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GCC powers of construction 2012

Five lessons to learn from







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Introduction to the GCC powers of construction 2012



The story for 2012

In 2011, the story for public and private sector entities involved in construction in the west was in fact not much of a story at all. Seemingly forever stuck in the mire of stagnant economic growth, there was nothing to tell, nothing to grab headlines, when the only news to be heard would have been regarding a continued reluctance to invest in new major capital projects. The news in the GCC, however, told a different tale - we woke up every morning teased with glimpses of an economy with indications it was well into recovery mode. Whilst western economies grapple with issues ranging from unemployment, unsecure securities, legacy debt and grid-locked liquidity, in the GCC it has become commonplace to drink your daily coffee while learning of eye-widening announcements regarding the planned infrastructure spend justified by the global demand for oil and gas. While the types of projects, location and the method for procurement may have changed, the spending through different GCC governments continues even today. Not surprisingly, this has quite simply captivated - with great fascination - every major business involved in construction from east to west.

The challenges that Middle East businesses have had to understand, analyze, manage and overcome in the past few years is, quite simply, unprecedented

The other story

What is truly fascinating however about the GCC is the 'other' story - that in the midst of plans to spend USD 100 bn in Qatar following the 2022 World Cup announcement, or the Kingdom's capital spend program approaching USD 400 bn over the next 10 years alone, we have also learned of governmentbacked bailouts that stretch into the tens of billions of dollars that - quietly - we know are for unviable and commercially challenged projects that were launched not too long ago. These projects did not just marginally exceed their planned budgets, they blew through them with authority. I recall a time not that long ago when we believed the opportunity for those operating in the construction sector in the GCC was unparalleled. But in fact, it is not the size of the opportunity for those involved in the construction sector hat is unparalleled, but the dichotomy itself – a massive opportunity associated with huge construction spend coupled with the debt ridden and illiquid projects - that is unparalleled. The challenges that Middle East businesses have had to understand, analyze, manage and overcome in the past few years is, quite simply, unprecedented. And for those of us that work and live in the GCC, we have all been witness.

Cash is king

But what has been invaluable about witnessing even parts of this story, whether you are an owner, developer, contractor, consultant or operator, are the efforts we have exhausted and lessons we have learned to better prepare our businesses for the future. The same contractor that has multiple outstanding client receivables in the millions of dirhams can also at the same time be bidding for projects in the billions of dirhams, even further challenged by a market with entrants that are increasingly competing just to survive.

Many commercial decisions come to mind: Which projects should I develop? Which ones should I bid for? Is now the time to invest in my infrastructure and embrace new technology? With limited bandwidth and capital, what should my timetable for delivery and serious returns be? How can I possibly exit my investment? The lessons we can take away are extraordinary – whether you are responsible for developing, building or funding these projects, your previously anticipated returns will be a challenge to achieve in the short term. What is therefore certain, is that there are many more pages to read in this story, until you get to the ending you envisioned when you opened your book. And the conclusion remains the same – cash is king!

It is remarkable to think that the challenges we have overcome that were once believed insurmountable - an example such as Dubai World comes to mind - were dominating the market only a couple of years ago. The market didn't discriminate – it did not matter whether you were a developer, owner, contractor, subcontractor, consultant, bank or investor - it threw us all to the ground. But as project partners we had to collectively gather ourselves, brush the sand off and get back on our feet, together. But in 2012 for those mired in debt and cost overruns, this very shortly had the effect of 'quicksand' – unless we worked our way out, we would get pulled right back in and success would become even more distant – and then it would simply become a matter of survival.

Five lessons

When our valued clients needed to understand why they got knocked down, we helped them reflect. When they needed to understand where they were as a business, we helped them review. When they needed

And with a few years under our belt, the market has now shown us what is truly considered to be a bankable project over the long term

someone to remind them what they can do to be their best, we helped them refocus. When it came time to generating income, we reminded them how they can invest in themselves by controlling costs. When it came time to move ahead in the market, we were there, proudly, to show them how and where to rebound. By standing shoulder to shoulder with all of our clients through each chapter, Deloitte has helped our clients write the stories they want to share. It is in this spirit we are pleased to share with you 'RE-5': 1. Reflect; 2. Review; 3. Refocus; 4. Reinvest; and 5. Rebound.

1. Reflect

We have been through an unprecedented global economic crisis. If it didn't bring us to our knees, our legs were certainly shaking. Despite our wishful thinking in late 2008 that the crisis may bypass the GCC, we were harshly reminded shortly thereafter that the GCC is not immune to global market dynamics. The returns and margins we anticipated through construction are not only impossible to realize now, we learned that throwing money at projects to rush them to market only exacerbated our inability to achieve the returns we projected in our initial business models and feasibility studies. Public Private Partnerships may be part of the answer, but it has taken time for the market to

understand the magnitude of the fit of this concept in the region. And with a few years under our belt, the market has now shown us what is truly considered to be a bankable project over the long term. The construction value chain - from owner developer, subdeveloper, JV partner/investor, debt equity investor, contractors, and subcontractors, to consultants - experienced value leakage throughout each relationship. And once the taps of liquidity are forced to be closed, the construction value chain is locked. The interrogation and finger pointing begins, the walls go up and a sense of self protection and survival sets in, and the whole premise of partnership to deliver a project was lost. Philosophers will tell you the rains of adversity and hardship can also bring the seeds for a stronger future. This truth is no more self-evident than in construction, but we must recognize our scars and reflect on why this transpired. Only by accepting the past can we cement the foundation for a brighter future.

Only by accepting the past can we cement the foundation for a brighter future

2. Review

Once the value chain locks up, a realization can set in that our project partners – those that we are dependent upon, whether contractually or otherwise - may not have the solution. Or worse yet, they may not have the knowledge and wherewithal to correct the situation that all parties involved have succumbed to. Why are my projects costing more than I thought? Even if my business does not operate in the hospitality sector, with tourism being a major driver for the region's GDP,

how will the tangential and related construction spend be impacted? How can we utilize technology to help us simply answer the question – what happened? When we finally ask ourselves the tough questions and consider all of the relevant data, only then can we truly execute on the right answers that will save our businesses.

3. Refocus

When our current operating model is not conveying a solid picture for success, the time comes to embrace change and modify our perspective – in strategy, in commerciality, and in investment. Considering ways to resolve commercial matters by leveraging relationships can potentially open opportunities not available in non-GCC markets. With development projects being led by the private sector taking big hits in certain markets in the GCC, how can one capitalize on increasingly limited opportunities? We also have to remember what it is that our business and our business partners do well to maximize value and returns with a long-term view.

4. Reinvest

In yourselves. In your people. In new markets. In technology. In governance. Only then can one truly capitalize in new markets. With over USD 130 bn planned for the nuclear energy sector in the Middle East, and massive continued government spend in infrastructure, the economic indicators appear right to justify investment to capitalize on this planned growth. However we must remember that even though we are seeking new income streams, it's important to control costs as well – a dirham saved is a dirham earned. If we cannot achieve our annual turnover of a few years ago, let's at least invest every effort to maximizing our potential returns, receivables and claims and enhancing our systems by embracing technology to improve our ability to more efficiently deliver projects and drive value.



5. Rebound

Although opportunities for development are fundamental to the growth of the economy, there are certain factors which are restricting the fruition of these plans. Macro-economic instability, rising unemployment and inflation all play a pivotal role in shaping the GCC economy as a whole. Despite these underlying factors, there exist projects which are in the pipeline, either in their initial planning phases or those that have previously been suspended, which are now being resurrected. But how do I manage my investments that are stuck in development, when I am reliant on the market for funding to complete and investment to exit? Although there are indications that such projects may slowly be re-emerging into the market, invariably my eye for opportunity will turn to stronger markets with oiland gas-based economies that will inject spend in industry and infrastructure to ensure we don't miss the next wave. It is this planned spend that continues to instill high confidence in the GCC in the economies of the Kingdom of Saudi Arabia, Qatar and Kuwait.

Therefore what Re5 shows us is that our very definition of success has changed, with the simple acceptance that there is no 'magic pill' solution to addressing challenges in the current construction market. The only medicine is the age-old remedy of strong business sense, a need to be responsive to the market, and stretching every last riyal, dirham and dollar to be successful, taking a long term view to each decision.

The relevance to the GCC – this is not the first time for Re5

Historically, from the 1900s up until the mid-1990s, the world domination for the tallest buildings and towers was in the US, Canada, Malaysia and Taiwan. Other Far-East Asian countries, along with Dubai and the wider Middle East, started taking over the skyscraper





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'titles' from 2000. It has become an interesting shift in design, location of resources such as cranes, sheer ambitions for height, and capital expenditure for these towers from West to East in the last 20 years, with the next wave being taken over by China and GCC countries, including, for example, Saudi Arabia with the announcement of Kingdom Group's one kilometer tall Kingdom Tower in Jeddah.

We very recently celebrated the completion and operational opening of yet another achievement for mankind which is the world's tallest skyscraper – Dubai's Burj Khalifa. Launched in 2003 and completed in 2009 (after the latest global economic crisis in 2008), it yet again demonstrated that skyscraper developments are typically announced during the late phase of a boom in the business cycle. But we have seen elements of this story before - another well-known example is with respect to the construction of the Empire State Building in New York in 1931, which for much of the 1930s was referred to as the 'Empty State Building' when the city's real estate market crashed after a boom decade leading

up to The Great Depression. Bringing this story back to the GCC, with the announcement that construction is now underway for the Kingdom Towner that is carrying the momentum of the current economic growth in Saudi Arabia, are we beginning to see elements that are foreshadowing another economic dip?

Are we beginning to see elements that are foreshadowing another economic dip

One manner in which to compare this is to confirm what the economy looks like through the planning and start of construction of a landmark skyscraper. The shape of the economy during this time is usually buoyant demonstrating strong growth, low unemployment, low interest and strong liquidity. During the course of construction, the boom period ends followed by a sharp downturn in financial markets, which leads to an economic recession and all associated challenges e.g. rise in unemployment, high interest rates, etc. that limit the commerciality of a skyscraper as businesses will not need additional space, and residents will be more mindful of paying a premium or to incur costs to move, etc. The skyscraper is then usually completed during the early phase of the economic recovery, or elsewhere may even be terminated

depending on the advanced stage of the project – which in fact occurred once with the Kingdom Holding tower master development in 2008. Andrew Lawrence's Skyscraper Index theory postulates this best, but in the GCC we face a greater and unique challenge where we are dealing with the large skyscrapers not able to achieve their complete commerciality, while huge investment spend continues elsewhere in construction tackling projects such as decreasing unemployment and providing essential services to nationals and residents.

What is therefore as clear as the reflection of the sun off the shiny spandrels of the Burj Khalifa tower is that the time for us to reflect and learn is once again now upon us. In such a rapidly moving and linked GCC economy full of diverse government initiatives, for businesses looking to move ahead, the window of time to review and refocus is extremely tight. If businesses don't act promptly, and with the eyes of construction industry participants the world over focused squarely on the GCC, they will be left behind. The time to reinvest and rebound is - without a shadow of a doubt - right now.

We hope you enjoy our perspectives on the 2012 GCC construction industry.

Rizwan Shah Managing Director Leader, Capital Projects Advisory Middle East Deloitte Corporate Finance Limited



Reflect

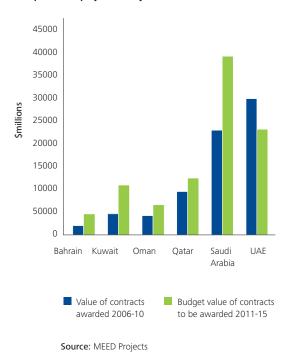


For contractors in the GCC, opportunities continue to beckon

In the last three years we have witnessed unprecedented events triggered by Lehman Brothers, followed by the Global Financial Crisis or the "GFC", which is now a commonly used verb! In year of 2011 alone we have lived through the Arab Spring, the tsunami in Japan, the Eurozone debt crisis and the continuing forecast of a double dip recession. How do business leaders meander through all these challenges to drive their businesses forward and to take advantage of the growth in the Middle East region?

We are fortunate that the GCC countries have significant trade surpluses which they are planning to invest in order to diversify their economies' dependence on oil revenues and also to develop their countries and satisfy the demands of their people following the Arab Spring. As we know the focus continues to be on investing in infrastructure, including power, rail, roads; education; health and low cost housing. As can be seen from the graph below, the region certainly is expected to continue to offer a lot of opportunity for contractors.

Comparison of project activity 2006 - 2015





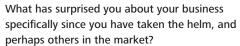
Spotlight

Cynthia Corby interviewed Laurie Voyer, CEO and Managing Director of Al Habtoor Leighton LLC, to get his views on what he has learnt about the region in the last two years he has been here and how he plans to gear up for growth in the future.

Given that you have now been in the Middle East and running Al Habtoor Leighton Group for almost two years - looking back how would you summarize the position when you arrived?

I arrived in the middle of the GFC so it has certainly been a challenging time. At the time our activities were dominated by Dubai and Abu Dhabi and our work was predominantly building. I've been working hard to

change that profile so that we are better positioned for the future.



I have been surprised with how guickly the market has changed. This is primarily due to the GFC, but it felt as though the Gulf – and Dubai in particular, was hit harder than most. I've also been surprised at the apparent desperation of some contractors, who appear to be trying to win work at any cost. Some of the pricing has been crazy and I don't think it is sustainable in the long-term.









What are some of the challenges that are unique to the Middle East market?

There is no doubt that contracting is different in this part of the world. We are faced with a number of challenges including:

- · Delays in awarding projects
- Increased competition
- Slow payments
- Poor contract documentation
- Contractual conditions placing a disproportionate level of risk on contractors
- Impact of Arab Spring

What have been the priorities for you over the past two years?

Changing the profile of our business such that we are a regional company with a predominantly infrastructure workload, and improving our operational standards to ensure we become a performance-driven company.

Are there any tools or technological advances that you are embracing in your organization as you look to the future?

One that comes to mind is the increased use of BIM technology. We're increasingly using this on projects to identify potential design issues and produce better outcomes for us and our clients. We are also introducing a new cost management system and are utilizing new performance monitoring tools.

What changes have been put in place to improve your business from an operational and commercial perspective?

We have really been working on the fundamentals of our business. We've been focusing on our approach to safety and housekeeping, as well as our quality and productivity. We've been working hard to minimize rework and have adopted a "right first time" approach. Commercially we have applied greater focus on risk management, and this has included a more rigorous project and client selection process.

Are you exploring any innovative or creative methods to manage your historical and future commercial challenges? Have you achieved these and how?

We continue to work closely with our clients to try and reach outcomes suitable for both parties. We understand that many clients have experienced cashflow challenges and we have to take this into consideration. Going forward, we are spending a great deal more time and effort in our client selection. We're also taking a more rigorous approach to risk management.

How would you describe the current market status for the industry and what do you think the key challenges are and will continue to be?

