

GCC BUILDING CONSTRUCTION AND INTERIORS MARKET

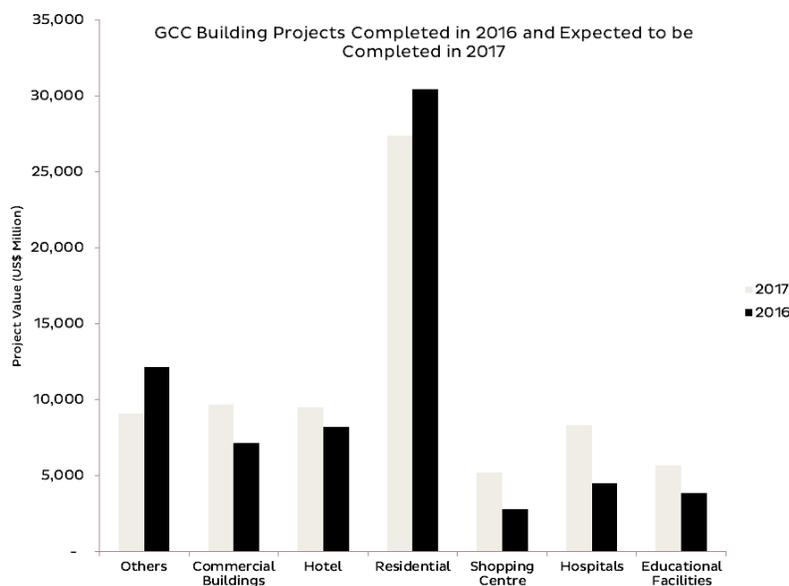


This study on the GCC building and interiors industry focuses on the developments in the following sectors of the building construction industry:

- Commercial real estate sector
- Hotels sector
- Residential sector
- Retail sector (comprising shopping malls)
- Hospital sector and
- Education facilities sector

The GCC interiors design and fit-out industry is propelled by huge building projects across the region. In 2017, US\$ 74,836 million worth of GCC building projects are expected to be completed across segments including residential, commercial, hotels, retail sectors, medical, education facilities projects, which is an increase from US\$ 69,176 million in 2016 (refer Figure 1).

Figure 1: GCC Building Construction Projects Completed in 2016 and Expected to be Completed in 2017 Split by Sector (US\$ Million)



Note: Figures are as of 2nd February 2017. Others segment includes airports, recreational facilities, sports facilities and others. Source: Ventures Onsite MENA Projects Database: www.venturesonsite.com

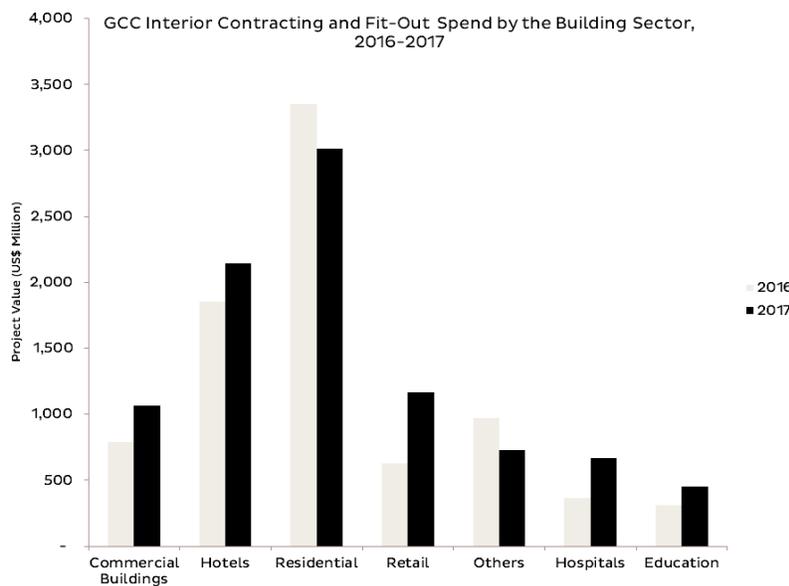
A surge in construction activities influences growth in the GCC interiors and fit-out market, which constitutes approximately 10 to 22 percent of the average construction project value. With the falling oil prices, many developers in the GCC region are looking forward to providing a facelift to their existing project structures to meet new demands of the people.

Currently, developers and owners are investing heavily into strengthening their business development despite budgets belts tightening in the region due to

fluctuations in oil prices. There is a renewed emphasis on refurbishment as owners look to re-invent existing structures to serve new needs and demands, while the introduction of green building ratings and codes have forced a change in mind-sets across the industry. Fit-out contractors are now asserting their dominance and vitality in a market increasingly in need of their services.

Tendering for the right project within the market’s current climate remains a crucial element for a company’s long-term sustainability for projects. Planning, phasing and programming are all essential aspects while undertaking large-scale refurbishment projects. Flexibility, at the fit-out contractor’s end, is also fundamentally important; to be able to accommodate any last minute changes to the design or the project timeline, which almost always happens with all large projects.

