

MEED BUSINESS REVIEW

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GCC CONTRACTORS: Workload drops despite project launches

SAUDI ARABIA: Economy buoyed by work on kingdom's gigaprojects



PROJECT OVERLOAD

Pressure piles on to Saudi construction



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With total annual contract awards in Saudi Arabia having almost doubled by the end of 2022, the kingdom must scale up its resources

SAUDI ARABIA UNDER PROJECT PRESSURE

By Colin Foreman

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audi Arabia's projects market is overheating. The volume of projects announced in the past six years vastly exceeds the resources that are available to work in the kingdom.

Combined with tight deadlines to complete projects as part of Vision 2030, the pressure on the construction industry to deliver is ratcheting up and turning the tables on the supply chain as the shift from a buyer's to a seller's market accelerates.

For the five years from 2016 to 2020, there was an average of about \$14bn-worth of contract awards a year in Saudi Arabia for the construction and transport sectors. After rising to \$21bn in 2021, the total rose to \$32bn in 2022 – the second-best year on record.

The near doubling of the total annual value of contract awards by the end of 2022 has required a significant scale-up of resources in the kingdom, and the ramp-up is set to continue.



Much of this pressure is due to the five official gigaprojects, which are major programmes of work that will involve a sustained flow of contract awards for years to come.

Gigaproject focus

The project most recently classified as a gigaproject by the Saudi authorities is the Diriyah Gate development on the western outskirts of Riyadh. It joins the \$500bn Neom development in the northwest of the kingdom, Qiddiya entertainment city outside Riyadh, Red Sea Global's projects on the Red Sea coast and Roshn's housing developments across the kingdom.

These projects are relatively new. They began to be launched in 2017 and spent much of the following three years in the design phase.

After a start that was hampered by the work and travel restrictions required to manage

\$14bn

Average value of annual contract awards in Saudi Arabia in 2016-20 in the construction and transport sectors

\$32bn

Value of construction and transport contracts awarded in 2022



In addition to the kingdom's five gigaprojects, there are a host of major infrastructure and urban development schemes planned

Mohammed bin Salman al-Saud launched the world's largest modern downtown in Riyadh.

Known as the New Murabba project, it involves the development of 19 square kilometres of land to the northwest of the capital. The centrepiece of the project is the Mukaab, which is a 400-metre-cubed structure with a tower standing inside it.

New Murabba is part of a plan announced in January 2021 to double the size of Riyadh from 7.5 million residents to 15-20 million residents in 2030. Other major projects in the capital include King Salman International airport, King Salman Park, Sports Boulevard and Mohammed bin Salman Non-Profit City.

Beyond the capital there are development projects planned in all major urban centres by Saudi Downtown Company, as well as entertainment centres being developed by Saudi Entertainment Ventures (Seven).

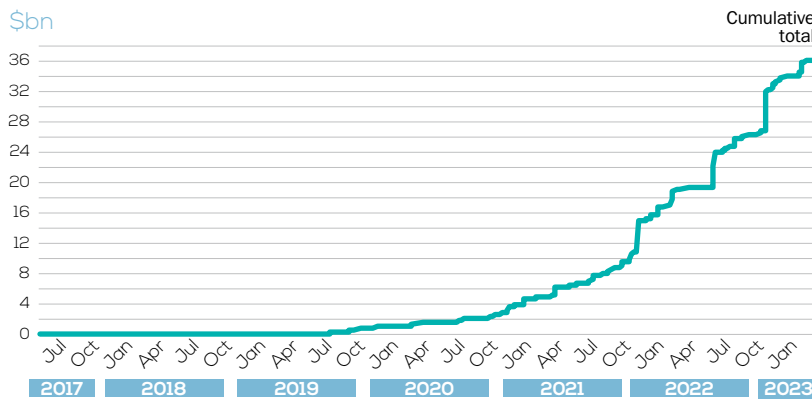
Connecting these cities and projects will be railways, roads, ports and airports that form part of the National Transport & Logistics strategy, which aims to turn the kingdom into a global hub for travel and trade by 2030.

Resourcing challenges

One of the key challenges for the development firms and government agencies responsible for delivering these projects is securing the resources they need.

As client bodies attempt to make their projects more attractive for companies to work on, the industry is changing. The

SAUDI GIGAPROJECT CONTRACT AWARDS



Source: MEED Projects

the Covid-19 pandemic, construction activity on these projects has accelerated sharply since the start of 2022.

According to regional project tracker MEED Projects, there have been \$36bn-worth of contract awards across these official gigaprojects since 2017. Compared to the entire Saudi projects market over the same period that represents 14.5 per cent of contract awards.

The percentage rises to 20 per cent if a more recent time frame is used and only contract awards since the start of 2022 are included. As work gathers pace on the gigaprojects, their significance is expected to grow even further.

More major projects

Saudi Arabia's ambitions are not limited to the five gigaprojects. In January, Crown Prince

first signs of this change can be seen in the consultancy market.

After years of searching for project opportunities, the big consultancy businesses are now only selectively bidding for projects in the kingdom. This is because their orderbooks are already full, and for many international firms there is a concern that they could become over-exposed to the Saudi market.

On contracts that have already been won there are also challenges. Staffing projects is proving difficult as the kingdom remains a hard sell for many project professionals, despite significant social reforms that have taken place in recent years.

Then, once staff have been recruited and deployed on projects, there is the prospect of losing them to competitors or clients that require the same human resources.