The market is probably best described as challenging. The challenges we're facing now, as described above, will remain for the foreseeable future. However, significant opportunities still exist – particularly in Qatar, Saudi Arabia and Iraq – and for those who are able to demonstrate that they can deliver to an international standard, the region can still be an area of growth.

Where do you see the major opportunities for contractors going forward and how does this feature in your strategy for the Group going forward?

The major opportunities for us going forward will continue to be in Abu Dhabi, Qatar, Saudi Arabia and Iraq. Large-scale infrastructure projects, particularly social and transport infrastructure, will offer tremendous opportunities, as will oil and gas.

How can contractors change the way they do business – if at all – to protect themselves from the issues they have faced in the region over the last 2 to 3 years?

Diversification is the key. If a contractor is a builder operating only in Dubai, then there is unlikely to be any future for them. However, those contractors like us, who are able to diversify through both the type of









work they undertake and geographically, will continue to prosper. Contractors also need to improve their commercial management skills in order to ensure they protect themselves commercially.

How will you differentiate HLG in tenders given that the bids are very competitive?

Where clients are only looking for the cheapest option available, we are probably unlikely to be interested. We are targeting clients who value quality and certainty of cost and delivery. We differentiate ourselves by the

quality of our solutions, and by our demonstrated ability to deliver. We are also able to offer design and construct solutions, something that not all our competitors are capable of.

Any other advice for other participants involved in the construction sector?

Don't expect to grow your business by doing the same thing the same way you have always done. Things change here very quickly, and you need to be prepared to change with it.





From our vantage point as advisors and auditors to several of the large regional construction companies we would certainly echo Laurie's view on being able to embrace the opportunities in the GCC, and gear up to take advantage of the continuous talks around the move from west to east as growth rates in mature markets continue to pose challenges. Companies really need to strengthen their governance on contracts and ensure that the information the executives receive is timely and accurate in order to be able to proactively manage employers and hence their contracts in the future. This is the only way to ensure that the contracts awarded generate a profit for the business.

I would also add to that, a key to being able to move forward is to successfully deal with legacy projects which continue to take a significant amount of executive management time. These legacy projects continue to plague both contractors and employers and the only way forward is to think of innovative solutions which means that the contractors and the employers really need to be engaged to find a solution for both.

Going forward with new projects I also believe a key change in the way contractors and employers engage at the tender stage will make a significant difference to managing costs and getting the project right from the outset. Contractors need to be better engaged in assessing the design and the specifications before the tender to ensure that any design challenges can be priced in or dealt with prior to finalizing the contract price – the key here is for employers and contractors to engage and for the selection process applied by the employers to focus on quality and price rather than just price.

That said, whilst confidence in the industry has improved year on year, business leaders remain cautious about the prospects given the delays in project awards. We know the investments will be made, the only question is over what time frame.

Cynthia Corby Audit Partner and Head of Construction for the UAE



PPP's in 3D

The latest fad is 3D, with 3D movies and 3D TVs, but does anyone understand this evolution? In a similar vein, the concept of the Public Private Partnership (PPP) seems to be the hot topic in the GCC, but again, does anyone understand this evolution?

A PPP is used by a government as a 'procurement tool' to engage with the private sector for large cost-intensive infrastructure projects. Therefore the suggestion that PPP is in itself an industry is somewhat misleading.

Although typical infrastructure-project procurement features numerous stakeholders, stages and objectives, it is important to focus on the three key elements that drive every project, namely government sponsorship, opportunity evaluation and partner selection.

Governments in the region are increasingly focused on being more efficient with their capital and on managing their risk. The PPP procurement methodology allows for greater transparency, longer-term relationships and larger deals.

Governments have the will and motivation, as well as the acumen, to drive the evolution in procurement to assist in reaching its objectives, especially when it comes to infrastructure

At this point you might be thinking this all makes logical sense, and you would be right. The point is whether the market (i.e. the bidder community) is ready to bid for these complex opportunities. Do bidders know the opportunities and risks of engaging with a regional government body? Are they aligned? And, most importantly, are bidders evaluating the opportunity correctly?

The trick is ensuring all stakeholder expectations are aligned. Governments often have a 20-year non-profit focused aim on a project, as it may feature as part of a wider government strategy.

Private-sector partners, however, have a short-term profit focus and much tighter timelines within which they have to perform. Therein lies the complexity of PPPs, and why we feel this evolution is not, as others have claimed, a 'gold rush'.

The process requires sensitive stakeholder management, intensive financial modeling, delicate planning and, most importantly, a dynamic private sector to complement the process.

Deloitte, as the first PPP advisor to the RTA, has had the benefit of working with an astute leadership team, motivated client and dynamic transport regulator. Together we have worked through every aspect of the first PPP, drawing on our collective financial, technical and legal experiences to run Dubai's first transport-focused PPP process.

Governments have the will and motivation, as well as the acumen, to drive the evolution in procurement to assist in reaching its objectives, especially when it comes to infrastructure. Whether it is a PPP, privatization or even a long-term concession agreement, governments are working with industry specialists to prepare, evaluate and run a transparent partner selection processes. This is indeed an evolution, and one that should be embraced intelligently.

The opportunity is significant for bidders/partners, but one must tread carefully, as this path is new and still riddled with legacy issues.

For example, unclear RFPs often result in the addition of risk premiums from experienced bidders, or 'suicide' bids - that is, unfeasibly low bids that disrupt and destabilize projects. Experienced advisers can bridge what otherwise might be a wide expectation gap.

In conclusion, the use of PPPs is more of a tool to stimulate a dialogue, rather than an 'industry' for organizations to work within. It is a method by which governments can evaluate opportunities and privatesector bidders, and to help develop nations by sharing long-term risk and reward.

PPP is by no means a 'gold rush', as there have been many successes and casualties, so take care when using this tool, and make sure you select the right advisor to guide the path.

Jesdev Saggar **Managing Director Government & Infrastructure Advisory Capital Projects Advisory Services**





Abu Dhabi - a real estate perspective

Scratch the surface...and then scratch again

For the past 12 months the property development and investment markets in Abu Dhabi have been consistent only in their transition; global and regional events have left their mark, dampening enthusiasm for recovery but conversely highlighting the UAE's perceived "safe haven" status, whilst the immediate market place is facing over supply within a constantly restructuring environment.

Time is needed to allow Abu Dhabi to work through this period of consolidation and change; in the meantime the Emirate needs support and direction to manage the restructuring, re-establish investor confidence and to plan for the future.

Background

Up to the end of 2008 the creation of the "icon" took precedence over commercial training and instincts – not exactly at any cost, but scant regard was played to the bottom line; that changed overnight, and instantly swung to the far end of the pendulum, where it has stayed.

At a macro level, this has created a quandary for Abu Dhabi: the non-oil economy comprises only 10% of national income, but it's the face of the city and the reason visitors may choose to stay a couple of days rather than making their way to the transit lounge; through all of the restructuring, redundancies, caution and slowing down, Abu Dhabi needs to be cognizant and responsive to the original game plan of creating a genuine alternative to a hydrocarbon economy.

The hardest part is knowing when to re-start the diversification program, whilst ensuring the lessons are learnt and the future growth is controlled.

Whilst these problems will persist, it is important to remember the Abu Dhabi Economic Vision 2030, a seminal document published by the Government in 2008, which remains a very real driver for the Government, investors and developers; along with the 2030 Urban Structure Framework Plan and the introduction of the Urban Planning Council, this has provided a solid grounding for structured growth. Cynics may change the date to 2040, but the rationale and basis for the future is in place, and it will play an important role over the coming years.

Market overview

During the regional unrest, the UAE has remained the model of stability, and oil sits (for now) above the estimated USD75 break-even threshold; Government expansion policies have been targeting infrastructure and a renewed Emiratization employment and housing program, and talk of the diversion of Government funds to support the Northern Emirates is commonplace.

Publications like Jones Lang La Salle's "Real Estate Investor Sentiment Survey" issued in June highlight the brighter mood, in which 75% of respondents planned to increase their level of investment in the region, with a majority having secure funding in place.

But, looking beneath the macro layer, headlines continue to capture the tangible lack of tenant demand and reducing rents, the delay and cancellation of projects, and the projected 2013 supply which, whilst slowing, grows inexorably larger. This is particularly the case for residential, where rents and sale prices will drop further as completions occur.

Projects have continued, albeit the original schedules have long been forgotten

For both office and residential asset classes there is a current "flight to quality" trend for existing tenants, seeking to take advantage of the low rents to upgrade their accommodation, but speculative development for these uses will remain limited for the foreseeable future.

Nevertheless, it is generally accepted that certain asset classes have capacity for expansion, including retail and industrial; the former taking advantage of the regional spending power and the lack of quality retail floor-space, and the latter fueled by Government commitments to infrastructure, renewables and natural resources.

Projects have continued, albeit the original schedules have long been forgotten. Equally, for every success there is a headline delay, with master-plans and smaller projects alike either stalled pending rethink or on indefinite hold; MEED identified the "growing trend of cancelling projects" in July, highlighting the construction industry's nervousness of the cost of tenders with limited chance of a decision, let alone a successful outcome. This is hardly new news - the difference this time is the slenderness of the order books.

Behind the scenes

Scratching deeper still, we find that the operational and delivery machinery for property in the Emirate is in need of attention. This includes transparency and accountability, consistent resource and expertise, legal infrastructure, and build and management quality, all factors which directly impact on investor sentiment.

These issues have been prevalent for some time, but the pure volume of activity from 2003 to 2008 papered over them; however, they have come to the forefront as investors take a more cautious approach to the market place.

Transparency and accountability

An established and long-running concern has been simply knowing what is going on, from the financial regulation, accountability and decisions of State Owned Entities, through to ground-level paucity and accuracy of raw market data, all of which undermine investor confidence.

Consistent resource and expertise

Expatriate workforce and demography is critical for real estate demand and expansion, both in terms of delivery and demand for property; but the incentives need to be in place. Job security for the expat has dropped significantly within the last year, with further cuts predicted; likewise the short visa period creates a naturally transient population with limited inducement to remain in the country for the long-term.

Efforts to retain skilled resource within projects should be reinforced to establish and maintain quality in the property industry.

Legal infrastructure

Wholesale reform is required in the Abu Dhabi real estate legal infrastructure; there are many areas in need of attention to provide comfort to institutional acquisition of investments as well as tenant and start up business / relocations taking place within the Emirate. Examples include lease terms and enforceability, the limitations of the Musataha and Usufruct documentation, and the potential for large-scale changes such as the introduction of Strata Law.

Build and management quality

2007 through 2008 was an extraordinary time to be in the region: construction inflation hit 20%, concrete ran out, steel prices reached an historic high, an incredible USD6bn worth of projects were awarded across the Middle East in June 2008 alone...the statistics continue, but the simple truth was the resource, organizations, labor and oversight were inadequate, insufficient and ill equipped to begin to manage the volume.

The aftermath of the recession has exacerbated this; whilst the number of projects has been cut, so has the management, with severe reductions in the project management, QS and construction managers needed to control the contractors, to ensure quality is maintained through to completion and to manage liabilities to avoid unnecessary claims.

Additionally, the importance of planned property management and the real cost of looking after these incredible structures that have been created is now being appreciated and accepted; the challenge is ensuring the management continues for the long-term.

Conclusion

Despite all of the issues facing the Emirate, Abu Dhabi is fundamentally prepared to weather the on-going global crisis; further, the national drive to create an economy with less dependence on oil is still in place, albeit with an extended schedule.

That said, adequate investment in project management and monitoring is paramount to protect the property legacy; a key fall-out of the cost reduction initiatives and the distractions of restructuring include falling build quality, lax safety standards and diminishing reputations.

Despite all of the issues facing the Emirate, Abu Dhabi is fundamentally prepared to weather the on-going global crisis

The return and maintenance of investor confidence rests on the continued promotion of the City as a safe haven from the regional difficulties as well as limiting exposure to the extremes of the boom period, ensuring transparency and delivering the right product at the right price.

Lastly, as the investment stock comes on stream, the provision of quality maintenance is critical to retain tenant demand, guard values and revenue, and to act ras a catalyst for future development commitments.





Robert Harris Capital Projects Advisory





Spotlight



Rizwan Shah interviewed Sami Asad, Chief Executive Officer of Aldar Properties to get his views on the industry's focus for the future.

What have been some of the keys for the success of Aldar's development program historically?

Aldar's role is the development of first class infrastructure to support the economic diversification of the Emirate of Abu Dhabi. We are doing this by creating a quality product across the full development spectrum - residential, commercial, retail, leisure, education, and health.

Since the company was formed in 2005, it has been our commitment to delivering quality across our residential, retail, commercial and mixed use projects that has been the cornerstone of our development success. We may perhaps be best known for major deliveries like the Yas Marina Circuit ahead of the inaugural Formula 1[™] Etihad Airways Abu Dhabi Grand Prix in 2009, but we are particularly proud of the delivery of high quality community developments like Al Bandar, Al Zeina and Al Muneera at Al Raha Beach, which are making a significant contribution to the fabric of Abu Dhabi.

Looking forward, project management for the government and other major Abu Dhabi companies will be important and we will continue to deliver major

infrastructure works, as well as significant third party projects on behalf of Abu Dhabi companies such as Mubadala. Aldar is building a reputation for high quality project management.

A prime example of this is Al Falah, an almost 5,000 home development for UAE nationals that we are delivering on behalf of the Abu Dhabi Government. With six major contractors for both the villa and infrastructure development, this is one of the most significant projects in progress in Abu Dhabi at this time.

When Aldar looks to launch a new scheme or development, what are some of the key considerations?

The simple rule is that we will only develop projects that respond to Abu Dhabi's needs, following comprehensive appraisal of market requirements before moving forward. We see particular opportunities in a number of sectors, including education, healthcare, low/middle income communities, specialist retail and affordable leisure facilities.

What are some of the key advances and technology that Aldar has embraced in its business and operations, and is looking towards integrating in the future?

One major area of focus for Aldar is sustainability. Aldar recognizes the importance of long-term maintenance of the environment and aims to minimize the risk of causing harm through design, specification and use of materials and the reduction of waste, energy and water consumption in the construction and maintenance of its buildings. The installation of a natural gas network for domestic use, a vacuum based waste management network and a range of home automation systems within our residential communities are all contributing to this aim.









New technologies also allow us to make our product more affordable for our customers in the long term. This also creates a benefit for us as we look to lease, sell or manage in challenging market conditions. Value is not just about the initial rental or sale cost but also the ongoing operational costs.

In terms of a specific example within our portfolio, our Trust Tower commercial office building has been developed with a focus on offering our corporate tenants efficient and flexible space. We provide a Category A fit out, which leads to a significant reduction in capital expenditure and fit-out time for the tenant. Trust Tower also has market leading occupational density, which means that tenants can take smaller office space for their needs. The building also incorporates a ventilated facade and integrated blind and light systems that help reduce operational costs and consequently the service charges.