Figure 2: GCC Interior Contracting and Fit-Out Spend by the Building Sector, 2016-2017 (US\$ Million)

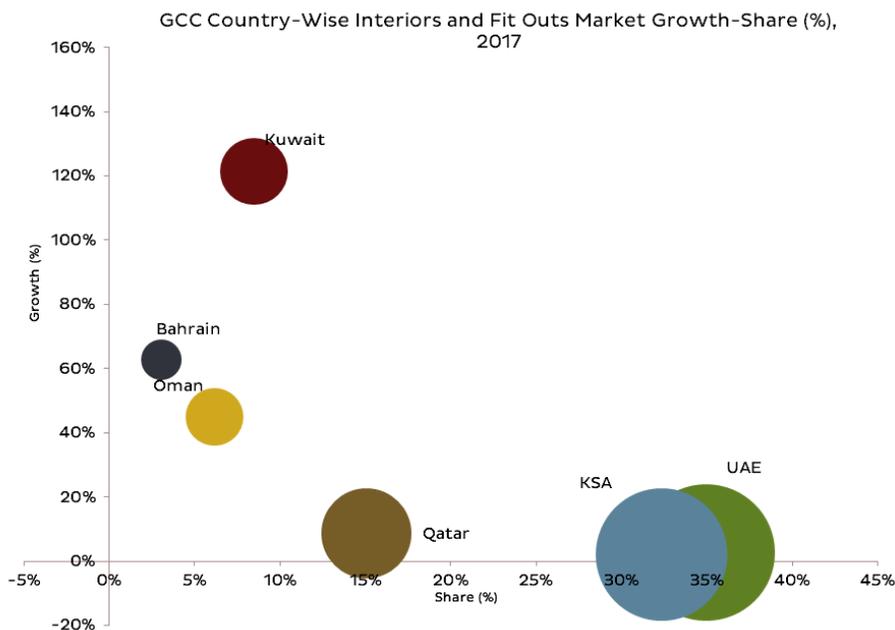


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The GCC interior and fit-out spend by the building sector is estimated to be worth US\$ 9,230 million in 2017, an increase from US\$ 8,262 million in 2016. The residential and hotels sectors are likely to attract the most investment in 2017 and 2018 attributed largely to strong population growth and tourist arrivals during mega events (refer Figure 2). These figures are indicative of the growing importance of interiors and fit-out contracting as a market segment in the construction industry. New buildings add only one percent to building volume each year and the remaining 99 percent of buildings require regular renovation and refurbishment to stay in good shape and meet modern standards.

The UAE is clearly spearheading the interiors and fit-out spend in the GCC region followed by the Saudi Arabia (KSA) and Qatar (refer Figure 3). The UAE's interior and fit-out contracting market is expected to register 15 to 20 percent growth by 2017-end as the country gears up to hosting the Dubai Expo 2020. The event will award 47 construction contracts worth US\$ 3 billion in 2017 as preparations continue to gather pace. While 2016 was an important year for design, 2017 is when the momentum of construction will really build, ahead of international participants beginning work on their pavilions in 2018. The UAE is currently promoting energy efficient renovations on existing buildings. Also, heritage conservationists are calling for an in-depth study of buildings that evoke memories of the UAE's development. A law to preserve century old buildings has been passed by the FNC and is awaiting the government's approval.

