Q3 2018: RICS Middle East Construction and Infrastructure Survey

Profit margins narrow, but workloads expected to increase

- Construction and infrastructure workloads declined in Q3, but respondents expect workloads to increase over the next twelve months.
- Profit margins under pressure in Q3, and are expected to continue to do so as respondents highlight insufficient demand, financial constriants, and competition as holding back activity.

Respondents to the RICS Q3 Global Construction and Infrastructure market survey from the Middle East broadly reported a decline in activity during the third quarter. Although activity was downbeat in the third quarter, Chart 1 indicates that contributors are optimistic that headline workloads are likely to increase over the next year.

Perhaps due to expectations for future workloads, a majority of respondents in the Kingdom of Saudi Arabia (KSA), 71%, and in the United Arab Emirates, 55%, reported highering additional headcount in Q3 to support new workloads. A significant share of respondents in Oman (45%) and Qatar (44%) also reported new hiring during the quarter.

There could be some element of front-loading here, as respondents across the Middle East don't see headcounts expanding over the next twelve months despite the expectations for increased workloads, and those in KSA and the UAE expect a modest contraction in headcount over the next year.

Contributors across the Middle East reported a sharp pullback in profit margins in Q3 and increase in payment delays. Despite expectations for increased workloads, this is expected to persist, as shown in Chart 4. This dynamic may be attributed to financial constraints faced by firms, which were identified by a majority of respondents in each country included in the survey as a drag on activity.

As noted in Chart 3, more than a third of respondents in Qatar and half of respondents in the UAE and KSA saw some degree of deterioration in credit conditions during Q3. The outlook for credit conditions throughout the region over the next twelve months is more nuanced, with expectations in Oman and Qatar skewed towards an improvement and those in KSA towards a deterioration.

Insufficient demand and competition were also highlighted as stifling market activity by respondents across the region. Respondents in KSA and Qatar also cited the cost of materials as a constraint. Chart 2 shows that respondents in KSA have the firmest expectations for tender price increases for both building and civil engineering over the next twelve months in the region, while prices for both are expected to decline in the UAE.

Interestingly, a majority of contributors in any country in the Middle East did not report any particular skill shortage. Though, 47% of respondents in each of Oman and the UAE reported a shortage of BIM managers. Meanwhile, in KSA 42% of respondents noted a shortage of construction managers, while 38% in Oman and Qatar reported a shortage of quantity surveyors/commercial managers. However compared to other regions, there does not appear to be an acute shortage of any particular skill in the Middle Eastern construction and infrastructure industries.

As shown in Chart 5, infrastructure workloads were mixed throughout the region, with little change reported in KSA and the UAE, but contributors in Oman and Qatar reporting a decline. This becomes even more nuanced when looking at workloads by segment. Workloads on road and rail generally increased during the third quarter, with the exception of Oman, while those for harbour and port projects generally declined. Contributors from Oman and Qatar also reported declining workloads for communications and airport projects.

Expectations for which infrastructure market segment will see the greatest growth in output over the next twelve months were similarly nuanced. The greatest share of respondents in both Qatar and the UAE expect this to be harbours and ports, while in KSA rail is expected to see the strongest growth in output and in Oman this is expected to be communication.

One area which shows more uniformity across the Middle East is the type of infrastructure investment is needed. Between 70-80% of respondents in each of KSA (70%), Oman (75%), Qatar (73%) and the UAE (79%) all see more of a need for new projects than for the repair and maintence of existing infrastructure.

