Davis Langdon

MIDDLE EAST
MARKET REVIEW

JULY 2010

Review

The Middle East construction market is very diverse, and some countries are recovering faster than others. Good quality market intelligence is essential for clients, taking into account emerging demand, contractor capacity and external factors such as commodity markets and availability of finance. Davis Langdon's specialist construction market intelligence team provides regular, insightful commentary and forecasts covering the key markets in the region.

- Workload: After a slowdown in the flow of new projects in 2009, the pace of construction growth is increasing across the region. There are considerable variations between countries. Transport and social infrastructure projects are driving construction growth in much of the region.
- Consumer prices: Inflation in the Middle East has eased markedly, due to the decline in global food and other commodity prices. Lower imported inflation given the appreciation of the US dollar and weaker inflation in major trading partners has also contributed. There are pockets of higher inflation, such as Lebanon and Syria, where higher rental and energy costs are pushing up consumer prices.
- Building costs: Construction prices edged up in the first quarter of 2010, as some materials prices increased, notably steel. However, subdued global demand has pushed prices down in the second quarter. A competitive labour market is keeping a lid on labour costs in most of the region. Cost movements over the next two quarters will be driven by wider demand and capacity issues.
- Tender prices: After notable decreases during 2009, pricing confidence is returning given the volume of planned workload. This upward trend is forecast to continue into 2011, although there will be variations in tender price inflation across the region.

Inflation forecasting in an uncertain market is not without challenges; indeed, there may be differences in inflation across sectors within a country. High levels of variation can be due to internal and external factors, or a combination of both, along with the type and complexity of projects being undertaken. The inflation forecasts included here should therefore be regarded as an average across a range of sectors within each country. Sector and country-specific dynamics should be analysed, and where applicable, inflation forecasts amended to acknowledge these factors.

	Construction Output			General Inflation			Tender Price Inflation		
	%, Annual			%, Annual			%, Annual Range		
	2009	2010f	2011f	2009	2010f	2011f	2009	2010f	2011f
Bahrain	-4.0	1.5	3.5	2.8	2.4	2.0	-6.0 ▼ -8.0	-4.0 ▼ -6.0	0.0 ▲ 2.0
Lebanon	8.0	8.0	6.0	1.2	5.0	3.4	2.0 ▲ 4.0	4.0 ▲ 6.0	4.0 ▲ 6.0
Oman	14.0	6.0	5.0	3.5	3.9	2.9	-2.0 ▼ 0.0	0.0 ▲ 2.0	1.0 ▲ 3.0
Qatar	-22.0	15.0	9.0	-4.9	1.0	3.0	-4.0 ▼ -6.0	4.0 ▲ 6.0	6.0 ▲ 8.0
Saudi Arabia	4.0	6.5	5.0	5.1	5.2	5.0	-2.0 ▼ 0.0	3.0 ▲ 5.0	4.0 ▲ 6.0
Syria	10.0	10.0	5.0	2.5	5.0	5.0	0.0 ▲ 2.0	2.0 ▲ 4.0	3.0 ▲ 5.0
UAE	6.0	3.0	7.0	1.0	2.2	3.0	-2.0 ▼ -4.0	-1.0 ▶ 1.0	1.0 ▲ 3.0

Market Trends

The Middle East's economic prospects are improving, but global weaknesses pose a risk for the region, due to their impact on trade and exports, currency volatility and tighter credit conditions.

The recovery in the region will differ among countries depending on prevailing conditions, and the extent of the impact and intensity of the crisis on those countries last year.

Construction, in particular real estate, slowed across the region last year, due to investor risk aversion and tighter lending terms. Banks are still cautious as riskier private projects continue to struggle in raising finance. This trend will continue until the market returns to expansion.

With private demand muted at best – save for Syria and Lebanon – the construction industry is hoping for continued public investments to offset declines in commercial and residential work. Certainly, governments across the region had announced big infrastructure plans for the years ahead. However, so far this year several major infrastructure projects have been put on hold or are progressing very slowly.

Oil prices are at a comfortable level for the GCC and budgets are unlikely to see shortfalls this year. Other factors, including a will to negotiate better contract terms, are likely to play a role in the delays.

