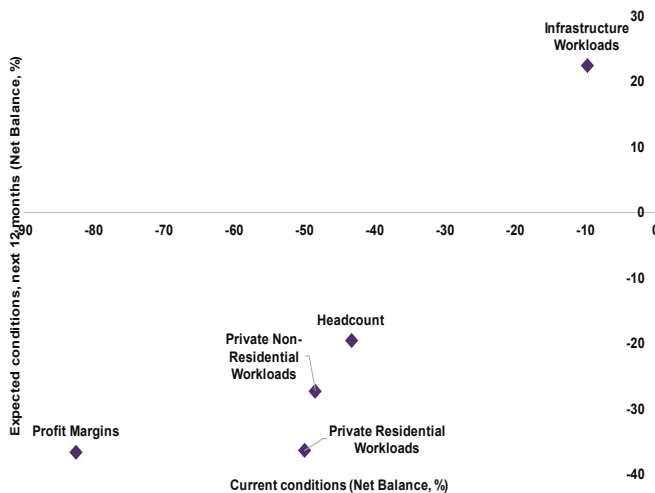
Workloads, past 3 months



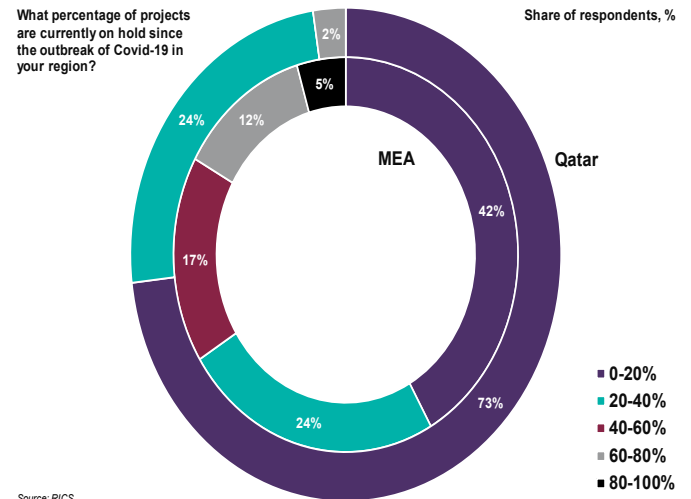
Factors holding back activity, past 3 months



Past 3 months vs next 12 months (expected)



Share of projects on hold since Covid-19



Saudi Arabia

The Saudi Arabia Construction Activity Index slipped into negative territory in Q2 coming in at -11 from +22 in Q1. While this is indicative of a contraction in activity across the construction sector, the drop is less severe than in the MEA region as a whole.

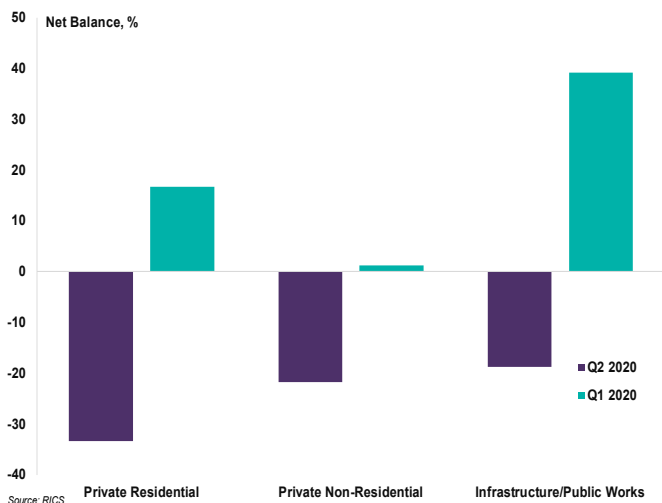
Contributors reported a decline in private residential and private non-residential workloads in the latest results. Infrastructure workloads were also seen falling following a pick-up in Q1. Alongside this, new business enquires were seen to have declined over the quarter while the challenging backdrop was also noted to have led to a drop in employment.

