Construction Opportunities on the Rise

BY PETER DIEKMEYER

In the past, the construction industry has largely been viewed in terms of big, turnkey projects. Today, it's clear that the industry has changed, at least in the context of exports, and is now much broader than ever, encompassing just about any good or service targeting residential and commercial, institutional and public works. And while the sector is doing well at home, Canadian companies need to look further to ensure their future success.

Various regions of the world, driven by differing demands, are creating many opportunities for Canadian construction companies – particularly those with expertise in the diverse niche markets and support sectors, and specifically, those companies able to exploit these niches and gain access to the construction global supply chains.

In this article we look at two different markets with two very different drivers for growth: The Gulf Cooperation Council (GCC) and the Caribbean.

Substantial growth in the GCC is currently spurred by local demand for massive amounts of construction, driven by local ambitions to position the GCC as a global financial and tourism hub. Tapping into this market can often lead to huge opportunities, particularly given the GCC's vast holdings around the world. On the other hand, growth in the Caribbean construction sector is fueled largely by a demand for North American standards for accommodation, ultimately driven by tourism. This is a niche of a different magnitude, but one that presents many opportunities for Canadian companies.

The Canadian construction industry: strong, but poised for growth

"The construction industry has seen a real boom in recent times, particularly in the Western provinces," says Marie-Claude Erian, Export Development Canada (EDC) Sector Advisor for Infrastructure. "There are huge projects going on right here in Canada – but this boom won't last forever and businesses need to prepare for that eventuality."

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At about 190 stories high, the Burj Dubai stands to be the tallest building in the world, when completed in January, 2009.

According to Erian, EDC has targeted both the Gulf Cooperation Council and the Caribbean as areas where Canadian construction-related companies can make an impact. "Last year we did close to $6 billion worth of insurance and bonding to some 800 companies in the construction supply chain," says Erian. "But despite developments in those two regions, they accounted for only a small share. So there is a lot of room for growth."

Construction is one of the key drivers of the Canadian economy. So naturally almost any sector initiative is going to involve big dollars.

Here in Canada, the industry produces $170 billion worth of goods and services, which works out to close to 12 percent of the country's GDP. Exports alone, which are slated for some 125 international markets, comprise $34 billion of that total.

The range of those exports is impressive, though defining precisely what constitutes "construction" is not always easy. While most experts agree that just about any good or service targeting the residential, commercial, institutional and public works sectors qualifies, the range is quite broad.

For example, exports to the GCC and the Caribbean include traditional engineering and architectural services, project management, as well as manufactured goods such as control systems, building materials, doors and windows and even construction equipment.

But exports also include semi-processed raw materials such as crushed stone, wood and cement. According to Erian, some of these items are actually available in the GCC and Caribbean, though not always in the quantities and prices which Canadian suppliers can deliver on. The bottom line is that the range of Canadian construction companies that can benefit by boosting their presence in these key markets is fairly broad-based.

Despite their differing geographic profiles, the GCC and Caribbean have some similarities. Both are part of integrated regional economies located within strategically important bodies of water. Both are fast-growing, emerging markets comprised of independent states, which share similar characteristics. Neither is dominated by one economy, (though Saudi Arabia comes close in the GCC). That means exporters doing business in a country in either region can use it as a base to build their presence in others.

That said, according to Erian, the differing legal and social structures, cultural preferences, religious nuances, and differing reasons for growth in the construction sector merit that both regions be looked at separately.

The GCC: an oil-inspired boom

Hosting the world's tallest free-standing structure has long been a coveted honour among the world's up-and-coming metropolises. For a long time New York had bragging rights. So did Toronto. Other projects on the books or under construction in cities such as Shanghai, Taipei and Kuwait have at one time or another also had pretensions.

But at about 190 stories high, the Burj Dubai stands to be the tallest building in the world when completed in January 2009. Montreal-based GSM Group landed the contract to provide visitors of Burj Dubai with a unique multimedia environment. GSM specializes in the production and design of high-end exhibits for museums and entertainment facilities.

The Burj is just one of the many developments currently underway in Dubai, which is part of the United Arab Emirates. Like other Gulf Cooperation Council members (Saudi Arabia, Kuwait, Qatar Bahrain, and Oman), the UAE and Dubai in particular are using their increasing flows of oil and gas revenues to help diversify their economies through massive investments into such areas as finance, trade and tourism, in preparation for the day that the black gold runs out.