MENA Key Indicators

Chart 1: Workloads

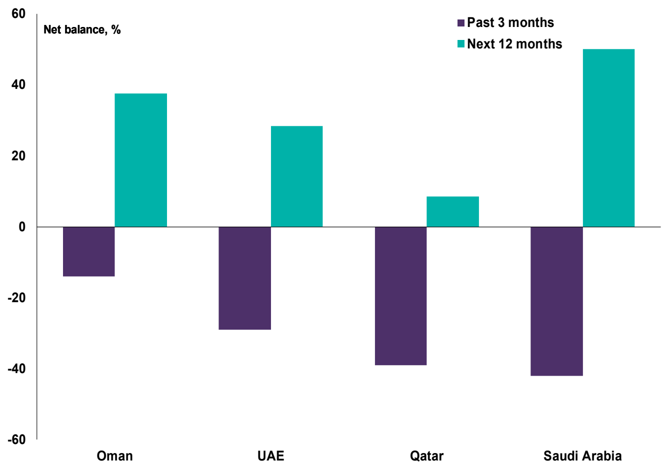


Chart 2: Tender Prices, Next 12 months

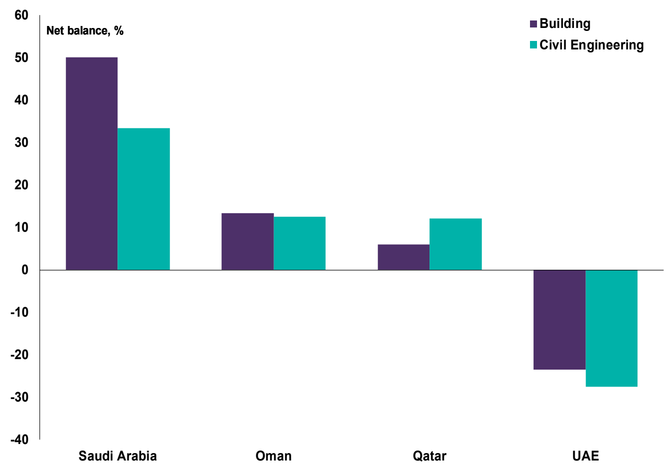


Chart 3: Credit Conditions

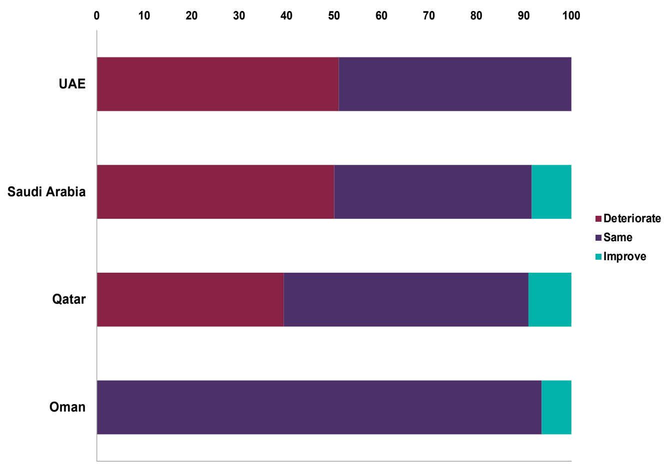


Chart 4: Profit Margins

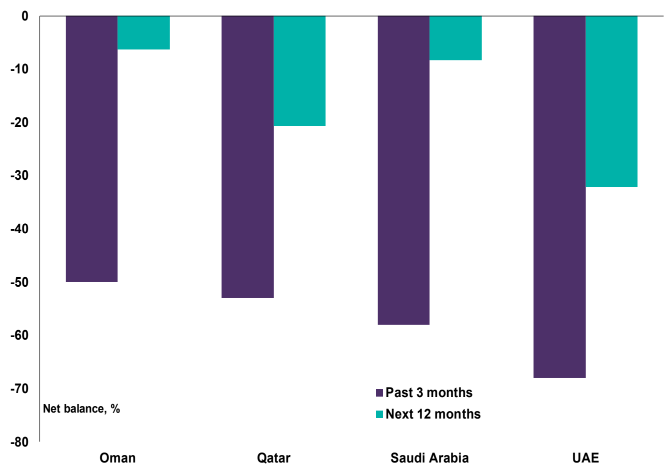


Chart 5: Infrastructure Workloads, Past 3 months

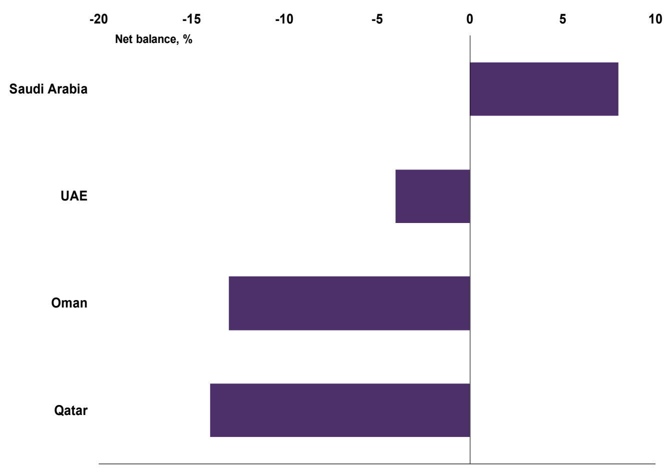
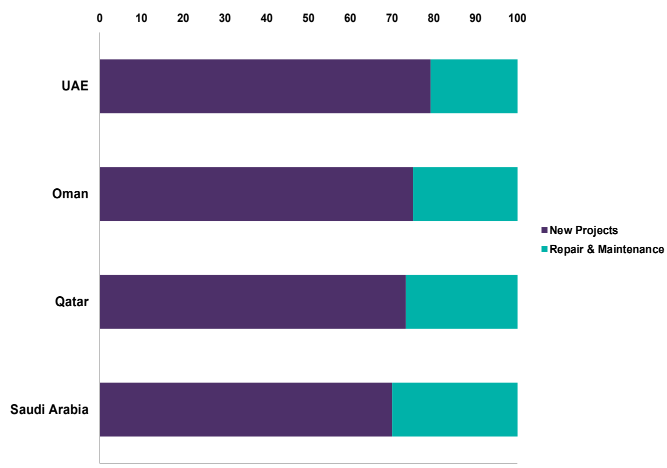
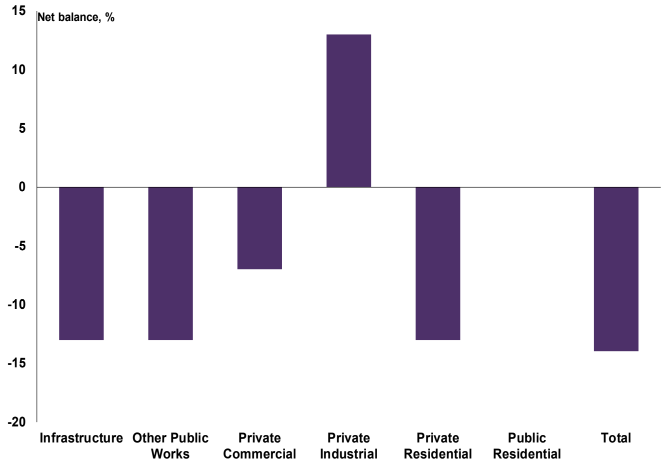


Chart 6: Infrastructure Needs

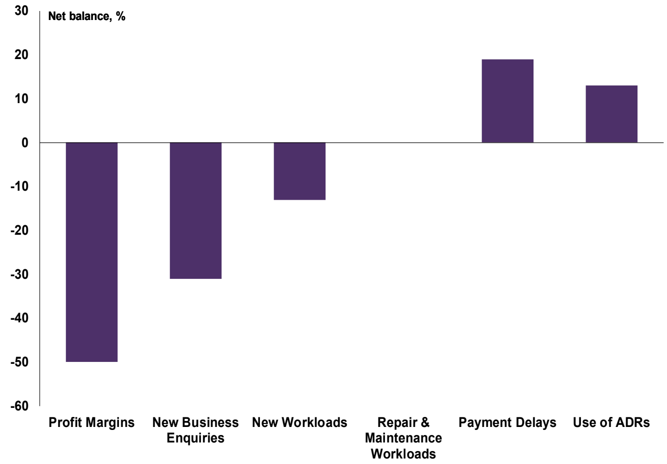


Oman Key Indicators

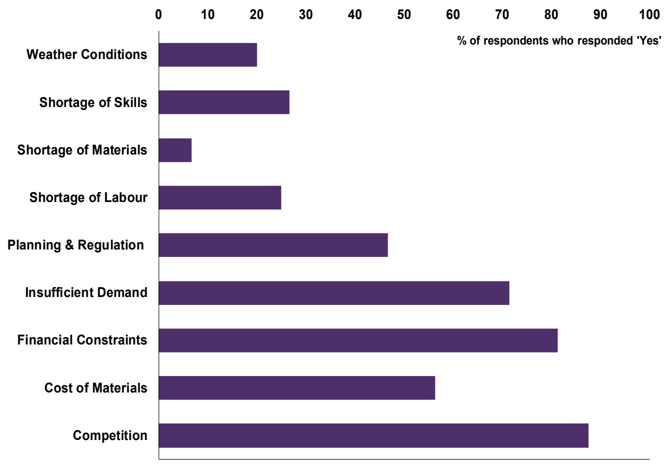
Workloads - Headline workloads contracted modestly in Q3, though respondents did report an increase in private industrial builds and no change in public residential or private commercial workloads.



