Impact of COVID-19 on the Facilities Management Industry in the Middle East
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1. Context

MEFMA and Frost & Sullivan conducted an assessment to understand the “Impact of COVID-19 on the Middle East Facilities Management (FM) Industry.”

An e-survey was conducted with the FM service providers in the Middle East to understand their perspectives on the impact of COVID-19. In-depth discussions were conducted with key FM companies in the region as well to understand the implications of COVID-19 on business, growth, technology, and contracts.

Engagement Objectives

To understand the impact of COVID-19 on:

- Operations and service delivery
- Revenues and costs
- Contracts
- Technology
- Imperatives for post-COVID-19

Respondents Profile

E-Survey Respondents Profile

Respondent Profile by Country

<table>
<thead>
<tr>
<th>Country</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>UAE</td>
<td>49%</td>
</tr>
<tr>
<td>KSA</td>
<td>31%</td>
</tr>
<tr>
<td>Kuwait</td>
<td>9%</td>
</tr>
<tr>
<td>Egypt</td>
<td>4%</td>
</tr>
<tr>
<td>Oman</td>
<td>3%</td>
</tr>
<tr>
<td>Others</td>
<td>1%</td>
</tr>
</tbody>
</table>

Others include Qatar, Lebanon, Jordan, India, UK, Palestine

Respondent Profile by Designation

<table>
<thead>
<tr>
<th>Designation</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manager</td>
<td>54%</td>
</tr>
<tr>
<td>Director</td>
<td>18%</td>
</tr>
<tr>
<td>Head of Department</td>
<td>11%</td>
</tr>
<tr>
<td>CEO, MD, Vice President</td>
<td>12%</td>
</tr>
<tr>
<td>Others</td>
<td>5%</td>
</tr>
</tbody>
</table>

Respondent Profile by Country

<table>
<thead>
<tr>
<th>Country</th>
<th>Percentage</th>
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</thead>
<tbody>
<tr>
<td>UAE</td>
<td>31%</td>
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<tr>
<td>KSA</td>
<td>23%</td>
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<tr>
<td>Others</td>
<td>46%</td>
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</table>

Respondent Profile by Designation

<table>
<thead>
<tr>
<th>Designation</th>
<th>Percentage</th>
</tr>
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<tbody>
<tr>
<td>CEO</td>
<td>46%</td>
</tr>
<tr>
<td>Director</td>
<td>23%</td>
</tr>
<tr>
<td>General Manager</td>
<td>31%</td>
</tr>
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</table>
2. Impact of COVID-19 on FM: Insights and Analysis

2.1 Operations and Service Delivery

*COVID-19 created both opportunities and disruptions in the FM industry. While the industry was afflicted by payment delays and working capital issues, it also witnessed a significant increase in demand for cleaning and sanitation services.*

**Exhibit 2.1.1: Services Witnessing Higher Demand during COVID-19**

<table>
<thead>
<tr>
<th>Service</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cleaning &amp; Sanitation</td>
<td>95%</td>
</tr>
<tr>
<td>HVAC</td>
<td>49%</td>
</tr>
<tr>
<td>Waste Handling</td>
<td>48%</td>
</tr>
<tr>
<td>Manned Security</td>
<td>32%</td>
</tr>
<tr>
<td>Catering</td>
<td>21%</td>
</tr>
<tr>
<td>Mechanical Services</td>
<td>16%</td>
</tr>
<tr>
<td>Electrical Services</td>
<td>16%</td>
</tr>
<tr>
<td>Plumbing &amp; Water Systems</td>
<td>14%</td>
</tr>
<tr>
<td>Lighting Systems</td>
<td>7%</td>
</tr>
<tr>
<td>Landscaping</td>
<td>6%</td>
</tr>
</tbody>
</table>

Sample Size (N) = 80
Note: This is a multiple-choice question and hence the total will be greater than 100%.

Cleaning, sanitization, and disinfection services witnessed the highest demand during the COVID-19 crisis, with 95% of the respondents affirming they are a paramount requirement to prevent the risk of spread.

Heating, ventilation, and air conditioning (HVAC) maintenance services and audits witnessed the next highest demand with air ducts requiring frequent cleaning and disinfection.

The FM industry also witnessed an increase in demand for security services for crowd management to do thermal scanning and health checks at entry points of many government, hospitality, and commercial establishments.