Although the UAE has almost 10 per cent of the world's oil reserves and is a major producer, Dubai's share is modest. As a result, both public and private sector players are investing a lot of money to position the emirate as a regional financial and tourist hub.

"The development is stunning in scale," says Vincent Brie, President of GSM Build, one of GSM Group's four divisions. "There has been a building boom going on for several years and many predict that it will go on for many more."

In fact, the GCC and the Middle East in general are now attracting a key share of global construction dollars. According to some estimates, Dubai alone now ranks second after Moscow in terms of the scale of construction activity on its soil, with some 24 million square feet of commercial office space being built. One statistic speaks volumes: the emirate is said to host as many as one fifth of the world's cranes.

The benefits that rising oil prices have brought to the GCC cannot be understated. GDPs throughout the region have shot up and regional confidence has skyrocketed. These trends have spurred government spending which has in large part driven an unparalleled investment boom. A staggering USD 1.1 trillion worth of construction projects are currently in various stages of development in the region.

"The growth has been impressive," says Klaus Büttner, EDC Regional Vice-President, International Business Develop-ment. "It's a strong mix of private and public sector projects. The skyscrapers and towers are more visible. But these also need general infrastructure capacity to support them, so roads, metros, power plants, schools and hospitals are being built."

Not surprisingly, the 125 Canadian firms in the region, about 30 of which specialize in construction-related activities, are more than aware of the many lucrative potential contracts. According to GSM's Brie, one of the attractions is the vision that key regional players have. "Everybody wants to be number one at whatever they do," says Brie. "That means they can be very demanding on their suppliers."

For example, GSM's client on Burj project, Emaar Properties, has the largest market capitalization of any real estate company in the world. Not only is the company developing the world's tallest building, but the structure will sit atop the 14 million square-foot Dubai Mall which is slated to become the world's largest shopping centre, topping out at close to three times the size of Canada's West Edmonton Mall.

In addition to the tower's observation deck, GSM will design the interior, concepts, story line and exhibits for the visitors' centre. After buying tickets to the Burj Dubai's observation deck, tourists travel along a half-kilometer moving sidewalk and are whisked up on speedy elevators. During the journey, they will be entertained by a multimedia experience comprised of screens, videos and sound.

Dubai's quest for excellence means that local players want to deal with suppliers that are the best in the world at what they do. As a result, says Brie, Dubai purchasing personnel are very open to doing business with foreigners.

Yet despite the fast growth and lucrative opportunities in the GCC, there are challenges. "You cannot get away with treating the region like it was the Klondike," says Brie. "Clients expect you to have a long-term local presence."

The path that Canadian companies need to take to get contracts depends in large part on their area of expertise. "The only procurement that we do ourselves is hiring consultants and project managers, some of which could be Canadian companies," says Haiyan Mujarkech, Chief Business Development Officer at Dubai Properties, which has extensive projects in Dubai. "Material purchases are handled directly by our project managers."

According to Mujarkech, Canadian companies that wish to do business with Dubai Properties directly need to get qualified first. "The usual process is to send along a company profile along with a list of projects and references, along with a company financial statement," says Mujarkech. "If they meet our criteria, then they will be invited in for tenders."

While Dubai's emergence has captured the attention of media and the business community, according to Jean-Francois Croft, EDC's Regional Manager for GCC and the Middle East, the emirate represents only the tip of the iceberg in the region. "There is a lot of activity going on throughout the entire GCC. Qatar is booming and so is Kuwait. In the Kingdom of Saudi Arabia they are building six complete new cities and investing hundreds of billions of dollars in infrastructure too."

OVERVIEW: THE GCC

Includes Saudi Arabia, Oman, Bahrain, Kuwait, UAE and Qatar

Oil profits are driving regional growth. GDP of USD 750 billion (2006), is forecasted to hit USD 790 billion in 2007

Most oil profits are reinvested domestically. Planned private and public infrastructure projects totaling USD 1.1 trillion, includes major outlays in finance, trade, tourism

In terms of "ease of doing business," the region ranks ahead of both India and China.

The Kingdom, which holds 22 per cent of the world's proven oil reserves, is faced with the task of integrating a fast growing and demanding younger population into its increasingly urbanized workforce. The metropolitan area around Riyadh, its capital, today hosts 5.5 million people, compared to just 30,000 in 1950. And the population is expected to double again by 2020.

The Wadi Hanifah restoration project

This rapid growth has put enormous strain on local ecosystems, particularly on the Wadi Hanifah River, which runs through the city centre.