From an operational perspective we are also using an Integrated Workplace Management System, which is a platform to manage, automate, and record all processes across Aldar corporate departments and joint ventures.

When Aldar undertakes a new project, what are your key requirements for contractors, subcontractors, designers, vendors, suppliers and other consultants?

In the last few years, Aldar has developed a successful procurement model to ensure that major issues or challenges are mitigated before they arise and we now have a well structured bidders list and a qualified list of major subcontractors. All of our contractors are thoroughly vetted from a technical capability standpoint before they are even requested to submit a commercial proposal and as such, given the opportunity to work with us on our developments.

This approach allows us to filter out many of the technical issues way in advance of the work starting on site and thus minimizing potential frictions with our contractors. On the commercial front, we also ensure that our developments' briefs and scopes are well detailed and comprehensive, thus greatly reducing ambiguity in our requirements.

When has been the key for Aldar successfully managing its contracts and contractors?

The relationships between developers and contractors are much improved these days and we feel there is a real understanding between two parties who appreciate how challenging the market has been. Everyone needs to earn a living and we certainly want to support and reward high quality contractors who follow through on what they promise.

However I do feel the operational focus that is a key part of Aldar under my leadership means we are willing to have tough conversations earlier on in the process to ensure the deal is fair for everybody. That can only lead to more open and transparent dialogue - which is a good thing.

What has Aldar learned during the course of its development history that will benefit its future?

Everyone involved in the development of Abu Dhabi over the past six years has experienced incredible progress and we have experienced some great successes. The financial crisis has had an effect on the world's confidence, which naturally has had a knock-on effect for many organizations involved in development.

These market conditions have dictated that efficiency, value for cost, financial viability – essential aspects in any development decision – become even more important. Combined with the rigorous assessment of contractors and subcontractors we are able to ensure quality









delivery on time and on budget. By getting these areas right, we can continue to focus on delivering projects that help Abu Dhabi develop into a major economic and social hub and doing this on a platform that is socially, environmentally and economically sustainable.

When there are fluctuations in the global construction market in terms of escalation, materials, labor, contractors etc, what impact does this have - if at all - on Aldar's operations at the moment? Future plans?

Again, I think by focusing on efficiency, value for cost and financial viability, whilst making sure that all projects are delivered to the highest quality and meet the real needs of the people of Abu Dhabi then we can avoid the impact of these fluctuations. The additional point here is that a commitment to fair dealing with all contractors and suppliers also helps mitigate again cost issues as development progresses.

What advice does Aldar have for contractors or other project participants who wish to work with Aldar in the future?

My advice to contractors would be to be realistic in their approach and demonstrate a commitment to working closely with us towards a common goal of delivering projects on time, on budget and to the best possible quality. We are continually searching for new partners while focusing on strengthening our relationships with our existing ones.

Your views on 2011?

From our perspective, despite challenging market conditions, 2011 has been a good year for Aldar from an operational standpoint. Strategically we are developing into a focused developer who is building a track record for the quality of our residential, retail, commercial and mixed use projects. The past has not been without its challenges but we are seeing a fitter company emerge.

Operationally there has been good progress across Aldar's portfolio that includes commercial developments such as Central Market, Al Raha Beach, Yas Island, MotorWorld and Al Bateen Park, as well as government projects such as the Al Falah Emirati housing project.

During the year we opened three new schools – two primary schools in Abu Dhabi and Al Ain and Al Bateen Secondary School, an incredible new facility in Abu Dhabi. Aldar Academies now operates six schools across the Emirate which is an incredible achievement

We have also started the handover of Al Zeina and Al Muneera, two communities at Al Raha Beach at the gateway to Abu Dhabi. They join Al Bandar as some of the most exciting new residential developments in Abu Dhabi. We are confident that quality will remain a key differentiator in demand and Al Bandar has been a great example of this, where rates continue to outperform the market.

Sami Asad was appointed Chief Executive Officer of Aldar Properties PJSC in November 2010.

In his previous role as Chief Operating Officer, Sami was responsible for Aldar's significant portfolio across the full development spectrum, ensuring the successful delivery of projects such as the first phase of Yas Island ahead of the inaugural Formula 1™ Etihad Airways Abu Dhabi Grand Prix, the Souk at Central Market and Al Bandar, the first residential community at Al Raha Beach. He also played an integral role in the expansion of Aldar's third party project work capabilities.

Sami joined Aldar in 2008 as Technical Director and was promoted to the role of Chief Operating Officer in the same year. Before joining Aldar, he held the position of Deputy Vice President of Projects at Dolphin Energy for five years and has occupied various managerial positions at ADNOC during his 37 year career.







Review



Overrunning the mark... a brief insight into cost overruns

If anyone has dealt with a multi-million dollar construction project in the Middle East, they are more than likely to have experienced missed deadlines, contractual breaches and cost overruns. There is no denying the fact that underestimating of projects and erroneous forecasted budgets will eventually result in the stark reality that eventually drastic action will be required unless measures are put in place from the outset to avoid such pitfalls.

Introduction

History has shown that all too often capital projects are underestimated and go over budget, particularly landmark projects which contain some technical 'firsts'. When Boston's 'Big Dig' tunnel construction project was completed, the project was a staggering 275% (USD11bn) over initial budget estimates. More closer to home, the 73 storey Infinity Tower - Dubai Marina's landmark twisted building which was due to be completed in 2008, has suffered major delays due to cost overruns and lack of liquidity and is now expected to be completed in December 2012. Kareem Derbas, CEO of Cayan, the developer behind the tower has been quoted as saying, "The more money you have, the faster you can build it". The general mood overshadowing the sector particularly in the GCC is that the construction industry seems to have lost its integrity in that project participants almost expect overruns and delays to be the norm during delivery of all major construction projects.

Stakeholders know full well they are likely to encounter delays, variations and incorrect contract administration, all of which create an ideal environment for claims. This goes a long way in demonstrating that the latent risks

and pitfalls surrounding the potential of cost overruns continue to exist despite the fact that contractors price this in as a risk in their rates, and ultimately this will have to result in increased rates that are passed on to the end user

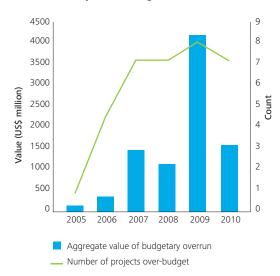
Cost assessment and management

Cost assessments are a fundamental way of determining reasons for and the magnitude of potential cost overruns. These are usually implemented periodically throughout the project lifecycle and act as a form of reconciliation of all costs incurred on a project to date. The resultant output of cost assessments can result in the implementation of robust cost management procedures or the identification of gaps in current cost management.

What has happened in the market?

The market trend has demonstrated that the rate of overruns in projects has generally increased between 2005 and 2010 with a peak in 2009, shortly after the global financial crisis. This provides a clear indication that overall there has been an increase in the number of projects experiencing cost overruns since 2005. Deloitte's experience when working with top developers within the UAE has taught us that projects routinely experience cost overruns on a contract level. In an effort to avoid project cost overruns and to respond to market dynamics, developers often resort to de-scoping projects to offset contract cost overruns. Unfortunately, this is not an effective means to reduce costs and seldom results in "Dollar-for-Dollar" savings. Recently, a major developer de-scoped 40% of their projects, a move resulting in only 13% savings on the project cost. In addition, project de-scoping invariably leads to a less attractive product, and dissatisfied end-users.

Construction Projects over-budget in the UAE



Note: Due to their relative budget revision values and categorial distinction, Nakheel Harbouc & Tower and Dubai Properties Dubailand Projects were NOT included in the calculations.

Source: MEED Projects

Reasons for cost overruns

There are many different reasons as to why cost overruns occur.

Steve Coates, Head of Program, Cost and Consultancy for Davis Langdon in the UAE, recently stated that, "To achieve a successful outcome for a construction project you need to start with the end in mind. An initial unclear brief and lack of disciplined approach from initial business case through to occupation and use, change, lack of appropriate clarity and understanding across all parties to the project life generates unnecessary change, waste and frustration. All of which leads to cost overruns and reduced return on investment". Krishna Subramanian, Chief Financial Officer at Limitless, explains further that, "Due to poor understanding of the scope of works, a majority of the projects experience cost overruns and result in increased project cost that is transferred to end users".

The market trend has demonstrated that the rate of overruns in projects has generally increased between 2005 and 2010 with a peak in 2009

In addition to the above, Bassam Samman, Chairman, Chief Executive Officer and Founder of CMCS, opines, "Most cost overruns are due to the lack of complete analysis of project risks and not allocating the funds to mitigate or transfer their impacts, as well as not allowing the reserve for either accepted or unknown risk".

These points of view underlie our experience that the main reasons for cost overruns include:

- Poorly defined roles for project participants (contractors, consultants, project managers, etc);
- Claim orientated contractors;
- Inefficient contract administration;
- Inadequate project budgeting / base-lining;
- Unclear scope / project risks unidentified;
- Ineffective supervision services provided by consultants;
- Design changes



With cost overruns having become part and parcel to the construction industry, cost certainty is most definitely required to restore integrity to the market

Impact of cost overruns

The impact of cost overruns affects not only the contractor and the customer but other parties including investors and lenders who all have a vested interest in the project.

- Contractors face risk of non-payment and reduced
- Customers face increased interest costs, reduced ROI/IRR, insufficient CAPEX, de-scoping and generally get less than what they bargained for;
- Lenders face covenants not being honored.

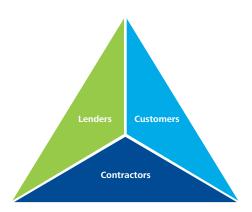
The customer could lose significant revenues if the project is not completed by its due delivery date and could therefore be open to claims from its investors such as banks who have not been repaid their due amounts and as a consequence the customer could incur penalty charges for failure to repay or for late payments.

The capital expenditure and operational expenditure can also be affected by cost overruns and on some occasions can severely impact the overall project cost and completion / delivery date. For example, if a project is to cost approximately USD100m over a period of four years, and in the first year it accounts for USD35m yet the project incurs a cost of USD50m within that year, then your operational expenditure has increased by USD15m whereas your overall capital expenditure has increased to USD115m already after the first year. This usually has a knock-on effect on future years and can lead to a project being cancelled, re-assessed and descaled which incurs variation costs or to sell the asset as a going concern.

Solutions

We have supported a variety of our clients dealing with such cost overruns at any part of the project lifecycle. We have worked on a broad spectrum of projects advising some of the most respected organizations in the Middle East with a view to understanding their sensitivities and nuances. With cost overruns having become part and parcel to the construction industry, cost certainty is most definitely required to restore integrity to the market. This can only be done if plans are implemented at an early stage of a project, preferably prior to its inception, which are scrutinized in great detail with a view to accurately forecasting projected budgets.

Malcolm Landman Capital Projects Advisory





Hotel development in the GCC – is it over?

During the past 10 years, the GCC witnessed phenomenal growth in hotel development and performance. This was driven by both a) a tourist appetite to visit the GCC that resulted in occupancy and average daily rate levels that far exceeded those of other world regions and b) a bank appetite to fund hospitality products with 'cheap' rates. The result, as always in real estate - oversupply. While there are some notable exceptions, the majority of the GCC markets are phasing, or will phase in the near future, an oversupply situation.

Many commentators use the term 'flight to quality' - in essence back to the fundamentals - as the fundamentals of any investment, including hotel investments, that must 'stack up' otherwise it's not a good investment. The same applies to today's GCC hotel industry. From a hotel perspective the fundamentals include:

- Location
- Brand/positioning
- Price
- People

Location

Very simply - location is and always will be one of the critical attributes of a hotel. It determines the segmentation of the hotel – who stays at the hotel. Simple rule – a good location will always outperform a mediocre location. In boom times this may be insignificant, but in tough times it often makes the difference between survival and bankruptcy. The only challenge is - what if a good location is very expensive?

Price

Price is a complex issue. It reflects both the price that a developer would pay to construct, or purchase, a hotel (development/acquisition cost) and the price that a guest would pay to stay at this hotel (average daily rate). Of course the two are linked.

If the development/acquisition cost is too high, the financials will not be attractive to a risk adverse investor (someone that wants to make a proportionate return to the investment). One of the main development costs is the land cost. Land cost often represents 20-25%+ of the total development cost. If the land cost is too high, the financial fundamentals of the project don't work. The other major development cost is the construction cost. This is heavily affected by design (a 'box' is cheaper to build) and finishing (furniture, fittings and equipment). If the construction cost is too high, the financial fundamentals don't work. A high development cost does not always translate to high average daily rates!

Branding/positioning

In the GCC the branding of the hotel is critical to its success. While there are a few exceptions to this rule, they are the exceptions. The choice of the hotel's branding/positioning is primarily driven by the hotel's location and secondarily by the hotel operator/brand that manages the hotel. The operator/brand drives the positioning of the hotel, which drives the hotel's perception, distribution channels and ultimately its revenue generation ability. A good brand will always command a premium over the competition.

The GCC has some of the best hotels in the world

People

The GCC has some of the best hotels in the world. Some of the most recognized architects from around the world have designed hotels across the GCC. Some of the hotels are truly iconic, such as the Burj al Arab (the self proclaimed only seven star hotel in the world). The 'who's who' of hotel management companies are here too, and those that are not are trying to come here.

But how do these hotels compare in terms of service offering against other more service oriented regions? Accepting that even the most innovative and shiny hotels eventually will begin to look slightly tired, when this shine begins to fade away, it is the service offering that will bring hotel guests back. A good brand has in place the necessary recruitment and training policies to ensure acceptable standards.

In conclusion

Hotel development in the GCC is not over. Developers, however, will need to look harder to find the right deal. The land location needs to be great, but a reasonable price. Development costs need to be driven by the market conditions, average daily rates, rather than ego. Selecting the right operator is more important than ever. Those developers that can achieve all of the above will get great returns on their investment!

Dr. Costas Vergenis THL Leader, Middle East Deloitte Consulting





Construction e-discovery – following the digital paper trail

Electronic disclosure and the construction industry establishing firm foundations for dispute resolution.

In the mid 1990s, it was not uncommon for a construction dispute to involve the collation and review of all relevant hard copy letters, memos, change orders, timesheets, invoices, etc making up hundreds and even thousands of lever arch files of documents. To try to do this manually became increasingly challenging and expensive. Consequently, construction disputes have been one of the major forces behind the application of technology and services to manage documents.

These days, e-mails, word processor files, technical databases, design files and accounting data have replaced the hard copy lever arch files. These electronic documents are easier to create, circulate and duplicate but the ease with which they can be produced has contributed to the exponential increase in the volume of information that may be relevant in the context of a construction dispute.

It is therefore becoming increasingly important for construction companies, whether contemplating litigation or not, to ensure that they are aware of the existence of business critical information

Dependent on which statistics you choose to believe, the average 'custodian' of documents will hold anything from 2 gigabytes to 10 gigabytes of data; each of those gigabytes containing on average anything from 5,000 to 15,000 documents, meaning an individual could hold anything from 10,000 to 150,000 electronic documents. And that's just one person; a typical dispute could involve several individuals and potentially millions of pages of documents.