Encouragingly, latest data points to a pickup in project activity more recently. According to MEED Projects, the value of contracts awarded reached $132bn in the twelve months to mid-June.

The public sector continues to drive work, accounting for nearly two-thirds of total awards.

To boost growth plans, Gulf investors are also looking for opportunities elsewhere in the region, with real estate in the Levant one of the main destinations.

Construction Costs

Tender prices fell between late 2008 and early 2009, due to lower input costs, of which materials were the main reduction but also labour costs as well. Deep discounting of management costs and margins, resulting from high levels of competition between contractors also played a significant part in the falls. However, since the start of 2010, global factors have placed pressure on the prices of some commodities and building materials. Construction input costs over the year ahead could therefore be volatile, with noticeable differences between countries in the region.

Review and consolidation of programmes of work is evident. Some clients have chosen to continue their capital programmes but at a slower pace. Others, though, have chosen to press ahead and capitalise on lower costs that are available in the market because of increased competition and lower input costs.

Many contractors are in the market chasing work and clients are sourcing very competitive prices. Contractors are having difficulties in absorbing some of the increases in material prices, having trimmed their labour costs, preliminaries, overheads and profit drastically over the past 18 months. Materials suppliers and plant providers are also keenly looking for sales and are reducing prices accordingly.

General inflation in the Middle East eased markedly last year, due to the decline in global food and other commodity prices, weaker demand and lower imported inflation given the appreciation of the US dollar.

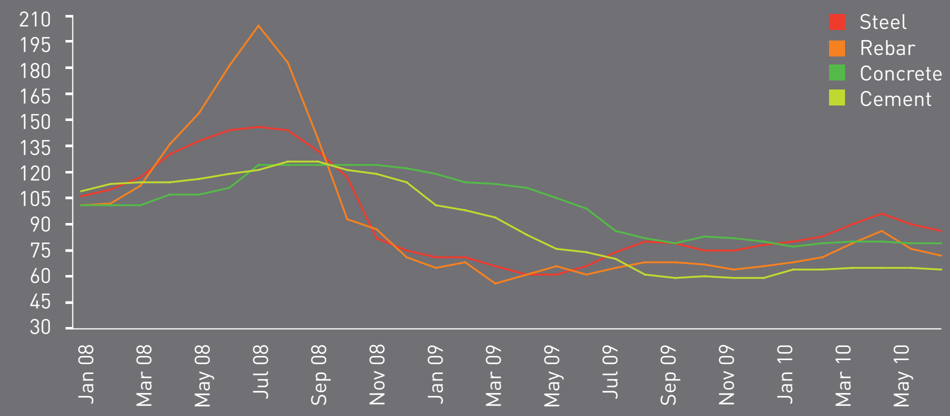
Looking ahead, consumer price inflation in the GCC is expected to remain relatively stable in 2010/11, unless major shocks to food or rental prices occur, for example. Bank lending will remain cautious and some real estate sectors, most notably in the UAE, Bahrain and Qatar, have undergone sharp corrections. The current strength of the US dollar also helps to put a lid on imported inflation. By contrast, in Lebanon and Syria, stronger economic growth coupled with capacity constraints and higher energy prices has already pushed up inflation over the course of this year.

An increasing amount of materials used on construction projects in the region are sourced domestically. Nevertheless, prices will be subject to significant fluctuation related to world demand and wider patterns of trading.

The global economic crisis initially caused a sharp fall in commodity prices, but these soon recovered in mid-2009 and have risen since then. More recently, changes to pricing systems within commodity markets, principally iron ore and steel, have caused steep rises in input costs and increased volatility.

By contrast with domestic inflation, construction input costs edged up in the first quarter as some materials prices –

The Commodity Tracker



Source: Various, Davis Langdon

reinforcement and timber - rose, although some of these increases reversed in the second quarter of this year. Our Middle East commodities tracker shows a 22 percent increase in commodities between December 2009 and April 2010. This has been largely driven by increases in basic commodities and steel. In contrast, cement and concrete prices continued to fall. More recent data shows a marked easing in commodities prices, with the index recording a 13 percent fall between April and June, due to a correction in steel and rebar prices. Commodity prices are expected to remain lower in the near-term due to slower global growth in the second half of this year. However, in the medium-term the prospect of commodity strength, together with higher volatility, will pose a challenge for the Middle East.