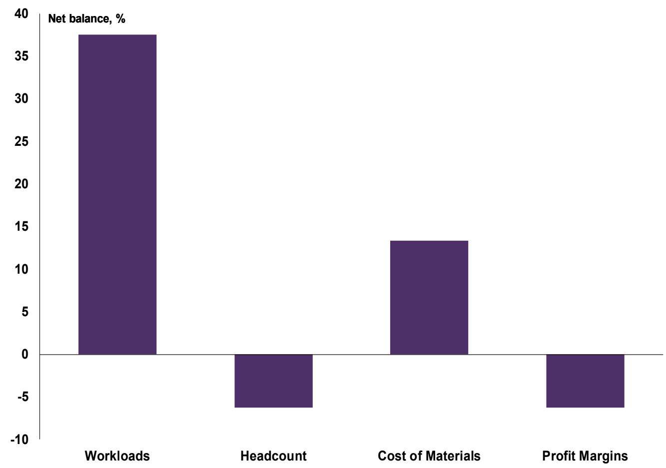
Enquiries & Workloads - New business enquiries declined in Q3, as new workloads also decreased. Respondents reported tighter profit margins, and a moderate increase in payment delays.



Factors Holding Back Activity - Competition and financial constraints were overwhelmingly the top factors cited by a majority of respondents as holding back activity (88% and 81% respectively). 71% also cited insufficient demand as stifling activity.

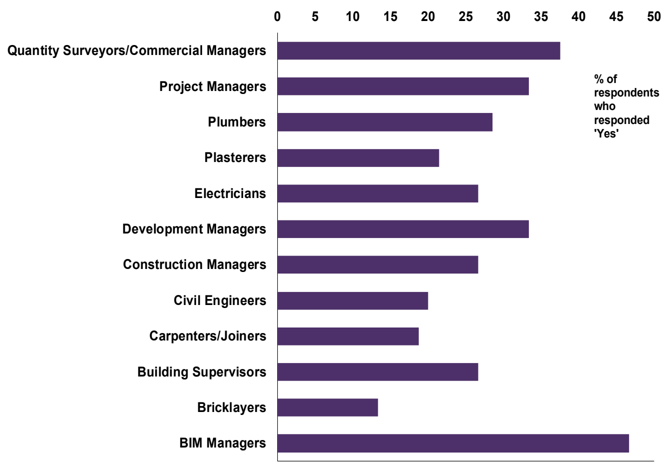


12-month Expectations - Respondents expect workloads to increase over the next twelve months, and this is expected to outpace material price inflation (in net balance terms). Meanwhile, headcounts and profit margins are expected to remain unchanged over the next year.

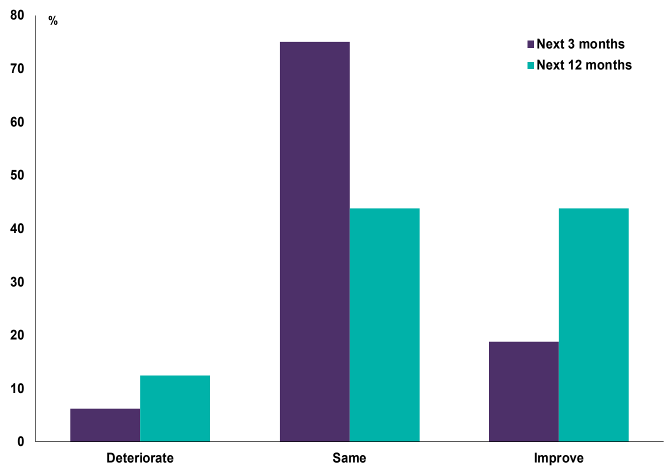


Oman Key Indicators

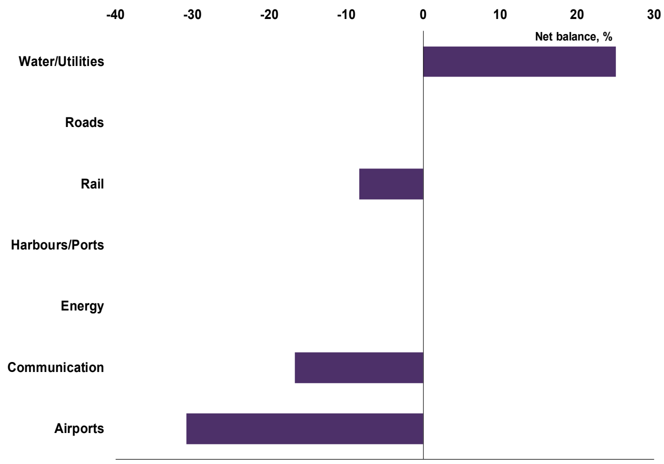
Skill Shortages - 47% of respondents identified a shortage of BIM managers. Apart from this, there were no other skills that more than 40% of respondents identified as there being a shortage of.



