




thinking
— Business

NOVEMBER 2016



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Welcome to Thinking Business where we aim to share our expertise and ideas to support growth and sustainability for our client's businesses and the economies in which they operate.

In this edition, our Middle East lawyers talk about the big issues they are speaking to clients about and the changing face of the region's economies. The GCC is going through a period of economic transformation and businesses will need to adapt to a new reality.

In this issue, we cover:

- Family businesses – family businesses account for the vast majority of business in the GCC, but face a range of issues, from corporate governance to succession-planning and increased competition.
- Using capital – we ask how well set-up the GCC territories are to onboard foreign capital, and touch on some of the key issues around investment facing government and business alike.
- Public-Private Partnerships – co-operation between government and business is going to be vital in order to achieve the ambitious economic targets set in each GCC state. PPP is one model being talked about and we look at some of the challenges and opportunities presented by it.
- Urban development – property continues to be a key driver for economic growth across the region. We examine how a more strategic approach to development can create modern well-planned cities.
- Key worker housing – the new service economies of the GCC require more and more workers, in areas like hospitality and retail. We look at how governments and developers are tackling the challenge of housing those employees.

We hope you will enjoy reading this, and please get in touch with any of us directly at thinkingbusiness@towers.com with any questions or comments, and follow us on twitter @Towers.

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GCC investment report card: B+, maturing

If the GCC were taking home its report card on the climate for investors, it would be showing a pretty good grade right now - not perfect, but maturing nicely.

The UAE - destination for about a third of the Foreign Direct Investment (FDI) in the region (US\$10bn in 2015) - ranked 12th out of 143 countries in the World Economic Forum's Global Competitiveness Index in 2014-15, up seven places from the previous year. The World Bank's Ease Of Doing Business report, published in 2015, meanwhile ranked it 22nd out of 189 countries surveyed, up one place on the year before.

"This very much mirrors what we're seeing on the ground in the region," says Bill Jefferies, head of corporate for Trowers & Hamlins' international practice, based in their Dubai office. "A number of factors are improving the investment outlook, including the development of legal and regulatory frameworks for governance which are moving the whole region towards international standards".

But Jefferies is keen to point out that FDI is only part of the equation as regards where locally deployed capital is coming from. Most is accounted for by local businesses - 90% family-owned - and by government, both directly and by application of their various sovereign wealth funds.

"The fragility of many international markets, particularly in Europe, and the suppressed oil price has led to many governments bringing sovereign wealth back into the region, to make up for budgetary shortfalls, and invest," he says.

Much of capital has been flowing into social infrastructure - health, education, housing - both as a result of market need driven by young, growing populations, and the increasing sophistication of local economies.



The GCC built a lot of their heavy infrastructure - roads, bridges, tunnels, power and water plants - the kind of things you need to support a petro-economy, years ago," Jefferies explains. **"These recent developments in social infrastructure are a sign that the region is maturing."**

The UAE in particular is becoming an extra-regional hub, a destination not just for tourism, but health and education for the rapidly developing economies of South Asia and Africa. Trowers is currently working on a deal to bring a US\$30m proton beam system used to treat cancer to Abu Dhabi, transforming an existing cancer treatment

centre into a world class facility, while insurers are seeing the private health market as very attractive. "The region's governments have a vision to diversify away from oil & gas, and investment in social infrastructure will allow them to do that," Jefferies adds.

Elsewhere in the GCC, things are less clear-cut. Nick Green, corporate partner in Trowers' Bahrain office, notes that the Kingdom has something of an image problem.

"Bahrain has for a long time been the most socially liberal of the GCC States and financial services hub," he says, "but in recent times it is probably fair to say it has faced more challenges than other GCC countries. Overcoming that lingering perception and demonstrating that it is open for business is quite a challenge in the context of some negative media spin. This is a small country, and the West sees its geographic proximity to Saudi Arabia (the two are connected by the 24km King Fahd causeway, which was financed by Saudi Arabia) and assumes Bahrain is overshadowed by Saudi. Frequently overlooking the new growth story and a potentially excellent investment environment, it sometimes feels like the world's media are still reporting on a more negative chapter of Bahrain's past."