Currently, no real supply chain issues exist in most of the Middle East countries due to lower demand and excess capacity – although regional variations do exist given the differing levels of construction activity in each country.

Construction prices in the year ahead could be volatile, with prices on some schemes and some markets hardening while others continue to fall. This may result in tension between estimators having to reflect higher materials prices and directors trimming tenders to secure workload.

Any increase in the rate of inflation in the year ahead will be determined by factors including:

- Demand for construction within the individual Middle East markets – there are pockets of higher inflation in strong growth countries such as Qatar and the Kingdom of Saudi Arabia;
- Demand for construction within the wider Middle East, including Egypt, the Levant and Iraq;
- Competition for migrant labour with other host countries and source countries;
- Availability of international joint-venture partners and other sources of management resource experienced in the delivery of complex, high quality projects;
- Demand for raw materials affecting global commodity prices;
- Demand for critical single-source materials and components.

Whilst there is no immediate prospect of inflation returning to levels seen in the Middle East in 2007 and 2008, price hikes in base commodities, loss of capacity in the region and a more rapid than expected bounce back in economic growth could be sowing the seeds for future bouts of substantial inflation. Price escalation at five percent per annum is foreseeable over the next two to three years in markets where activity remains strong.

Given the current market conditions and a short-term surplus of contractor capacity, clients that are active in the market presently are making the best use of their strong position and are focusing on obtaining the lowest entry costs on their projects. This is a continuation of a trend that started in 2009, and prolonged negotiating processes are still being used to secure very low prices.

Where the post-tender review and negotiation process presents the opportunity for contractors to review their bids, there is evidence of substantial discounts being offered. Furthermore, contractors have also been more willing to accept a wider transfer of risk, whether through factors relating to cost, time or specification. Whilst these pre-contract negotiations can secure deep discounts, most contracts include provision for compensation for changes, or other legal remedies. As a result, low entry prices rarely turn out to be low exit prices, unless special measures are taken by the client's team to actively manage the outcome.
Sources of cost increase include scope change, or risks that may not necessarily have been removed from the project. Excessive transfer of risk can also increase the likelihood of cost escalation and additional transaction costs, often with contractors needing to adopt increasingly commercial stances to protect themselves from risk, and also to recover any entitlements that emerge during the construction phase.

For clients who do secure advantageous prices in the current market, investment in management processes and resources within the organisation and project team will provide further safeguards against cost and programme escalation during the construction phase.

More active considerations for management of programmes and projects include international procurement of materials – to harness the benefits of globalised materials manufacture – and implementation of post-contract change management mechanisms. Pre-contract cost planning can also be a key area to analyse and assess a project's commercial drivers and viability.

Bahrain

On the back of a sharp correction in the real estate sector, construction work in the Kingdom of Bahrain fell markedly in 2009. Market conditions stabilised this year and there remains cautious optimism that new work will come to the market with modest growth expected in the coming years.

Project financing remains constrained and this is having a large influence on client and stakeholder decisions to begin, or re-start, developments in the Kingdom. Should credit become easier to obtain, a number of projects could commence later this year, with clients able to take advantage of benign pricing conditions and a possible increase in contractor capacity and competition.

Recent evidence suggests that contractors in Bahrain are not currently discounting prices markedly in an attempt to secure work, although prices did fall in 2009. Some stability in labour market conditions and materials prices is contributing to this situation.

However, with the exception of aluminium, fluctuations in the supply and price of materials and commodities can occur given its reliance on imports. Often these factors can be outside the control of the Kingdom of Bahrain. These fluctuations in prices and supply can feed through to the market very quickly. The challenges this brings for contractors and client organisations are not insubstantial when they do occur, and have consequential effects on the time and cost control of projects.

Although contractor's tender prices have fallen by up to four percent during the first half of 2010, this trend is not forecast to continue for the remainder of the year – tender prices are expected to level out, with possible marginal increases of up to one percent should a number of projects commence or re-start. Moderately larger tender price increases approaching two percent into 2011 will be expected, due to supply-side and demand-driven cost pressures.