Figure 3: GCC Interior and Fit-Out Spend, Growth versus Share by Country, 2017



Source: Ventures Onsite MENA Projects Database: www.venturesonsite.com

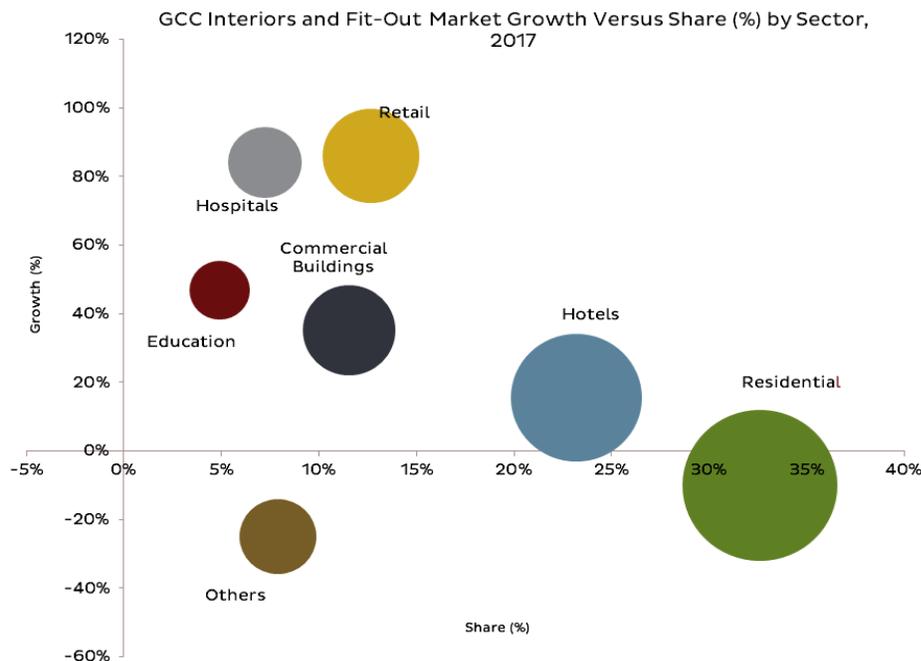
KSA has the largest construction market in the GCC and scores highly for the amount of investment made in the economy. Industry experts have estimated that spending on interior finishing items in KSA will grow by 13.7 percent by 2017, which is attributed to the National Transformation Plan (NTP) 2020 and Saudi Vision 2023. In addition, KSA and the UAE have undertaken major renovation and refurbishment programmes, respectively, to upgrade old public buildings using sustainable products and smart technology.

Although Qatar announced a deficit in its budget, the country is currently spending of US\$ 500 million a week on capital projects in preparation for its World Cup 2022. This level of spending is expected to continue up to 2021 with

mega-projects under construction across the country, which is likely to provide more opportunities for interior and fit-out investors and developers. Qatar issued 574 new construction permits in December 2016 for residential and commercial projects. New buildings for housing and business purposes topped the list, receiving 356 permits from the country's municipalities. There were 163 permits for small house and villa construction while the rest covered small houses and building expansions.

In 2017, the residential sector is likely to continue to maintain its position as the largest market for interiors and fit-outs in the GCC followed by the hotels sector (refer Figure 4). The residential sector is certainly a trending sector in the GCC as the governments make housing a priority in their agenda to cater to the needs and demands of the young and growing local population. Owners of existing structures, whether residential or hotels are under pressure to optimise the value of their projects by refurbishing them. Some of the buildings in the GCC region are quite old and renovation and refurbishment is needed in order to maintain their market value. Majority of hotels in the GCC have crossed the seven-year operational threshold and many are in need of renovation and refurbishment. As the hotels market is very competitive, it is likely to push the current hoteliers to re-invent their offering and hence interiors and fit-outs form an important part in their agendas.

Figure 4: GCC Interior and Fit-Out Spend, Growth versus Share by Sector, 2017



Note: Others segment includes airports, recreational facilities, sports facilities and others. Source: Ventures Onsite MENA Projects Database: www.venturesonsite.com

Conclusion

Constant innovation and ever-changing personal preferences make interior design and fit-outs one of the fastest growing industries in the GCC region. Alongside growth comes increased competition and owners and employers are finding themselves challenged with meeting a plethora of design, sustainability, cost, time and functionality specifications. According to industry expert, with the market becoming very price-sensitive, interior and fit-out contractors must be able to differentiate between offering value and being the lowest bidder, if they want to be successful and competitive.

Sustainability is likely to be the key trend the GCC's fit-out contracting market, especially in the wake of the introduction of green building codes and rating systems. Sustainable solutions are gaining momentum in the market as the understanding around environmentally-responsible projects grows.

The GCC is overbuilding on an epic scale despite the slowdown in economic growth due to oil price fluctuations. Contractors in the GCC should consider themselves fortunate to be positioned in a region that is still very active compared to many other parts of the world despite low oil prices. With the current slowdown in the market and the fast-approaching dates for Expo 2020 and FIFA World Cup 2022, developers and consultants are bound to turn their attention towards providing high-quality refurbishments to their existing projects, in turn fuelling the demand for interiors and fit-out contractors. The value of projects in the construction and interiors pipeline is four times the value of projects completed in the past 10 years. Interiors and fit-out contractors are likely to come up with new and creative technologies in order to meet the growing demand in the coming months.

The UAE demonstrates the largest market in terms of construction projects lined up for completion, followed by KSA and Qatar, thereby making it the biggest interiors and fit-out market in 2017. These three countries among the GCC have attracted international acclaim for undertaking the world's largest investments across building up of its residential, hotels, retail, educational sector and healthcare sectors, also pointing to the massive opportunity for the interiors and fit-out markets that lies in these segments. Kuwait is also catching up to Qatar due to massive plans laid out in the development plan of its government, thus providing growth and expansion for interior and fit-out business.

Among the sectors, the hotel, healthcare and education sectors are particularly exciting with numerous [new developments](#) being announced, which require innovative and creative interior design and fit-outs. Therefore, there is likely to be growing demand for quality interior and fit-out solutions due to hectic construction activity in the GCC countries in 2017 and beyond.

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