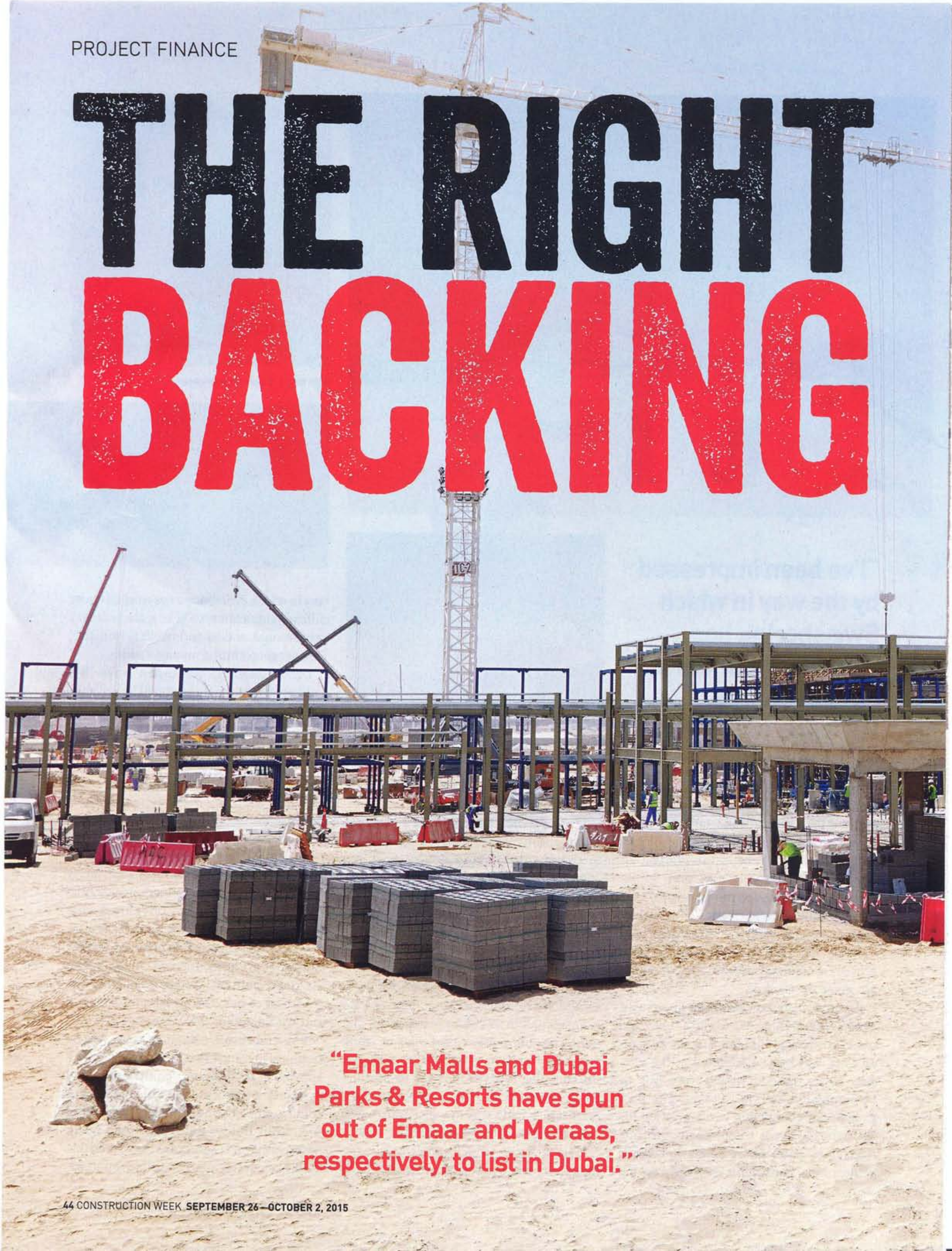