Bahrain rates 18th in the world in terms of economic freedom, according to the Heritage Foundation/Wall Street Journal Index of Economic Freedom (2016), just above Finland and Japan, and ahead of the UAE, which ranks 25th (the UK is tenth, by way of comparison). Interestingly, it also remains the most highly-rated destination for expats in the entire Middle East, ranking in HSBC's top 5 worldwide in its annual survey and the top-most Middle Eastern country in Expat Insider's recent report.

Saudi Arabia, the 'big beast' of the GCC, comes in at 77th on the Heritage Foundation / Wall Street Journal list, and is, according to Green and Jefferies, ripe for reform. (It's worth noting for perspective that France is placed in 73rd place by the index...)

"Saudi Arabia has been for some time the most 'real' economy in the region," Jefferies says, "in the sense that it is faced with all the problems and complexities of a large, modern economy – unemployment, problems with housing and social services, a need for complex and extensive infrastructure, a host of things that need proper, annual budgeting."

"The other GCC nations are all small enough, and rich enough, that traditionally there was nothing that couldn't be solved by throwing in a bit more government money (from petrochemical income), but Saudi is a challenge," admits Green. In that context, the recent launch of Saudi Arabia's Vision 2030 could not be more timely.

Much of Trowers' recent work in the GCC, where it has been established for almost 50 years, has been helping the region's businesses and governments as their economies mature. In this, they have been helped by foreign-trained investment and banking professionals who have brought

international best practice to the region's banks and private equity houses, and the advent of international standard private equity and fund management in the region has also seen business and government having to respond to the needs of international investors.

"Traditionally-speaking, family businesses might have been involved in oil & gas companies or have set up franchised car dealerships or developed real estate here," says Green. "But as they have become big enough to look at pure investment plays, for instance being a minority investor in a private hospital project, they are having to change. These types of clients aren't used to some of the financial complexities involved in that kind of deal, so they might look at an investment agreement and not understand why this or that covenant is in there."

Bill Jefferies agrees. "And the regulators have become more sophisticated in turn," he says. "They used to be quite laissez-faire, but came in for a lot of criticism after the financial crash, when a lot of people got their fingers burned. But the DIFC and ADGM (Dubai and Abu Dhabi international financial service-based free zones) are now leading the way, and there are some 100 regulated entities now operating out of them, the majority of which are focused on investing private equity in the region."

"Initially, when UK, European or US investors or regional players with that same international mindset came here and started writing cheques in the expectation that their standard diligence requirements would be met, and they would be granted the kind of controls, information rights, and exit opportunities as had been commonplace in more mature jurisdictions there was huge resistance from the family-run enterprises, who didn't want to be handcuffed by 'quid pro quo', he says. "But that's changing. Investors are learning how to deploy their capital differently, and family businesses are getting used to raising equity and not just debt, and that's created a huge psychological shift."



It's like we're at the start of phase two of the journey – maturation – and it's very exciting to be in at the ground floor," he adds.





IS NOW THE TIME FOR PUBLIC-PRIVATE PARTNERSHIP TO TAKE OFF IN GCC?

The tribal, familial structures of Arabian Gulf society have created a number of variants in national government, shared, with one common feature; a social contract between the ruling family and the people – you permit us to rule and we will look after you.

In the GCC, this has often meant subsidised food, utilities, housing, education and healthcare and in some cases monthly stipends, but as the oil price has suffered a dramatic decline, strains have been placed upon this traditional model. Economies have been maturing and populations growing and it has become clear that governments have to come up with fresh ideas.

“**The tension for government is what happens when they are not able to look after people in way they have always been expected to,” explains Abdul-Haq Mohammed, international managing partner at Trowers & Hamlins, who is based in the firm’s Bahrain office.**

“Transitioning from this subsidised system to being a liberalised, free-market economy which is part of a global market is going to play out differently in the different parts of the GCC,” says Mohammed, “but many of the underlying questions are going to be the same, and you need to build modern structures and systems to support the direction you take.”

PPP (Public-Private Partnership) – heavily-used in the UK in the 1990s and early 2000s – has long been seen as a way to attract private finance so that GCC governments can build the kind of social infrastructure such as schools, hospital and more affordable housing that underpin the transition from traditional petro-economies to more complex modern economies with greater social utility.

But as observed by Peter Greatrex, real estate partner in the Bahrain office, getting PPP projects off the ground is more complicated than just saying ‘go’.