“High-efficiency air filters and automated disinfectant feeds into ventilation systems will become a standard in most buildings and many will find their way into building regulations at some point. I also think that there will be an increased use of ultraviolet germicidal irradiation technology to disinfect and improve indoor air quality in buildings.” -- CEO of a reputed FM company in the UAE

**Operational Challenges:** Payment delays were cited as a major operational challenge by 65% of the respondents of the survey. FM service providers faced a severe cash crunch due to delayed payments and additional costs for safety and compliance. FM companies had to incur additional costs for manpower accommodation and transportation to comply with social distancing and other guidelines issued by the respective governments. Transportation mandates entailed that vehicles could only be operated at 50% capacity and this impacted the fuel costs, thereby increasing the OPEX.
Procuring personal protective equipment (PPE), particularly for their frontline workers, also resulted in additional cost. Most of the FM service providers did not engage in the redundancy of employees and continued paying salaries and living expenses; this is expected to have a significant impact on the margins for 2020 and 2021.

Supply chain disruptions have been a major challenge in terms of operations, along with mobilization of manpower during the lockdown. However, it gradually eased by the beginning of May 2020. Other challenges included severe disruption in the procurement of PPE, masks and disinfection supplies, and price gouging in the initial period due to high demand and logistical issues.

**Response Strategy:** The FM service providers’ main concerns were with the preparedness for service delivery by establishing guidelines and policies for ensuring safety of the workforce, frequent health checks, and enforcing and monitoring of social distancing.

Some of the best practices as part of the response strategy were:
- Reviewing cleaning methods and increasing frequencies.
- Training manpower on safety and additional precautions to be followed.
- Utilizing mobile applications to achieve operational efficiency through optimization of routes for on-site employees.
- Monitoring social distancing between on-site employees.
- Deploying technology for communication and training.

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### Exhibit 2.1.2: Operational Challenges in FM Service Delivery

- Payment delays: 65%
- Supply chain issues/non-availability or delays in securing consumables: 62%
- Mobilization of existing manpower due to lockdown: 55%
- Workforce morale: 55%
- Increase in cost of consumables/Tools: 44%
- Clients lacking budgets/know-how/preparedness: 44%
- WRT solutions aimed at reducing COVID-specific risk: 42%
- Manpower shortage: 40%
- Challenge in providing safe working environments to employees: 38%
- Contract scope creep: 28%
- Availability of PPE for manpower: 28%
- Shortage of working capital: 24%
- Lack of adequate know-how to deliver COVID-specific services to clients: 22%
- Adequately trained manpower to handle the crisis: 20%

*Sample Size (N) = 80*
*Note: This is a multiple-choice question and hence the total will be greater than 100%.*

### Exhibit 2.1.3: Response Strategy during COVID-19 Pandemic

- Establishing guidelines and policies for ensuring safety of workforce: 86%
- Frequent health checks of workers: 80%
- Enforcing and monitoring of social distancing: 79%
- Mandating use of PPE beyond the typically mandated masks and gloves: 72%
- Management of FM services was done remotely: 66%
- Deploying workforce in shifts to counter spread of disease: 66%
- Workforce Management Solution: 59%
- Maintaining standby workers for disaster management: 53%

*Sample Size (N) = 80*
*Note: This is a multiple-choice question and hence the total will be greater than 100%.*

“*I believe there will be a 180-degree change in attitude towards soft FM operations, cleaning in particular. Cleaners will no longer have to be invisible; in fact, having cleaners in full view of employees, visitors and guests will promote confidence that the building is being regularly cleaned and sanitized in a thorough and professional way. Cleaning schedules should be highly visible, too, not just in bathrooms but in prominent public areas in buildings.*” -- Director of a reputed FM company in the UAE
## 2.2 Revenues and Costs

*Increase in costs due to safety measures and compliance would partly be neutralized by the increase in revenues from cleaning and sanitation services, but margins are expected to remain low due to COVID-19 for 2020*

### Impact on Revenues

The majority of the FM service providers in the Middle East witnessed an increase in revenues during the intense lockdown period of March-May 2020. The revenue impact is expected to be a positive 11%-15% increase as stated by 25% of respondents. This revenue increase is due to an increase in demand for fogging, disinfection, and sanitization services, which moderately offset the loss of revenue from certain segments such as retail and educational institutions.

The outlook for 2020 is optimistic, with confidence staying high across the FM industry; 28% of the respondents foresee a revenue growth of 11%-15%. FM service providers saw a spike in inquiry and tendering activity from new businesses, indicating an increase in FM outsourcing in the medium to long term. Major FM service providers believe that the contract renewals would be intact, but there could be a drop in new contracts signing in 2020 as businesses tend to hold back on their spending due to working capital issues. Some of the services that are expected to boost revenues include energy management, HVAC/air quality maintenance, and space optimization as offices and commercial establishments opened up post-lockdown.

