



Destination Saudi: the allure of a \$300b market

As Saudi Arabia prepares for the country's biggest building and construction event, *PW* investigates the trends and developments that make it a key destination for big-hitters from around the world

By Syed Ameen Kader
Special to *PW*

The construction sector in Saudi Arabia is slated to maintain its growth trajectory this year and beyond, buoyed by impressive results last year that saw construction projects worth \$42 billion (Dh154.26 billion) being awarded, a 147 per cent increase over the previous year. The growing interest of international companies to exhibit at the Big 5 Saudi is further testimony to the wealth of opportunities in the country, potentially keep-

ing the construction sector in great shape for many years to come.

According to the Council of Saudi Chambers, Saudi Arabia's burgeoning construction and contracting market is expected to touch the \$300-billion mark by next year.

The country's construction industry, the second-largest economic sector after oil, has total assets valued at \$53 billion, while the government contracts awarded last year amounted to nearly \$41.8 billion. At present, Saudi Arabia is the most valuable construction market in the GCC,

\$53b

The value of the total assets of the Saudi construction sector

with \$495 billion worth of contracts that include ongoing, confirmed and pre-execution projects.

Industry experts claim the scale of committed or signposted government investment programmes will underpin sustained activity in the industry.

"We're expecting to see the ongoing emergence

and confluence of a number of factors that are key to the success of these programmes, both in terms of what the projects need to achieve and what is needed to enable them to succeed," says David Brazier, Director of Infrastructure and Capital Projects at Deloitte.

"Most of these factors relate directly to critical macroeconomic considerations for the country."

Brazier says the demographics and historic undersupply will continue to drive social infrastructure investment programmes; the greater focus on the assess-

The Big 5 Saudi

Venue: Jeddah Centre for Forums and Events
Date: March 9-12

ment of the efficiency and effectiveness of earlier spending should increasingly be reflected in the maturity of these procurements and their delivery.

"Parallel with this investment, the government will continue with its massive catch-up programmes for enablers such as public transport. These programmes

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“We are expecting to see improvements in the funding options and structuring of projects to increase their capital efficiency.”

David Brazier
Director of Infrastructure and Capital Projects, Deloitte

are essential to address the country's economic imperatives and also to address the quality of life expectations for a G20 country and its resident population. Equally important are the ongoing public safety programmes such as storm water protection,” Brazier adds.

Infrastructure boost

The government's key focus has been to improve the power, transport and housing sectors, to catch up with the growing population and consequent urbanisation. Some of the big-ticket infrastructure projects that will have immense impact on the Saudi market include Shaqiq power plant, coming up in the south of Jeddah,



✦ Exhibitors will be looking to offer solutions to potential challenges in Saudi Arabia's construction industry



Pictures: Supplied

✦ The Big 5 Saudi will host the Leaders in Construction Panel Discussion on market developments and future opportunities

and Riyadh Metro, the biggest project in the region. The Arriyadh Development Authority (Ada) has already announced further details of the proposed metro project that consists of six lines with 96 stations and a total length of 176km. Construction is scheduled to start in the first quarter, with the first phase of the project expected to open in late 2016.

The government is also working on the expansion of Riyadh Airport and building new ports at King Abdullah Economic City north of Jeddah.

“The Saudi construction market is set to flourish this year because of, among other things, the number of transportation projects that will be starting up — the Riyadh, Jeddah and Makkah metros with Haramain and North South Rail nearing completion,” says Oliver Plunkett,

Country Director for Saudi Arabia at Buro Happold.

“The arrival of this sector in the country is really positive in many ways from the opportunity that it creates for world-class transport infrastructure, to the supply chain opportunities it creates for the Saudi economy.”

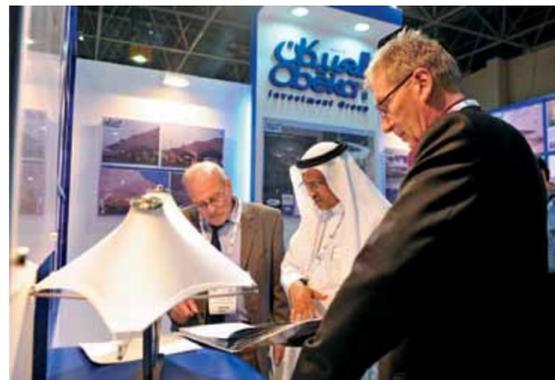
Plunkett's company was associated with some of Saudi Arabia's iconic projects such as the King Abdullah Financial District and International Gardens, Diplomatic Club Tuwaiq Palace and Al Faisaliah Centre.

Public transport and regional air and rail projects are the key driving factors for the Saudi market, says Plunkett. “The former because this is essential if the economy is to continue to develop and the latter to take advantage of the opportunities that the expansion in religious tourism creates,” he says, adding that there is a lot to see in Saudi Arabia and those coming for pilgrimage will have a lot to add to the economy if they can travel around the country easily.

Upbeat property market

Saudi Arabia will need nearly 1.25 million houses in the next five years to keep pace with its growing population, which is expected to reach 37.2 million by 2020.

In order to meet this growing demand, the Ministry of Housing (MoH) has already signed contracts worth 4 billion Saudi riyals (Dh3.92 billion) to develop around 40,000 residential units on 26 million sq m of land in



✦ With its construction and contracting market expected to reach \$300 billion next year, Saudi Arabia emerges as an important growth market for global contractors

eight developments across the country.