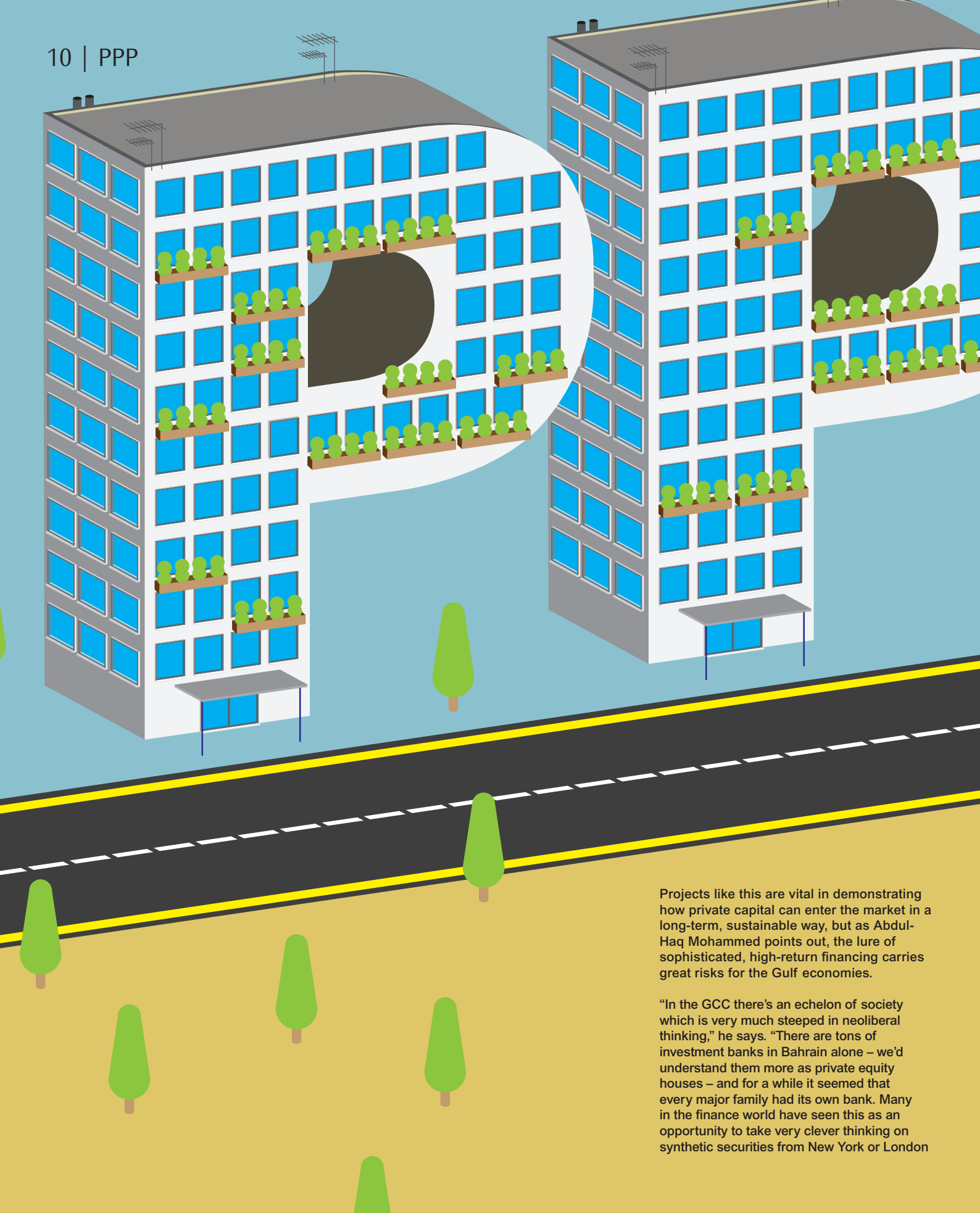
“The first PPP in the region took place over 20 years ago, and since then relatively few successful examples have crept in. There have been some false dawns during that time, when it seemed like we would see a flurry of them. It’s not just that it has taken

all that time to develop the law (with most PPPs being launched without legislative frameworks in place), but that there are serious structural issues.