Expectations indicate that a stabilization could begin to emerge over the course of the next year. Respondents envisage little change in the levels of private residential and private non-residential workloads in the year ahead. Meanwhile a net balance of +28% of

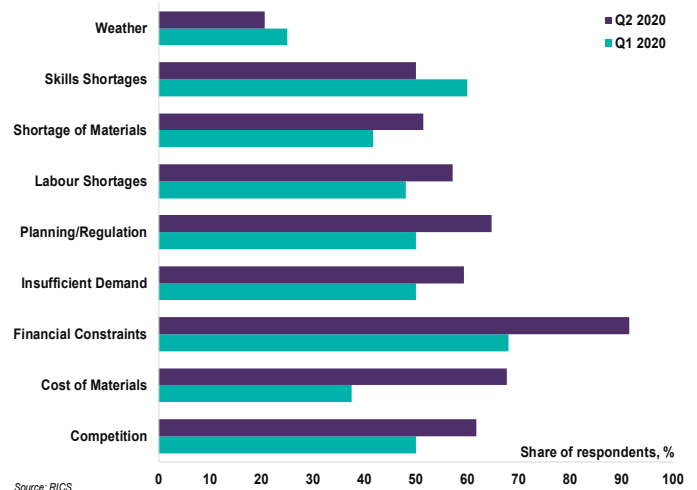
contributors expect infrastructure workloads to rise in the coming twelve months. Notwithstanding, profit margins are seen contracting by a net balance of -35% of contributors.

This could be a result of an sharp anticipated rise in construction costs in the year ahead. Respondents are forecasting around a 6% increase in total construction costs over the coming twelve months, with material and skilled labour costs driving the bulk of this increase. This is a particular concern since financial constraints are cited by the majority of contributors as a key factor hampering market activity at the present time, and more than half (52%) of respondents are consistently receiving bids below cost. As in elsewhere in the Middle East, onsite productivity has suffered since the outbreak of Covid-19. Respondents estimate productivity will decline 15% as a result of the pandemic.

Workloads, past 3 months



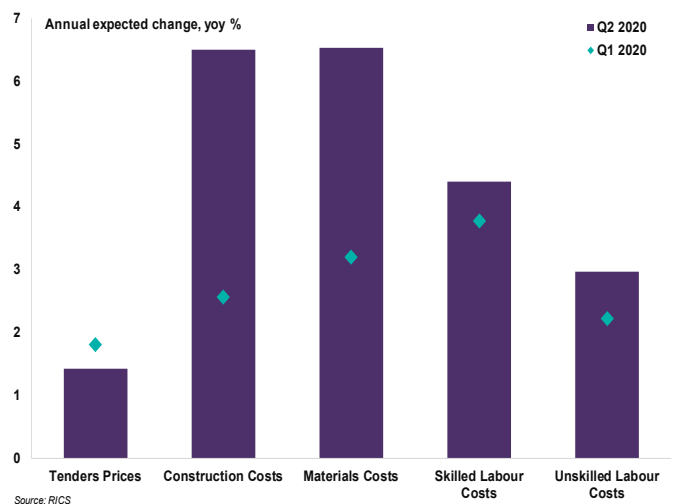
Factors holding back activity, past 3 months



Past 3 months vs next 12 months (expected)



Expected cost escalations, next 12 months



South Africa

Feedback to the Q2 2020 RICS Construction Monitor points to generally downbeat set of conditions across the construction industry in South Africa. The Construction Activity Index came in -39 in Q2 indicative a drop in momentum. A net balance of -64% of contributors reported a decline in new business enquiries over the quarter. Alongside this, profit margins were seen contracting sharply while contributors also reported a fall in hiring over the period.