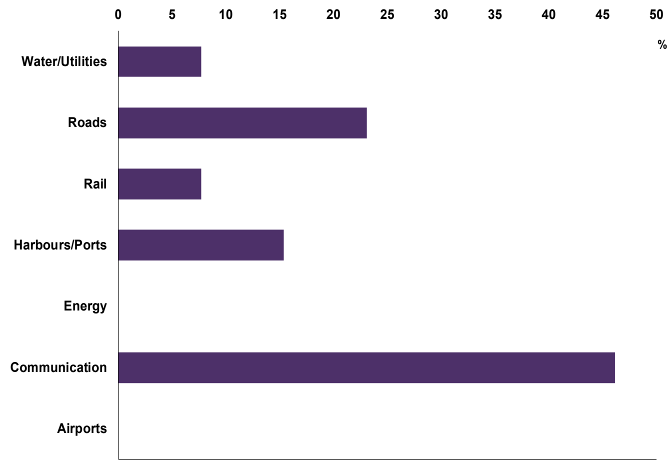
Expectations for Credit Conditions - Credit conditions are seen little changed over the next three months by a majority (75%) of respondents. However, over the next year, 44% of respondents expect credit conditions to improve.



Infrastructure Workloads - Infrastructure workloads were mixed in the third quarter. Repsondents reported an increase in workloads on water and utilities projects, while workloads on airports declined.

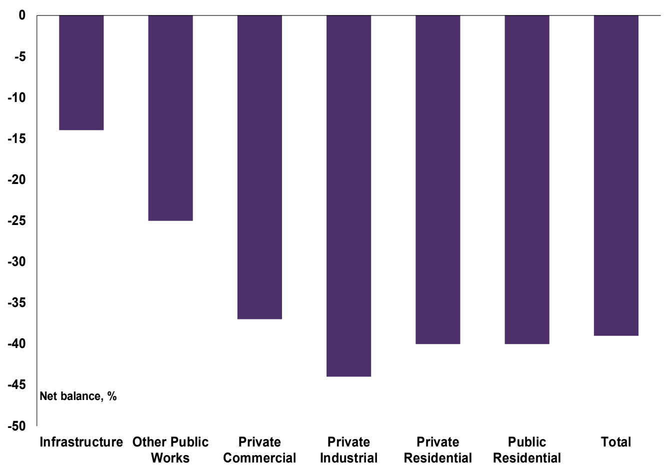


Infrastructure Expectations - Over the next twelve months, 47% of respondents expect communications workloads to see the most significant increase.

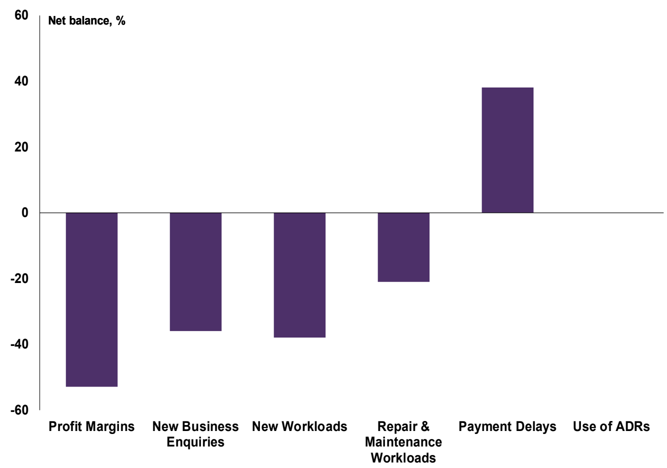


Qatar Key Indicators

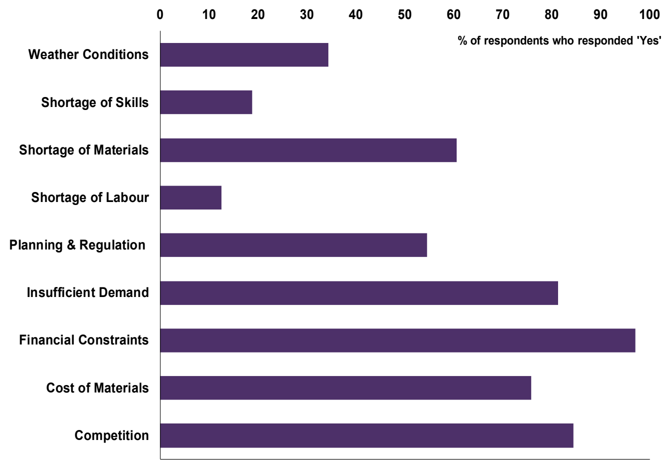
Workloads - Workloads were down across the board in Q3, with respondents seeing the largest pullback in private industrial workloads. Infrastructure workloads declined at a much more modest pace during the third quarter.



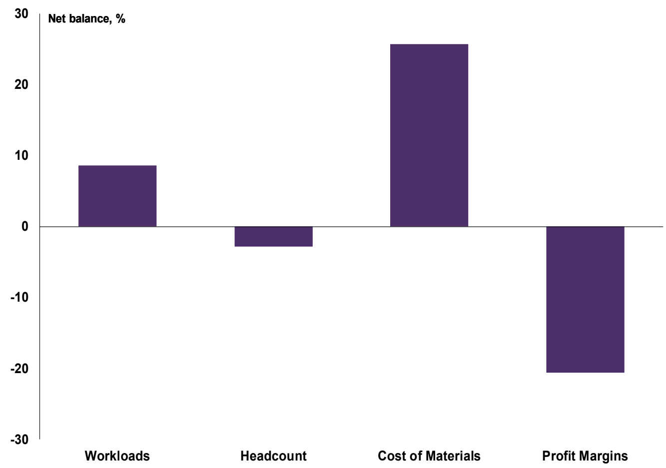
Enquiries & Workloads - New enquiries and new workloads declined during the third quarter. Repair and maintenance workloads were also reported to have declined, though at a more modest pace in net balance terms. Respondents also reported a significant deterioration in profit margins, and increase in payment delays.



Factors Holding Back Activity - Respondents were almost unanimous (97%) in highlighting financial constraints as a factor holding back activity. Meanwhile, 84% identified competition, 81% insufficient demand, 76% the cost of materials, and 60% a shortage of materials.