The markets here aren’t liquid, there’s a difficulty in securing and registering assets, and the traditional, informal business structures have meant there’s been a great challenge in getting people to adopt clear roles and responsibilities. Plus you have a desire within governments to continue to benefit from broad rights to get out of the contract at any point, but we’re talking about long-term contracts with securitised income streams, and that’s just not possible. At least, not without serious financial consequences and considerable damage to reputation.”

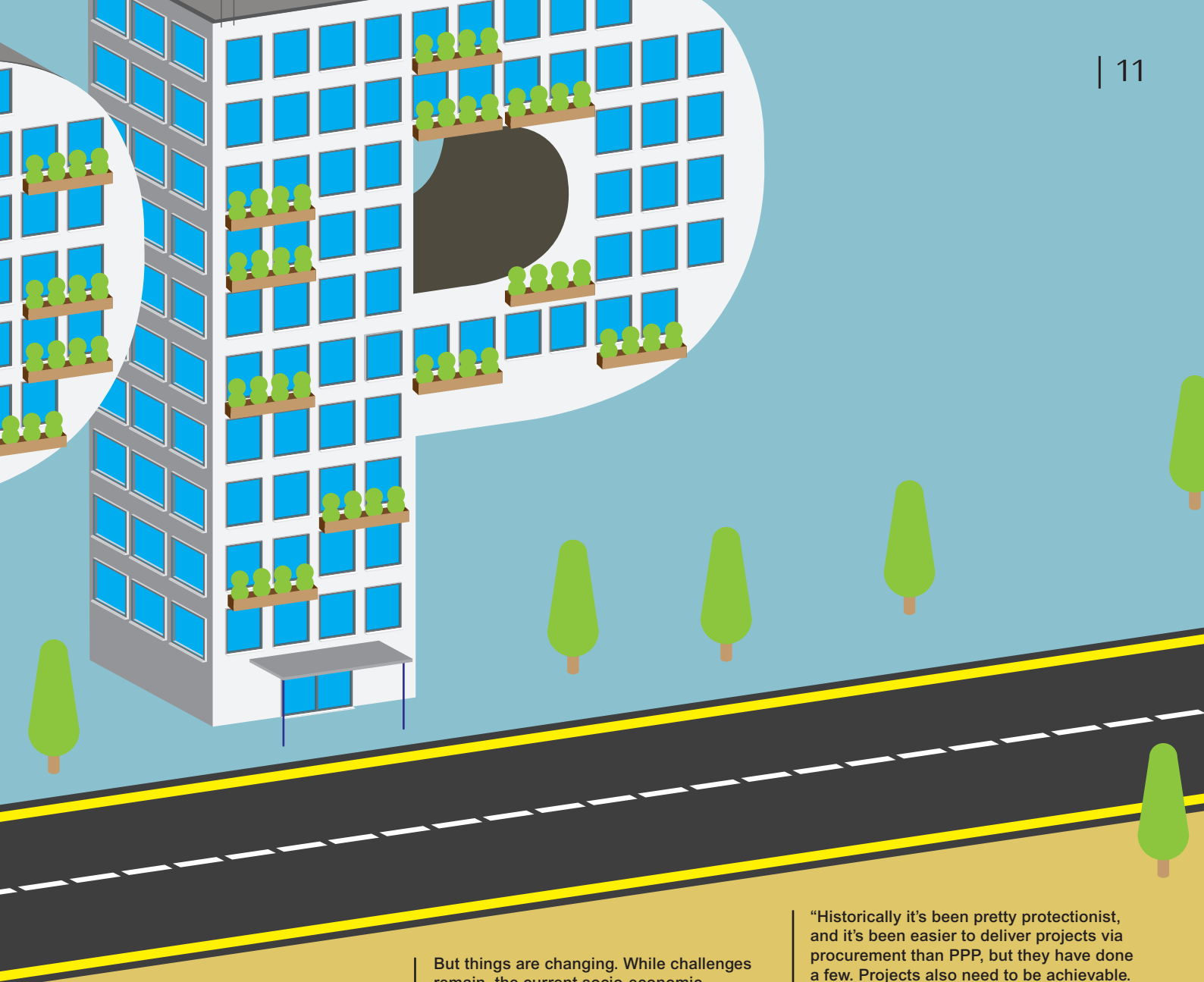
Trowers recently advised Bahrain’s Ministry of Transportation on its Pathfinder PPP project to create a modernised bus network, which has trebled the number of bus routes across the Kingdom and introduced a brand-new 141 bus fleet with on-board infotainment, free wi-fi and full disabled access, with passengers benefiting from 400 new bus shelters. Trowers is also working for a GCC government on the planning stages of a high-speed rail network for the GCC.





