



Welcome to The C-Suite Summit

In this, and the next four issues of Middle East Consultant, we're covering the major conversations emerging from the C-Suite - an important, closed-doors event which took place before Ramadan at The Capital Club, DIFC. We've held back on releasing this material until post-Eid, because we felt that its impact and implications were such that they deserved to be released when the economic community was fully-focused and best-placed to act on the findings...



On 14th March 2023, six top executives from the fields of consultancy, project management, architecture & design, dispute resolution and law, met in the Majlis Lounge of The Capital Club, DIFC. For three hours, they discussed key issues relating to the construction and development market, tackling fundamental issues such as the economy, rising costs, recruitment,

Saudi's giga-projects, payment issues and price-driven markets, and the impact of war in eastern Europe.

The event - termed The C-Suite - followed an amended version of the Chatham House Rule. This means that while our coverage can comprehensively report what was said, when it comes to who said what, comments cannot be attributed and remain fully confidential. Thus, with the promise of confidentiality, the panelists - whom we term 'Table Captains' - could fully express their views in a fully-informed and heartfelt way. This often led to astonishingly frank moments in the discussion and a set of insights and observations that are not only ground-breaking, but are critical reading for every construction and development professional.

THE TABLE CAPTAINS

- Sachin Kerur, Head of Middle East Region, Reed Smith
- Venkatesan Sethuraman, Executive Vice President, Danube Group
- Adam Smith, Managing Director, Polypipe Middle East
- Jad Chouman, Partner, Head of Middle East, HKA
- Spencer Wylie, Chief Executive Officer, Compass Project Consulting
- Ammar Al Assam, Chief Executive Officer, Dewan Architects + Engineers

THE PROMPTS FOR DISCUSSION

The C-Suite generated its three hours of dialogue via three key discussion 'prompts'. These were shared with the Table Captains 10 days before the event

itself, to allow time for preparation and research, as required.

The three 'prompts' were:

1. Geopolitics and conflicting trends

Currently, the GCC is very much at the centre of the fall-out from the geopolitical storm currently impacting eastern Europe. We see the influx of the uber-rich pushing the prices of up-scale real estate ever-higher - demand looks set to far exceed supply in the months ahead - while the deep pockets of this demographic can only be a very good thing indeed for the luxury retail and lifestyle sectors. Yet the same events are having mixed connotations for other aspects of the Construction and development sectors, not the least the rising cost of steel imports pushing the price of rebar higher (reaching epic proportions back at mid-year 2022). What are we to make of these conflicting dynamics and economic pressure points?



The C-Suite participants were able to contribute according to the Chatham House Rule, enabling complete confidentiality of their remarks.

2. The new AI-led technologies and generative design software

Things are moving so swiftly with these new technologies that in many cases, there is not even a relevant user manual to follow. Yet they enable even modestly-sized engineering firms and consultants to become structural engineers, architects and cost consultants - giving bespoke solutions to the most complex engineering and architectural challenges, and even taking care of procurement and budgeting. Will they now de-centre the industry and make traditional professional roles - eg, Architects and Designers - surplus to requirements?

3. Are giga-projects creating a 'false dawn'?

The current crop of Saudi giga-projects are certainly a huge focus of attention, but are they based on seriously false logistical and economic assumptions? If they are, does this imperil other activities across the GCC (and even further beyond?). Can they actually ever be completed on time; and given that they're diverting so many materials and resources from the regional supply chain, are we in effect creating a 'false dawn' here?

In fact, is there enough resource across the entire GCC supply chain to service their needs? Does this imply that the giga-projects - dazzling though they are - are in effect intended more as positive messaging for Saudi Arabia than they are as feasible community developments? These critically important themes have often been inferred, but not explicitly discussed.





Dialogue #1 was dedicated to a discussion as to whether rising costs were having an adverse effect on the Construction market.

THE DIALOGUES

On the 'big day', the discussion basically broke into five key dialogues; we're going to be covering these across the next four issues of *Middle East Consultant*. In this issue, logically enough, we're focusing on the first Dialogue.

Dialogue #1 - The threat of rising prices

The consensus view was that the UAE and Saudi Arabia are very much operating 'in a bubble', separated economically and geopolitically from what's happening in the rest of the world. So, we had better make the most of it!

Yet, this protective bubble doesn't come without a cost. One of the consequences of being protected from international, downward market forces is that it's very easy for companies - contractors, consultants, architects, and so on - to get work at the moment. But because costs are generally very high, it's exceptionally hard to make any money from it.

Costs are often the highest they have ever been in the region: rent, salaries, training and a host of corporate essentials are at exorbitant pricing levels. So, we are now seeing a lot of pressure on margins: perhaps more than ever before. This is driving more and more companies to set up satellite hubs in nations such as Vietnam, Thailand and the Philippines, where labour and rental costs are traditionally at a far lower gearing.

Yet there is another, deeply disturbing, factor at play here too. Costs in this region are now so high, we are actually seeing businesses setting up satellite hubs in the UK and Australia - because even those nations are significantly cheaper than here!

One example of the surprising cost



differentials is the fact that a senior architect will be earning 30% more salary in the UAE than in the UK - and that is even allowing for the 41% personal income tax.

Are these pricing differences and the impact of rising costs the result of the war in eastern Europe? The overwhelming conclusion was 'no'. At a certain time early in the war, there was indeed a spike in oil prices, for example, but now, these are at the same level as they were before the war started. Similarly, while the cost of steel rebar is currently rising, it's still only at the level of \$602 per tonne - again, this is a fraction of the price it rose to in the early stages of the war.

Other costs, though, are rising dramatically: take, for example, the average 'fitting and finishing' cost per sq.m. for a villa in Dubai. This has gone from an average of \$30-35 per sq.m. in 2020 to a current figure of \$50-55 per sq.m.

The result is that developers tend to be 'sitting it out' - delaying projects until prices get back to normal. There was a

consensus around the table, in fact, that developers are very adept at doing this...

Yet there is also the danger that in a climate of rising prices, many contractors will try to 'cut out the middle man', often taking on board considerable risk in the process. There is also the extra dynamic that, at present, contractor's order books are 'full to the brim' - but if they don't have adequate resources to supply the client, they would be heading for disaster. So, in the building sector, both of these tendencies are increasingly leading developers to set up their own procurement offices in countries such as Turkey, dealing with the raw materials purchasing directly, rather than going through a wholesaler. In so doing, they may save 15-20%, but in turn, they take on board the risk of catastrophic failure if the materials prove to be of inferior quality, if they are in any way faulty, or if there are severe supply issues.

Now, see next month's issue of *Middle East Consultant* for Dialogue #2 - Do rising prices and geopolitics lead to more adversarial behaviour? ●