There are several other projects from various developers, such as a 15-storey, mixed-use tower at Riyadh Business Gate by Mafaz Properties and Capitas. The project includes a 200-room Radisson Blu hotel, 87 serviced apartments, office space and a retail podium.

The Saudi real estate market has also been witnessing an influx of luxury real estate projects. Damac, for instance, has started construction of a new serviced apartment project on King Fahad Road close to the Kingdom Tower. This project will provide more than 100 luxury serviced apartments with interiors by Italian fashion house Fendi.

It is not just Riyadh. Jeddah is also seeing supply of

new houses in key areas. According to the MoH, around 110,000 housing units are currently under development in Jeddah. These include the Al Fareeda project in the north of the city and a large project by the ministry located next to the Prince Fawaz University in southern Jeddah, which will eventually accommodate approximately 10,000 Saudi families.

The positive sentiment in Saudi Arabia's property market is reflected in the mood of financial institutions and banks, which are also responding enthusiastically to the market need.

For example, Gulf Capital has recently provided a ten-year, \$120-million loan to National Commercial Bank to develop a 525-unit residential compound in north-west Riyadh. The



✦ The huge housing demand in Saudi Arabia is expected to impact the boom in sustainable housing projects, such as the futuristic White Sky iHouse by the White Sky Group

157,000-sq-m project is valued at \$266 million.

Industry players are therefore very upbeat about the overall growth prospects of the Saudi market.

German architect Tobias Lindemann, who is best known for creating futuristic zero-energy houses combined with electro-mobility and award-winning mega projects in Saudi Arabia, says construction is the fastest-growing sector in the country, followed by transport and communication.

“I am confident the Saudi economy will stay strong, given all key drivers. For us, Saudi Arabia offers great opportunities in master planning, residential housing, infrastructure and transportation structures such as train stations and airports,” says Lindemann, CEO of White Sky Group.

Challenges

Although there are some delays to the mega projects, Lindemann says the country continues to perform successfully this year. “However, solutions are needed for public transport and road systems,” he says. “Developing plus-energy houses combined with mobility, we expect a great impact on residential housing in the GCC. The challenges in Saudi Arabia include infrastructure, supply of resources and building quality in construction. But these challenges imply unique potential.”

With an estimated \$94.15 billion worth of projects

already confirmed for this year, the Saudi construction sector is up for an exciting time ahead, but the country also has a massive manpower shortage to overcome.

Labour pains

Amid the massive construction boom, the Saudi government implemented a historic seven-month amnesty programme that ended in November, forcing almost a million foreign workers to leave the country. According to some estimates, about \$26.66 billion worth of infrastructure projects are estimated to have been disrupted due to this move.

However, some industry experts argue that there is nothing new in the reform as the government was only implementing the country's labour laws. They believe Saudisation is needed to attain long-term economic growth, but the government is also under pressure to provide jobs to its citizens. According to the Saudi Labour Ministry, the country would need at least another five million jobs by 2030 just to meet the needs of young Saudi men entering the workforce.

“The challenges for the country are well-rehearsed with the potentially competing tensions of needing to build domestic employment and the concomitant drive to reduce the reliance on non-Saudis in the labour market, while still needing the flexible skills and low cost that an expatriate workforce can bring,” says Brazier.



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CEO, White Sky Group

to achieve more effective risk-reward balances with private-sector partners,” he adds.

The government's approach will also need to consider how much added value these programmes can provide. For instance, how the investment in infrastructure can be used to better support collateral advantages such as the transfer of skills to Saudis, building local supply chain capacity and realising tangible benefits to local communities more quickly.

The Big 5 Saudi

The region's biggest construction event is happening at a time when Saudi Arabia is aiming to massively improve its infrastructure and create a huge housing supply to meet the growing demand arising out of fast urbanisation and an increase in population. The government wants to improve the standard of living for its inhabitants and create new jobs for locals, but at the same time not disrupt the flow of construction work.

How the country's construction sector should move forward and overcome the challenges would be the centre point of discussions at the Big 5 Saudi. Also, there's going to be a lot more emphasis on the country's sustainable growth. That's why

Sustainable housing
Lindemann believes that transforming sustainable concepts into groundbreaking master plans will be one main topic, given current examples in the country. “I also outline the futuristic White Sky iHouses as a disruptive innovation model, revolutionising the housing markets in the GCC,” he says. “Saudi Arabia needs 500,000 houses right now. Analysts expect a boom in sustainable eco-homes and high-tech plus-energy houses. Sophisticated prefab houses will change residential housing landscapes globally.”

Plunkett, who will be part of the inaugural Leaders in Construction Panel Discussion that focuses on market developments and future opportunities in Saudi Arabia's construction and infrastructure sector, says it's a good place to share knowledge.

“I am looking forward to the Big 5 Saudi because it is always good to share knowledge and experiences. It provides us time to reflect on the bigger picture at the same time,” he says.

Brazier will also be part of the panel discussion, along with other key industry players. ■

\$94.15b
The estimated value of this year's confirmed projects in Saudi Arabia

the theme for this year's seminars is sustainable design and construction. The event will look at the rapidly changing technologies, materials and techniques of the global construction industry, while focusing on the local market's key drivers and identifying solutions to potential challenges.

“I think the Big 5 works well to access products, markets and new technologies. Additionally, you broaden your experience seeking inspiration from other industries,” says Lindemann, who will be making a project showcase on his futuristic White Sky iHouse.

“In 2013, I was invited to speak at the Big 5 Sustainable Design and Construction Conference in Dubai. The conference showed the future has arrived, focusing on Lead implications and innovation strategies making a mark in the GCC.”