

Dubai's Construction Boom

(source: nbd economic report)

construction activity is an integral part of a country's urbanization plans, infrastructure and industrial development. output in the construction sector grew at an average annual rate of 11% over the last decade, rising from aed14.5 billion in 1996 to aed25.4 billion in 2004. given the wave of real estate development during the last few years, the average growth rate during 2002-2004 exceeded 16% per annum. as a result of this consistent growth, the share of construction activities in the country's gdp rose from 8.6% in 1996 to 11% in 2004. the drivers of this growth, which began mainly in 2001, are the rise in public spending on infrastructure, the remarkable boom in private housing, initiation of freehold properties for expatriates in dubai and sharjah, and expansion of commercial and hospitality activities.

sectoral construction activities

since buildings and facilities enter as an input in all sectoral activities, construction is considered the most intensive sector in terms of forward and backward linkages. on average, around 32% of construction activities in the uae during 1995-2000 were in the real estate sector. other sectors that demand sizable shares in construction output include transport, storage and communication (19.4%), manufacturing (11.9%), government services (11.6%), and oil (8.3%). overall, construction activities constituted 52% of the total fixed capital formation in the country during that period. the nature of how the construction industry impacts other industries through subcontracting and exchange can be understood by reviewing the sources of intermediate inputs demanded by the construction sector. in addition to labor utilization and capital equipment and accumulation, the construction industry demands many types of domestically available or imported inputs. available data for sharjah for year 2003 shows that the value of intermediate consumption for the construction industry is divided into 59.8% costs of subcontracts and 41.2% costs of other services and consumables. the costs of subcontracts represent links with various categories of the industrial sector, trade and various services. the majority of other services and consumables are in the form of rents of machinery and equipment (with 8.7% share of total intermediate consumption), fuels and lubricants (5.4%), rent of nonresidential facilities (3.9%), electricity (3%), communication and postage (2.7%) and insurance (2%).

geographical concentration of construction activities

although the landscape of construction activities has changed significantly over the last few years (where there was a shift towards dubai and sharjah), available official data extend only to year 2000. during the period 1995-2000, the annual share of abu dhabi in construction activities averaged 55.2%, while the shares of dubai and sharjah stood at 27.3% and 9.5%, respectively. however, although the shift of activities was more visibly pronounced after 2000, the trend had already started before then. this is clear from the fact that abu dhabi's share in construction output declined from

58.7% in 1995 to 51.1% in 2000. on the other hand, during the same period, dubai's share rose from 25.4% to 29.4% and sharjah's share edged slightly from 9.1% to 10.1%. in general, the three emirates house around 92% of the country's construction business.

residential construction

two factors are responsible for driving the highly visible residential construction activities in the uae. first is the opening of the real estate market and allowing expatriates (despite lack of regulation) to own residential properties in the uae. second, the initiation of governmental support programmes for housing construction to uae nationals through land grants and financing facilities in the form of no-interest bearing mortgage loans. as a result, the uae witnessed the erection of more than 544 thousand residential units in 2002. more than 35% of this residential boom was originated in abu dhabi, while dubai and sharjah's shares stood at 29.1% and 18.8%, respectively. other emirates that command significant shares in the housing boom include ras al khaimah (6.6%) and ajman (5.6%). the nature of these built residential units has been determined largely by market demand and the type of governmental housing programs. around 53.2% of the 544 thousand residential units built in the uae in 2002 were in the form of apartments. villas and public housing constituted around 11.5% each of the total built units.

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