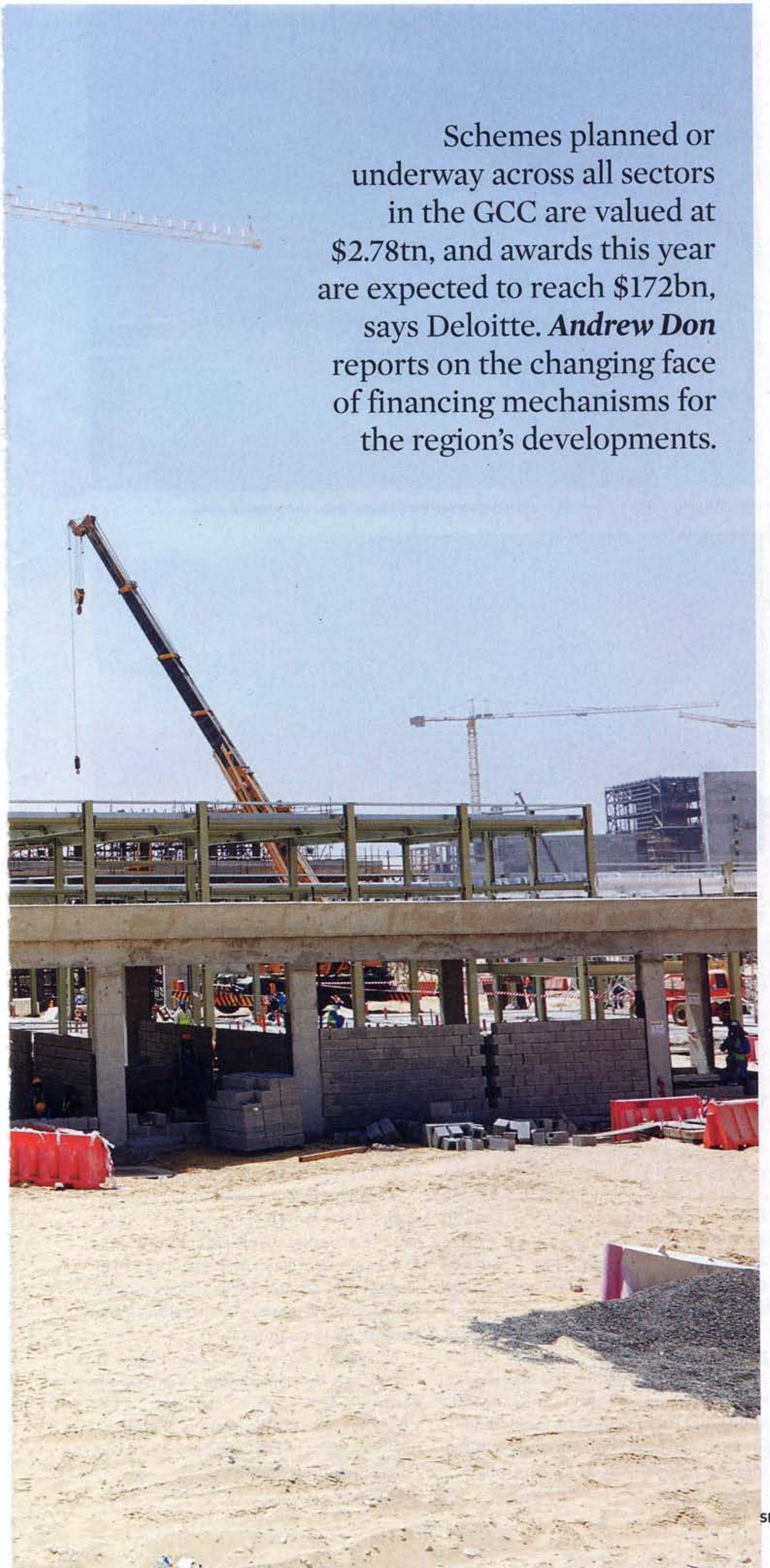
THE RIGHT BACKING



