

Iran-Israel Conflict Disrupts Regional Construction Landscape

As the Israel–Iran conflict enters its second week—triggered by Israel’s strike on Iran on 13 June 2025—tensions in the Middle East continue to escalate, putting investors and businesses on high alert.

The conflict is prompting contingency planning and reshaping risk perceptions, particularly among those with exposure to infrastructure, logistics, and energy corridors across the region.

Following the U.S. strike on Iranian nuclear facilities on 22 June, Iran’s parliament voted to close the Strait of Hormuz. While the final decision rests with Iran’s Supreme National Security Council, the move threatens to disrupt a vital chokepoint for the global economy. The Strait handles roughly 20% of global oil flows and about one-fifth of global liquefied natural gas (LNG) supply, carrying close to 20 million barrels per day.

This Flash Brief outlines the strategic implications for the construction and infrastructure sector in the Middle East and Africa, under the mounting pressure of geopolitical escalation, energy volatility, and shifting investment dynamics.

The conflict’s implications for construction across the Middle East and Africa can be summarised as follows:

Summary Table			
Impact Area	Middle East	Africa	Net Effect
Investment appetite	↓ High-risk zones	↓ Gulf-financed projects	Slower project pipelines
Material/logistics cost	↑ Across GCC	↑ Importing countries	Margin pressure, budget shortfalls
Contractor presence	↓ Foreign EPCs	↓ Complex builds	Shift to local players
Security infrastructure	↑ Defensive spend	↑ Strategic zones	Short-term construction upside
Supply chain	Disrupted via Hormuz/Red Sea	Disrupted via Red Sea	Project delays and inflation

1. Heightened Regional Instability → Investor Caution

Impact Rising geopolitical tension increases risk perception, especially in Gulf states and conflict-adjacent countries.

Construction Implications:

- **Large-scale infrastructure and real estate investments slow down** due to elevated political risk.
- **Delays in project financing and approvals** as investors demand higher risk premiums or pause deployment.
- **FDI inflows stall** in volatile countries (e.g., Iraq, Lebanon), as investors shift to safer markets or domestic portfolios.

2. Oil Price Volatility → Cost and Demand Shocks

Impact: Disruption to the Strait drives up oil prices, with cascading effects.

Construction Implications:

- **Cost shock:** Higher fuel prices inflate costs for cement, steel, and machinery.
- **Demand shock:** Oil-importing countries (e.g., Egypt, Morocco) face budget stress, slowing infrastructure spend. Oil exporters may benefit from revenue windfalls but face uncertainty.
- **Planning disruption:** Volatility undermines confidence in large, long-term capex projects.

3. Supply Chain Disruptions

Impact: Tensions in the Strait and Red Sea (via Houthis) strain regional shipping lanes.

Construction Implications:

- **Delays in material imports**, especially to Gulf and East African markets.
- **Higher shipping and insurance costs** squeeze contractor margins.
- **Projects face schedule slippage** in logistics-constrained environments.

4. Reduced Foreign Contractor Appetite

Impact: International construction firms may deprioritize or scale back from high-risk countries.

Construction Implications:

- **Foreign contractors pull back** from fragile states (e.g., Lebanon, Iraq, Sudan).
- **Local firms may gain more work**, but lack of capacity could impact project delivery.
- **Gulf projects may see fewer international bids**, especially from firms lacking regional supply bases.
- **In Africa, Gulf-funded ventures, may face delays or be deprioritised.**

6. Strategic Shift Toward Domestic Development

Impact: Gulf states (e.g., Saudi Arabia, UAE) may double down on localisation and resilience.

Construction Implications:

- **Push for local building materials and domestic manufacturing.**
- **Local contractors favoured** under national development visions (e.g., Saudi's Vision 2030).
- **Acceleration of flagship national projects** as symbols of independence.

7. Africa: Indirect Exposure via Gulf-Africa Ties

Impact: African markets connected to Gulf capital and logistics face knock-on risks.


Construction Implications:


- **Delay or reprioritisation of Gulf-funded projects** in East and Horn of Africa (e.g., ports, transport corridors).
- **Shipping route disruptions** inflate costs to landlocked countries.
- **PPP delays due to shifting Gulf diplomatic or commercial focus.**
- **Energy-linked projects – tied to Gulf NOCs – may be paused** amid uncertainty.


Final Thought

The Israel-Iran conflict adds another layer of complexity to already fragile regional dynamics. While oil exporters may gain short-term fiscal relief, the construction sector is facing higher costs, investment delays, and elevated uncertainty. The key trend is divergence: some countries may use the moment to reinforce national development (e.g., Saudi Arabia), while others face deepening project paralysis (e.g., Iraq, Sudan, Lebanon).

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Notes & Disclaimer

Notes:

This Flash Brief highlights strategic implications for the construction sector based on rapidly evolving geopolitical developments. It synthesizes publicly available information and Menara Analytics' independent analysis. All figures are estimates unless otherwise stated and are intended to provide directional insight, not exact forecasts.

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