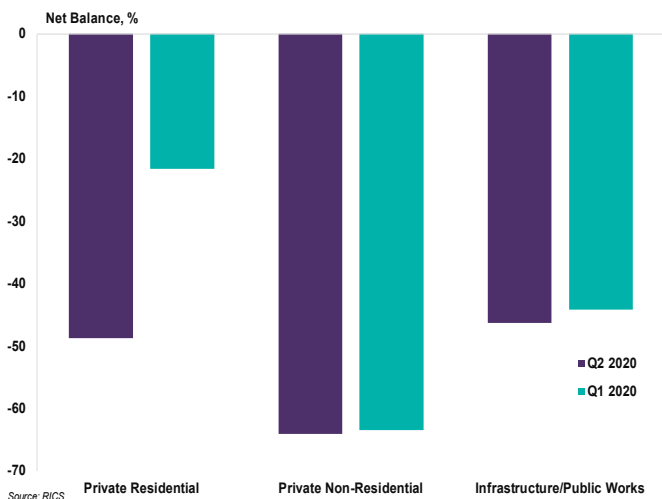
Workloads fell significantly across all sectors covered in the survey, evidenced by a net balance of -49% for private residential, -64% for private non residential and -46% for infrastructure and public works. Over the course of the next twelve months, contributors expect activity to contract in the private residential and private non-residential segments. However, a turnaround is envisaged for activity in infrastructure sector with a

net balance of +19% of contributors seeing a rise in workloads across this segment over the coming year.

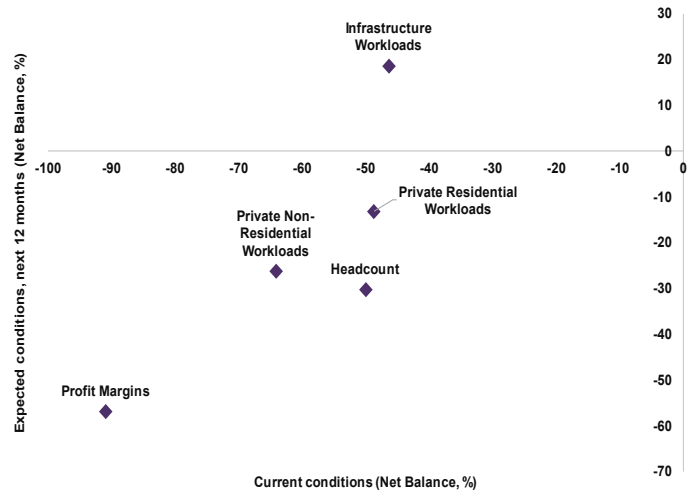
Despite this, profit margins are expected to tighten over the coming twelve months. This could in part be a result of rising construction costs. Respondents expect total construction costs to increase more than 6% in the year ahead, while tenders are expected to increase less than 2% over the same period.

Almost two-thirds of respondents in South Africa believe that onsite productivity could in fact fall by more than 10% as a result of the Covid-19 outbreak. This comes as more than a third of construction sites have been put on hold since the start of the pandemic, and are expected to remain on hold for nearly 6 more months. Of note, only 40% of respondents highlighted bids for projects consistently coming in below cost, below the global average of 44%.

Workloads, past 3 months



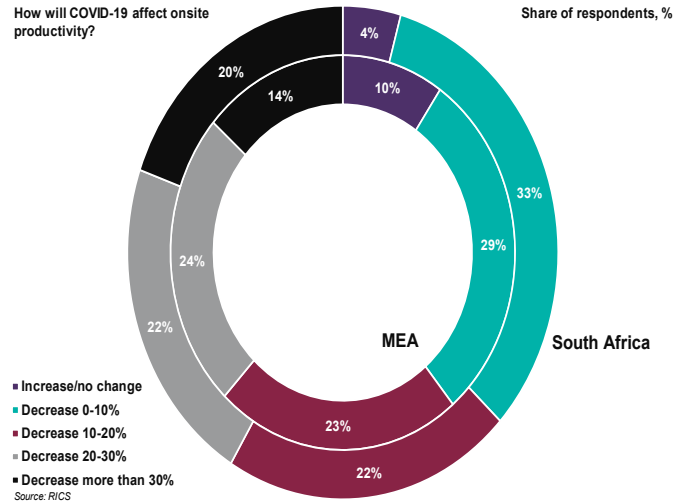
Past 3 months vs next 12 months (expected)



Expected cost escalations, next 12 months



Covid-19 expected impact on productivity



United Arab Emirates

Activity across the UAE construction sector appears to have declined further following the outbreak of Covid-19 and subsequent lockdowns. The Construction Activity Index slipped to -50 from -33 indicative of a more acute contraction in activity during the second quarter.

