



# **Stalled Middle East Construction Project Recovery: Solution to a Crowded Market?**



## History

Prior to, during and even after the financial crisis of 2008, construction across the region was a major focus. In the majority of cases, these construction projects were residential units, often high-rise, and/or mixed-use projects.

However, when the financial crisis hit, many of these projects simply ran out of money and were abandoned. Indeed, the Middle East construction market is almost characterized by the abandonment of construction projects when money runs out and legal issues mount up. Across virtually all GCC Countries, there are projects that fall into this category, many of which are, to this day, in an advanced state of construction, and to one degree or another, ready to be completed.

## Context

The Middle East has seen a pronounced financial recovery since the pandemic hit in early 2020, across various sectors. In particular, the real estate sector has witnessed values rising sharply due to consumer demand and short supply of units.

Prior to the pandemic, the real estate sector had shown a steady decline in unit values and waning consumer demand, as some of the region's larger real estate developers had released multiple developments onto the market, resulting in downward pressure on values. The onset of the pandemic saw even further reductions in unit values, reaching a low point in Q3-Q4 2020.

However, as the pandemic wore on and as we all became more accepting of the new norm, including an increased likelihood of home working for prolonged periods, a fundamental shift in consumer patterns emerged. A significant proportion of expatriate residents focused on larger units, and also sought to buy rather than continue paying rent. This longer-term outlook has manifested in a heated market with demand outstripping supply, and even with new units entering the market this year, the demand is likely to remain in the short term.

Government incentives, aimed at attracting and retaining talent across the region, has meant that populations are at pre-pandemic levels, or even higher. Visa reforms has also given rise to a more stable outlook, resulting in demand on real estate that cannot currently be satisfied with existing stock.

## The future

As the economic rebound from the pandemic continues, it is anticipated that GCC economies will grow at their fastest pace for some time. Emirates NBD have projected a 5.1% GDP growth rate during 2022, whereas other recently published data by MUFG puts this even higher at 6.1%. These projections, allied with new ways of working and increased consumer confidence, could lead to demand for residential, office, leisure/hospitality and other mixed-use projects.

Knight Frank's real estate predictions for 2022 further support this, with expected growth in hybrid working models and cross-border real estate investment being particularly strong growth areas. Capital investment in areas such as commercial offices are therefore expected to grow due to underlying demand for offices, regardless of adjustments to working weeks. Deloitte's 2022 Real Estate Predictions Report anticipates technological innovation in real estate, with fractional ownership supported blockchain to facilitate due diligence and capital flows in a secure environment.

Could previously abandoned projects be the answer? Across the GCC there are examples of partially constructed projects that blight the skyline. These are no doubt the result of economic conditions at the time of their abandonment, so is now the time to capitalize on this opportunity when demand is potentially at its peak? In a post-Covid world that is driven by sustainability, and acronyms such as ESG (Environmental, Social, and Governance) being bandied around so freely, does it not make sense to use the raw ingredients already in place for some of these abandoned projects and re-purpose them?

Data Centers and Healthcare Facilities, for example, are in huge demand and many investors see these types of units as potentially lucrative investments moving forwards. It is therefore easy to assume that some of these previously stalled or abandoned projects could be modified to convert into these use types, or perhaps hybrid models that include live-work spaces too.

## The dilemma

Clearly, the recovery of previously abandoned projects still presents challenges. Arguably, there are more challenges than commencing a new project, which include:

- Existing legal issues and disputes;
- Outstanding payments and unfulfilled scope;
- Qualitative / safety issues with the partially completed construction works;
- Warranties / work product which may not exist, or may be inadequate;
- Insufficient funding capacity due to higher perceived risk; and
- Lack of appetite from the contractor market to assume responsibility for somebody else's work.

Perhaps a change in Government policy to mandate the recommencement of these projects would facilitate an easier path to completion, but it is difficult to imagine how this would result in satisfaction for all concerned parties due to some or all of the issues identified above.

## The opportunity

Although there are significant challenges in resuming construction on previously abandoned projects, there are abundant opportunities. Not only do these abandoned projects allow a refresh in the vision and ultimate outcome of the project, but they also present opportunities for innovation and, arguably, potentially higher returns if they are done correctly.

Initial investment costs may actually be higher for such projects. Assuming there is a reasonable degree of integrity remaining in the construction works done previously, the final construction costs may be comparable and would encourage a high degree of value engineering and innovation, e.g. off-site manufacturing, technology embedment, etc.

Whilst the legal challenges, both in terms of ownerships, claims and other matters, would be complex they could be addressed through a combination of the right legal and financial advice. This advice would need to extend to technical assessments, quantification of attained progress and cost to complete, legal / claims advisory, as well as financial advisory in the form of debt raising, restructuring and other reorganisation services.

In summary, there is a tremendous opportunity for clients, banks and other investors to view stalled projects through a different lens given the events of the past two years. Rather than leave these projects idle, accumulating ever more claims, lost revenues and further dilapidation, there is an opportunity to turn these stalled projects into a revenue generating asset(s) that satisfies pent-up demand across a range of usage types.

## About Kroll

Kroll offers a one-stop solution in resurrecting projects that have stalled for one reason or another. We have a multi-disciplinary team that can address all of the key issues on stalled projects, from feasibility, valuations, funding, procurement, construction execution, disputes and legal (third party). Within Kroll we have both financial and real estate/construction professionals in-house, giving us a unique opportunity to bring together the required skills and experience to move things forward, efficiently and effectively.



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