Projects like this are vital in demonstrating how private capital can enter the market in a long-term, sustainable way, but as Abdul-Haq Mohammed points out, the lure of sophisticated, high-return financing carries great risks for the Gulf economies.

“In the GCC there’s an echelon of society which is very much steeped in neoliberal thinking,” he says. “There are tons of investment banks in Bahrain alone – we’d understand them more as private equity houses – and for a while it seemed that every major family had its own bank. Many in the finance world have seen this as an opportunity to take very clever thinking on synthetic securities from New York or London



and transplant it into the GCC. But it is not as simple as that. The financial infrastructure and expertise has not fully caught up. Valuation remains inconsistent and there is still a lack of the transparency required to make pricing and valuation more reliable.”

It is possible that the traditional, family structure which dominates business and government in the GCC, has also acted as a hindrance. “The financial crisis lasted longer in some places because some prime investors were unwilling to take write-downs on their assets” explains Mohammed. “Unlike institutional investors in the West, who took the pain as part of the business cycle, here it can be very personal and it sometimes appeared family prestige was at stake.”

But things are changing. While challenges remain, the current socio-economic environment in the region may mean that the GCC markets are finally ready to embrace PPP projects.

In Saudi Arabia – still the most socially-conservative nation in the Gulf – the unveiling of the Vision 2030 plan, which will position the kingdom in the Top 15 economies in the world, comprises a range of social targets which will require public-private funding models in order to deliver.

““

For those plans to be fully realised, it will be key for Saudi to liberalise its ownership regime,” says Greatrex.

“Historically it’s been pretty protectionist, and it’s been easier to deliver projects via procurement than PPP, but they have done a few. Projects also need to be achievable. It does not need to be the biggest, grandest or first of its kind, but marketable, bankable and deliverable.”

Mohammed thinks the introduction of tax could be the tipping point for PPP and other private sector initiatives across the region. “Most of the GCC is looking at introducing taxes,” he explains. “The UAE will be first, and it will be VAT. But the thing with a government-imposed tax is that there is a requirement for audit, for greater transparency. Information needs to be consistent and readily-accessible. And that, more than any other single tool, is going to drive change across the GCC.”

Desert Vision



From an obscure destination for expat oil workers just a few decades ago, the Gulf states have exploded into the public consciousness in the West in recent years, becoming synonymous with sumptuous hotels, luxury airlines and statement architecture.

But away from all seven-star tourist treatment, away from the mega-malls with ice rinks, aquariums and ski-slopes, a real economy, built for and serving not just the rich but a more ordinary kind of resident and traveller is emerging.

“I’ve been in the region for nine years,” says Sallie Bowtell, real estate partner in Trowers & Hamlins’ Dubai office, “and in the early years, we worked predominantly on transactions; the market was hot. Then the financial crisis hit, and suddenly lots of developments stalled, a few deals started to fall apart. It quickly became clear those early deals that had been done with little or no documentation were not going to fly moving forward and a more solid legal infrastructure would be required in the future.”

Hardly a blessing, but the financial crisis at least gave investors the opportunity to start structuring things along more internationally-recognised lines, Bowtell explains.

“When market interest revived, we started to notice that the deals were different,” she says. “Before, most real estate transactions had been marble this, gold that, biggest whatever, and now investors were looking at more modest deals, which were easier to get off the ground, quicker to build and easier to sell.”

The move to more modest projects was also down to a change in demand. “When the first expats started coming here, it was seen as a hardship posting, most of the jobs were highly technical and compensation packages were high,” Bowtell says. “That gave expats a great standard of living and drove luxury development. But as the economy developed, more service-orientated roles – marketing, IT, accounts – started appearing and the packages weren’t

as high, creating a differential between an ever increasing cost of living and the earning capacity of ordinary workers. That has, among other things, driven the development of more affordable housing, education and healthcare.”