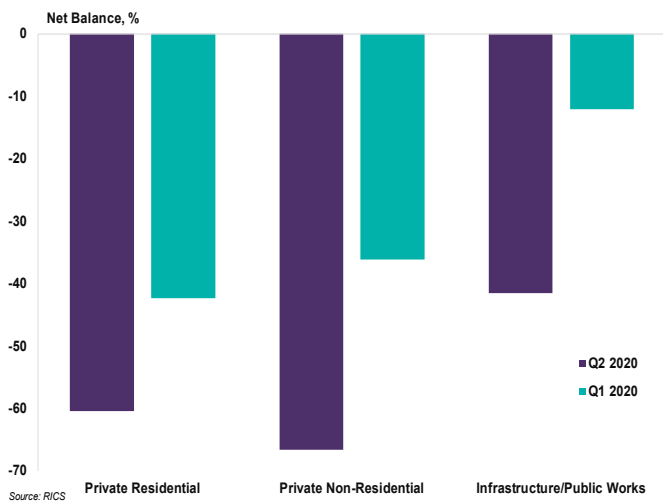
Workloads were seen declining across all three market segments covered in the survey (private residential, private non residential and infrastructure). A net balance of -76% of contributors reported a decline in new business enquiries. This, unsurprisingly led to sharp drop in profit margins while employment was reported to have declined further over the quarter.

The twelve month outlook appears to be generally subdued. Private residential, private non-residential as well as infrastructure and public works are expected to continue declining over the course of the next twelve months.

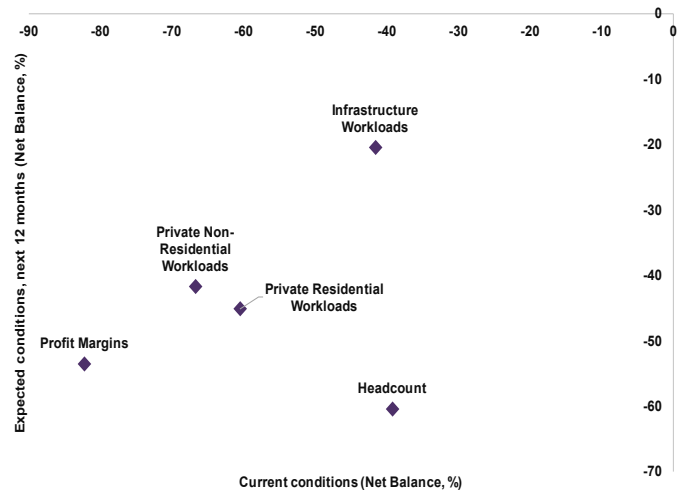
A net balance of -60% of contributors envisage a fall in hiring in the year ahead. Meanwhile profit margins are also seen contracting. This appears to mainly driven by a decline in tender prices. Respondents are forecasting around 4% drop in tender prices over the course of the next twelve months.

More than half of contributors in UAE said they were receiving bids/tenders below cost estimates at the present time. The average 'underbid' is 7% below cost, in line with the global average. Almost all survey contributors in the UAE (93%) anticipate productivity will be negatively impacted by the Covid-19 outbreak, and productivity is expected to decline 16% following the pandemic and subsequent changes in working conditions. More than a quarter of projects (28%) have been put on hold since the Covid-19 outbreak, according to survey participants, and are expected to remain on hold for an additional 170 days on average.