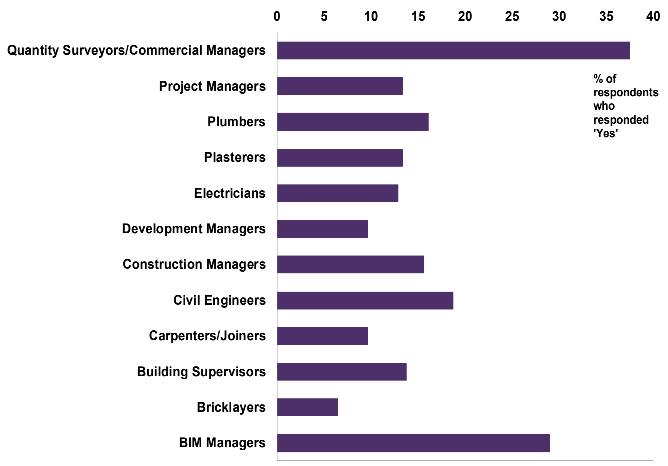


12-month Expectations - Respondents expect a marginal increase in workloads over the next year, and see headcounts little changed. The cost of materials is seen rising at a faster pace, however, and profit margins are expected to continue to deteriorate.

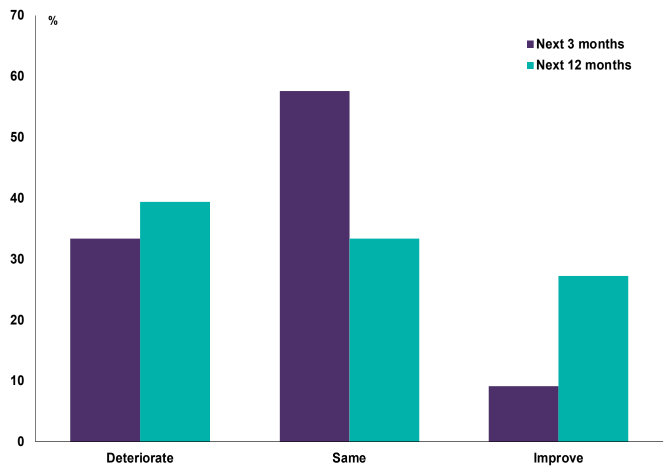


Qatar Key Indicators

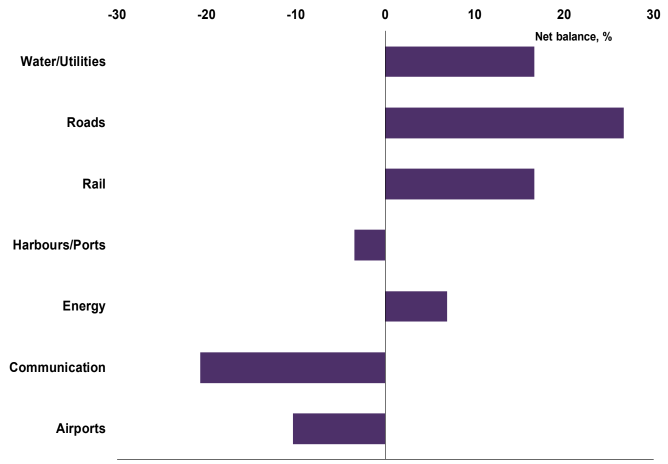
Skill Shortages - Respondents did not overwhelmingly highlight a specific skills shortage, though 38% did note a shortage of quantity surveyors/commercial managers.



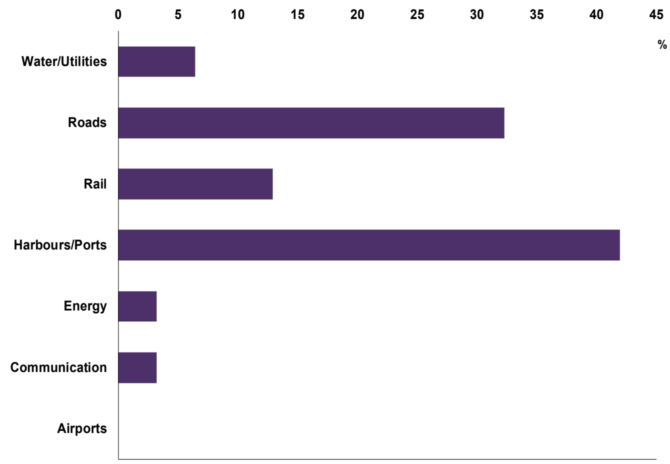
Expectations for Credit Conditions - A majority of respondents (58%) see little change in credit conditions over the next three months, though a third expect some degree of deterioration. Credit conditions are expected to tighten over the next year.



Infrastructure Workloads - Infrastructure workloads were mixed in the third quarter. Workloads on rail, road and water and utilities projects increased, while there was little change in workloads on harbours and ports and energy projects. Meanwhile, workloads on communication and airports declined.

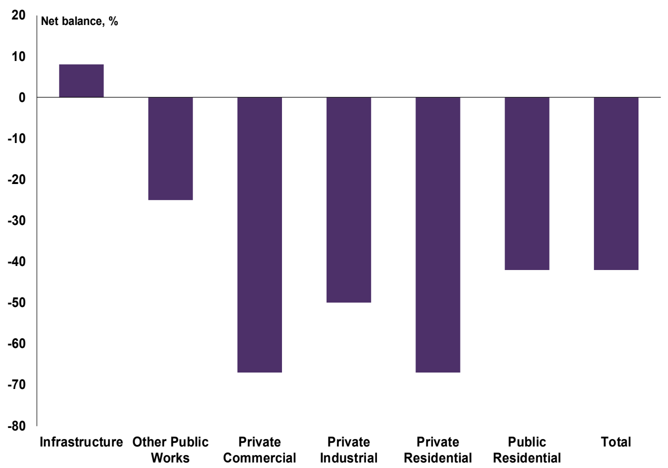


Infrastructure Expectations - 42% of respondents expect harbours and ports to see the largest increase in workloads over the next twelve months, while 32% expect the biggest increase in workloads to occur in road projects.