### Exhibit 2.2.1: Revenue Impact in the Past 3 Months (March-May 2020)

<table>
<thead>
<tr>
<th>Extent of Impact, % of Responses</th>
<th>0-5%</th>
<th>6-10%</th>
<th>11-15%</th>
<th>16-20%</th>
<th>21-25%</th>
<th>&gt;26%</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of respondents stating an increase in revenues during March–May 2020</td>
<td>10%</td>
<td>23%</td>
<td>25%</td>
<td>16%</td>
<td>10%</td>
<td>16%</td>
</tr>
</tbody>
</table>

Sample Size (N) = 49

### Exhibit 2.2.2: Future Impact on Revenues at the End of 2020

<table>
<thead>
<tr>
<th>Extent of Impact, % of Responses</th>
<th>0-5%</th>
<th>6-10%</th>
<th>11-15%</th>
<th>16-20%</th>
<th>21-25%</th>
<th>&gt;26%</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of respondents stating an increase in revenues for CY 2020</td>
<td>8%</td>
<td>21%</td>
<td>28%</td>
<td>23%</td>
<td>11%</td>
<td>9%</td>
</tr>
</tbody>
</table>

Sample Size (N) = 53

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"FM service providers would be forced to settle for lower margins to gain business amidst competition this year." -- General manager of a leading FM service provider in Saudi Arabia

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F R O S T & S U L L I V A N
Impact on Salaries Post-COVID-19:

Of the total respondents, only 34% of them answered this question and all of them are expecting an increase in salaries post-COVID-19.

Beginning of COVID-19 resulted in a complete shutdown of certain segments, such as the retail and educational institutions, which resulted in lower manpower requirements. Several FM companies refrained from letting go of their employees and instead redeployed them to meet the additional service requirements around cleaning and sanitation. In certain cases, the manpower was deployed in value-added services, and this trend is expected to continue for the short term; salaries are expected to increase because of this redeployment of manpower to other services.

“I’d say that FM was one of the least impacted as a business. However, we were impacted in terms of payments and cash flow. A majority of our clients stopped paying us because they had issues with their receivables. However, we were financially strong, and we sustained and continued paying our employees even when they were in their accommodations and not working, because it is our policy.” -- Director of a reputed FM service provider in Kuwait

Increase in Cost of Complying with Government/Municipality Requirements:

Thirty-two percent of respondents expect the cost to increase by 10%-15% due to compliance with regulatory requirements in the form of increased accommodation costs due to social distancing mandates.

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**Exhibit 2.2.3: Impact on Salaries Post-COVID-19**

<table>
<thead>
<tr>
<th>Extent of Impact, % of Responses</th>
<th>% of respondents stating an increase in salaries post-COVID-19</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-5%</td>
<td>7%</td>
</tr>
<tr>
<td>6-10%</td>
<td>22%</td>
</tr>
<tr>
<td>11-15%</td>
<td>23%</td>
</tr>
<tr>
<td>16-20%</td>
<td>26%</td>
</tr>
<tr>
<td>21-25%</td>
<td>11%</td>
</tr>
<tr>
<td>&gt;26%</td>
<td>11%</td>
</tr>
</tbody>
</table>

Sample Size (N) = 27

**Exhibit 2.2.4: Cost of Compliance with Government/Municipality Requirements**

- Increase by < 10% (19%)
- Increase by 10-15% (19%)
- Increase by 15-20% (32%)
- Increase by 20-25% (18%)
- Increase by > 25% (12%)
- Don’t Know/Can’t Say (2%)

Sample Size (N) = 78
2.3 Contracts

Contractual changes are considered inevitable post-COVID-19, mainly because of the increase in cost for additional service requirements.

**Exhibit 2.3.1: Contract Modifications in a Post-COVID-19 Era**

- **Specifications of chemicals to be used for cleaning, disinfection, etc.**
  - 3% 0% 16% 36% 46%

- **Re-doing contracts to include additional service requirements**
  - 4% 1% 20% 43% 32%

- **Increase in quality of the service offered**
  - 1% 3% 22% 45% 30%

- **Increase liability for the service provider**
  - 1% 0% 24% 41% 33%

- **Shift toward outcome-based contracts**
  - 3% 3% 35% 39% 21%

Sample Size (N) = 76

**Contract Modifications:** There has been an increase in awareness among end users of the different types of chemicals used for disinfection and sanitation in light of COVID-19.