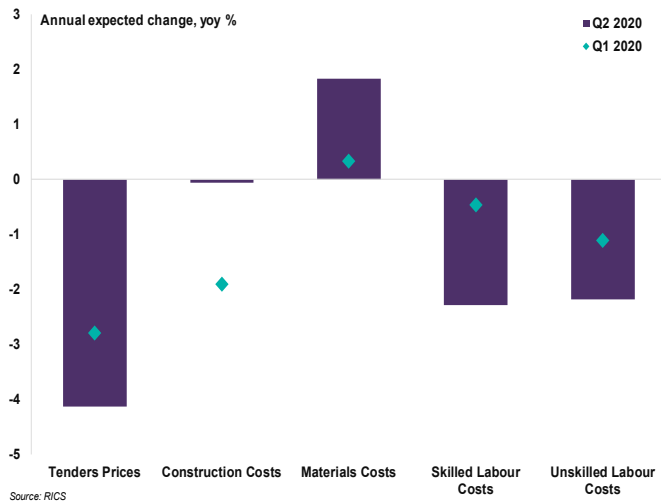
Workloads, past 3 months



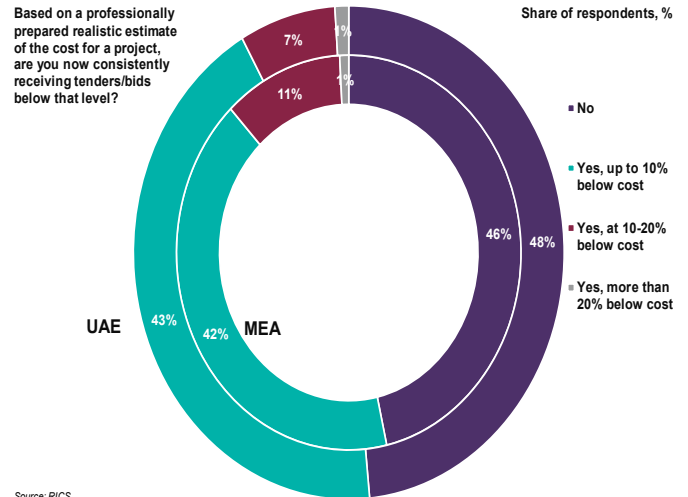
Past 3 months vs next 12 months (expected)



Expected cost escalations, next 12 months



Underbidding



Regional Comments from Survey Participants in EMEA ex-UK

There are restrictions regarding the retail activities. -*Bucharest*

Rwanda

Made in Rwanda products favoured but they are very costly. -*Kigali*

Saudi Arabia

Need clear guidelines post-covid to run project with time quality and cost. -*Makkah*

The effectivity of 10% increase in VAT and the pandemic greatly affects the construction market. -*Riyadh*

Employers are taking advantage of slowdown and cashflow constraints of contractors by accelerating projects. -*Riyadh*

The implementation of Covid-19 protocols on site are becoming onerous. -*Riyadh*

VAT increase from 5% to 15% and customs duty increase (variable) creates a sharp increase in costs. -*Riyadh*

Seychelles

The ban on issuance of new GOP for expats means no returning skills. -*Victoria*

Local currency devaluation in excess of 30% leading to inflation and higher costs of production. -*Victoria*

Slovakia

Building permission including planning and zoning permits is an issue. -*Bratislava*

South Africa

The effects of Covid-19 will be felt in a few months to come. For now, the picture not yet clear. -*Durban*

The municipality/council/deeds office have been closed during the lockdown and have a backlog. -*Durban*

Lack of new tender opportunities; contractors and subcontractors are unable to survive. -*Johannesburg*

The labour reduction legislation will impact production on many sites. -*Kimberly*

Cost overruns due to slow production affected by Covid-19 regulations. -*Polokwane*