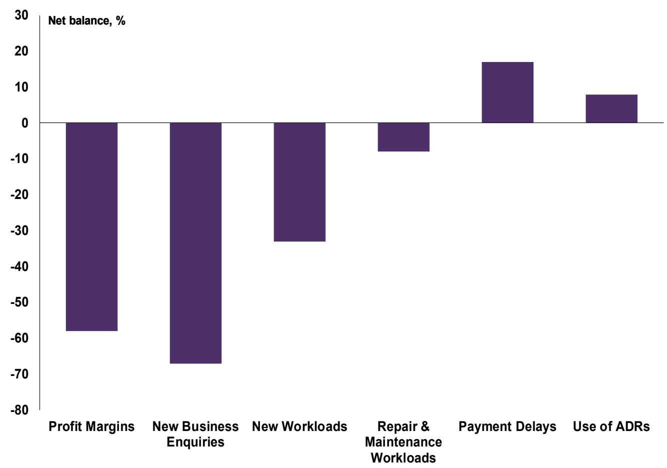


Kingdom of Saudi Arabia Key Indicators

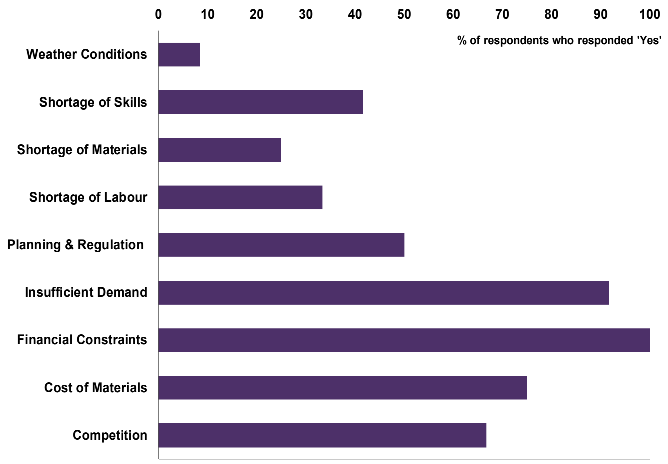
Workloads - Contributors reported a decline in headline workloads during Q3, particularly regarding private commercial and residential projects. Workloads for infrastructure, however, were reported to have increased at a moderate pace during the quarter.



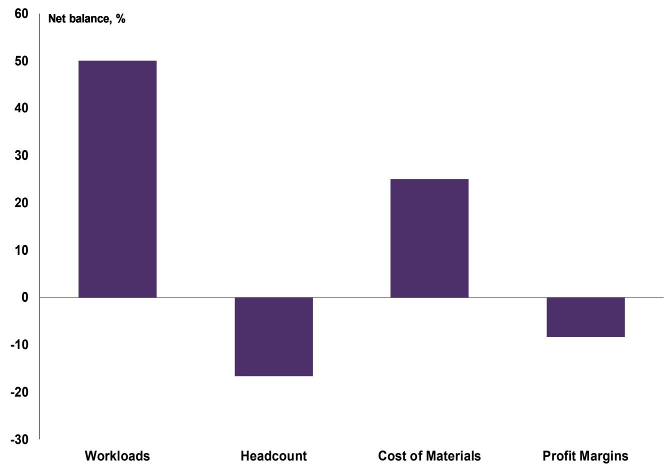
Enquiries & Workloads - Contributors reported a sharp decline in new business enquiries in net balance terms, and new workloads were also seen to have decreased. Perhaps unsurprisingly, margins tightened and payment delays increased during Q3.



Factors Holding Back Activity - Respondents were unanimous in highlighting financial constriants as a factor holding back activity, while 92% also reported insufficient demand. Meanwhile, 75% noted the cost of materials and 67% identified competition as restraining activity.



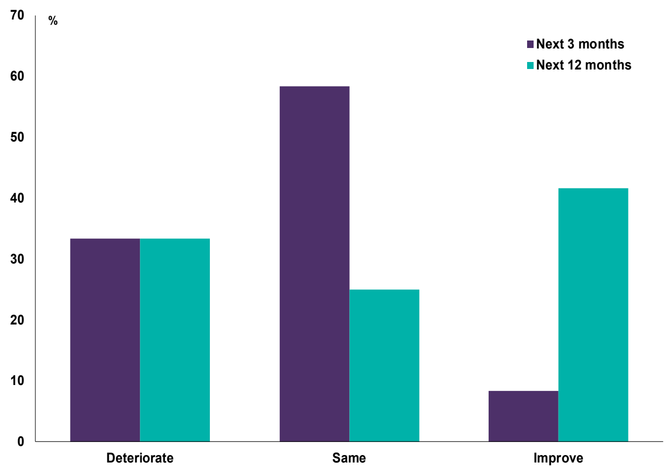
12-month Expectations - Workloads are expected to increase at a robust pace over the next year, while the cost of materials are expected to increase at a more modest pace (in net balance terms). However, headcounts are still seen declining, and profit margins little changed over this period.



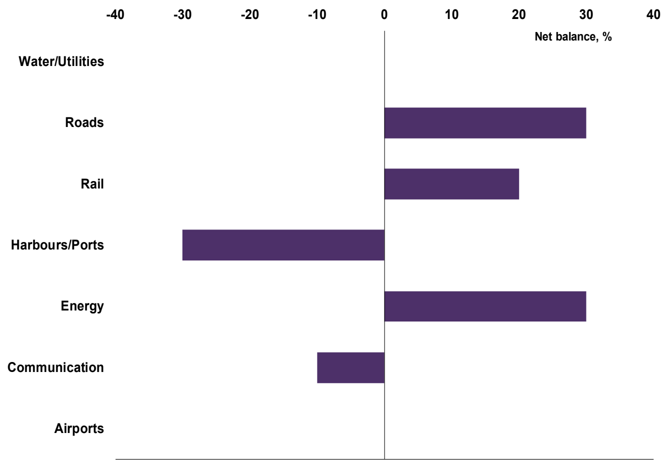
Kingdom of Saudi Arabia Key Indicators

Skill Shortages - Respondents didn't highlight a shortage of any particular skills, but 42% noted a shortage of construction managers and plasterers.