"Emaar Malls and Dubai Parks & Resorts have spun out of Emaar and Meraas, respectively, to list in Dubai."



Schemes planned or underway across all sectors in the GCC are valued at $2.78tn, and awards this year are expected to reach $172bn, says Deloitte. ***Andrew Don*** reports on the changing face of financing mechanisms for the region's developments.

GCC governments face significant challenges linked to their ever-expanding populations. With falling commodity prices and the consequential funding gap for vital projects, many are developing strategies to diversify their economies.

Education, housing, and healthcare projects in particular, are creating demand for finance. Philippa Chadwick, head of the global infrastructure industry group at Squire Patton Boggs (SPB), says it is "rapid" population growth over the next five years – alongside governments' desire to diversify economies away from dependence on hydrocarbons and to cultivate a more skilled indigenous workforce – that is driving the increasing development of education projects.

Saudi Arabia, for example, is investing heavily in this area, with new-build and refurbishment programmes. Neighbouring countries, including Kuwait, are following suit.

Chadwick says that due to housing needs linked to population growth and developments in healthcare, the undertaking of public-private partnership (PPP) housing projects, similar to those successfully completed in Oman and Bahrain, represents a positive step.

"Projects in Kuwait, Saudi Arabia, and the UAE reflect the need for affordable housing to satisfy local demand, while the role played by local developers is increasing," she says.

Where oil and gas revenues have reduced government incomes to fund projects, some GCC governments are looking at the long-term use of PPPs to leverage in private finance for their social and economic infrastructure requirements. Healthcare requirements, too, will need more specialised facilities – not just new build, but also repackaged existing assets, or combined facilities across a geographic region to benefit from economies of scale.

Susan Bastress, managing partner at SPB in Qatar, says: "The Qatari government is seeking private healthcare operators for hospitals and clinics to provide world-class service at competitive market rates. While the government is building and regulating the facilities, the challenge is to create incentives for foreign, long-term investment."

Daniel Brawn, senior associate at Galadari Advocates & Legal Consultants, points out that bank financing is still the most popular method in the GCC. Some high-net-worth individuals are able to finance projects themselves, but even they tend to take on some bank finance to spread the risk – or take on partners who often have their own bank finance.

With population growth expected to continued over the next five years, GCC governments and developers are looking into new financing mechanisms for regional projects.

"Government infrastructure projects are often funded by build-operate-transfer structures,"
Daniel Brawn, Galadari Advocates

Rendering of Meraas Holding's Bluewaters.

"Government infrastructure projects are often funded by build-operate-transfer structures, whereby a joint venture (JV) sets up a special purpose vehicle (SPV) to build and operate the project, and the SPV receives payment through the revenue stream generated by the project," he says.

David Clifton, regional development director for the Middle East region at project and programme management consultancy, Faithful+Gould, points out that liquidity in the market is tightening at present. What's more, he emphasises, it's not just the oil price that is fuelling this trend.

Clifton says most of the pipeline schemes are reliant on either "external funding sources; or government funding, which in the case of the UAE and Saudi Arabia could slow the short- to-mid-term horizon dramatically, as both governments reassess the effect on their balance sheets".

However, the major factors affecting liquidity in traditional finance areas are more to do with the slowing of quantitative easing in the United States and other major economies, and stricter capital controls implemented on the banking system. Furthermore, at the local level, a vast amount of capital is already committed in the market, and this capital cannot be used elsewhere whilst it is locked up.

Contractor financing has been around for many years and is still the preferred route for many developers, Clifton says. Another popular fund-raising model is UK Export Finance (UKEF), whereby the United Kingdom's government, or other government entities, offer a guarantee on the loan.

Faithful+Gould's client Meraas is using this model extensively on projects such as Jumeirah retail development City Walk, and Bluewaters, which features demarcated retail, residential, hospitality, and entertainment zones.

Clifton acknowledges the growing potential of developer initial public offerings (IPOs) within and outside the region to generate capital. Emaar Malls and Dubai Parks & Resorts (lead image), for example, have spun out of Emaar and Meraas, respectively, to list in Dubai.

"Furthermore, we've seen \$740m (AED2.718bn) in IPOs from UAE developers onto the London Stock Exchange in the form of Damac, Al Noor Hospitals, and Action Hotels," Clifton points out.

Corporate bonds and sukuks have also proved popular in the past 12 to 18 months, he adds. Investment Corp of Dubai raised \$1bn (AED3.67bn) through a \$700m (AED2.571bn) sukuk and \$300m (AED1.101bn) traditional conventional bond in May last year, and Majid Al Futtaim also completed a \$500m (AED1.837bn) bond sale in late 2013.

But Debbie Barbour, project finance partner at global law firm DLA Piper, in Abu Dhabi, says: "The project sukuks, which have come to the market [in Saudi Arabia], are known to have been time consuming and not necessarily that easy to structure into the overall financing package for these projects."

The global economic crash of the last decade saw the banks adopt an extremely cautious approach to lending. SPB's Chadwick remarks the pipeline of projects has been affected everywhere since the crisis, including the GCC.