FM service providers also foresee a higher probability of redoing contracts to include additional service requirements post-COVID-19. Changes in the scope of work were commonly witnessed during the COVID-19 crisis, particularly around disinfection and sanitation services. Several FM companies had to renegotiate contracts to balance the additional costs incurred due to extra services offered and manpower adjustments during COVID-19.

“Contract scope creeps are becoming common. Clients require additional services like conference rooms being required to be sanitized after every use, which may not have been factored into the costs by us originally while drafting the contracts. We now see how much we can absorb considering our margins and where unviable, we go back to the table and revise contracts.” -- Business planning manager of a UAE-based FM company
Increase in Contract Value for Higher-quality FM Services: The majority of FM companies do not expect end users to appropriately increase the contract value for the superior services offered; 31% of the respondents neither agree nor disagree to the fact that there will be an increase in contract value for higher-quality FM services, while 21% disagree with the possibility. This is attributed to the fact that most of the end users are price-sensitive in general, and COVID-19 has resulted in a cash crunch and uncertainty in business growth for the short term.

![Exhibit 2.3.2: Impact on Contract Values for Higher-Quality FM Services]

Willingness to Spend to Mitigate COVID-19 Risk: Hospitals and hospitality are the top two end-user segments willing to incur additional costs and redraw contracts to mitigate the COVID-19 risk. Hospitals always have high standards for FM, and during COVID-19, the demand for high-quality service increased from this segment, particularly for disinfection and sterilization.
“Most of the segments were willing to incur the additional cost for disinfection during the COVID-19 lockdown. Certain end-user segments, such as the shopping malls, have high footfall and required additional security. There were guidelines in certain emirates, such as Abu Dhabi, which stated that only people below 70 could access shopping malls and this meant that additional security guards were needed at all entry points to ensure no one above 70 could enter the premises. So we expect retail segment to spend more for the mitigation and quality of FM Services.”

-- Vice president of a major FM company in the UAE
2.4 Technology

Implementing Artificial Intelligence and going touch-less are the top trending technologies for delivery of future FM services and would be a key value differentiator for service providers in the long term.

**Exhibit 2.4.1: Key Technologies in FM in Light of COVID-19**

<table>
<thead>
<tr>
<th>Final Rank</th>
<th>Sample Size (N) = 80</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td></td>
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<td>4</td>
<td></td>
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<tr>
<td>7</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td></td>
</tr>
</tbody>
</table>

**Technology for Future FM Services:** The Middle East is in the early stages of technology adoption when compared with more advanced FM markets such as the European region. Artificial Intelligence, touch-less interfaces, robots, and Big Data/analytics are the major technologies that FM companies will be focusing on implementing in the post-COVID-19 scenario. The adoption of such technologies will be a major differentiator between Tier 1 and Tier 2 companies in the region in the long term.

Sensor technology is expected to see high traction in the United Arab Emirates (UAE) market, as it is one of the most advanced FM markets in the Middle East. Sensors would be utilized to collect data on user patterns and footfall and would be analyzed to develop customized FM schedules to enhance FM operations and improve asset performance.

Touch-less interfaces can be used in visitor management and washrooms. For visitor management, QR Codes can be used for touch-less sign-in, using visitor’s devices. Such interfaces create a seamless and contactless experience for customers/visitors.
Robots for maintenance, cleaning, and security applications is another technology expected to witness high growth in the UAE, and as penetration increases, other GCC countries will see traction. Robots have a high potential for patrolling services in real estate, resorts, government, and infrastructure.

Drones have been utilized for disinfection by several governments in the Middle East, such as the Kingdom of Saudi Arabia (KSA) and UAE. Thermal drones were used by the KSA to check temperatures in crowded places. This technology is expected to witness growth in the short to medium terms.

**Impact of New Technologies on FM Operators:** Monitoring the health of employees and client facilities and achieving operational efficiencies in the form of higher building performance rank as the most important objectives for implementing technology by FM service providers. Sensors aid in Artificial Intelligence and analytics, which will increase effective utilization of manpower and also ensure the health and safety of manpower. Touch-less interfaces will enable FM companies to maintain social distancing and reduce the spread of infection in shared spaces.

**Exhibit 2.4.2: Impact of New Technologies on FM Companies Post-COVID-19**

"Organizations will see the need for investment in long-term technological solutions to ensure functionality, comfort, safety and efficiency of the built environment by integrating people, place, process and technology." -- Business development director of a UAE-based FM company
2.5 Imperatives for Post-COVID-19

Safety and cost management score above revenue growth as key imperatives for post-COVID-19; there is an expected increase in dependence on technology for service delivery to ensure adequate safety and compliance.