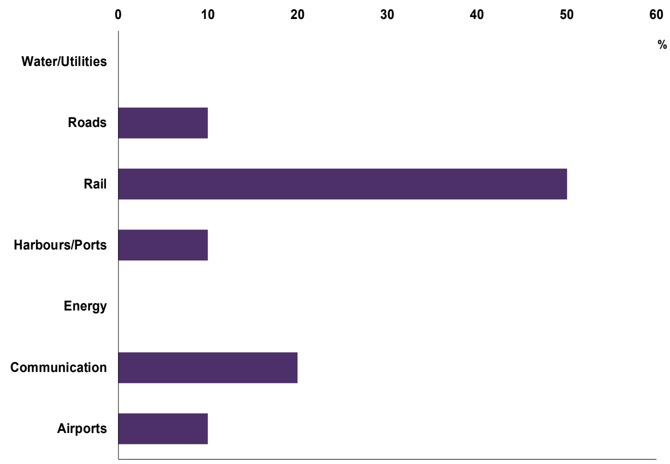
Expectations for Credit Conditions - Most respondents, 58%, expect no change in credit conditions over the next three months. Expectations over the next year, however, are more mixed, with 42% expecting an improvement and 33% expecting a deterioration.



Infrastructure Workloads - Respodnents reported an increase in workloads for road, rail and energy projects during Q3. Meanwhile, work on harbours and ports declined during the third quarter.

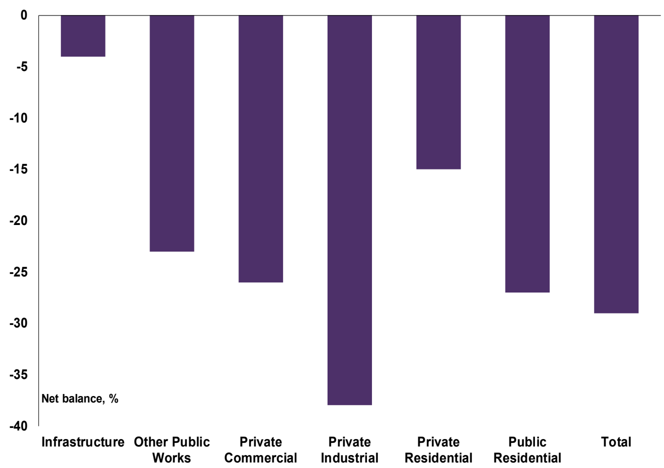


Infrastructure Expectations - Half of respondents expect rail projects to see the largest increase in demand over the next twelve months, while 20% see this for communications projects.

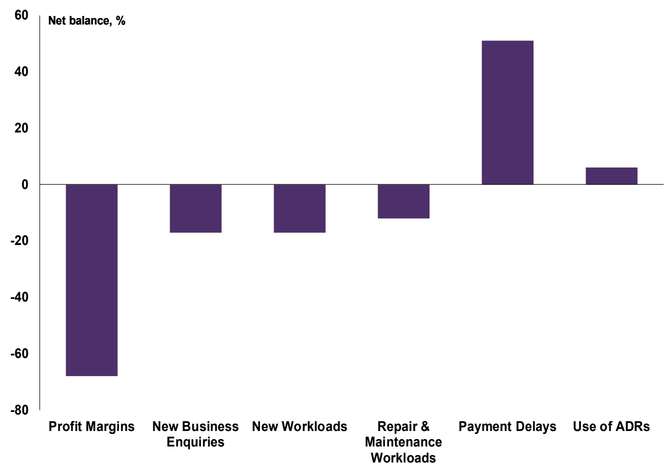


United Arab Emirates Key Indicators

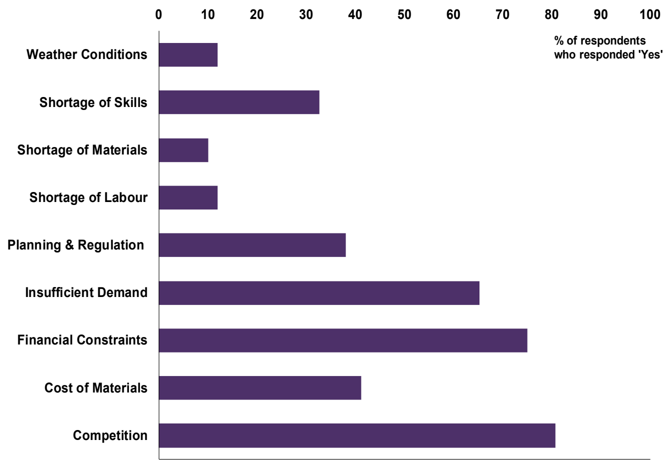
Workloads - Headline workloads declined during Q3. While most segments saw a pullback during the quarter, workloads on infrastructure projects were reported to have been little changed.



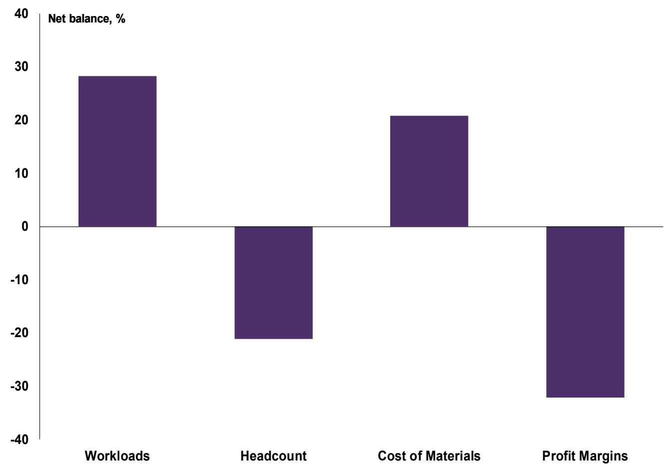
Enquiries & Workloads - Respodents reported a significant decline in profit margins and an increase in payment delays in Q3 in net balance terms. Meanwhile, new business enquiries and new workloads declined at a more modest pace.



Factors Holding Back Activity - Competition was seen as a factor holding back actvity by 81% of respondents. Financial constraints (75%) and insufficient demand (65%) were the only other factors identified by more than 50% of respondents.