Spain

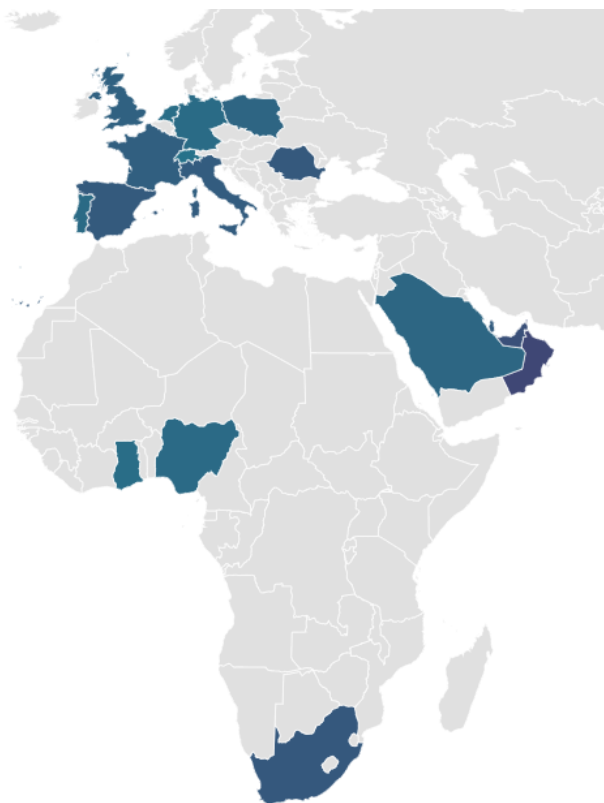
Everything is on hold. -*Barcelona*

Stop and delay of projects as well as investment decisions. -*Torrent*

Switzerland

Surprisingly, Covid-19 has no impact on construction sites. -*Schindellegi*

The construction market has a big necessity to become more digital.



-*Zurich*

Tanzania

Use of inappropriate technologies; shortage of competent local consultants and contractors. -*Dar es Salaam*

Turkey

Material provision and construction time are allongated due to Covid-19 measures. -*Istanbul*

Uganda

Delays in plan approvals by the government planning officers as most offices are closed. -*Kampala*

Transport costs have soared since public transport is limited and has increased two-fold. -*Kampala*

UAE

The number of Covid-19 infections are increasing. Financial mismanagement issues with construction companies. -*Abu Dhabi*

Potential projects for tender are quite minimal. -*Abu Dhabi*

There is a lack of demand, oversupply of all levels of personnel; clients are asking for discounts on live contracts. -*Abu Dhabi*

Productivity Rates will go down as a result of social distancing & health protocols. -*Dubai*

Restrictions on movement between cities imposed by the governments are also affecting site activities. -*Dubai*

Due to non payments from the employer, contractors and their subcontractors are suffering. -*Dubai*

Lack of support for expat professionals will have a catastrophic effect on employment. -*Dubai*

The lack of workload means that contractors chasing any work that becomes available. -*Dubai*

Uncertainty in oil and gas market as well as tourism affected by Covid-19. -*Dubai*

There is a shortage of labour and delay in supply of materials, exacerbated by the curfew. -*Kalba*

Zambia

Both private and public funded projects have been significantly impacted by the Covid-19 pandemic. -*Lusaka*

Zimbabwe

Construction materials very expensive and not locally available; drought and inconsistent government policies. -*Bulawayo*

Inconsistent government regulations, lack of foreign currency and lack of investor confidence. -*Harare*

