Dubai’s construction projects, Q1 2016

The value of Dubai’s construction projects in execution and planning stages is expected to reach a record high USD 390.7bn this year with 13.7% of this (USD 53.5bn) being projects under progress, according to Deloitte’s ‘Construction Pulse – Dubai 2016’ report. In 2016, Dubai is expected to award an additional USD36.5bn worth of projects, down by just -3.0% compared to 2015.

Dubai’s construction projects in execution and planning stage, % of total USD 390.7bn

In terms of new contracts awarded, UAE accounted for nearly 60% of the USD 15bn of construction contract awards made in the GCC with Dubai accounting for 73% of UAE awards. That is, USD 6.6bn of new contracts were awarded in Dubai in Q1 2016, the second highest figure since 2008. The all-time high was recorded in Q4 2006, with USD 9.3bn of contract awards. Despite the recent drop in oil prices, the prospects for Dubai’s construction projects for this year remain positive, mainly targeted on tourism, manufacturing, logistics, transport, and ICT related projects.

Bank credit to construction and real estate sector, Q1 2016

Lending to the construction and real estate sector expanded 14.8% y/y in Q1 2016, up from 5.2% y/y in Q1 2015, with loans to this sector accounting for 17.2% of total bank loans. Demand growth for loans in construction strengthened in Q1 2016 compared with the previous quarter and is expected to further improve in the June quarter, according to the Q1 2016 Credit Sentiment Survey by the UAE Central Bank. The survey revealed that lower oil prices had a negative impact on loan demand across different types of firms with lenders tightening the credit standards. Survey respondents expect marginal tightening in credit standards in Q2 2016 while the appetite for overall business lending would increase further.
In Q1 2016, bank credit to the construction and real estate sector reached AED 242bn compared with AED 211bn in Q1 2015 as the chart below shows. We expect credit to construction and real estate to further increase in 2016. The relatively weak expansion in the construction sector (0.4% y/y GDP growth in 2015) is surprising given the high output readings for the construction sector in the Dubai Economy Tracker surveys for that period, and also given the number of projects underway.

*The big jump between Q1 2013 and Q1 2014 is due to UAECB’s re-classification of customers by the introduction of new reporting forms.*

Source: UAE Central Bank, Emirates NBD Research
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Emirates NBD Research & Treasury Contact List

Emirates NBD Head Office
12th Floor
Baniyas Road, Deira
P.O.Box 777
Dubai

Jonathan Morris
General Manager Wholesale Banking
JonathanM@emiratesnbd.com

Aazar Ali Khwaja
Group Treasurer & EVP Global Markets & Treasury
+971 4 609 3000
aazark@emiratesnbd.com

Tim Fox
Head of Research & Chief Economist
+9714 230 7800
timothyf@emiratesnbd.com

Research

Khatija Haque
Head of MENA Research
+9714 230 7803
khatijah@emiratesnbd.com

Jean-Paul Pigat
Senior Economist
+9714 230 7807
jeanp@emiratesnbd.com

Aditya Pugalia
Analyst
+9714 230 7802
adityap@emiratesnbd.com

Anita Yadav
Head of Fixed Income Research
+9714 230 7630
anitay@emiratesnbd.com

Athanasios Tsetsonis
Sector Economist
+9714 230 7629
athanasiost@emiratesnbd.com

Edward Bell
Commodity Analyst
+9714 230 7701
edwardpb@emiratesnbd.com

Mohammed Al-Tajir
Research Analyst
+9714 609 3005
mohammedtaj@emiratesnbd.com

Shady Shaheer Elborno
Head of Macro Strategy
+9714 2012300
shadyb@emiratesnbd.com

Sales & Structuring

Group Head – Treasury Sales
Tariq Chaudhary
+971 4 230 7777
tariqmc@emiratesnbd.com

Saudi Arabia Sales
Numair Attiyah
+966 11 282 5656
numaira@emiratesnbd.com

London Sales
James Symington
+44 (0) 20 7838 2240
jamess@emiratesnbd.com

Singapore Sales
Supriyakumar Sakhalkar
+65 65785 627
supriyakumars@emiratesnbd.com

Egypt
Gary Boon
+20 22 726 5040
garybt@emiratesnbd.com

Group Corporate Affairs

Ibrahim Sowaidan
+9714 609 4113
ibrahims@emiratesnbd.com

Claire Andrea
+9714 609 4143
clairea@emiratesnbd.com

Investor Relations

Patrick Clerkin
+9714 230 7805
patricke@emiratesnbd.com