"Over the years the local population has been dumping a lot of waste into the system. As a result, the river silted up and it did not have a constant flow and slope. This resulted in a lot of stale lakes forming in the 120-kilometre system. About 3 million cubic metres worth of garbage has been pulled out of the system so far," says Ajon Moriyama, a partner in Moriyama and Teshima, a Canadian architect and landscape planning company that has been working alongside British engineering firm Buro Happold to help clean up the water.

Moriyama and Teshima got involved with the project, one of the biggest water reclamation initiatives ever with a scope that includes a huge watershed that spans more than 4,500 sq-km, after George Stockton, President of Moriyama and Teshima Planners, wrote a paper on the Wadi Hanifah, which became the basis of further study of the system. Like many experts regarding the region, Moriyama attests to the importance of building a local presence and reputation gradually.

"We did design work on Saudi Arabia's first national museum about 10 years ago, which opened a lot of doors for us," says Moriyama.

According to Croft, the opportunities for Canadian construction companies in the region are not limited to service sector players. Suppliers of goods such as building materials have a role too. "But if you are a contractor or developer, you are often faced with shortages of material and construction equipment. There is a big demand for things such as wood, wood frames and high-end materials." That said, despite the distances involved, shipping to the GCC is not a problem due to the fact that the region is a transportation hub, says Croft.

Getting skilled workers is also a big challenge for companies doing business in the GCC. The region's red-hot economy has created many new high-paying jobs, which has absorbed a good part of the local workforce. As a result, many GCC countries have imported significant quantities of guest workers.

However, when it comes to doing business in the GCC region, for Canadian companies the positives clearly outweigh the negatives.

"Clients there are huge, often global in scale. And if they like what you do, they will often be very loyal. A company like Emaar properties has holdings around the world. If you do business with them, like GSM is in Dubai, you stand a very good chance of getting contracts with them in other places where they are active," says Croft.

Photo: © Jose Fuste Raga/Corbis

Impressive growth in the GCC has been a mix of private and public sector projects. In addition to the more visible skyscrapers, there are also roads, metros, power plants, schools and hospitals being built.

The ambitions of Dubai, which has immense holdings and ambitious mega-projects around the world, appear to have no bounds, with new plans constantly on the drawing board. If a Canadian company can tap into these niche markets, they stand to gain global access through multiple supply chains.

Partnering with a local player in the GCC is also important and can in fact yield even bigger benefits, especially for newcomers, due to the strong importance of personal relationships in the region, says Erian. "Better yet, wherever possible, partner with a Canadian company already active in the region. That could include engineers, architects or general contractors. But you also have to go to the market, which often means hiring a local consultant or joining a trade mission.

And obviously it's important to become educated on any government programs available as well as Trade Commissioner support."

The Caribbean: residential tourism spurs infrastructure development

On the other side of the world, another Canadian company is playing a key role in helping a regional player develop its potential. Hyprescon, a division of Louisbourg Group, has just finished exporting 112 kilometers' worth of concrete pressure pipes for use in a water line in the Dominican Republic.

According to the company's CEO Lisa Arcuso, the Caribbean nation, which has been an increasingly popular tourist destination, is currently more known for developments along the northern coast. But that's about to change.

"The Dominican Republic has some great potential that has yet to be fully exploited. However to accommodate the new hotels and developments, the infrastructure needs to keep pace," says Arcuso. "And water flows are a key element."

One of the key differences between the GCC and Caribbean regions is that in the former, business development tends to be broader-based.

Photo: Courtesy of Grupo Abrisa

The massive Cap Cana project in the Dominican Republic includes eight km of prime beachfront property.

As noted, construction-related opportunities in the Caribbean are centered predominantly around the tourism sector. Cuba and the Dominican Republic alone each attract about 4 million tourists a year to the region. The Bahamas pulls in another 3 million visitors.

"There are many hotels going up, but residential tourism, in which people buy homes there, is also increasing," says Stephen Benoit, EDC Regional Manager for the Caribbean and Central America. "Those projects are also generating infrastructure demand. Airports, roads, waste management projects and water delivery systems are also being built."

Canadian companies looking to expand their presence in the region have some advantages, says Benoit. "Canadians love to travel to the region. We send a lot of tourists and some retire there. Not surprisingly, we have a large pool of business people with strong familiarity in the area."