David Clifton, Faithful+Gould.

Daniel Brawn, Galadari Advocates & Legal Consultants.

BEFORE AND AFTER: FOLLOWING THE MONEY

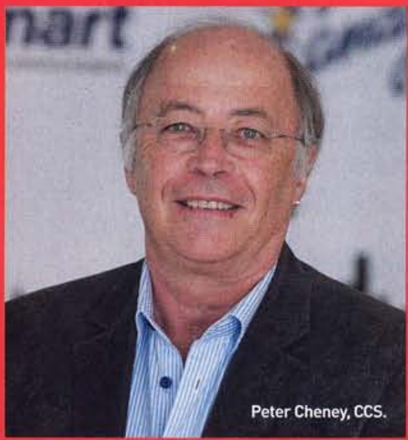
When it comes to construction finance, successful projects are typically delivered in two stages: before and after. Before, one must secure the initial financial backing for a project. After, one must keep track of resources to ensure that the project is delivered within budget.

As managing director of Construction Computer Software (CCS), it is Peter Cheney's job to support construction companies with what happens after. For more than 30 years, his company has created tools to help its customers keep track of their asset investments throughout the construction process.

"[Our system] does this in such a way that end users have a clear view of what the intent was with respect to the allocation of a project's resources, how to monitor and manage those resources throughout the project lifecycle, and of course, how to manage change with respect financial input," Cheney tells *Construction Week*.

He goes on to explain that the ability to forecast "cost to complete" is a vitally important aspect, and one that has become more prevalent during recent years.

"That was the point right from the beginning," he says. "It's all very well knowing where you should be going, but it's really about identifying where you're actually going that has the most benefit within the cycle. Because if you're going wrong, you want to know ahead of time so that you can take corrective action."



Peter Cheney, CCS.

Cheney says that the end users of these technologies tend to be developers and "mud-on-the-boots" professionals, including contractors, subcontractors, and specialist contractors. In addition to helping construction outfits keep track of their resources, he contends that if used in the right way, the tools can help to reduce the occurrence of contract disputes.

"Post-tender project control – in other words, the construction phase – starts on day one, and continues every day all the way through the project lifecycle. It's about constantly monitoring changes," he explains.

"At first, these systems might seem a little bit rigid, but in our opinion, you either have control or you haven't. You can't have a little bit of control; that's ridiculous. It's like driving a motorcar with one finger; you might think you're in control but you're not."

That said, Galadari's Brawn notes that banks are now lending more freely, although regulations are tighter. In Dubai, for example, a development cannot be sold off plan until the developer has bought the land, whereas previously, some developers announced a project, sold units off plan, and – when the crash came – absconded without even having paid for the land. Brawn explains that all payments from purchasers must now be paid into an escrow account, only to be drawn down when the development reaches key stages.

Oil and commodity price fluctuations, meanwhile, will continue to affect projects, Chadwick says. However, she believes financing will continue to be provided by those banks that remain active globally, such as BTMU, Natixis, Societe Generale, Mizuho, and KFW, particularly where they can continue to provide the long-term funding required for projects.

Chadwick goes on to argue that Islamic finance products and local bank involvement will increase in the region, and she anticipates more projects will be developed using PPP models in the same vein as Bahrain, which boasts one of region's the first PPP housing projects. "In some form or another", the UAE is also looking at using PPP structures, she says.

Chadwick adds, however, that whilst the development of Islamic finance products is "interesting", what is required is a healthier pipeline of projects across the region to enable the development of financing products.

She explains: "We have seen different structures and financing techniques develop rapidly in more mature markets, where significant pipelines of projects were in the market at the same time."

DLA Piper's Barbour tells *Construction Week* that it is "almost inevitable" that there will be Islamic project financing bonds at some point.

"However, the circumstances that will lead to them is unclear," she adds.

Galadri's Daniel Brawn believes the market is likely to see the increased use of bond solutions for financing, short-term bridging finance, payment of short-term loans by financing, and hybrid schemes.

Meanwhile, Faithful+Gould's David Clifton concludes by pointing out that the region's thirst for ambitious developments has triggered a range of PPP deals to deliver nationally important projects, such as Dubai Expo 2020, and the 2022 FIFA World Cup in Qatar.

"We can expect to see growing commitment to PPP implementation, with models becoming more diverse and robust," he concludes.