

INVESTIGATE
— RESEARCH & ANALYSIS —

THE LATEST
CONSTRUCTION HEADWAY
**IN PROPERTY
MARKET**



THE LATEST CONSTRUCTION HEADWAY IN PROPERTY MARKET

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To date, we are still fighting the coronavirus pandemic that has been attacking our world since March 2020. Like a whipsaw, COVID-19 and its related lockdown and other precautionary measures have left many damages to the world. Facing a second wave has crippled several industries to varying degrees including the construction industry, which is linked to more than 200 subsectors, from cement and ready-mixed concrete to bricks and machinery, and a large share of domestic employment.

Prior to the pandemic, GlobalData, a leading data and analytics company formed in 2016, anticipated that the global construction industry's growth rate is to hit 3.1% in 2020, up from 2.6% in 2019. However, these predictions have dropped to only 0.5% following the severe disruptions caused by the pandemic.

Looking back at the second quarter of 2020, when countries worldwide have imposed many restrictions including putting the construction industry on hold to prevent the continued spread of the virus, GlobalData stated that the construction industry's output in some major markets in Europe plummeted in April. The Italian construction industry, for example, dropped by 68% year-on-year (YoY), while France witnessed a 60% decline.

However, restrictions imposed on global economic activities and lockdowns were widely eased during Q3 2020. According to GlobalData, construction output levels bounced back in the third quarter of 2020 in many major markets, as sites were reopened and operations resumed. Therefore, GlobalData predicted that global construction output is set to shrink by 3.1% in 2020, excluding China where the decline in construction

output will be 5.3%. Moreover, global construction output is projected to grow by 4.1% in 2021, excluding China where the pace of output growth will be 3.0%.

It is worth highlighting that the challenges that the construction industry faces in terms of following the precautionary measures, such as social distancing and cutting the number of workers in sites, had its severe impact on the industry until adapting to the new normal lifestyle. Consequently, GlobalData has anticipated that the global construction output will expand by 4.5% in 2021, following the estimated contraction of 2.9% recorded in 2020.

Case in point: GCC's construction market has around USD 1 tn of construction and transport projects planned or under construction, with no shortage of potential opportunities, according to GlobalData. However, with the pandemic havoc, the lockdowns and other precautionary measures have disrupted supply chains and on-site delivery, especially with the sudden drop in oil prices. That is why construction companies have to rethink their strategies to rule their business amidst the pandemic.

EGYPT'S CONSTRUCTION MARKET

Focusing on the Egyptian construction industry, it witnessed a fast pace of growth prior to the pandemic at an annual average growth rate of 9.6% between 2016-2019, according to GlobalData. The main reason behind this growth is the construction of several megaprojects, including new cities, transport infrastructure, and others.

Furthermore, the Global Infrastructure Outlook published by the Global Infrastructure Hub mentioned that in FY 2018/19, private sector investments accounted for 90.3% of the construction industry, with a total value of around USD 17.9 bn. Meanwhile, public investments were valued around USD 1.9 bn.

Since the beginning of the virus tumult, the construction market operations were put on hold because of the precautionary measures imposed nationwide, including schedule delays, workforce disruptions, equipment, and supply chain disruptions, reduced productivity due to on-site health and safety protocols (i.e., social distancing, staggering of work, enhanced sanitation, etc.), restrictions on new permits, and financial shortfalls or cash flow stagnations. Additionally, the government banned construction permits for six months.

In Q1 2020, the construction sector contracted by 9.1%, accounting for EGP 91.35 bn of the state's gross domestic product (GDP), according to the Ministry of Planning and Economic Development (MPED). The GlobalData mentioned that the Central Bank of Egypt (CBE) remarked

that the industry contracted by 5.7% YoY in Q2 2020, before recovering slowly in Q3 2020 with a growth of 2.6% YoY.

Moreover, the GlobalData stated that the government has increased its spending on new public projects, in addition, it pays a great deal of attention to several sectors including the construction one. In November 2020, the amount of planned public investments in FY 2020/21 had increased by 70%, reaching EGP 595 bn.

Thanks to the large infrastructure projects underway, the construction market is on its way to revive. Work remains underway for both public and private developments, not to mention that national transport and infrastructure projects are also proceeding as a state priority. In the New Administrative Capital (NAC), for example, the government is accelerating the pace to inaugurate NAC by year-end. Thus, Prime Minister Mostafa Mabdouly held a meeting on March 8 to discuss the inauguration arrangements and activities.