The spread of tenders is decreasing as some confidence returns to contractor-pricing. This consolidation in tender prices is driven in part by supply-driven cost pressures associated with materials and commodities.

Mechanical and electrical tender prices have edged down over the past 12 months and there is an expectation that this trend will level out. Contractor's on-costs for preliminaries, overheads and profit have not altered significantly during the first two quarters of 2010, and the forecast for the remainder of 2010 is for a continuation of this trend.

A number of regional contractors not currently operating in Bahrain have targeted the market for workload, as other GCC markets have faltered during 2009. Should these contractors successfully move into the market then this additional capacity and increased competition will have an impact on tender prices. Increased capacity combined with a pick-up in workload would alter the dynamics of the market, with the result that tender price increases may be contained.

There have been developing trends in procurement routes – notably, design and build. The supply chain has also shown a willingness to discuss the use of different procurement routes.

Population, in million	1.0
GDP in current $, billion	20.2
Real GDP growth, %	2.9
Real GDP growth, 2010-15 p.a. forecast	4.6
GDP/Capita (in PPP) in $	27,068
Construction Output as % of GDP	7.0
Value of Construction Output, $, billion	1.4
Consumer Price Inflation, %	2.8

*2009 data, unless otherwise stated

Lebanon

With recent experiences in the global real estate market fresh in the mind, is the surge in demand in Lebanon's residential market becoming unsustainable? On the back of recent political stability, Lebanon is attracting increasing investment. Strong demand from Lebanese nationals living abroad combined with rising incomes has led to a surge in the domestic real estate market, which is seeing record levels of sales and sharply rising prices. Lower interest rates and an easing in credit conditions have combined to create a residential market where overheating has become a potential concern.

In comparison with recent years, the volume of construction work in Lebanon is high, with further increases in workload expected. Along with residential property, other growth areas for construction are infrastructure, re-construction and investments in the tourism sector. Hotel developments are numerous.

Input costs are increasing, due to global price changes and the unprecedented demand for construction.

The considerable construction output levels in Lebanon may put some pressure on the supply capacities of domestic producers. Capacity constraints of large contracting organisations are also being stretched.

Generally, unit rates have remained stable on the back of good volumes of work. Earthworks packages are one particular trade where noticeable increases have been experienced in recent tender prices, when compared against tendered rates from six months ago. Given the volume of work underway, tender prices are forecast to remain constant, with perhaps, further increases in those trades where capacity constraints accumulate to create pinch points in the market.

Procurement routes in Lebanon follow the trend throughout the Middle East where lump sum contracts largely prevail. Changes or developments in procurement routes may be options for client organisations to explore, particularly as larger, more complex developments are constructed in the country.

Regional and international contractors have been eyeing Lebanon with a view to establishing a presence in the country and the Levant region. The proximity of Syria and its promising construction sector is likely to be a contributing factor in these location selection decisions by contractors. Any increase in the numbers of contractors in Lebanon would increase capacity in the market; the effect of this additional capacity on tender prices will become evident over the remainder of 2010 and into 2011.

Population, in million	3.9
GDP in current $, billion	33.6
Real GDP growth, %	9.0
Real GDP growth, 2010-15 p.a. forecast	4.7
GDP/Capita (in PPP) in $	14,226
Construction Output as % of GDP	8.2
Value of Construction Output, $, billion	2.8
Consumer Price Inflation, %	3.4

*2009 data, unless otherwise stated

Oman

The Sultanate of Oman is enjoying a period of firm growth, driven by its economic diversification plan. The construction sector is benefiting from the government's efforts to diversify its economy and there have been a number of large projects awarded over the past year.

Although marginal decreases have been evident in tender prices during 2009, it is expected that prices will tick upwards again on the back of good volumes of work and future project opportunities. Tender price inflation approaching two to three percent in 2010 and 2011 should not be unexpected.

Continued investment in the country's leisure, tourism, industrial and transportation sectors will ensure that there is a broad and diversified economy in the future. These investments, along with upgrades to Oman's infrastructrue, will support the country's economic development and decrease its reliance on oil revenues.