North American tourists want North American comforts

The fact that the Caribbean attracts so many North American tourists means that many of the projects currently underway are being built with their tastes in mind. For example, in addition to its 3,000 hotel rooms, when completed, the Atlantis Resort, located near Nassau, in the Bahamas, will also host a casino, lagoon and water park.

Canadian companies operating there have advantages beyond familiarity with the region. "There is a lot of talk about the relaxed attitude of "Caribbean Time" says Barry King, Vice-President of DCM Erectors, which is making and installing many of the structural components on Atlantis project. "But for the large-scale projects, developers want work done according to "North American Time," and to North American standards."

OVERVIEW: THE CARIBBEAN

- Includes Dominican Republic, Jamaica, Trinidad & Tobago, Bahamas, Cuba, and many micro-economies
- Infrastructure development, airports, roads, etc., is primarily tourism-driven, larger islands have more diversified economies
- Canada is well-respected in the region
- Key challenges include strong foreign competition, exacerbated by the rising loonie

DCM, which has a long tradition doing high level export work in the United States on projects such as the new Freedom Tower, is a big backer of EDC's Caribbean initiatives. "Local developers don't always have access to the same financing pool that North American companies do," says King. "That means initiatives such as EDC's $25 million loan to Kerzner International, which is developing the Atlantis Resort project, are looked upon very favorably."

Alex Hazoury, Vice-President of Finance at Grupo Abrisa, which owns Sinercon, the Dominican Republic's largest construction company, agrees. Grupo Abrisa is currently developing the massive Cap Cana project, a 120 sq-km project which includes eight kms of prime beachfront property in the eastern part of the country. The fact that the project was partially financed by EDC has yielded some benefits for Canadian exporters, says Hazoury.

"Because we are closer to the United States, we traditionally look to them first as a prime supplier, when we can't purchase locally," says Hazoury. "But lately we have also purchased a lot from Canadian companies, including doors, windows, street lighting equipment and various materials."

According to Hazoury, financing is a key challenge facing developers in the Dominican Republic. "Local banks don't have the same depositor bases as Western banks do," says Hazoury. "They are thus not able to issue loans in the amounts that major developers require. We have had to turn to international bond markets for some of our financing."

Photo: Courtesy of DCM Erectors

▲ Canadian company DCM Erectors, with a long tradition of high-level exports to the United States, is currently installing many structural components of the Atlantis project in the Bahamas.

Leveraging EDC's resources

Despite the lucrative export potential of both regions, neither market should be taken lightly, says EDC's Erian. "One of the biggest challenges facing Canadian construction companies on the international stage is their size," says Erian.

"Even firms such as SNC Lavalin, which are giants here in Canada, have even larger international competitors. That means successful Canadian companies are often those who tackle riskier or niche markets and who have local partners."

The risks involved in doing business in the Caribbean and the GCC range as widely as do the cultures, political structures and other differences in the individual countries. "The political and payment risks vary depending on which country you are talking about," says Erian.

These differences are exemplified in the regions' differing legal systems. For example, some Caribbean countries are former British colonies and have well-established court systems with common law traditions. Others are more recent democracies in which the rule of law is tenuous. EDC can help companies to overcome some of the construction sector's export challenges in the GCC and Caribbean regions.

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Canadians have a good presence and reputation in both regions, which helps other Canadian companies gain access to these markets. "The demand exceeds the supply, and developers have to go beyond their traditional supply chain to provide opportunities for Canadians to enter the market," adds Erian.

"We use our financial resources to leverage new business for Canadians by opening doors either on our own, or by working with partners such as trade commissioners, the CMHC International and so on," says Erian. "Often this consists of identifying needs of potential clients in export markets and arranging introductions for Canadian companies that can help meet those needs."

Meanwhile back in the UAE, construction on the Burj Dubai advances towards the 12th floor, where GSM will insert its observation deck. "This building is just growing and growing. And the region is too," says Brie. "It's very exciting and we are glad to be a part of it."

In fact, a final sign of Dubai's strength and growing importance on the world stage lies in the fact that a contender to challenging the Burj's position as the world's tallest free-standing structure is slated to be built right on the other side of town. Tentatively labeled "Al Burj," reports say that this competitor tower could – if the project gets off the ground – rise 1.2 kms in height, which would make it twice as high as the CN tower.

And there is no reason that more Canadian companies should not be going along for the ride too. They may not end up rising as high as the Burj Dubai, but they will certainly find growth opportunities. ■

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