RICS Consensus 12-month Expectations

	Tender Prices	Construction Costs	Materials Costs	Skilled Labour*	Unskilled Labour*
Global	+0.2%	+3.1%	+3.4%	+3.0%	+1.6%
Americas	+0.5%	+2.9%	+3.1%	+2.6%	+1.1%
Canada	+1.3%	+4.1%	+4.3%	+3.1%	+2.1%
USA	+0.0%	+2.4%	+2.6%	+2.9%	+0.9%
Asia Pacific	+0.3%	+3.3%	+3.2%	+4.1%	+2.7%
Australia	-0.3%	+1.7%	+2.7%	+0.4%	-0.7%
China	+0.2%	+2.3%	+2.0%	+4.0%	+2.2%
Hong Kong	-3.2%	-0.2%	+0.7%	-0.5%	-1.5%
India	+1.2%	+7.3%	+6.8%	+7.2%	+7.0%
Malaysia	-1.0%	+2.1%	+2.4%	+2.6%	+1.5%
New Zealand	+0.1%	+2.9%	+3.1%	+1.6%	-0.0%
Philippines	+4.1%	+6.5%	+7.2%	+4.4%	+3.4%
Singapore	+3.6%	+7.3%	+6.3%	+6.9%	+5.9%
Sri Lanka	+3.3%	+7.3%	+7.4%	+5.3%	+4.4%
Europe ex-UK	-0.1%	+2.1%	+3.2%	+1.4%	-0.0%
France	+1.5%	+3.0%	+3.0%	+1.5%	+1.1%
Germany	+1.0%	+2.6%	+3.3%	+2.0%	+1.8%
Italy	+0.9%	+3.0%	+3.9%	+2.3%	-0.1%
Netherlands	-1.0%	-0.9%	-0.8%	-0.6%	-1.3%
Poland	+0.3%	-1.8%	+1.3%	+0.7%	-1.1%
Portugal	-2.8%	+2.0%	+2.6%	+0.2%	-2.7%
Romania	+3.2%	+4.7%	+4.8%	+3.2%	+2.6%
Spain	-2.4%	-0.6%	+0.7%	-0.4%	-1.5%
Switzerland	+0.0%	+0.0%	+0.9%	+1.1%	-0.3%
Middle East & Africa	-0.1%	+0.4%	+0.1%	+0.0%	+0.0%
Ghana	-0.5%	+6.0%	+6.6%	+5.3%	+4.7%
Nigeria	+4.2%	+7.5%	+8.6%	+3.8%	+2.7%
Oman	-3.3%	-0.6%	+0.7%	+0.3%	+0.1%
Qatar	-0.9%	+2.7%	+3.7%	-0.1%	-0.7%
Saudi Arabia	+1.4%	+6.5%	+6.5%	+4.4%	+3.0%
South Africa	+1.7%	+6.2%	+6.7%	+4.0%	+3.3%
UAE	-4.1%	-0.1%	+1.8%	-2.3%	-2.2%

*Skilled and unskilled labour are expected changes of per unit skilled and unskilled labour costs

Information

Global Construction Monitor

RICS' Global Construction Monitor is a quarterly guide to the trends in the construction and infrastructure markets. The report is available from the RICS website www.rics.org/economics along with other surveys covering the housing market, residential lettings, commercial property, construction activity and the rural land market.

Methodology

Survey questionnaires were sent out on 10 June 2020 with responses received until 23 July 2020. Responses from the Philippines were received until 27 July 2020. Respondents were asked to compare conditions over the latest three months with the previous three months as well as their views as to the outlook. A total of 1816 company responses were received globally, 408 of which were from the UK. Responses in Canada were collected in conjunction with the Canadian Institute of Quantity Surveyors. Responses in the United States were collected in conjunction with the Association for the Advancement of Cost Engineering. Responses from the Philippines were collected in conjunction with the Philippine Institute of Certified Quantity Surveyors.

Net balance = Proportion of respondents reporting a rise in a variable (e.g. occupier demand) minus those reporting a fall (if 30% reported a rise and 5% reported a fall, the net balance will be 25%). Net balance data can range from -100 to +100. A positive net balance reading indicates an overall increase while a negative reading indicates an overall decline.

RICS Construction Activity Index is constructed by taking an unweighted average of current and 12-month expectations of four series: residential workloads, non-residential workloads, infrastructure workloads and profit margins. Global and regional series are weighted using the World Bank's GDP PPP (2017 constant prices) data series. Current responses were weighted using the prior years GDP (e.g. the 2020 responses were weighted using 2019 GDP data). Where responses are not sufficient to form a national-level sample, they are binned together to fill in any gaps in regional coverage.

Disclaimer

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Responses were gathered in conjunction with the following organisations:



Canadian Institute of
Quantity Surveyors

Institut canadien des
économistes en construction



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