The meeting reviewed the inauguration's proposed scenarios, under the directives of President Abdel Fattah El-Sisi, where Madbouly stressed that this opening should be at the highest level of organization.

Madbouly adds that starting next August, the trial operation of government buildings will be rolled out and several employees will be transferred successively.

REAL IMPACTS ON CONTRACTORS AMIDST PANDEMIC'S SECOND WAVE

Facing a second wave of the pandemic has, for sure, impacted the construction chunk of the property market in many ways. That is why Invest-Gate's R&A team surveyed 16 Egypt-based construction companies. We aim to determine the industry facets that got affected by the pandemic, and how they react to it.

General Status

Following the government's safety requirements to combat the virus outbreak, including social distancing, decreasing the number of workers on-site, and many more have triggered some negative consequences on the construction scene.

Notably, 69% of respondents assume that the second wave of the virus has negatively affected construction activity to a great extent. Meanwhile, the remaining ones see that it has a weaker effect than the first wave or the same effect just like before (25% and 6% of respondents, respectively).

For the respondents who believe that the construction market has no further damages than what already happened during the first wave (31% of respondents), they see that the market has confronted the second wave with greater flexibility as they can now understand what is going on and consequently deal with the new normal, according to 60% of surveyed companies.

Furthermore, 40% of surveyed companies have followed the imposed precautionary measures; meanwhile, the remaining 20% of respondents have confidence in the state's incentives. Thanks to these measures and incentives, the burden of the havoc has been eased on the construction companies while handling the situation.



NEGATIVE IMPACT OF COVID-19'S 2ND WAVE ON CONSTRUCTION MARKET

Strong

69%

Weak

25%

Neutral

6%



REASONS FOR MARKET AGILITY AMIDST PANDEMIC

Market
Flexibility

60%

Precautionary
Measures

40%

State's Incentive
Policies

20%

Construction Woes

Since things are always changing in the construction market, it is crucial to consider the impact of COVID-19's second wave on various aspects of building and construction activities. Thus, we asked our surveyed contractors about the issues they currently face because of the pandemic.

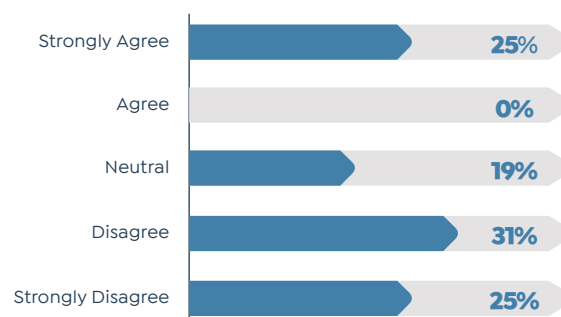
Raw Materials

When it comes to raw materials, a major level of resilience is acknowledged, as 56% of the responding companies claim that this emergency will not cause any fluctuations in building materials prices. On the other hand, 25% of respondents believe that this havoc will cause a rise in raw materials' prices because of the supply and demand fluctuations.

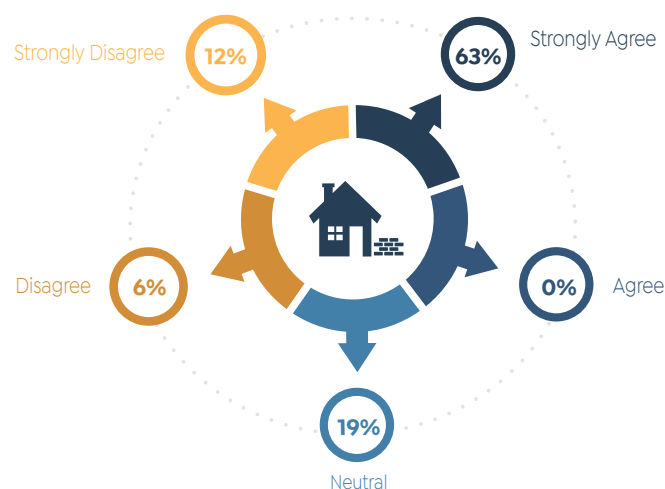
Conversely, 63% of those surveyed see that since the virus has spread throughout the globe, disruptions are likely to arise from foreign suppliers from which Egypt imports machinery and equipment, iron, steel, drywall, cement, and other components. However, 18% of respondents believe that no disruptions will happen and things will be better in the near future.