Transport and tourism will remain key areas, and a number of high value projects are underway or being planned. The recommencement of the US$20 billion Blue City mixed-use scheme, along with a continuation of The Waves development, will contribute to this construction output.

An expansion and redevelopment programme of the country's airports has also been recognised as central to Oman's diversification plans.

Oman is seeking to capitalise on its geographical advantage in the region by significantly expanding the capacity of its ports at Sohar and Salalah. The country aims to become one of the world's leading transshipment hubs by expanding the container and cargo terminals of these ports.

Further infrastructure investment is planned via new rail links that would connect Oman with its neighbours and the GCC countries. Recent announcements of investment in power and water projects will facilitate and support Oman's economic growth.

Population, in million	3.0
GDP in current $, billion	53.4
Real GDP growth, %	3.4
Real GDP growth, 2010-15 p.a. forecast	4.4
GDP/Capita (in PPP) in $	25,110
Construction Output as % of GDP	4.2
Value of Construction Output, $, billion	2.2
Consumer Price Inflation, %	3.5

*2009 data, unless otherwise stated

Qatar

Even though the State of Qatar is one of the wealthiest countries in the Middle East, 2009 was a year of consolidation for the country's construction market. The banking and real estate sectors were hit by the global financial crisis and activity in those sectors is likely to remain weak in the short-term. However, significant financial resources ensured that the worst of the global economic crisis did not materially impact its construction and infrastructure industry. Some developers and client organisations did take the opportunity to review costs as a result of decreases in global commodity prices and weaker demand in real estate.

Major developments and a plan to host the 2022 World Cup are at the heart of Qatar's ambition to become a 21st century country. Mixed-use developments such as Lusail City, The Pearl, Al Waab City and Musherib will combine to make Qatar a robust market for construction activity. In addition, there is significant investment planned in major infrastructure, transportation schemes and in the energy sector. Qatar metro, high speed rail link, New Doha Port and the New International Airport are amongst some of these development plans.

Increased levels of investment over the next years, without proper sequencing of projects and careful monitoring of their impact, would risk creating supply bottlenecks and push up the costs of materials and services. However, it is expected that Qatar will continue with its policy of managed release of projects and developments to the market, which would allow both tender price and building cost inflation to be controlled.

Many materials and commodities used in construction are imported, which would suggest that its input costs are subject to global price volatility. Interestingly, there is not always a direct correlation between global price levels and those experienced at a country level – for instance, where the prices of certain key materials and commodities are influenced by government action. Sometimes price movements can follow a slightly different pattern to those experienced elsewhere in the Middle East region. Tender prices may not necessarily respond directly to these shifts in commodity prices, as contractors absorb some of the pricing effects.

There is a significant amount of work currently being tendered, or approaching the tendering phase. This is having a corresponding effect that contractors are seeking extensions to tendering periods. Forecasts for tender prices during the remainder of 2010 are in the range of five percent. Broadly, many of the construction trades offer good opportunities for workload; however, earthworks trades have experienced a downward trend in workload in the first half of 2010 leaving contractors with unproductive plant and equipment. This is likely to have a corresponding downward effect on tender prices in this trade.

A number of regional and international contractors are increasingly targeting the Qatar market. However, barriers to entry do exist and while there are advantages of significant volumes of work, other factors that affect market entry can reduce the perceived benefits of operating in Qatar. Market entry factors include local partner selection, and access to materials and commodity suppliers. Successful market entry by new contractors will create additional capacity with a corresponding effect of downward pressure on, or containment of, tender price inflation.

Qatar has recently announced the implementation of a new sustainability rating system. The Qatar Sustainability Assessment System (QSAS) will be implemented on the Lusail City development initially from June 2010. QSAS's stated aim is to "improve the efficiency of energy and water consumption and indoor environmental performance of buildings".

