Solidiance: Construction market of Iran to see strong growth

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Despite the challenges surrounding the drop in global oil prices and the Iranian government experiencing problems in financial cash flow due to years of sanctions, Iran's construction market is expected to continue a relatively steady growth at a compound annual growth rate (CAGR) of 6.1% from 2016 to 2020. Combined with a population of nearly 80 million inhabitants, and 64% under the age of 35, the country has the ingredients to become a major player in the global construction market, writes Erika Masako Welch from management consultancy Solidiance.

The total construction market size in Iran is forecast to close at $154 billion at the end of 2016, and expected to reach $196 billion by 2020. The lifting of the sanctions in January this year have improved investor and consumer confidence over the past nine months, as many are optimistic that additional funds will pour into construction projects.

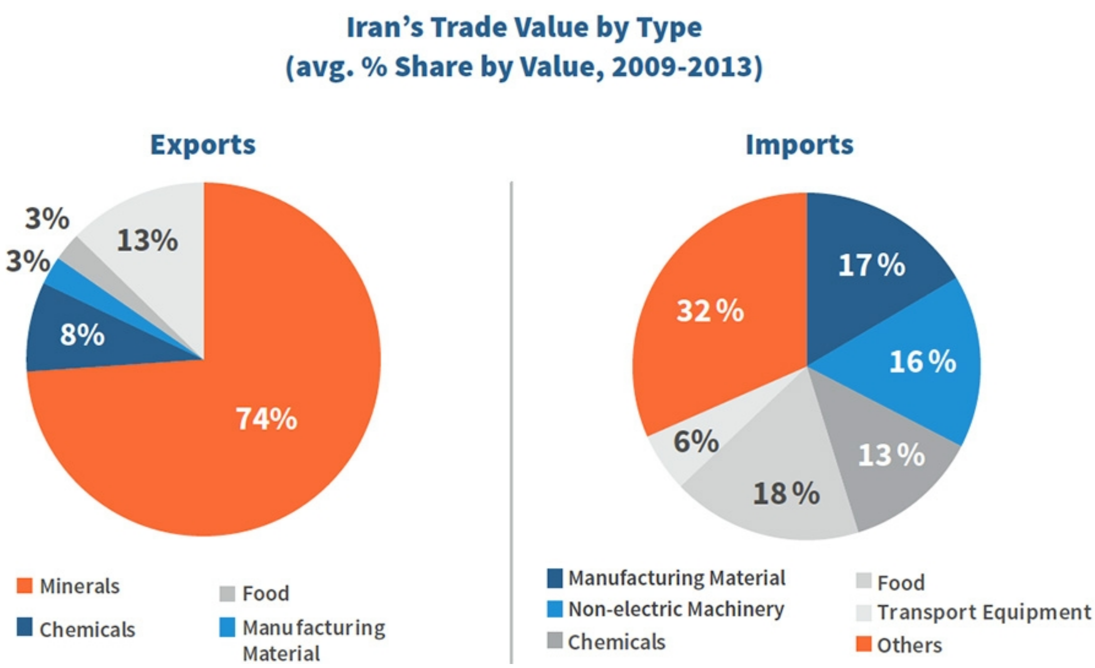
The construction growth has been primarily driven by the residential segment, accounting for 45% of Iran's market, due to a severe shortage of housing stock. The demand stands at 1.5 million housing units per year, and the current market is only able to supply 700,000 units. In 2009 alone, it was estimated that 750,000 additional units were needed each year, solely to cater to Iran's young couples embarking on married life.

Iran is expected to see growth not only from new housing development, but in renovations of existing buildings as well. In addition to upgrading old buildings for general safety and upkeep, many buildings across Iran require reinforcement and renovation in case of earthquakes. The government has announced plans to provide 1.8 million loans over a period of six years, from 2014 to 2020, ranging between $7,500 and $18,700, to help pay for renovation and upgrade projects.

Despite a 3% CAGR in the construction market for overall growth between 2013 and 2015, according to the Central Bank of Iran (CBI), it should be noted that Iran experienced a 32% decline in the number of construction permits issued within urban areas in fiscal year 2014-15, compared to 2013-14. With the lifting of sanctions earlier this year, and foreign direct investment (FDI) inflows expected to increase, this trend is expected to turn around.

With infrastructure playing a critical role in Iran's plans to attract FDI into the country, the government has prioritised infrastructure development in its strategic plans. The government is planning to nearly double the size of the country's 13,000 kilometres railway network to cover 25,000 kilometres by 2025.

The country has also announced a number of construction projects for the development of dams, tunnels and various industrial projects. In 2014, 475 tenders, worth $88.3 billion, were awarded in Iran. Projects included the construction of 745 kilometres of freeways, 5,626 kilometres of highways, and 2,970 kilometres of main roads across the country.



Much has changed in Iran over the past five years, after the country was cut-off from the international financial system and global markets. Iran today has the ability to manufacture many of the construction materials, products, and machinery it was unable to produce a decade ago, and many of these industries have grown into sustainable local economies for the country.

Despite Iran's impressive domestic manufacturing capabilities, there are still many finished products and solutions where there is great demand. In addition, sanctions have made the cost of construction materials high compared to other markets in the region – providing new players with opportunities to win market share with the right pricing strategy.

All in all, the construction sector is set for growth. The government needs to develop its infrastructure further in order to draw in the FDI it so desperately needs. In a region where low oil prices have hit the construction sector hard, new growth opportunities are always welcome.