Exhibit 2.5.1: Operational Imperatives in Post-COVID-19 Scenario

Operational Imperatives Post-COVID Scenario: Frequent cleaning and sanitation and deployment of technology are the top imperatives for FM companies in post-COVID-19 times.

Deployment of technology is used for the following:

- To empower frontline workers and FM managers to improve the efficiency of service delivery.
- Compliance to ensure manpower health and safety.
- Managing the cost of services.
- Training for manpower to ensure safety and compliance.
- Proper usage of PPE.
- Educating frontline staff on improving standards of cleaning to address the increased demand.

“Our focus is on technology. We are also looking at different ways of packaging these services where the clients need not incur CAPEX. Providing technology-as-a-service gives the client an option of cost reduction and offers service providers higher margins – labor-based services offer low margins and the variables are numerous. In the past two years, we’ve been hit by huge fees for residency permits and health insurance for the workers. This has forced the industry to look for different options.”

-- GM of a major FM service provider in KSA
**Internal Imperatives for Rebound Strategies:** Ensuring health and safety is the most critical focus area for FM companies, as the industry in the Middle East is dependent on manpower for service delivery. About 88% of respondents have rated this to be moderately high and very high as an imperative for a rebound strategy post-COVID-19.

Finding the balance between cost and additional requirements because of COVID-19-related guidelines and precautions is critical. Eighty-seven percent of the respondents said that maintaining costs is moderately high and very high for them in the post-COVID-19 era.

**Exhibit 2.5.2: Internal Imperatives for Rebound Strategies in Post-COVID-19 Era**

<table>
<thead>
<tr>
<th>Imperative</th>
<th>Sample Size (N) = 78</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ensuring safety of staff and customers</td>
<td>0% 0% 3% 30% 68%</td>
</tr>
<tr>
<td>Maintain cost of services provided</td>
<td>0% 3% 10% 55% 32%</td>
</tr>
<tr>
<td>Digital transformation</td>
<td>0% 3% 12% 43% 42%</td>
</tr>
<tr>
<td>Expanding service portfolio</td>
<td>0% 3% 12% 45% 40%</td>
</tr>
<tr>
<td>Ensuring sufficient manpower</td>
<td>0% 4% 18% 54% 24%</td>
</tr>
<tr>
<td>Revenue growth</td>
<td>1% 3% 26% 42% 28%</td>
</tr>
</tbody>
</table>

**Responsibility of Defining Standards in the Post-COVID-19 Era:** A more collaborative approach is expected for defining standards as 88% of the survey respondents believe in it. FM consultants have an important role to play: educate clients not only on the importance of FM but also to engage FM service providers in the design stages of the project/building development.
“If you ask me who should be setting the standards in the FM industry between service providers and property managers, I certainly think that it has to be FM companies and, to be more specific, FM consultants.”

-- Director a major FM service provider in Kuwait

Exhibit 2.5.3: Responsibility of Defining Standards Post-COVID-19

- 89% FM Companies Only
- 6% Property Management Companies/Managers
- 5% Collaborative Approach

Sample Size (N) = 78
3. Conclusion

**Critical Services:** Disinfection and sanitation are the most sought-after services during COVID-19. These services are expected to provide short- to medium-term opportunities for FM companies.

**Revenues & Costs:** Additional costs incurred for safety and compliance would not be completely recovered as the revenues are not expected to increase in direct proportion to cost, and this would result in lower margins for the short term.

**Technology Adoption:** Technology is a key differentiator between Tier 1 and Tier 2 companies. End users are cost-conscious when it comes to adoption but are well aware and will be keen to adopt technology solutions in the future.

**Contracts:** Service providers expect contracts to shift to output-based contracts, and several amendments to contractual terms are expected to occur in the near future to incorporate liabilities of parties in case of future events such as the current pandemic.

**Rebound & Response:** The Middle East FM industry is well-prepared to address the global pandemic situation. Most of the FM companies were quick to rebound and capitalize on new business opportunities through robust business continuity plans.
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Our Buildings Program helps clients with the following solutions:

- Growth Opportunity Analysis/Market Potential Assessment
- New Geographic Expansion
- Go-to-market Strategy
- Commercial Due Diligence
- Assessment of Potential Targets for Mergers & Acquisitions
- Benchmarking Analysis

For more, please visit http://ww2.frost.com, or to know more about this report please E-mail: meenquiries@frost.com

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