Population, in million	1.6
GDP in current $, billion	83.9
Real GDP growth, %	8.6
Real GDP growth, 2010-15 p.a. forecast	9.5
GDP/Capita (in PPP) in $	83,841
Construction Output as % of GDP	9.0
Value of Construction Output, $, billion	6.0
Consumer Price Inflation, %	-4.9

*2009 data, unless otherwise stated

Saudi Arabia 

The Kingdom of Saudi Arabia is set to become one of the leading markets for construction activity in the Middle East. After a modest slowdown last year, construction work in the Kingdom of Saudi Arabia has increased steadily over the course of 2010 and is forecast to remain robust. Contractor confidence has resulted in increases in tender prices of up to two percent in the first six months of 2010 with similar gains forecast for the remainder of the year. Planned workload will underpin similar tender price inflation forecasts for 2011 and 2012.

Government investment in major projects in the rail, infrastructure and aviation sectors will contribute to the buoyant construction market in the Kingdom. On the back of a rapidly growing, young and increasingly urban population, housing is also expected to be a major contributor to construction workload. This government investment in transport and social infrastructure, as well as industrial projects, aims to secure the long-term economic development of the country. The 2010 Budget sets out public spending of $144 billion and also includes the construction and development of four new universities and colleges, schools and new hospitals.

The sharp increase in planned projects and workload is expected to place upward pressure on the demand for construction resources.

Increasing lead times for the procurement of materials and volume of work underway has in some instances led to materials shortages pushing up prices. For example, in the last quarter there has been a noticeable movement in the price and availability of electrical cabling.

At the same time, expected increases in the supply capacity of cement in the Kingdom will limit potential price increases that would otherwise be expected.

The shortage of skilled personnel, particularly at a site-level, will create short to medium-term challenges for contractors seeking to resource their projects. Increases in wage levels are likely to follow.

Increased workload is having a consequential effect on contractor's pricing for overheads and profit. Additions for preliminaries, overheads and profit will continue to increase steadily over the course of the next 12 months.

Contractors are experiencing significant time pressures in preparing tenders given the volume of work available. These time constraints are also flowing through the supply chain as subcontractors and suppliers provide corresponding quotations to main contractors. Tender periods are being extended as a result.

Design and build is becoming increasingly popular in the Kingdom, as clients seek to improve the speed to completion and transfer of risks to contractors in a buyer's market. The move to increasing use of design and build procurement is a step change for a region where traditional forms of procurement have dominated. In general, design and build requires discipline by a client organisation in not implementing post-contract changes.

Population, in million	25.5
GDP in current $, billion	369.7
Real GDP growth, %	0.1
Real GDP growth, 2010-15 p.a. forecast	4.3
GDP/Capita (in PPP) in $	23,221
Construction Output as % of GDP	5.2
Value of Construction Output, $, billion	19.1
Consumer Price Inflation, %	5.1

*2009 data, unless otherwise stated

Syria

Syria is one of the most dynamic markets in the Middle East albeit from a comparatively low base. Its economy is opening up and expected to grow solidly in the years ahead. Historic under-investment and population pressures have created a shortage of supply in crucial infrastructure and real estate. Pent-up demand is rising. In addition, there is a new focus on tourism development and upgrading of related infrastructure.

Against this background, Syria is increasingly becoming a focus for many construction organisations in the Middle East region. Contractors and consultancy firms are all eyeing the country as a good opportunity, while investors and developers are viewing it as a sound location for investment returns.

Workload in Syria has increased steadily throughout 2010, and construction is expected to continue to expand firmly in the years ahead. Forecasts for tender price inflation will be upwards of five percent through 2010 and into 2011.

Capacity issues in the market could emerge as a result of this increased workload. Moreover, regional and international contractors are evaluating the Syrian market because of the number of project opportunities. Increases in contracting capacity would go some way to offset any expected tender price inflation.

It should be expected that increasing growth and workload will bring a rise in contractor on-costs for preliminaries, overheads and profit. How large these increases are, depends on a number of factors – capacity constraints being an example – but rises in excess of two percent would not be unexpected. Longer term, there may be upward pressure on resource and material requirements as workload increases.

The larger developments underway or planned for Syria have external consultant teams involved in the design and engineering of the schemes. This has resulted in complex designs and engineering, which lead to an increase in the requirement for non-indigenous materials and construction methods. This will bring challenges for suppliers and contractors and there is evidence of increasing lead times for certain materials.