The task of collating, reviewing and disclosing this number of documents can be made even more challenging in the Middle East by, for example:

- General lack of focus on contract administration;
- Loose, undefined lines between those administering the project, from contractors, subcontractors, project managers and consultants
- · Information existing in different languages;
- Data privacy and protection considerations; and
- The on-going use of many different legacy systems when businesses are acquired

It is therefore becoming increasingly important for construction companies, whether contemplating litigation or not, to ensure that they are aware of the existence of business critical information on PCs, Servers, Back-up Tapes, Document Management Systems, CAD/CAM systems, Project Management Systems etc.

In addition, it is necessary to identify the physical locations of the data and systems (i.e. on-site, incountry, held internationally etc). Furthermore, as corporates begin to consider moving their systems to 'Cloud' IT service providers, determining the exact location and legal context of electronic data will become even more challenging.

While technology should not and cannot drive a dispute, it can provide highly effective support to the parties and their legal teams

Given the potential myriad sources of data available to companies today, the volume of information that may require searching and reviewing, and the potential costs involved in managing electronic documents, litigation practices s have been significantly amended in countries including the UK, US and Australia to better define the electronic disclosure process to ensure it is undertaken in an efficient and proportionate manner. A greater emphasis is now placed on early discussions between the parties and the sharing of information so that an informed assessment can be made as to the likely issues that both sides may have in identifying, collecting, processing, reviewing, producing and exchanging the electronic material that falls under their control. As the litigation process continues to develop in the Middle East region, it is expected that it will need to follow suit to remain a competitive destination in which to pursue litigation. And with the volume of project issues currently it is making great strides in this direction.

Specialist electronic disclosure technologies and services continue to evolve to keep pace with the explosion in data volumes and to ensure that your advisors are able to review the potentially relevant documents in a collaborative, efficient and proportionate manner.

Specialist technologies now allow:

- the conceptual grouping of documents to gain an initial sense of the key themes and issues contained in the document set etc:
- the analysis of lines of communication between the various individuals involved in a dispute; the identification and removal of duplicate and nearduplicate documents;
- the filtration of documents using keywords, dateranging and file types; and
- · the identification and translation of different languages, including Arabic.

All of these technologies assist in providing a higher quality, quicker and more proportionate review of electronically stored information. That said, while technology should not and cannot drive a dispute, it can provide highly effective support to the parties and their legal teams.

The ever increasing volumes of electronic information will ensure that construction disputes will remain as one of the major sources and drivers of electronic disclosure exercises for the foreseeable future.

Rick Barker Forensic & Dispute Services



Refocus



The Majlis – mediation, Middle East-style

The industry known as 'dispute' has many tentacles, operating under different guises across many countries, representing thousands of unassuming clients towards that ultimate goal of a 'solution'. The challenge in this industry is staying focused on the goal, with costs, time, tactics, procedure and uncertainty clouding the solution. As a result, people, organizations and even governments are turning to 'mediation' which brings the parties back on track, focusing on a solution. This method of mediation is known locally in the Middle East as 'Majlis meetings'.

A Majlis acts as an age-old Middle Eastern method of 'sorting things out' and has worked for generations, providing certainty where the law and lawyers cannot. This Majlis/Mediation is the process in which two parties agree to conclude a matter using a mediator to achieve a solution, often in one day. This solution is bound by an agreement and confidentiality, to bring focus back to the objective at hand, not 'win' or 'lose' but compromise to reach a solution. The history of mediation actually stems back over 1,000 years with early cases recorded in Phoenician commerce. The practice then further developed in Ancient Greece, then in Roman civilization. Some early cultures regarded the mediator as a sacred figure, worthy of particular respect;

But two key steps for success are, quite simply, trust and respect – a concept that continues to function incredibly strongly in some business circles in the Middle East

and the role would overlap with that of a prominent wise men or tribal chief. The similarities between the early forms of Mediation and its current local guise of Majlis mediation mirror the same maxims of confidentiality and commercially focused solutions.

In today's world of miscommunication with bad contracts, misaligned expectations all amplified by difficult market conditions, the process of mediation is increasingly becoming the solution of choice by parties who have lost faith in the legal process and simply want a 'result' and move on. Mediation can take many forms e.g. from bringing two warring nations to a point of agreement, to a neighbor's overgrown hedge intruding in another garden.

For parties across the Middle East that have exhausted bilateral discussions and feel that a third party process will aid them in reaching a solution, the process of mediation could be considered first, rather than the costly and non-commercial approach of Arbitration or even litigation. But two key steps for success are, quite simply, trust and respect – a concept that continues to function incredibly strongly in some business circles in the Middle East.

The genius of mediation is its simplicity, the opportunity to draw parties into a platform of negotiation and therefore a commercial agreement i.e. not a legal one. Mediation is about finding a middle ground, not about winning and losing. It acts as a reliable process in which parties trust to move issues into settlement and get on with their business. The challenge is finding the right mediators in the right regions with the right experience. A mediator not only needs to understand the dispute but the industry it is related to. The Middle East, although seasoned in the process of mediation through the Majlis system, has very few accredited mediators. That is now changing in construction for example with the first RICS-accredited Mediation program, which has just graduated the first batch of trusted professionals that can help.

The mediation process is easy and relatively cheap and, if nothing else, it acts as a great way of understanding the claimant and respondents issues. Just like a Majlis, the mediation is a process by which an equitable result is sought to often complex issues. That fairness sits at the heart of the Majlis system and often decisions and settlements do not accord with the legal principles that each party feels protect them; it is, as mentioned before, a commercially driven process.

Mediation is often referred to as a form of 'alternative dispute resolution'. It has a structure that other forms of formal negotiation lack. Mediators use various techniques to open, or enhance, dialogue between parties and a lot depends on the mediator's skill and training. The 'art of articulation' is key and often silence acts as the best method of getting parties to talk. It is therefore not just the process but the person mediating that adds to the success of the platform.

The code of conduct for mediation experts acts as the unregulated constitution by which all professionals agree to act. Although accreditation by specific organizations such as the Royal Institution of Chartered Surveyors (RICS) has added to the formality and regulation of the process, it still remains fundamentally unregulated and open to anyone becoming a mediator without external challenge. The code therefore acts as a silent regulator ensuring mediators:

- make participants understand the process
- highlight any potential conflicts of interest.
- conduct the mediation in an impartial manner
- · do not offer legal advice
- focus on practicing in those fields where they have expertise

Mediation as a professionally-run process is gaining momentum around the world and institutions are formalizing the structure, format and offering training to ensure accredited mediators operate in a professional manner and not simply as a 'leader of tribes'. Mediation is fundamentally:

- Cost-effective
- Quick
- · Easy to execute
- Confidential

Mediation is about finding a middle ground, not about winning and losing

And that is why parties – that have trust - are increasingly turning to this form of dispute resolution.

Mediation is used in many ways to resolve an array of issues for parties. One such method of use is 'workplace' mediation and this is where the growth of the process has stemmed from. Where parties demonstrate irreconcilable differences, mediation can serve as a mechanism to engender communication and interaction. The second most commonly employed method of use is by Governments who use mediation to inform and to seek input from organizations and countries as fact-finding and policy-making. Mediation may also act to prevent disputes rather than assist to solve them. There are of course a number of types of disputes that can result in mediation e.g.:

- Family:
- Separation
- Divorce
- Elderly care issues
- Family businesses
- Adult sibling conflicts
- Disputes between parents and adult children
- Estate disputes
- Workplace:
 - Wrongful termination
- Discrimination
- Harassment
- Grievances
- Public disputes:
 - Environmental
 - Land-use

Avoiding confrontation, particularly for long-term business health in this region, is important

- Disputes involving the following issues:
- Landlord/tenant
- Owners' associations
- Builders
- Contractors
- Contract
- Partnership

The most significant industry in this region after hydrocarbons is construction and real estate. This industry has suffered significantly in the last three years after the collapse of the financial markets and overall system globally. It is regaining its feet but only after considerable restructuring and debt reorganization. The process of mediation, although used infrequently, has assisted this industry in the region via the Majlis method discussed earlier. Billions of dollars have been spent by a multitude of organizations operating in this sector over the last three years and whenever there is a 'change in strategy' and money is not the compensator for change, a dispute often arises.

The construction dispute industry itself has grown inversely to the market, as more projects go on hold and stakeholders are left holding meaningless liabilities, the option of dispute resolution often becomes the only option for those stakeholders, looking for recompense. The construction market is projected to increase in countries like KSA and decrease in the UAE, both stimulating the need for dispute resolution. The most common method is Arbitration but it is clear in the right context and business environment that mediation can be used to achieve the same objective. The challenge remains uncertainty - that neither party knows, or is aware, of this option and what it means as the legal advisors that operate in the market steer their clients towards costly Arbitration, circumventing the option of Mediation.

From oil rigs to villas and apartments, the gambit of mediation support is widening every day and with all stakeholders sitting in a 'Mexican standoff' and putting progress on hold until someone makes the first move, mediation can be that non-confrontational move. Avoiding confrontation, particularly for long-term business health in this region, is important. The issue of a dispute itself does not accord with local principles and therefore the quicker the issue can be resolved, with public attention, the better. The culture of the Middle East is not to 'fight' or 'arque' and the Arab nations, contrary to popular belief, are peace loving countries made up of mixed race nationalities operating their businesses in the knowledge that disputes are few and far between and that if such a dispute is unresolved, that the Majlis process will come to the aid.

In summary, all parties, in a dispute, should be aware of their options and Mediation should act as the first port of call for any dispute that has gone beyond bilateral negotiation and needs third party assistance. Mediation does force a result and sometime that is all parties need - a simple alignment of objectives - even if one party feels that the result is not necessarily in their best interest, it is a result and that is ultimately what those parties want. Find the right forum, Mediator and organize your counterpart to join you in seeking a solution to your dispute in a confidential and commercial manner - without opening each other's wounds in public - move on as there is no time/cost to waste; there is always a solution/process to your issue, it is up to you to seek it.

By Jesdev Saggar **Managing Director Capital Projects Advisory**



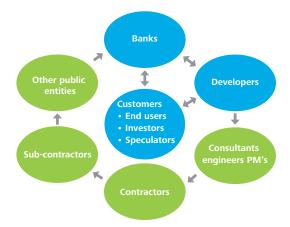
Changing dynamics – how to assess the swing in balance?

In the UAE, specifically Dubai, there has historically been a severe shortage in residential, commercial and retail units. The shortage, coupled with astronomic economic growth and a speculative market in a short period of time, created a false sense of demand and supported various developers' ambitious development plans. The 'build it and they will come' phenomenon was in full force just a couple of years ago, and developers were in a race to deliver a product that is absorbed by consumers that had easy access to finance from banks that offered favorable terms and relaxed lending policies. This extreme trend has experienced a complete change in dynamics, swinging the balance of what was and is now considered to be a commercially sound business strategy.

The real estate bubble in Dubai abruptly burst in 2008 and brought debt overhangs and tightened liquidity, causing a number of projects to get cancelled due to a lack of finance, increasing default rates due to negative gross development values and ultimately breaking the cash cycle that was fueling the real estate boom. The primary break in the cycle began with banks, customers and developers. Banks tightened their lending criteria limiting liquidity in the market, customers/investors were defaulting on their payments to developers as their investment was no longer attractive with tanking market prices, and ultimately developers were unable to deliver the product due to the lack of funds to pay their contractors leading to an uncertainty of payments and the future.

The tipping point – Understanding your project realities

Today, developers will have more than one project that is on hold with limited cash resources. The decision to restart or cancel a project is a crucial decision for survival. Developers must conduct a thorough tipping point analysis to examine the cost/benefit of each project. The diagram below shows that the decision is usually based on a commercial decision that is focused on minimizing cash outflow for the developer.



Cash requirement to continue

Estimated collections

Only on currently contracted sales, adjusted for adverse market movements

Costs to complete

Based on revised mater plans

Less

Rententions to be repaid to contractors

Advanced reclaimed from contractors

Cash requirement to defer

Customer liabilities

stage payments received from customers which would be repaid if projects were abandoned

Plus

Contractor termination liabilities

Obligations due to contractorss if projects were abandoned

In order to accurately estimate future collections, a customer profile analysis must be conducted on a case by case basis

The different categories that need to be considered for decision-making processes may be easily quantified by reviewing contractor agreements, the project budget and negotiating claims. However, the future cash collections are subjective and may vary depending on individual judgment. In order to accurately estimate future collections, a customer profile analysis must be conducted on a case by case basis to assess the probability of default while considering the profile of each customer. The following questions should be kept in mind to assess the risk profile of each customer;

- What was the unit sold for?
- How much has the customer paid so far?
- How did the customer pay for the unit? (Cash/Mortgage)
- What is the remainder to collect?
- What is the current market value of the unit?

Once the risk profile of all the contracted sales has been identified the developer will have a better view on contracted sales collections. Customers with a high risk of default can then be negotiated with to mitigate the risk and if unsuccessful the unit goes back into inventory, re-priced according to current market conditions and sold on the market again.

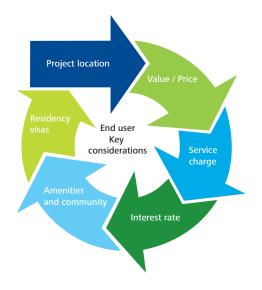
Pricing decisions - Know your customer

The oversupply and increased competition in the market result in favorable conditions for the buyer and allow for a wider variety of products to choose from. When repricing the remaining inventory on a project, developers must consider the site location and comparables, know their target market key considerations and aim to differentiate the product to compete with the existing and future stock.

Consumer Key Considerations Cost of ownership

Potential home owners for example, consider the total cost of ownership and compare it to the leasing market and other comparable properties. Typically home owners are incentivized to own if the monthly mortgage rate is less than or equal to the current/future expected market rent and capital appreciation and Investors will consider yields that can be generated from owning a property. The market has witnessed some misalignment as developers in the region have decreased their rental rates to reflect market conditions but have not aligned the lease and sale rates to reflect market yields.

The cost of ownership does not stop and when purchasing the property, buyers will consider ongoing costs like service charges. The charges levied on some buildings are too high and therefore when calculating the owners' monthly installments i.e. (mortgage + service charge), it might be greater than the current rent for the same property and ultimately not a viable option. For example, over the past two years villas in Dubai have been more popular than apartments as they have a much lower service charge due to the manner in which infrastructure services were commercially structured, and therefore owners' monthly installments could in fact be lower than a much smaller residence, increasing their attractiveness and value proposition.