RAW MATERIALS' PRICES RISE DUE TO PANDEMIC



RAW MATERIALS' IMPORTS SHRINK DUE TO PANDEMIC

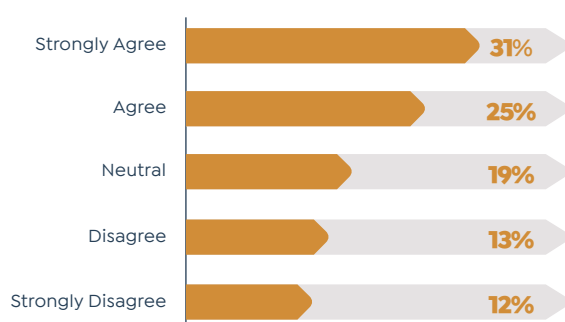


Projects Delivery

According to 56% of the responding companies, the Egyptian construction market experiences delays or disruptions to be able to deliver on time. This is because of the imposed restrictions by the government. Nevertheless, 25% of respondents believe that despite the market's harsh circumstances, they can stick to their timetables and avoid any delays.



PROJECT DELAYS DUE TO PANDEMIC



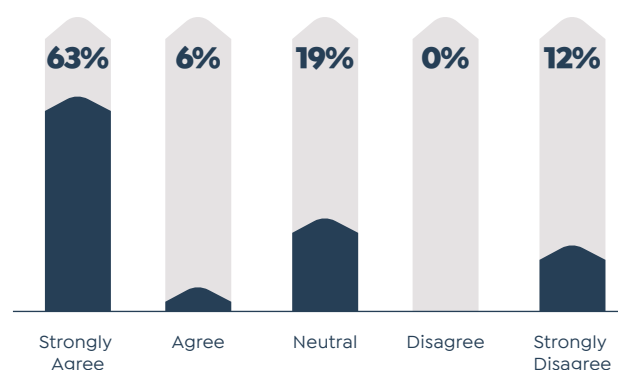
Financial Aspects

It is obvious that these circumstances have a deep impact on the construction companies' financial status. According to 69% of surveyed companies, they are experiencing several financial shortfalls, hindering them from continuing the projects' execution and handling their affairs. On the other hand, 19% of respondents see that the havoc has a neutral impact on their financial affairs; meanwhile, the remaining 12% of surveying companies were above the situation and succeeded in handling their business with minimal financial problems.

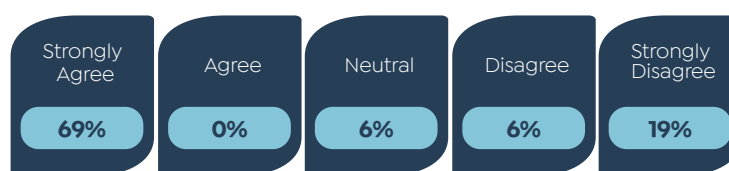
Accordingly, the construction companies have suffered from a severe drop in their profits due to the harsh circumstances of the pandemic, according to 69% of respondents. However, 25% of surveyed companies succeeded in reducing the negative impact of the pandemic to handle this emerging situation.



FINANCIAL SHORTFALLS AMIDST PANDEMIC



CONTRACTING COMPANIES' PROFITS DROP AMIDST PANDEMIC



ROAD TO RECOVERY

Based on all mentioned above and all these struggles the construction market witness because of the pandemic havoc, it is appropriate to have a brighter look at recovery and the adoption of new normal.

The government launched many initiatives since the beginning of the pandemic to alleviate the construction industry, such as the CBE's EGP 100 bn- initiative to support the private sector, which included the construction industry.

Additionally, the government pays a great deal of attention to the country's comprehensive development plan, most notably the construction projects in new cities nationwide.

Moreover, the government launched a campaign last year to get rid of building code violations and encroachment on state land. Based on this campaign, property owners who are violating the laws are obliged to submit reconciliation requests. In a bid to allow the owners to follow the rules, the government has extended the reconciliation period to the end of March 2021. Accordingly, the government received around 2.75 mn reconciliation requests that are worth EGP 18 bn until March 11. It is worth highlighting that there are around 3.16 mn of building code violations

across the state. Not only that, but also the government prepares new building requirements, which are expected to regulate all matters related to construction violations.