Procurement routes are expected to remain unchanged from traditional methods. Nevertheless, with a number of large projects and schemes planned for the country it would be prudent for client organisations to explore alternative procurement routes and the possible benefits in terms of cost, time and risk.

It is clear that the Syrian market has become more open with the acceptance that legislation must allow the free movement of trade. However, there remain some instances of bureaucracy; but once the benefits of a more open business environment become clear, these initiatives will gain momentum ensuring that Syria becomes a strong location for construction and infrastructure work.

Population, in million	20.4
GDP in current $, billion	52.5
Real GDP growth, %	4.0
Real GDP growth, 2010-15 p.a. forecast	5.5
GDP/Capita (in PPP) in $	4,887
Construction Output as % of GDP	3.4
Value of Construction Output, $, billion	1.8
Consumer Price Inflation, %	2.5

*2009 data, unless otherwise stated

United Arab Emirates

Presently, the UAE can be separated into two markets: Abu Dhabi and the remaining emirates. Workload in Dubai has slowed noticeably and continues to be subdued; whereas the market in Abu Dhabi remains promising, with the 'Plan Abu Dhabi 2030' masterplan at the heart of the emirate's infrastructure and building vision. Although Dubai faces short to medium-term challenges, the emirate has shown foresight and much of its infrastructure has been constructed in recent years to support its longer-term future and diversify its economy. Dubai's market will offer future opportunities in numerous sectors.

Although capital programmes in the emirate of Abu Dhabi have been reviewed – or consolidated in some instances – there remains a substantial volume of work currently underway, and planned for the next few years. Furthermore, there remains in excess of $400bn of construction and infrastructure work forecast for the UAE, according to recent data.

Tender prices have declined during the last 12 months by up to seven percent. However, there is now evidence of contractors struggling to meet tendering deadlines imposed for major new projects, and extensions to tender return dates have been provided.

Our baseline forecast for tender prices assumes a continuation of the current market dynamics, where workload is stable with moderate increases in volume over the next few years. This scenario also assumes that large projects will be managed onto the market rather than released at the same time. In this scenario, inflation for the remainder of 2010 would be negligible, with forecasts of up to three percent in subsequent years.

Should large projects such as Capital District and Abu Dhabi metro remain at their forecast size, and are released to the market close to each other, capacity constraints will result in a quicker pick up in tender price inflation and forecasts of up to five percent would not be out of the question.

The first quarters of 2009 saw substantial price cutting of commodities and materials. This was in response to the rapid slowdown in work brought about by the economic circumstances of Q3 2008. Steady workload at present is generating demand for core commodities and materials, such as concrete and steel. Overall, building costs indices are now back to levels seen in Q1 2009, although there have been recent declines in the price of steel. Forecasts for the next two quarters of modest increases in some commodities will be offset by decreases in others, resulting in a static market. Much is dependent on the expected workload planned for Abu Dhabi and how this will then impact the respective markets for labour, plant and materials.
Should materials and commodity prices continue to rise, contractors will find it increasingly difficult not to pass on any increases in material and labour costs into tender prices, having pared back costs throughout 2009. Contractor's indirect costs and profit margin would be squeezed further.

International contractors continue to eye the UAE market given the planned workload – although market entry by new players is sector-specific. In other sectors, the prospect of lower than expected tender rates has meant that some contractors have decided not to enter the UAE market. Increased capacity in some sectors will continue to place a downward pressure on tender prices given the increased competition. In the absence of immediate significant workload in Dubai, contractors based in this emirate will look to Abu Dhabi for turnover in the short-term and will need to restructure their overhead profiles as a result.

Early works packages are becoming more prevalent in an effort to address project risks, capture the opportunity for competitive prices and continue work while the main building and civil work packages are out to tender.

Recent progressions in procurement, such as the use of target costs will disappear, as historic trends in procurement return in this competitive environment.

Population, in million	4.9
GDP in current $, billion	230.0
Real GDP growth, %	-0.7
Real GDP growth, 2010-15 p.a. forecast	3.7
GDP/Capita (in PPP) in $	36,537
Construction Output as % of GDP	9.0
Value of Construction Output, $, billion	20.7
Consumer Price Inflation, %	1

*2009 data, unless otherwise stated

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