Amenities/Communities

A large number of projects have been de-scoped or have been delivered without the initial amenities and landscaping which negatively affect the community feel that buyers today look for. Mechanisms must be adopted by developers to 'package' deals in order to entice the customer to buy or rent the property. Customers are likely to 'fish around' to ensure that they get the best available deal on the market especially in what has now been restored to a buyer's market. Accordingly, certain factors are key to ensuring that the inventory becomes a more attractive proposition. Amenities within the area and the property itself are key factors to consider.

Developers should constantly survey shifts in the real estate sector, closely monitor their sales plans with a view to bringing them in line with current market conditions

Ultimately, particularly in an oversupplied market, developers should constantly survey shifts in the real estate sector, closely monitor their sales plans with a view to bringing them in line with current market conditions, aim to differentiate their inventory and they must continue to base the development decisions based on realistic collections that are derived by considering the product on offer and matching the end user considerations in real-time.

Yazan Al Shouly Capital Projects Advisory







Spotlight



Rizwan Shah interviewed Khalid El Malik, Chief Executive Officer DPG (Dubai Properties Group) to get his views on the industry's focus for the future.

1. What have been some of your keys for success of DPG's development program historically?

Our organization has strong leadership led by of course his highness Sheikh Mohammed and we have been very blessed as a company, with our location in Dubai and our positioning in a good market. We have developed the right strategic locations Dubai which was key and contributed to our success for projects for example such as JBR, Business Bay, Executive Towers and Shoroog.

From an operational perspective, we have been very focused in the area of cash management. We were very successful in selling projects off-plan which helped our liquidity to continue to fund our projects.

From a development perspective, it was the design components of our projects. For example at JBR we have the beach supported by strong residential, retail and commercial areas. In Business Bay we have a very strong master plan and in the Villa and Mirdiff projects we have very high occupancy because it is the best destination for families.

2. When DPG looks to launch a new scheme or development, what are some key considerations?

Today what is most important are the market conditions and looking at the growth in economies. One must look at all market and economy indicators in terms of population growth, hospitality, tourism, etc. For example if economic growth is projected at 2-3%, you must plan accordingly and real estate is no different. You must always balance different factors, for example quality versus price versus type of tenant and consider high, medium and low income demographics. You must look at timing both now and in the future. You must have the right partners, in terms of contractors and consultants. And you must consider that different laws apply when looking at leasing product to clients versus sales.

3. What are some of the key advantages and technology DPG has embraced in business and operations, and is looking towards integrating in the future?

We have related dependency on Dubai municipality and RERA which have their own systems that we depend on for information which we also need to be consistent and accurate with. Internally, with respect to our operational requirements and engineering, we are satisfactory but we remain ambitious to reach a level of 100% automation of management, operations and property engineering and development. In the coming three years DPG will be investing heavily to reach this vision of best in the world.









4. When DPG undertakes a new project, what are the key requirements for contractors, subcontractors, designers, venders, suppliers and consultants?

We try to ensure they have excellent technical and financial capability. We also classify them by putting them into structure for comparison and we rely upon statistics which are available to support the decision making process. We can no longer rely on just a name which the market has shown to sometimes be different than reality.

5. What has been key for managing contractors and contracts?

A full and detailed understanding of all documents

In the past in the industry this has generally not been done properly. Proper process should be in place and improved contract management is now in place as a result of the economic crisis.

Relationship management

Keeping a close eye on contractor and on site, and we need to be heavily involved and have a presence on site. All parties involved are critically responsible for hundreds of millions of Dirhams.

Issues related to financial management

Paying in accordance with contracts and knowing that some contractors could be working on some other projects, therefore being wary not to pay more than they deserve. We also depend highly on subcontractors. If we have all three aspects covered, then your risks are manageable. However, each could bring damage to the other and vice versa.

6. What has DPG learnt from its development history that will benefit its future?

It is a dependent industry. Do not separate this industry from other dependent industries. The real estate industry supports others as it is an enabler and one cannot isolate it from the rest of the market.

People.

Growth does not mean you hire like crazy. When you bring in talent, one really good person can be as good as five.

Cash flow management. We have learned it's not how much you sell, it is how much you can liquidate.

Planning

If you plan something, you should stick to it.

Sustainability

"Efficient sustainability" means good margins plus sustainable revenue which will help you survive.

7. When there are fluctuations in the global construction market, such as escalation, materials, labor, contractors etc. what impact does it have on DPG's operations or future?

After signing of the contract, escalation is something we monitor in all contracts where this is not addressed. We now watch reliability on our current projects and what is automatic in terms of the contract. We also rely upon regular market reporting and information and issue daily, monthly and quarterly reports to our organization.









8. What advice does DPG have for contractors to partner with DPG in the future?

They need to comply with our requirement, and they should be very professional in their treating a contract for strong relations should not spoil one other. They should be very professional in their management which extends to contract management, their codes, reporting contract information, regular meetings, and bringing in the right subcontractors to deliver projects on time.

As the Group CEO of Dubai Properties Group, Khalid Al Malik is responsible for directing DPG's strategies of delivery, growth and operations within the UAE, and works on behalf of all DPG entities to expand new business markets. He joined DPG in July 2009 having been CEO of Tatweer, a Dubai based conglomerate, with diverse portfolio interests including DUBAILAND®, Dubai Healthcare City, The Tiger Woods Dubai and Dubai Industrial City.

Prior to this, Mr. Al Malik held senior government posts. As Senior Vice President Industry & Knowledge, he was responsible for the development of Dubai Industrial City and Moutamarat. As Director of Operations at the Dubai Development and Investment Authority, he spearheaded initiatives such as the Dubai Government Excellence Program and the Quality, Health, Safety and Environment Committees.









Buy once and buy well

Why cheaper real estate may cost investors, tenants and owners more in the long term through inefficient design, and higher through-life costs.

As new projects continue to come online in 2011 across the GCC, wary investors are seeking to, 'buy once and buy well.' Many new properties are marketed as the frontrunners in original and bespoke design; however, investors find value diminished when hasty construction was the builder's priority. While the market dictates that location may be a dominant factor in determining property prices, an investor needs to seriously consider the build design and quality in order to fully understand the building life-cycle costs. Having experienced firsthand the inflated ongoing costs and significant inconvenience associated with poor quality and badly designed buildings, investors and tenants alike are realizing that substandard design results in significant facility management (FM) costs to undertake even the most mundane procedures. They are also acknowledging that a higher capital outlay can significantly reduce ongoing costs improving economic return over the life of the building.

Whole life cost analysis, a method increasingly used to determine relative economic returns, considers not only the initial build cost and residual value of the investment, but also energy consumption, facilities management, maintenance, replacement and refurbishment costs, financing and where possible other non-monetary benefits.

With the significant reduction in property prices since the financial crisis many believe it may be a buyers' market. This buyers' market may appear lucrative, but investors should cautiously perform due diligence on lifetime costs and not just the relative value of the initial purchase price.

Quality – the cornerstone of a sound investment

High build quality is a pre-requisite to ensure economic efficiency of a building over the longer term. Not only will low quality building and material specification lead to higher spend on maintenance and FM over the life of the investment, it may also result in outcomes more difficult to quantify such as tenant dissatisfaction and reduced user productivity, all of which can result in lower rental yield and higher tenant turnover. Undoubtedly these costs will be to the disadvantage of the investor and tenant, and place downward pricing pressure on rental and leasing contracts and sales.

During times of weak real estate demand or oversupply, poor quality buildings in any given location are the first to be left vacant and their developers the first to be out of business. For developers attempting to raise finance for new projects, reputation can be crucial in bestowing confidence. Those developers who damaged their brand image, pursuing a strategy of high volume/low cost during the economic boom are now finding it difficult to change perceptions.

Every owner wants a cost effective building, but what does it actually involve?

Whilst quality is important, the impact of build design should not be underestimated when considering ongoing cost requirements associated with the building. In the GCC, where costs such as Heating, Ventilation and Air Conditioning (HVAC) can account for the largest single ongoing cost, a superior design can significantly influence overall economic efficiency.

Kevin Brennan, Head of Service Assurance at Emcor Facility Services, notes that one of the keys to a successful and efficient design is the involvement of facilities management specialists from the outset. This practice has long been followed in the West and Far East; however, it still does not represent normal practice within the GCC. Many developers do not appreciate the requirement for FM specialists during the design phase, or the extent to which cost savings can be made. However, Brennan notes that early involvement can very quickly highlight inefficient areas within the design that are likely to give rise to higher ongoing FM costs.



A period of unprecedented and unabated construction has also brought awareness of the idea that energy efficiency will be key to future developments

The recent trend for GCC developers to compete for the most aesthetically pleasing design has produced a general disregard for ongoing efficiency, with the associated life-cycle cost well above traditional designs. Huge atriums, which allow hot air to accumulate and rise to higher floors result in significantly increased cooling costs, glass facades that span the entire face of the building heat up the inside like a greenhouse, and a lack of attention to accessibility issues can render windows impossible to clean and anti-aircraft collision lights extremely difficult to replace.

Sustainability, an energy and cost effective initiative

The concept of sustainability has never been foreign to the Middle East. However, sustainability and energy efficient initiatives in the GCC are relatively nascent compared with the full-fledged programs of some developed nations. A period of unprecedented and unabated construction has also brought awareness of the idea that energy efficiency will be key to future developments. An ongoing sustainable development, Masdar City, is currently being constructed in the UAE. Masdar City, promoted as a "zero-carbon" emission city, relies completely on renewable energy sources and is expected to complete Phase 1 by 2015. With "green" initiatives seen frequently across an ever increasing number of advertisements, we have to ask ourselves, "does energy efficiency equate to cost efficiency?"

The short answer is "it depends". What we do know is that designing a building from the outset with energy efficient initiatives is more cost effective than retrospectively trying to implement such a program. "Too many times we see developers trying to implement a specific program three to five years into a project," says Bill Jolly, Head of MEP KEOIC. Implementing an energy efficiency program late in the building process only complicates an extremely complex process that already has tight deadlines. When a program is put into place retrospectively, everyone from the designers, builders and sub-contractors may have to change plans, thus impacting critical path milestones and causing delay which can result in a substantial increase in cost.

Anyone who wants to implement real cost effective and sustainable solutions should approach the task through a well thought-out process. Jolly notes that his company provides a Sustainability Selection Matrix that aids this decision making process. The matrix has five factors; capital cost, environmental performance, timeline implications, pay-back periods and maintenance issues. Each factor is assigned a weighted point score to allow multiple investment options to be compared amongst each other. The most cost effective energy efficient options are usually the most simple to implement. Jolly notes that there are two types of initiatives available, active and passive solutions. In order to be cost effective, "design engineers need to maximize the passive solutions and minimize the active solutions," says Jolly. Passive solutions to energy efficiency and sustainability require little to no maintenance once complete. The design should emphasize constructing a building with the appropriate angle to the sun, window pitch, reduced glass exposure and an increase in thermal efficiencies. These subtleties are cost effective because implementation begins from the onset of the project and these modifications do not necessarily cost more than conventional building plans. Passive solutions reflect only a fraction of the cost when compared with the total cost of active solutions to sustainability issues.

Active solutions are generally complex systems that increase your initial capital outlay and require a higher level of servicing throughout the life of the equipment. Nevertheless, there are different solutions for the price astute investor. Simple active solutions include timers, sensors and valves that limit the flow of a resource. These include automatic light sensors in hallways, timers that shut off hot water heaters not in use and stop values to limit water flow to a leaky faucet or running toilet. Some examples of more active solutions include solar water heating systems, photovoltaic panels and wind turbines. As the complexity of the solution increases so does the price tag. The biggest stumbling block for builders is the consideration placed on the initial capital outlay and the payback period of the option. Builders want to know if the investor is willing to pay if there are extra costs involved. Some solutions have a payback period of as little as a few years, while more capital intense solutions can take decades to recover the initial investment.

The key to pushing energy efficient initiatives forward will be government regulation. Authority directives will help standardize and develop sustainability programs in the GCC. The UAE has spearheaded the market with the formation of the Emirates Green Building Council and the green building agency, Estidama, translated as "sustainability" in Arabic. Other GCC countries including Qatar have formed their own respective sustainable building councils and Bahrain has undertaken various "green" construction projects including the Bahrain World Trade Center.

The key to pushing energy efficient initiatives forward will be government regulation

Improper design of a building or inadequate consideration to the structural and facilities installation is likely to cost the investor more in total through life costs. Simple designs can effectively reduce monthly utility bills, reduce carbon emissions, and promote sustainability awareness within our community. The concept 'Buy Once and Buy Well' will surely require a thorough due diligence on any property. A smart investor will consider more than the initial investment amount as a comprehensive understanding of future maintenance and refresh costs will be key to calculating an investment's return.

Declan Hayes Managing Director Transaction Services



Reinvest

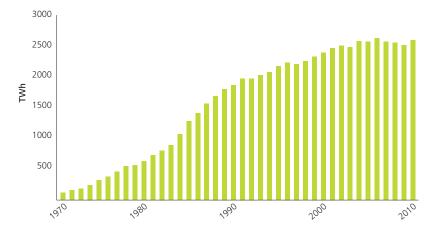


Going nuclear – massive power investment in the Middle East

The Middle East region is largely unaffected in the area of infrastructure and remains a dynamic and emerging new build market place. In the nuclear sector, the UAE, Saudi Arabia, Jordan, Egypt and Turkey are all developing and delivering their nuclear new build proposals. The United Kingdom has plans to develop between 8 to 13 new nuclear units, (depending on technology). The combined Middle East projected nuclear new build program represents three times this amount, a USD160bn investment in the region. To successfully deliver a nuclear construction program, the region must overcome some constraints and complexity that faces all pioneering countries.

Global nuclear electricity generation in 2010 totaled 2630 TWh (IAEA source), representing a 2.8% increase from that generated in 2009 The energy availability factor of the plants operating in 2010 was 81%, up from 79.4% in 2009. New reactors in China, India, Russia and Korea, amounted to 3722 MWe net.

Nuclear electricity production



The accident at the Fukushima Daiichi nuclear plant in March 2011 resulted from a natural disaster of profound effect. Japan has many older units off line and faces a clean up operation unprecedented in that region, Germany announced plans to close their nuclear plants, Switzerland and Italy placed their new build plans on hold . The North American and European countries took a more considered approach, requesting their regulators to review and report on lessons to be applied. Globally, initial findings suggests that whilst some countries within certain seismic regions e.g. Korea, may make some design changes to their existing units, the majority of the new build countries with an intent to deliver the gen three and three plus designs, remain unaffected.

The ME region faces many challenges as nuclear new build is a highly sensitive, complex, highly regulated process which demands strict compliance to international standards and requires a huge amount of financial commitment, supply of suitably qualified and experienced resources. Each plant requires a construction workforce of 6000 staff, each power plant requires an operational staff count of 600. The developer and intelligent client requires around 300 dedicated staff depending on the contracting methodology.

Some of the challenges and key issues facing the future construction of nuclear power in the region are noted below:

International treaties

Many countries within the region have agreements with developed nations (USA, France, UK, Russia etc).