Housing is a key priority for the GCC, where indigenous populations are growing quickly, in addition to the influx of foreign workers. “We’re seeing a move towards creating more affordable units across the Gulf,” says Bowtell, “and that’s where alternative funding structures, of the kind we’ve seen in developed Western jurisdictions, can be helpful. For instance, in Oman, we’ve been helping the government use a structure similar to the UK’s Public Private Partnership (PPP) model to develop affordable housing.”

It’s fair to say, though, that the progress of PPP in the Gulf has been modest to date (see separate article on Page 8). For while the change in investment climate and changing demographics have driven change in the real estate market, the legal and regulatory climate and the economic environment are not necessarily geared towards encouraging PPP-type structures. For instance, the kind of liquid market needed to drive growth in PPP projects (by cultivating secondary market investment) is not really there. With the introduction of the new PPP Law in Dubai in 2015, however, it is clear that the Government in Dubai at least is working to create that environment to encourage investment by the private sector, both local and foreign.

“A lot of the Gulf states operate ‘hybrid’ economies, with a dose of liberal market theory but also a lot of state intervention,” explains Bowtell. “They will have a single ruler or ruling family, and usually

a parliamentary structure below. In some cases, that parliament will have legislative power, but in other cases it is more advisory. The advantage with that system is that one person can make a decision on something quite major and the next day it is law via a one-page decree, so things can happen very quickly.”



But sometimes that can have unintended consequences and leave gaps in activity because investors and developers just aren’t prepared. For instance, Abu Dhabi used to have a law capping private rent increases to 5%, but overnight that was just removed, and it had a dramatic impact on the housing market.”

“The key is to be prepared for anything,” says Bowtell. “The legislative and regulatory frameworks just aren’t as elaborate as they are in more developed jurisdictions, so you don’t get anything like the kind of documentation you’d get in more developed jurisdictions, fewer warranties, and a limited ability to conduct independent due diligence.”





DUBAI EXPO 2020 AND THE HOTEL BOOM

Prestige projects have continued to capture the imagination and to dominate the headlines as the GCC diversifies away from its reliance on revenue from oil & gas, and by far the biggest on the horizon is Dubai's hosting of the forthcoming Expo 2020, which is expected to generate an estimated \$23bn in additional revenue for the emirate by 2021.

The promise of Expo 2020 has already kicked off a \$545m canal project in the Business Bay, three hotel and residential complexes including the \$3bn Al-Habtoor City, and the Dubai Parks & Resorts project, a \$1bn leisure complex which comprises not one but three theme parks.

Expo 2020 anticipates bringing an additional 25 million visitors to Dubai, and in response, hotel operators are planning a staggering 35,000 additional rooms, taking the emirate's visitor capacity to 100,000 rooms by the time the exhibition opens.

"We've been involved in a number of hotel projects recently, particularly in Dubai and Oman, and one of the interesting things," says Bowtell, "is that the operators aren't just focusing on five or even seven-star hotels, far from it. They're looking at four-, three- and even some two-star accommodation. Of course, this is Dubai, so it will all be done to a very high standard, whatever the star-rating."

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Enforceability of contracts is still a big problem,” she adds.

“We often cannot be sure that certain contracts are going to be enforceable and clients will rely on trying to adhere to market practice. While no-one ever really wants litigation, in some ways it is useful to see the appetite in litigation is increasing, because it gives the courts an opportunity to take a view on contracts and provide guidance for the next time”.

Abdul-Haq Mohammed, international managing partner at Trowers & Hamblins says “The recent trend in places like DIFC and ADGM to adapt English law systems is interesting, as it could provide much needed certainty in interpretation and enforcement of contracts. This could align well with the common practice of using English law in many industries, such as banking.”

Another issue is ownership, particularly of land, and this is where it is vital to get clarity from the start. “Foreign investors in real

estate need to know whether it's possible to own land in the jurisdiction, and whether it's possible to obtain any form of proprietary interest on land. Those questions are vital,” advises Bowtell.

“For instance, in Abu Dhabi, as a foreign investor, you can own something above the land, but not the land itself. And if you're investing in a mixed development, it could be that a shopping centre, apartments and a hotel are all on the same title. And in Abu Dhabi – as in the rest of the GCC – title documentation is private. So as a real estate lawyer I can't just check on title issues as I would usually expect to do. Sometimes it's impossible to find out whether the seller of a title actually owns it until transfer of title at the relevant lands department”.