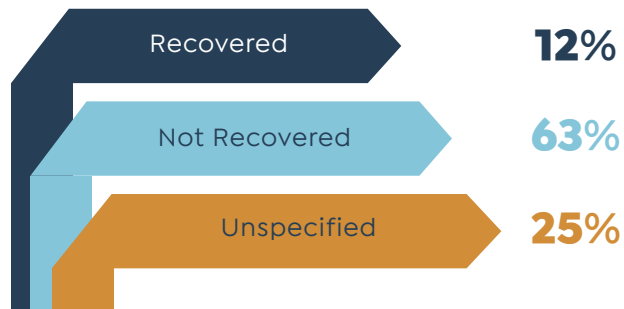
Speaking of recovery, according to 12% of surveyed companies, the market has recovered from the pandemic and is on its way to adapting to the new business lifestyle.

Conversely, 63% of respondents believe that we are still on the road to recovery as the market is still suffering from the pandemic's reverse impacts, and business aspects are not fully operating in their right pace. Meanwhile, 25% of respondents cannot specify whether the market has recovered or not.

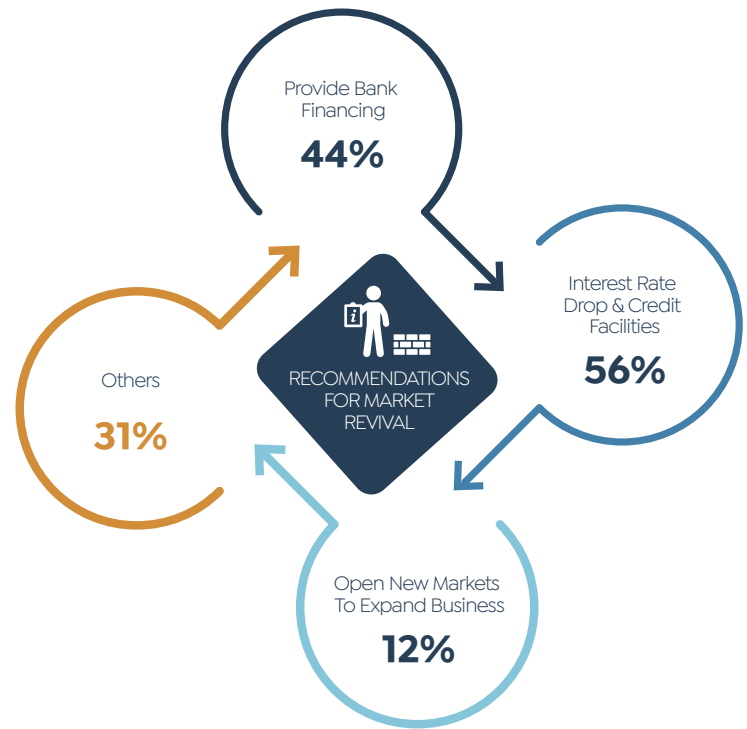
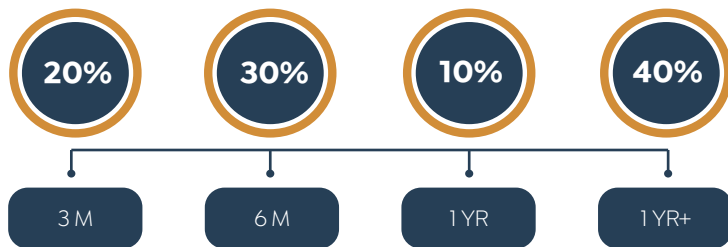
In all cases, thanks to the guidelines composed to help the building market forge ahead, 40% of the surveyed contractors anticipate that the Egyptian construction market needs more than a year for recovery. Meanwhile, 30% of respondents believe that the market needs only six months for recovery.



CONTRACTORS OPINION ON MARKET RECOVERY



PROSPECTS FOR CONSTRUCTION MARKET RECOVERY



Consequently, GlobalData anticipates that the construction industry will rebound with a growth rate of 12.7% in 2021, before registering an average annual growth of 10.2% before 2022-2025. The main power behind that growth is the investments directed to the development of the fourth-generation cities.

In a nutshell, despite all the difficulties the construction industry faces because of the pandemic, we are on the way to recover as contractors are now more aware of what is going on and they have figured out how to deal with such a tumult to survive and help the market to bounce back, especially under the government's push to revive.