Government support

The strategy for nuclear power is based upon a national strategic intent, supported by applicable law.

Nuclear safeguards

The region accepts international safeguard requirements regarding the front end fuel fabrication and back end spent fuel waste, however a long term regional repository may be agreed eventually.

Finance

This is a very difficult period to secure finance, nevertheless most of the ME countries have internal financial resources available for these strategic projects.

Public support

The public must be engaged in an open and transparent manner throughout the planning phase and construction phase; at least 54,000 man years of employment opportunities will be created.

Nuclear regulation

This remains a major challenge since many countries do not have any or sufficient regulators in place. However, sufficient international resource could develop and deliver local regulatory programs and grow internal expertise. Many countries underestimate the demands on the regulator in terms of process, time scale and quantity of data and documentation requiring approval.

Science

Regional science and technology centers and universities will be at the forefront of tomorrow's nuclear program.

Local supply

Without doubt the first nuclear technology will be imported; however, general construction and non nuclear qualified materials and scope can be delivered within the region, employing and supporting local and regional business.

Technology transfer

Available, however it would depend on the size of the fleet versus the strategic intent to develop an in-country supply chain. The regional standard of quality is reasonably high based upon its oil experience.

Resources

The region does not have sufficiently qualified and nuclear experienced resources. Nevertheless, workforce planning will ensure that future operational resources can be delivered locally through in-country universities supported by overseas technology providers.

Organization development

Most countries apply IAEA guidelines and seek support to organize and deliver an effective Nuclear Energy Program Implementation Organization (NEPIO) . Nuclear experienced expatriate staff will be resourced to ensure that the regulatory and site license requirements are delivered whilst regional staff is fully trained. Many new build organizations globally underestimate the staff numbers and the process requirements and the demands on the staff to meet the regulatory process, prior to construction. Core organizational functions cannot be outsourced.

Operational development

It takes many years to develop and deliver experienced nuclear operators. In the meantime countries within the region can gain operational support from the nuclear technology vendor or from a utility partner with nuclear operational capability. It is expected that the region can take lessons learnt from the development of the oil industry in the region. In particular, blue collar non nuclear operators and maintenance staff require shorter training periods and can take training support similar to the regional oil and defense industry.

Technology selection

Proven (road tested) technology is being deployed in the UAE. However, a first of a kind technology is being considered in Jordan. Regardless, specific design changes will be required from experienced reference plants to meet the regional and site specific demands e.g. seismic loading, cooling water temperature, outside air temperature, sandstorms and dust and change in the electrical frequency (Hz) - late design changes could impact construction schedule.

Sites

Many sites within the ME region offer coastal locations, some close to transmission networks and away from large populations. However, some areas require high seismic design considerations and may well be inland, bringing additional logistical and cooling challenges.t

Construction schedules

Many ME countries have similar target Commercial Operation Dates (COD) of around 2020, together with aggressive construction schedules, which may be impacted from late design changes, high demand on experienced construction numbers, application of higher than normal (nuclear) quality requirements within the nuclear island. The detailed schedules themselves will involve two hundred thousand lines of activity.

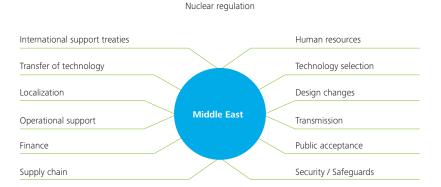
Construction complexity

The construction of the plant itself requires site investigation, earth works, off shore tunneling (on costal locations) and major on shore excavation involving the removal of millions of tons of sand. The region is difficult and the nuclear plant footprint is large. An efficient delivery and construction team will be critical to the program.

Nuclear New Build - Considerations

Project developers have taken a very sensible approach, recognized within the nuclear sector, in structuring their program in light of international (IAEA) requirements and selection of professional organizations and companies specific to needs of the task to be performed. We remain very optimistic that the ME region will be successful in its program and that Deloitte will be well placed to provide insight and support.

Chris Harrop Director Deloitte Consulting, UK



Site selection





"Stuck" - Cement industry can bind the GCC

One of the primary drivers and – not coincidentally, one of the market indicators in the GCC – is the cement industry. The regional cement industry is principally influenced by construction activity, which not surprisingly has witnessed declines following the global financial crisis. Similar to the stories of many other global industries, this has led to a drop in demand for cement, which coupled with excess production capacity, has caused significant price declines.

In addition to reduced revenues due to lower cement selling prices, cement producers have also had their profitability margins impacted by higher energy and fuel costs (notably coal). This has resulted in many cement producers in the region (especially those experiencing over capacity, such as the UAE) reporting net income losses.

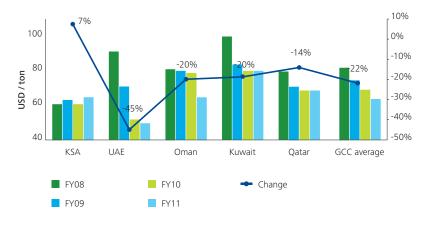
Trend in regional cement prices and cost of coal (4Q 2010 index = 100)



Source: International Monetary Fund, Global Investment House

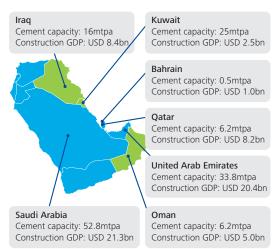
Regional snapshot

Price trends and change over the period (2008 – 2011)



Source: Global Investment House

Regional market snapshot



Source: Global Investment House, MEED, Deloitte analysis

Simply, there is a dire need to increase infrastructure to keep apace with the growing and increasingly urbanized populations

There is high disparity in price declines between countries in the GCC as a result of different factors:

UAE

The UAE led the construction boom in the GCC resulting in soaring cement prices and consumption between 2005 and 2008 leading to an expansion in cement capacity from c. 18mtpa in 2008 to c. 30mtpa at present. Sharp declines in the UAE construction industry resulted in a drop of over 45% in cement prices over the past three years with majority cement producers in the country unable to turn a profit at current depressed prices.

Oman

While Oman did not experience the sharp build up and drop in cement prices like the UAE, the country experienced declines in prices in 2011 mainly due to excess capacity exports to the country from the UAE. The country continues to import cement to fulfill domestic needs given infrastructure spending by the government. Pioneer Cement in the UAE was also the subject of a takeover by Raysut, Oman's largest cement producer by market value.

Saudi Arabia

Saudi Arabia is the only country in the GCC to witness increasing prices due to continued demand from large scale infrastructure projects. Nonetheless, as a regulated and subsidized market, prices are relatively lower in the region due to lower costs of production and higher capacity.

Kuwait

Kuwait experienced a decline in 2009 after being hit by the global financial crisis but prices have since remained stable as the country is a net importer of cement and is increasing infrastructure spending. The country has just two integrated cement players resulting in the country commanding the highest cement prices within the GCC.

Qatar

Qatar's prices have also recently stabilized and are expected to rise given infrastructure spending and the uplift from hosting the FIFA world cup in 2022. At present the company is a net importer of cement but momentum is building up with local and regional companies beginning to invest heavily in the construction industry.

What does this mean for the future?

The GCC region is on track for a recovery from the global crisis. Growth accelerated to 4.8% in 2010, mainly driven by increasing oil prices. For 2011, IMF projects a 7.8% growth in GDP for the GCC. Overall construction projects market size in the GCC region at the end of 2010 stood at USD 207bn. Saudi Arabia stood out with a 52% share (USD 107.4bn) followed by the UAE accounting for 21% (USD 43.2bn).

Cement remains a highly cyclical industry with global prices experiencing peaks and troughs over an eight to nine year cycle (although these have been becoming shorter in recent times).

Reinvestment has become the theme in the cement industry as producers seek to consolidate and target specific countries with the most potential. Investment is expected in net importing countries such as Kuwait, Qatar and Iraq which are struggling to keep up with demand while at the same time cement producers in countries such as UAE are seeking regional partnerships to tap into export markets to offset low consumption in the UAE. The key driver for growth is large scale infrastructure spending announced by regional governments following political unrest in the wider middle east and north African region.

In summary, the prospects for new construction awards in the GCC are positive. Growth rates in the GCC region remain high for the medium-term, both in terms of GDP and construction sector growth. With over USD 2.9tn of planned infrastructure projects announced by the GCC region's governments in the second quarter of 2011, many contractors are well positioned to benefit from the region's robust bidding pipeline.

Fawad Tariq-Khan Corporate Finance Advisory

The longer term outlook is that the Arab Spring has provided a shot in the arm and will positively influence infrastructure investment

Global historical cement prices

Source: US Geological Survey





Ghaz Shah



Ketan Bhoola

A dirham saved is a dirham earned - how proactive developers are effectively managing their contractor claims in the current financial environment

Are contractor claims part of a routine contractual process? A necessary business evil? Or are they a bane in the revival of a company looking to overcome its current financial problems? In the last few years, contractor claims have started being treated as the elephant in the room. We have heard claims being classified in many terms, some much worse than the ones noted here. Our experience assisting clients in the GCC with their claims and liability assessments made us conclude that helping our clients understand the claims lifecycle is a pivotal step in refining their strategic vision for revival. Our clients' net position after Investing time to generate one dirham of income is the same as saving one dirham of cost. The exam question then becomes this: what really is holding back developers from dealing proactively with their claims?

Fear of the truth?

The finance professionals we routinely deal with are not shy about indicating that having to deal with claims meant that an even riskier picture might emerge than the one being reported. As a result of the economic crisis, the majority of the commercial response has been to focus on resources devoted to income generating sources rather than having to deal with claims from contractors. The reality is whether you earn one dirham or save one dirham, your net position will still improve by the same degree.

With the financial crunch being faced by both sides, and the gap between collections and commitments widening, most contractors became willing to settle at a few cents on the dollar just so they can meet their own commitments. Cash has always been King but now became more of a precious and extremely rare commodity. In some instances this has resulted in developers once again reacting quickly and rushing to settle claims without proper/detailed assessments that have resulted in overpayments, and worse sometimes without any detailed planning or analysis on whether sufficient cash was even coming in to pay off the settlements being negotiated! Hindsight is 20/20 but anyone with a Finance 101 degree can predict that this will not end well. True enough, no sooner were agreements signed and MOUs finalized, developers started defaulting on their agreements. But this time, the signed MOUs were enough to demonstrate that the developer had admitted the amount of liability which could be upheld in any court of law.

So how can proactive managers and developers go about ensuring they could avoid being in such a predicament? By admitting their limitations – only when one admits they have a problem can there be a solution. By realizing they had lost a deep rooted knowledge base through poor contract administration or governance, further challenged by the fact that the staff that had remained was not sufficient or technically competent to identify to upper management in a timely manner the barrage of problems brewing silently. They also realized they needed expert help in not only understanding the situation, but guiding them through a potential financial storm. And the first lesson we provided our clients with was a deeper understanding of the claims lifecycle process which allowed our clients to not only understand what had transpired, but their strategy around what they could expect going forward.

Claims lifecycle

Like any liability, the evolution of a contractor's claim can be attributed to various stages which in turn form the lifecycle the claim can potentially undertake. From an accrual to becoming an accounts payable, the journey each claim takes can vary, but the stages will hold true for the majority of claims. Within the construction industry, the amount of documentation relating to submissions and assessments will eventually determine which of the following seven stages a claim currently falls under:

- Stage 1 Submission: The act of the claim being submitted by the contractor
- Stage 2 Assessment: The claim is assessed by the site Engineer, Project Manager, and/or the Developer.
- Stage 3 –Talks: Initial talks with the contractor are initiated to determine accuracy of the claim and set the stage for negotiations to follow.
- Stage 4 Availability of Cash: How detailed and reliable is the company's cash inflow analysis?
- Stage 5 Negotiations: Formal and informal Negotiations for settling the claim are commenced.
- Stage 6 Settlements: Assuming negotiations are successful, settlement agreements are formally agreed and signed.
- Stage 7 Monitoring: Are the settlement plans being monitored?

At this point the possibility of a claim going into dispute or litigation is not being considered from a commercial perspective.

We have also purposefully ignored the vital starting point of how a claim is created, prepared, and finalized before being submitted to a developer. This is a detailed and technical topic by itself and something we believe requires to be discussed separately. For the purposes of this article, we have only focused on what transpires once a claim is submitted to a developer.

The act of submitting a claim (and receiving it) are rocked with their own complications

Stage 1: Submitting a claim – Is it really that simple?

As any person familiar with claims will tell you, the act of submitting a claim (and receiving it) are rocked with their own complications. Some of the more key points to consider are:

· How was the claim submitted?

From documented binders, letters, or faxes, a claim can be submitted in any and every way possible. Our experience has shown numerous instances where a claim that was not clearly marked, gathered dust as normal mail or on someone's desk until it was subsequently identified.

Has the claim been received by the appropriate parties?

More often than not, a claim is dropped off at the project site and a copy of the claim is not submitted to the developer as it may not be required by the terms of the contract. In numerous instances, the claim is rejected in its entirety by the site engineer or project manager without any intimation to the developer. If the engineer or project manager is subsequently terminated by the developer, the developer will only become aware of these claims at the time of project close-out or restart

· Is the claim complete?

Has an assessment of the completeness of the claim documentation being submitted been conducted by the developer or its representatives? The mass redundancies in light of the aftermath of the 2008 financial crisis exacerbated the problem of having technically sound and competent people with the knowledge base to deal with claims

· How are claims organized?

How adept is the documentation control system? How robust is the claims register being maintained? The answer to this usually goes back to how proactive a developer is in dealing with its claims.

· Quantification?

Regardless of whether it is the quantification of the individual claim being submitted by a contractor, or the quantification of all collective/potential claims received by a developer, accuracy and completeness has generally been found wanting.

Similarly, when we asked the simple question to the upper management of numerous developers of their estimate of how much it would cost them to settle ALL their claims, there was typically no response. The reason; mainly because they were either focusing only on their top contractor claims, or lacked a (complete) claims register.

Stage 2: Assessing a claim - How was it assessed? Was it even assessed?

The mass redundancies in light of the aftermath of the 2008 financial crisis exacerbated the problem of having technically sound and competent people with the

knowledge base to deal with claims. Developers suddenly found themselves with fewer competent staff able to deal with technically assessing the validity and quantification of the high volume of claims being submitted. Proactive developers needed to address the questions below before formulating their strategy going forward:

- Competency of staff? Have you lost most of the knowledge base familiar with the project and its variations? Are they even competent in technically assessing a claims merits and quantifying it accordingly?
- Were any discussions conducted by the developer's staff with Engineers or the Project Manager? Is the staff even aware of any assessments made by the engineers or project managers prior to being terminated?
- Is upper management aware of the time lag between the submission of the claim and the first proper assessment of the claim being made?
- Is it purely a claim submission or does the submission also include value of works done?

Stage 3: Talking to the contractor - Have discussions with the other parties been initiated?