Securing contractors

As activity on site accelerates, the bigger concern is contracting resources. As things stand, there are not enough contractors working in Saudi Arabia to deliver all of the planned projects.

The first way to deal with this problem is to increase the capacity of contractors in the kingdom. In February this year, the Public Investment Fund (PIF) invested \$1.3bn in four local construction firms: Al-Bawani Holding Company, Almbani General Contractors Company, El-Seif Engineering Contracting Company and Nesma & Partners Contracting Company.

This investment will allow the companies to scale up their capacity, adopt advanced technologies and improve local supply chains.

DANIEL KING DIRECTOR, CURRIE & BROWN

International contractors continue to see a level of risk in the Saudi market



“There is a lot of opportunity. A large volume of work is being planned, designed and rolled out. With that, there is significant pressure right now on the market in terms of resources and supply chain.

“On the consultancy side, the market is tremendously difficult.

“Even with the best incentives and best set of practices, retaining staff is a challenge. People are being attracted elsewhere and the competition is fierce.

“For the contractors, there are a lot of tenders being let. The perception that the market has risk remains, however. That is certainly the perception for international contractors, and they are still looking

at the Saudi market with some level of risk appreciation in terms of how quickly they are going to be paid and what the margins really are.

“That approach will likely prevail for the short to medium term, until clients’ practices change in terms of contractual frameworks and payment practices.

“Varied procurement practices are coming into play to guarantee supply chain. It might be early contractor involvement or partnering, but the main purpose is to guarantee the right level of contractors.”

As these firms grow, the hope is that it will encourage other local companies to also expand.

International or regional companies can also help, and over the past two years foreign players have become active in the kingdom again. Firms such as Bouygues, Samsung C&T, Hyundai Engineering Construction, China State, Webuild, FCC, Alec, Consolidated Contractors Company and Urbacon Trading Contracting Company have all secured major orders.

In some cases, these contract awards have been supported with foreign finance, which gives the contractor an additional level of comfort when it comes to potential payment for projects. For others, the contract awards

reflect growing assurance in the Saudi market.

Boosting appeal

Confidence has been lifted by measures to make the Saudi market more attractive. Payment terms are improving and many of the frustrations typically faced by contractors are being addressed.

One example is the use of performance guarantees. Red Sea Global, which is developing the Red Sea Project and Amaala gigaprojects on the Red Sea coast, no longer requires contractors to submit bid bonds and returns performance bonds on completion of the project, along with half of the retention.

Alternative procurement methods and contract types are

ADEL KAREM JEMAH SENIOR VICE-PRESIDENT, HILL INTERNATIONAL

To prevent resource shortages, supply chain and procurement must be carefully considered

“It is imperative to consider alternative methods of procurement during boom times, and the current boom in Saudi Arabia is unprecedented considering the types, size, nature and complexity of projects that have been announced in line with Vision 2030.

“This necessitates giving due consideration to the supply chain and type of procurement.

“It is not enough to look for resources locally or even regionally to cope with such projects. One needs to reach out to where such resources are available globally, either due to slowdowns in certain regions or the completion of other major projects.

“Cost-plus contracts were used previously in many projects in Saudi



Arabia. However, the risk for such contracts rests with the client and sometimes the cost ends up much more than expected. That is why financiers prefer the lump-sum type of contracts.

“Nonetheless, I can see this type of contract being used for fast-track projects with very tight schedules, for instance to meet deadlines for facilities required for international or regional sporting events.

“In any case, the evaluation and selection of contractors needs to be done with extreme diligence.”


efficient could also help to limit the resources required.

Client bodies are exploring modern methods of construction to increase the speed of delivery, reduce costs and cut the amount of resources needed on site.

The market could also be self-limiting. Decision making in the kingdom remains centralised, which means key project decisions can be slow. While this is changing as development companies are left to run their own projects, bureaucracy can impact the speed of delivery, which ultimately reduces the immediate demand for resources on a project.

While slow decision making could impact progress on some projects, the overriding story for 2023 will be one of sustained pressure on the kingdom’s construction sector as it becomes a seller’s market.

With that, there is the likelihood that contractor margins will start to creep up, just as they did in the UAE when its construction market overheated in 2003 and 2008.

So far, that does not appear to have happened, as clients in Saudi Arabia have managed to find sufficient resources. For that to remain the case will be a major challenge, however, as on-site activity for most projects in the kingdom is still several years away from peaking. 

also being used, notably early contractor involvement and design and build.

These different approaches reduce risk for the contractor and allow the client to lock in resources at a much earlier stage of the procurement process.

Red Sea Global has adopted a different approach and is self-delivering the bulk of its projects. By acting as its own manage-

ment contractor, it engages with subcontractors itself. While this means it does not need to secure the services of a main contractor, it still requires engaging with the supply chain, which – like the main contractor market – has finite resources in Saudi Arabia.

Driving efficiency

On the other side of the equation, making construction more



SAUDI GIGAPROJECTS 2023 REPORT

MEED’s Saudi Arabia Gigaprojects 2023 revised and updated report provides a detailed overview of each gigaproject, its components and phasing, as well as details of each contract already awarded and the consultants and contractors working on it. The report covers Neom, the Red Sea Project, Amaala, Diriyah Gate, Qiddiya, Jeddah Central, New Murabba and Roshn, among many others. Please visit www.buy.meed.com/gigaprojects2023 to download sample pages or buy.