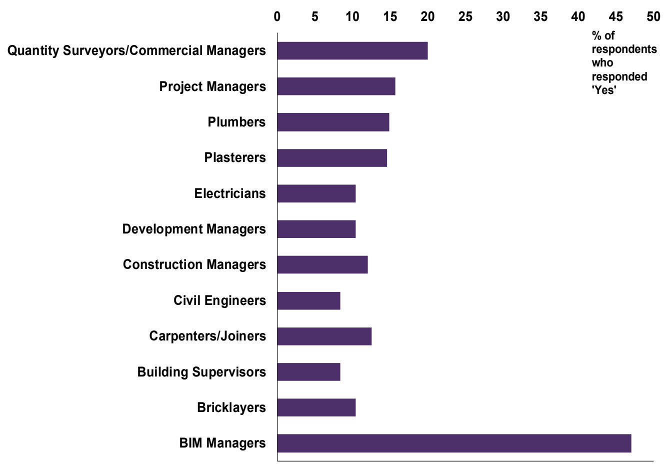


12-month Expectations - Although workloads are expected to increase over the next year, profit margins are seen to continue to deteriorate. Meanwhile, respondents expect a moderate increase in the cost of materials and decline in headcounts.

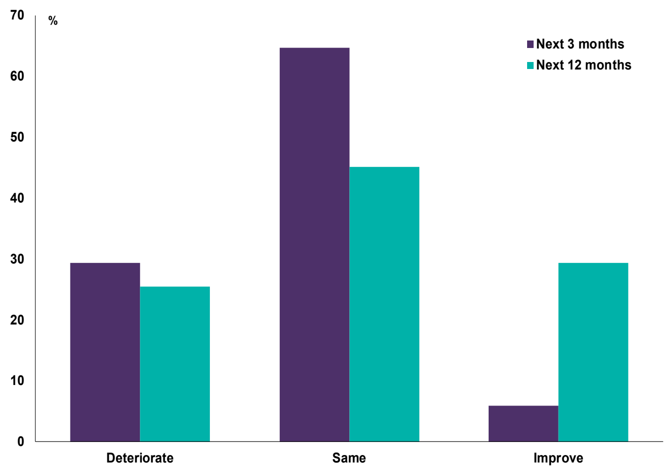


United Arab Emirates Key Indicators

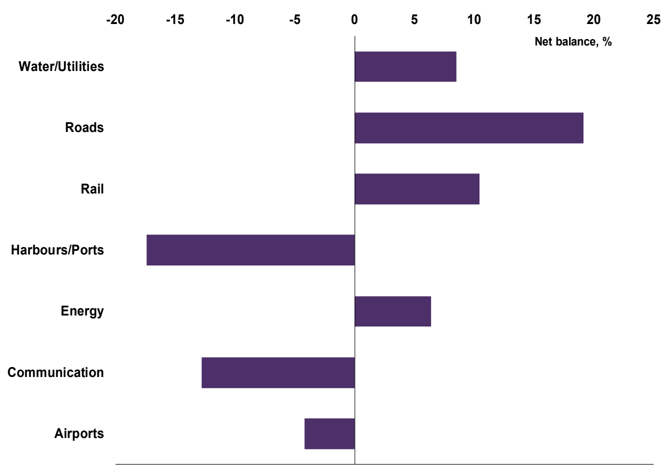
Skill Shortages - Nearly half (47%) of respondents reported a shortage in BIM managers in Q3. Apart from this, a substantial share of respondents did not report a deficit in a particular skill.



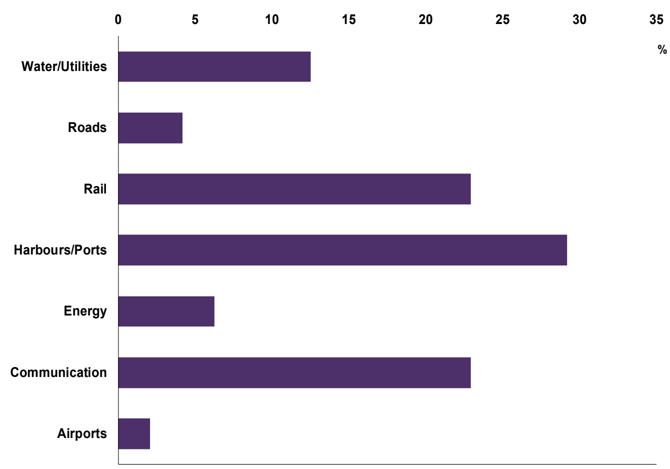
Expectations for Credit Conditions - Credit conditions are expected to remain unchanged over the next twelve months, though over the next three months expectations are slightly skewed towards a tightening.



Infrastructure Workloads - Infrastructure workloads were mixed during Q3. Respondents reported an increase in workloads on road projects, and a decline in workloads on harbours and ports, as well as airports.



Infrastructure Expectations - No single segment was overwhelmingly expected to see the strongest increase in demand over the next year, as more than 20% of contributors each selected harbours and ports (29%), roads (23%), and communications (23%) projects.



Information

Construction and Infrastructure Survey

RICS' Asia-Pacific and Middle East Construction and Infrastructure Survey 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 24 September 2018 with responses received until 21 October 2018. 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 984 company responses were received. Responses for New Zealand were collated in conjunction with Property Council New Zealand.

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.

Contact details

This publication has been produced by RICS. For all economic enquiries, including participation in the monitor please contact: **economics@rics.org**

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Economics Team

Janet Guilfoyle

Market Surveys Administrator

+44(0)20 7334 3890

jguilfoyle@rics.org

Simon Rubinsohn

Chief Economist

+44(0)20 7334 3774

srubinsohn@rics.org

Jeffrey Matsu

Senior Economist

+44(0)20 7695 1644

jmatsu@rics.org

Sean Ellison

Senior Economist

+65 68128179

sellison@rics.org

Tarrant Parsons

Economist

+44(0)20 7695 1585

tparsons@rics.org

Kisa Zehra

Economist

+44(0)20 7695 1675

kzehra@rics.org

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Americas

Latin America
ricsamericalatina@rics.org

North America
ricsamericas@rics.org

Asia Pacific

ASEAN
ricsasean@rics.org

Greater China (Hong Kong)
ricshk@rics.org

Greater China (Shanghai)
ricschina@rics.org

Japan
ricsjapan@rics.org

Oceania
oceania@rics.org

South Asia
ricsindia@rics.org

EMEA

Africa
ricsafrica@rics.org

Europe
ricseurope@rics.org

Ireland
ricsireland@rics.org

Middle East
ricsmiddleeast@rics.org

United Kingdom RICS HQ
contactrics@rics.org