A simple process of keeping the line of communication open with all parties involved is critical in ensuring the claim is settled amicably, quickly and quietly. Developers need to keep their staff focused on addressing the following questions so as to ensure parties involved are comfortable that their concerns are being addressed.

- How conducive is the environment for talks? Have you reached out to other parties to initiate the process and indicate that lines of communication are open?
- Are you speaking to someone with authority?

Cash strapped parties are looking to settle for way less than the amount submitted as they have their own commitments they need to honor. But does that mean developers should be settling for a few cents on the dollar without fully understanding their positions?



Stage 4: Involving your Finance department what finances are available for payment plans and settlements?

Working with companies through the financial crisis, one of the most bizarre yet key detrimental findings observed was the fact that internal departments were not sharing information between them and functioned as very fractured and overly complex and administrative operationally. For any developer to maneuver themselves successfully through this financial storm, their commercial/contracts and finance departments should be working hand in hand to address the following questions for upper management:

- Can current or potential financing sources/collections be easily identified?
- How detailed are the company's cash flow analysis?
- Do they take into account the current market analysis of customer collections?
- Are customers even classified in different tiers based on their probability to pay for the properties?
- How accurate is the company's business plan? Has it been reviewed/critiqued by an independent professional firm?
- Does your staggered cash flow allow you to even make the commitments you are intending to negotiate for an easy (discounted) settlement?

Trying to settle guickly without having detailed input from the finance department can lead to an even bigger problem down the road. Getting professionals involved earlier on can help mitigate many issues the developer might face down the road as they know what to expect and be mindful of

For any developer to maneuver themselves successfully through this financial storm, their commercial/contracts and finance departments should be working hand in hand

Stage 5: Negotiating with concerned parties can detailed negotiations commence? Have you done your homework before even sitting down to negotiate?

There is a misconception that the art of negotiating is dependent upon how good the developer's staff is in bringing down the settlement number. On the contrary, the real challenge stems from the fact of how well prepared the developer's negotiating team is even before sitting down to negotiate. If they have correctly addressed the questions within stages 1 through 4 above, they should be in better shape to evaluate the position of all concerned parties.

- How receptive are the other parties?
- · Will an independent third party be more conducive for certain negotiations? Might an independent assessment be more beneficial for the negotiation especially when it comes to larger claims?
- Do you have a specialized negotiation department? If not, who handles negotiations?

The need for getting experts involved as early as possible will always result in a positive yield for the developer

- Is the finance department actively involved in the negotiation process? Is the legal department?
- Are all the relevant internal departments working cohesively to achieve the most optimal beneficial result for all concerned parties and the developer?
- · How involved is senior management? What is the frequency and detail of reporting to them on the status/options being negotiated?
- · How quickly can senior management's input/suggestions be included within the negotiation process?

The key message we keep reiterating to our clients is not to make settlements for the sake of making settlements especially in an environment when other parties may be prone on settling for a lower amount as long as it means access to cash now for them. This is a slippery slope and without proper planning, detailed ground work, and involvement at all levels, this may lead to a substantially bigger payout down the road.

Stage 6: Settling the claim - How amicably can (working) settlements be reached?

Developers should also be cognizant of the following additional key considerations so as to be fully prepared and demonstrate their commitment during this highly sensitive and critical stage:

- How actively involved is the developers legal department during this process?
- Is there a plan in place? Is there a plan B in place?
- Form of settlement being considered? MOU or other forms of settlement?

Experts can play an important role in helping developers maneuver this tricky path where any errors prove to be more costly with the passage of time. The need for getting experts involved as early as possible will always result in a positive yield for the developer, no matter how the cost-benefit analysis is run!

Stage 7: Monitoring the settlement – are the terms of the settlement being acted upon?

Congratulations. You have managed to settle your claim and, if you followed the steps mentioned earlier, you probably were able to negotiate at a discounted amount agreed and beneficial to both parties. But does it end here? As any financial advisor will tell you, the real hard work begins now! All the hard work done up to this point might be meaningless if relations are not maintained once a settlement is reached/signed. Adhering to the terms of the settlement need to not only be followed but also actively monitored to ensure terms are not breached. We have advised our clients to be aware of certain key considerations during this stage:

- Is there a threat you might fail to honor the terms of the agreed settlement?
- Are the settlement terms being actively/routinely monitored to ensure they aren't being breached?
- Who is responsible for monitoring? Has this responsibility even been delegated to a department or officer?
- What mitigating factors have been put in place to avoid such instances?

- What mitigating factors have been established to handle relevant parties in case a breach occurs? How involved is the legal department in helping monitor breach of contracts?
- How timely is senior management apprised of how settlements are being acted upon? Is this something that is even reported to senior management?

More often than not when we are asked to help our clients evaluate their financial condition, we have observed that once a settlement is signed, it is as if it is almost forgotten! On one such example, our independent review to senior management identified that the developer was defaulting on almost 85% of all the agreements we reviewed, some of them with quite substantial penalties upon breach. As you can imagine, this was an eye opener for senior management who, until our review, had been informed by their contract managers that everything was going according to plan, even though the financial department may have been managing their operational cash flow. Even at the risk of offending the developer's project managers, we knew the importance of emphasizing to our client how critical this stage of the claims lifecycle is by identifying risks that weren't even on their radar! Experts know where to look and are used by proactive developers to provide their senior management with the true picture, the picture their internal departments may be afraid to provide.

What happens when all else fails?

Developers find themselves often in a situation where. having failed to address the questions above, they are faced with the reality of having to go to formal dispute resolution or arbitration. Commercially speaking, arbitrations are by and far a lose-lose situation for all

On one such example, our independent review to senior management identified that the developer was defaulting on almost 85% of all the agreements we reviewed

parties concerned. For example, by the time a claim is submitted, statement of claim filed, experts brought on board, analysis conducted, preparation for hearing and the hearing itself, and awaiting a decision, legal and technical costs incurred, combined with the potential uncertainty of the award and subsequent enforcement and taking the attention of management's time - a simple NPV analysis will demonstrate that a reduced starting position resulting in a quicker agreement for resolution is more sound commercially.

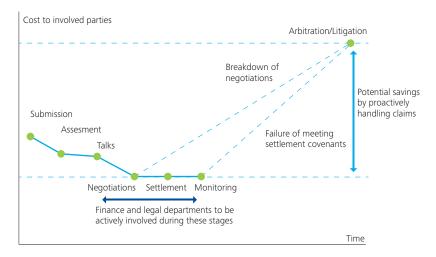
Seek expert advice and seek it early

The value of soliciting expert advice as early as possible can help developers get a head start in proactively dealing with their claims and how they should be handled. The following chart (developed by Deloitte) demonstrates how the various stages of the claims lifecycle impact not only the cost of dealing with claims at different stages of their life cycle, but also the time, energy, and resources required if the claim is not handled in a professional/proactive manner.

Our experience has shown that most of our clients were not aware of the actual cost and time it requires to prepare for arbitration

As the chart demonstrates, asking the right questions at each stage of the claims lifecycle allows developers the opportunity to proactively settle their claims amicably, timely, and at an amount beneficial to both parties. The more delays occur, or parties fail to engage one another, the cost of settling the claim keeps on increasing to where the environment becomes more hostile and the

The claims lifecycle



cost of settling the claim is substantially higher. We have advised our clients to avoid such a situation at all costs, helped them ask the right questions at each stage of the claims lifecycle, address fears of the truth, and when all else fails, help them be better prepared for what to expect during arbitration/litigation.

Actual costs of arbitration/litigation

Our experience has shown that most of our clients were not aware of the actual cost and time it requires to prepare for arbitration, let alone the actual act of going to arbitration. A simple review of our client's document retention and documentation management systems is sufficient to demonstrate their lack of 'arbitration readiness'. We have found that it is imperative to emphasize that each argument in court needs to be backed by documentation i.e. what can be proved with tangible evidence. Simple questions like the ones noted below have never been asked, let alone addressed:

- Have detailed assessments been conducted? How can this be demonstrated?
- What is the caliber of the people doing these assessments?
- · Have these assessments been documented, and if so, can they be found?
- Have these assessments been independently verified?
- How complete is the documentation to back-up any arguments for inefficiencies or unapproved variations, delays etc., on part of the contractor? Can they even be located?
- Has the company conducted an internal financial assessment to determine whether it can even pay for the costs of a prolonged arbitration?

Optimistic conclusion

Besides all the pundits doom and gloom prophecies for Dubai and the GCC region in general, our experience assisting our clients makes us quite optimistic of the future. Having worked with proactive developers, contractors and companies within the GCC region, we realize that most astute senior management are aware that they can't do it alone. They realize they need expert financial advice when it comes to the built environment, their business plans, having independent assessments of the cost to complete analysis for their major developments, getting an accurate handle on not only the quantum of their projects liabilities but also how timely and accurately they are being reported, assistance with handling their claims with not just simple basic assessments but also how they impact their business plan, project liabilities and estimates of cost to complete, etc. We have provided all these services to major developers, contractors and companies within the GCC region who were proactive enough to admit their limitations and seek expert advice earlier on. These companies are now not only better positioned to handle their current situation, but are aware of what to expect going forward, and have become sufficiently financially stable to even start considering investments! And a simple understanding of the various stages of a claims lifecycle is a start.

In short, our view upon observing these proactive companies is that they will continue to weather the current storm, become financially stable, and will be better positioned to emerge as champions/pioneers to capitalize on the revival when it returns to the GCC region.

Ghaz Shah and Ketan Bhoola Capital Projects Advisory

Having worked with proactive developers, contractors and companies within the GCC region, we realize that most astute senior management are aware that they can't do it alone



Rebound



Where is the exit?

We have seen many developers, at corporate and at shareholder / investor level, consider and revise their medium to long term corporate strategies as a result of the much maligned impact of the global financial crisis on the Gulf Cooperation Council ("GCC") real estate and construction industries. We have also seen major restructuring exercises in the GCC region over the last couple of years, notably Dubai World, which have prompted developers to evaluate their exit strategies at a project and at a corporate level. Regardless of the aim of these strategies, from increasing liquidity to managing overall corporate risk, developers are now forced to consider various exit strategies.

Exit options for a developer of a capital project Residential and commercial property prices in the GCC have fallen by an average of 40 to 60 percent in some markets, and combined with liquidity drying up in the

region, many capital projects have been put on hold, delayed or cancelled. The total value of cancelled projects in the UAE reached USD170 bn in 2011, up 13 percent since July last year, according to a Citi Group's Mena Construction report. Citi's Mena construction project tracker reveals "The UAE accounts for 56 percent of total cancelled and delayed projects for the main markets. Unsurprisingly, cancellations in the UAE relate predominantly to real estate."

Saudi Arabia, the largest construction market in MENA with USD630 bn of projects planned and underway, recorded a project pipeline drop of nine per cent to USD200bn. These market conditions have led developers to revisit their project strategies, and we have seen many developers consider the following strategies for troubled projects:

- Continue to develop the asset with minimal effort and cost, with the intention to enhance value in the long term (Option 1); or
- Liquidate or conduct a fire sale of the assets (Option 2).



The implications of each are considered below:

Option 1

- If the developer chooses to initiate minimum development, there will be a need to closely manage the following areas:
- Project cost to complete assessment;
- Assessment of current liabilities and impact of unwinding on operating cashflows;
- General and administration cost management / reduction;
- Review of sales collections;
- · Valuation of residual land bank; and
- Assessment of current financing structure and net funding to complete the project.
- The developer will need to assess all these factors together to develop an optimal strategy that will preserve cashflows and enhance asset value in the long term.

Option 2

- Liquidation or a fire sale of the assets is likely to be the "last resort" for a developer, however, the option will typically involve the following:
 - Wind down of project operations;
 - Assess how claims and liabilities will be funded through liquidation of assets; and
 - An assessment of the current liabilities of the business, which may include a detailed review of:
 - Current payables certified and invoiced;
 - Uncertified payables; and
 - Potential claims.



Implications

- The potential implications of this strategy are:
- · Appreciating land value;
- Typically allows for financial obligation to be met materially, with potential to meet full obligations depending on future market conditions;
- Achieve a higher sales value for raw land surrounding development area;
- Establishes market credibility and confidence;
- Removes "distressed seller" perception;
- Positive financial impact on profit and long term cashflows; and
- Open doors to other financial exit options that are not currently available.

Implications

- The typical implications of a liquidation are:
- Results in loss of investment;
- Immediate cash release to fund working capital / funding requirements and ongoing operations of company;
- Risk that a fire sale may be unable to meet financial obligations;
- Land and project severely undervalued by market as developer currently viewed as a "distressed seller";
- May cause reputational damage; and
- Negatively affects surrounding comparable properties.

The fact is, right now might not be the right time to sell

Exit options for a shareholder / investor of a developer or a construction business

Often a shareholder's investment appetite changes as a result of shocks to the economy or an industry. Some may simply have a desire to dispose of capital intensive and risky investments, or there may be a need to free up liquidity.

Times like these make it even more important – the fact is, right now might not be the right time to sell. Most construction companies did not have a good year last year, which translates to a buyer who will look to pay a price based on a multiple of those depressed earnings from last year, even though the company could turn around tomorrow, and begin making earnings consistent with historical profits.

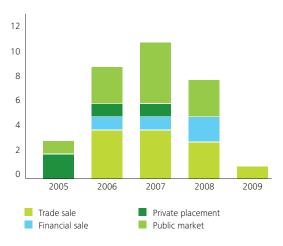
However, there are typical exit strategies open to a shareholder of a construction business or a developer, which in reality are not different to any other business. Exit options available to a shareholder include:

- Trade and financial sales;
- · Private placements; and
- Initial public offering ("IPO").

The chart below details the number of exits by type in the GCC from 2005 to 2009. Trade sales and IPOs were the most common exit paths over the past five years in the GCC.

During 2005 to 2009, twelve IPOs and trade sales were executed in the GCC, according to Zawya's PE Monitor, however, trade sales dominated in terms of value during the same period (USD2.8 bn)

Number of exits in the MENA region during 2005 to 2009



Source: Public information and Zawya PE Monitor

Since a majority of the businesses in the MENA region are family-owned, most of the historical investments represent minority stakes. In fact, traditional buyouts with outright control are few and far between.

Based on our experience, the major challenge posed to long and established family owned businesses in the region will be to rebalance the ownership structures to compete in the open markets.

However, Trade / financial sales typically offer the following benefits:

- · Relatively quick process compared to an IPO;
- Offers the vendor an opportunity to negotiate price with potential buyers;
- Less risk of price volatility;
- Fewer obstacles to overcome e.g. listing regulatory requirements; and
- If the business is in a distressed state, PE opportunities may be a viable option.

Private Placements have the benefit of offering a shareholder:

- An exit opportunity on their investment; or
- An opportunity to engage with a strategic partner in the development of the business (assuming the shareholder decides against exiting).

Private placements can be organized through raising shares or bonds to selected investors, and some of the benefits of private placements include:

- Highly flexible with regards to the targeted amount to be raised;
- Ability to determine the type and nature of investors and choose suitable ones whose vision matches with the company;
- Fostering continuous growth of the company without affecting its liquidity or sustaining other financial
- Relatively quick process compared to an IPO.

Some businesses are prone for an IPO, especially mature ones with the capacity of paying regular dividends while others have a longer growth trajectory.

Capital raising / IPO activity in the MENA region peaked during 2004 to 2008, while recent activity has plummeted. Volumes remained depressed in 2009 and 2010 as risk appetite dried up for other emerging markets. In fact, the USD2.5 bn of new listings in 2009 represents only 16-17% of the IPO volume at the peak of the market. In 2010, the average IPO raised USD115 million compared to USD360m-USD470m at the peak of the market. Importantly, the average capital-raise in 2010 was smaller than in any period over the past seven years.

The residential property sector is, however, expected to do well for the forseeable future, rooted primarily in the fact that there is strong demand for housing from Kuwaiti nationals

In 2012, listing activity appears to be picking up -Construction Products Holding Co (CPC), Saudi Arabia's largest manufacturer of building materials and a unit of Binladin Group, is planning an IPO. We are also seeing other construction companies, particularly in Saudi Arabia, exploring strategic routes with an IPO high on their list.

Although the pipeline of companies looking to list on the Tadawul exchange (and other GCC exchanges) is said to be sizeable, unfavorable market conditions have meant that the number of IPOs launching has been limited.

Therefore, as developers look at exit options, equity markets will remain a popular source of funding for companies, given the nascent bond markets and a slowdown in bank lending. This is likely to draw a number of large private companies to list as they look to fund expansion plans, but timing – as it is for all businesses - will be key.

Rajeev Patel Capital Projects Advisory



Kuwait – gaps for optimism

During the early 2000s Kuwait's real estate sector experienced phenomenal growth on the back of high oil revenues and a robust economy. Restructuring exercises by the companies in attempts to de-lever their balance sheets have faced challenges from the absence of liquidity and depressed prices in the real estate markets. Future optimism is rooted in gaps resulting from a shortage of residential property which continues to experience buoyant demand from both Kuwaiti nationals and expats, and an infrastructure gap being filled by massive government infrastructure investment through the Kuwait Development Plan.

The construction and real estate sector as a percentage of GDP steadily declined between 2007 and 2009. This decline can be attributed to delayed government investment and the financial crisis of 2008 which had a huge impact on the sector. Key features which negatively impacted companies in the real estate sector were: huge accumulated debt, limited bank lending, declining asset prices and regulatory constraints in trading residential property.

The outlook, however, is far more promising for the future. BMI forecasted real estate sector growth of 2.5% in 2011 in real terms. This optimism is fueled by anticipated growth in residential property which continues to experience buoyant demand from both Kuwaiti nationals and expats and government infrastructure investment through the Kuwait Development Plan. Access to capital has been eased as banks have resumed lending albeit on a stricter basis. Government has also played a part in lowering tender guarantees and increasing upfront payments to contractors for public construction projects.

Residential

The supply of residential property is essentially controlled by government. The Kuwaiti government owns the majority of the land and releases small tracts for development infrequently. KFH estimates that only 3%-7% of Kuwait's total land mass is developed. In 2008 the government passed a law which restricted shareholding companies and establishments from buying, selling or mortgaging residential properties. A further law enacted pressured companies to dispose of their residential real estate investments within a threeyear timeframe. The reasoning for these laws was to curb inflationary pressures and dampen the exponential growth in property prices.

Property developers have been unanimous in their criticism of these laws. Questions have been raised about the effectiveness of the legislation dampening inflationary pressures. It has been argued that government's restricted supply has actually caused an increase in prices as the strong demand could not be met. Actual evidence has showed otherwise – according to the Kuwait Financial Center, in 2009, some suburbs closer to Kuwait City experienced a price drop of 20-30% whilst some others further from Kuwait City experienced a 50% drop in prices.

The residential property sector is, however, expected to do well for the forseeable future, rooted primarily in the fact that there is strong demand for housing from Kuwaiti nationals. This demand stems from the legislated right of every Kuwaiti citizen to a house. There are no signs of this demand tapering off in the medium term as the Kuwaiti population is relatively young with well over 70 percent under the age of 40. The Public Authority for Housing Welfare, which is the government department tasked with providing housing to Kuwaitis, has over 90,000 applications to process currently. According to Global Investment House, the residential demand is worth a minimum of KD10.4bn.

Government has also taken steps in the recent past to ease supply of residential developments by targeting the building of 70,000 homes by 2015 and releasing additional land for private sector development. According to NBK Capital, 215 loans equating to KD10.7m were approved by Savings and Credit Bank in July 2011. This provides a strong indication of demand activity and investment in the residential market.

Commercial

The last five years has seen significant institutional investment in office and retail projects. This was spurred by the economic boom leading up to 2007 and easy access to capital markets during this time. Estimates of additional +500,000 sq meters in office space are expected to come to market in the near future. The effects of this huge supply are already being felt as office rentals have decreased from KD12-13 per sq meter to around KD7-8 per sq meter for offices in the city. The lower rental yields have been impacting operational cash flows of investors. To counter the financial strain of the large real estate players, Kuwait Investment Authority has announced plans to inject KD1bn into the commercial property sector. This injection is likely to help companies repay their banks borrowings rather than spur further build in this segment. This segment is likely to remain unattractive until economic activity improves translating to real demand for space.

Infrastructure

Among the GCC states, Kuwait infrastructure investment as a percentage of GDP has been the lowest to date. Government's plan to diversify and encourage non-oil sector growth has had parliament approve the Kuwait Development Plan, which is a four year KD37bn infrastructure investment plan. The investments cover various sectors including power, water, transport (roads and a metro system), housing, and healthcare. The Partnerships Technical Bureau is mandated to manage the bidding process for build-own-operate-

To counter the financial strain of the large real estate players, Kuwait Investment Authority has announced plans to inject KD 1bn into the commercial property sector

transfer (BOT) and public private partnership (PPP) schemes and help boost private sector involvement in infrastructure projects. The private sector is primed to play the lead role in developing the Kuwait urban metro; electricity generation projects; the tourism development at Failaka Island, the redevelopment of Kuwait airport, Post office project and establishing mixed use areas like Silk City, etc. The downside risk to the construction industry is the delay in implementing the plan as has occurred with previous projects in the past.

Conclusion

While the market has gone through a phase of restructuring exercises and realignment, the oil and gas driven industry will support the funding gap resulting from committed major infrastructure programs and a need for housing and social infrastructure for nationals. This will create a positive gap for optimism for those who are involved in the Kuwaiti construction market.

Ashraf Dada Corporate Finance Advisory, Kuwait

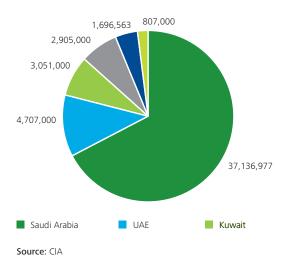


Saudi Arabia – the giant awakens

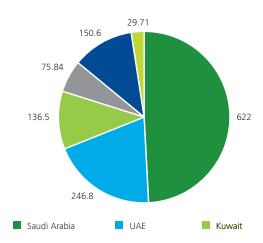
In 2010, the Government approved a five-year SAR 1.44 trillion (USD384 bn) development plan to develop human resources, education, housing and transportation infrastructure as the kingdom seeks faster economic growth, continued diversification of its economy away from hydrocarbons, and to create jobs and social development. It is the biggest investment package announced by any of the G20 nations as a percentage of GDP, and for many involved in the GCC construction sector, this can be a massive windfall for their continued success in the largest economy in the GCC.

The Kingdom of Saudi Arabia (KSA) is by far the largest economy in the GCC. Its 27m population makes up c. 70 percent of the overall GCC population, its USD622 bn GDP is almost half of the overall GCC GDP. It is the largest oil exporter in the world and holds about 20 percent of the world's proven reserves.

GCC population



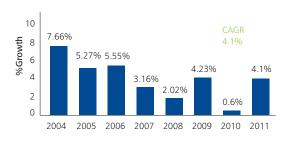
GCC GDP



Source: CIA

On the back of strong oil prices, KSA has shown very impressive compound GDP growth in the last seven years (averaging about 4.1 percent) which is expected to continue in the coming years. IMF has estimated growth of 6.5 percent whilst some local experts have put the figure at almost 7.5 percent. Furthermore, to ensure a more resilient and sustainable economy, it has made a concerted effort to diversify its economy away from oil (which now comprises less than half of the overall national GDP).

GDP Growth Saudi Arabia

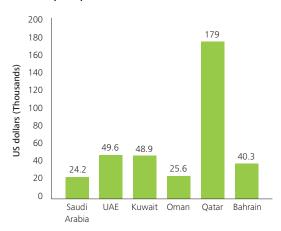


Source: Trading economics

Main Infrastructure Investments

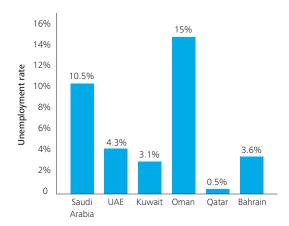
However, in terms of GDP per capita, KSA has the lowest in the GCC region. It also has one of the highest unemployment rates of almost 10.5 percent.

GCC GDP per capita



Source: Riskandforecast

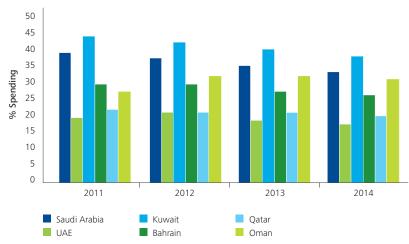
GCC unemployment



Source: CIA

The Government has recognized these challenges and has initiated massive investments since. In 2010, the Government approved a five-year SAR 1.44 trillion (USD384 bn) development plan to develop human resources, education, housing and transportation infrastructure as the kingdom seeks faster economic growth, continued diversification of its economy away from hydrocarbons, and to create jobs and social development. It is the biggest investment package announced by any of the G20 nations as a percentage of GDP.

Government spending in the GCC



Source: IMF

The Government plans to increase the schooling capacity to 5.3 million, university capacity to 1.7 million students by 2014, build 25 new technology colleges and 50 vocational schools during the five-year period. Also, the government plans to construct 1 million houses by the end of 2014 at a cost of SAR 250bn, and raise the mortgage value provided to nationals by the country's

Real Estate Development Fund to SAR500,000 from SAR 300,000. King Abdullah announced in 2011 a series of large scale affordable housing schemes and economic support valued at up to USD130 bn. A breakdown of the overall investment package is shown below:

Development Sector	Allocations (USD Bns)	Share (%)
Human Resources	195	50.6
Social and Health	73	19
Economic Resources	60.7	15.7
Transportation and Communication	29.6	7.7
Municipal and Housing Services	26.8	7
Total Expenditure	385.1	100

Furthermore in an effort to provide KSA's entire population with integrated and comprehensive healthcare, the Five-Year Plan allocates USD73 bn (SR273.9 bn) to various initiatives. Measures include the construction of 117 hospitals, 750 primary healthcare centers, and 400 emergency centers.

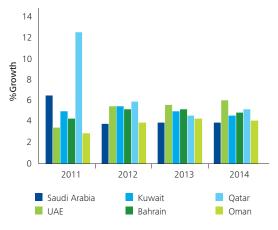
The Government's investments in the transportation sector are already underway. The Kingdom is investing more than SAR 46bn (USD12.3bn) to overhaul its three international airports in Riyadh, Jeddah and Dammam until 2020 and plans to turn these airports into economic hubs . The General Authority for Civil Aviation has also pledged improvements to another 31 airports.

With regards to railways, the country is constructing a USD6 bn Haramain High Speed Rail link in addition to the USD5.3bn 2, North South Railway which is scheduled to become operational this year. The Landbridge project estimated at USD7bn is also planned and a procurement approach expected to be announced shortly.

The government has also announced a SR2.3 bn (USD613 million) package for all the nine ports including significant enhancements at the largest KSA port, Jeddah Islamic Port (JIP), on the Red Sea.

Main infrastructure investments effect of development and government spending

GCC forcasted Real GDP Growth



Source: Economy watch

The construction industry is expected to be at the forefront of the capital programs and will benefit significantly in the short term from the large scale investments. The relaxation of home financing and economic support will also see large private sector housing initiatives.

The multiplier effect of these programs should result in stimulating growth in the wider construction materials, machineries, utilities and related services as well as retail opportunities. Indeed, already a number of private sector projects have been announced – the most notable one being the 'Kingdom Tower'- planned to be the tallest building in the world.



The strategic investments in long term infrastructure should improve KSA's economic competitiveness in the medium to long term. This should create new industries and new economic hubs adding to the opportunities for the construction and maintenance industries over a much longer period.

Opportunities for international contractors

Although KSA has some of the largest contractors in the region as well as the largest banks and funds, the scale and depth of the investments means the local contractors are unlikely to have the capacity or expertise to meet the demand.

This provides significant opportunities for international contractors. Furthermore, contractors that were recently focused on markets such as the UAE, Europe and elsewhere now have the capacity to focus on the KSA market. Indeed, already a variety of new companies has entered the KSA market ranging from GCC and MENA contractors to US and European contractors as well as Chinese and other Asian contractors. It remains and will continue to be one of the key markets for contactors in the world.

Challenges

The immediate challenge that KSA faces is how to implement the various capital investment programs and to ensure efficient delivery whilst containing inflationary pressures. The low global demand for construction products together with foreign companies shifting focus to countries such as KSA should provide some buffer against inflationary pressures.

The medium term challenge for KSA remains the price of oil. KSA remains highly dependent on oil revenues in spite of its diversification efforts. In the medium to the long term the international price of oil coupled with KSA's own demand for oil will put pressure on budgets. Planning and funding of the ongoing operating and maintenance costs could therefore come under pressure. This will create opportunities for quality FM contractors which provide specialized and efficient lifecycle maintenance solutions.

The immediate challenge that KSA faces is how to implement the various capital investment programs and to ensure efficient delivery whilst containing inflationary pressures

Summary

The KSA market is by far the biggest in the GCC – both in terms of population and GDP. The Government, on the back of high oil revenues, is undertaking massive investments (almost USD400bn in five years). These include building schools, hospitals, universities, houses, airport expansions, new railway infrastructure and road improvements. The investments are also expected to lead to a private sector boom. The construction market is therefore expected to be one of the most buoyant in the world.

Greater integration across the Kingdom will promote economic stability, job growth and ultimately benefit the real estate markets in KSA. Progress in the real estate sector reflects long term growth potential for KSA's economy. New demand drivers, for example, the improvement of transportation systems and infrastructure projects, will create investment opportunities and increase the connectivity and attractiveness of the market.

Although local Saudi contractors are some of the largest in the region, given the size and range of projects planned in the next few years, there remain significant opportunities for international contractors to enter the market.

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