“We know that these GCC states are aware of these challenges and are working towards improving the system. These changes are focussed on creating more transparency and a more complete public record – both essential ingredients in creating investor confidence,” says Mohammed. “Yes, the returns are there, but don't expect transactions to unfold as they would in more developed jurisdictions”, suggests Bowtell.

“

In spite of what may be challenges to investing in the region,” Bowtell says

“it is worth remembering how far the legal infrastructure has come in such a short period of time. People often forget that the Gulf States are emerging economies, which is easily done when you are surrounded by every creature comfort imaginable. The respective Governments in the region are each drawing their focus on creating sustainable economies, aimed at improving their current infrastructure (both social and legal) and placing them in a position to compete on a global scale for foreign investment. The past 10 years have been an exciting and dynamic time in the Gulf, and it appears the following 10 years will be equally as exciting for residents and investors alike.”



Running in the family

Family businesses form the backbone of Gulf economies, but how well set-up are they to deal with the changing business environment both locally and when they invest overseas?

Over 90% of businesses situated in the Gulf Cooperation Council (GCC) are family-owned, accounting for 80% of the region's GDP and employing 70% of the GCC labour force – 67 million individuals – according to a recent report by accountants EY.

“The key issue facing family businesses in the GCC is, to an extent, the same wherever they are based and applies both to their local activities and international expansion: competition,” explains Abdul-Haq Mohammed, international managing partner for Trowers & Hamilins. “The question each business has to answer is whether their structure and operating practices put them in the best position to take advantage of the massive opportunities they have locally and overseas, and to compete against both local businesses in the same space and the increasing number of international investors keen to benefit from the growth of the Gulf economies.”

Youssef Boulos, corporate partner in Trowers & Hamilins' Abu Dhabi office, the majority of whose business is with family-owned enterprises, sees a tradition of privacy around business dealings as being a potential obstacle to change.

“The idea of business as a private, ‘family matter’, is far from unique to the Gulf,” he says. “But the GCC economies don't have hundreds of years of business tradition to fall back on in the same way the UK

does, for example. Historically it's been standard practice for big land transfers, for instance, to be done with a handshake or single signature, with no written contractual arrangements or the kind of detailed due diligence that many Western companies – and their professional advisers – see as par-for-the-course.”



That can become a vulnerability when you're investing abroad, or dealing with foreign investors,” he adds.

Nick Green, corporate partner in the firm's Bahrain office, agrees. “The foundation of business in the GCC is one of personal trust,” he says. “There's little tradition of constant recourse to third party advisers, as there is in the US and UK, and there's a lack of documentation that can occasionally be problematic where foreign investors are concerned.”

“Make no mistake, there is appetite for change at a political level, to see business operating to what are increasingly seen as international norms,” says Green. “But the relatively young economies of the GCC

lack some of the infrastructure required to implement and police sweeping changes to corporate regulation.”

While a new companies law came onto the statute book in the UAE last year and a corporate governance code was introduced in Bahrain, by way of example, Green says progress has been slow in other areas. “In Bahrain, we currently have to work with a bankruptcy law written in 1987 that deals mainly with personal debt and yet can mean a prison sentence for bouncing a cheque. Insolvency became a big issue after the global downturn but the law has not caught up” “The UAE has just revised its version but there is a call from SMEs here for more effective Chapter 11 style protection from creditors, which would be a market leading system in the GCC”, Green adds.

“Dispute resolution is often an area of concern,” says Boulos. “Just as many deals get done behind the scenes, disputes have been resolved that way too. But if there's a foreign investor involved, then things can become tricky. The advent of dedicated English law courts, for instance in the DIFC, has made a big difference, but family businesses are wary of them, and often don't instruct lawyers quickly enough. They're learning by experience, but it's a slow process.”

Corporate structures are also a challenge. “As with most family businesses, it’s quite common for fairly inexperienced people to be given very responsible roles, and of course they very rarely leave,” says Nick Green. “Whilst this is excellent for continuity, young family members often have to learn on the job at an accelerated pace. If properly advised, they can very much turn this into a strength of the business”. “The problems come if there are multiple family members in the same position or if sensible professional advice is not available.”

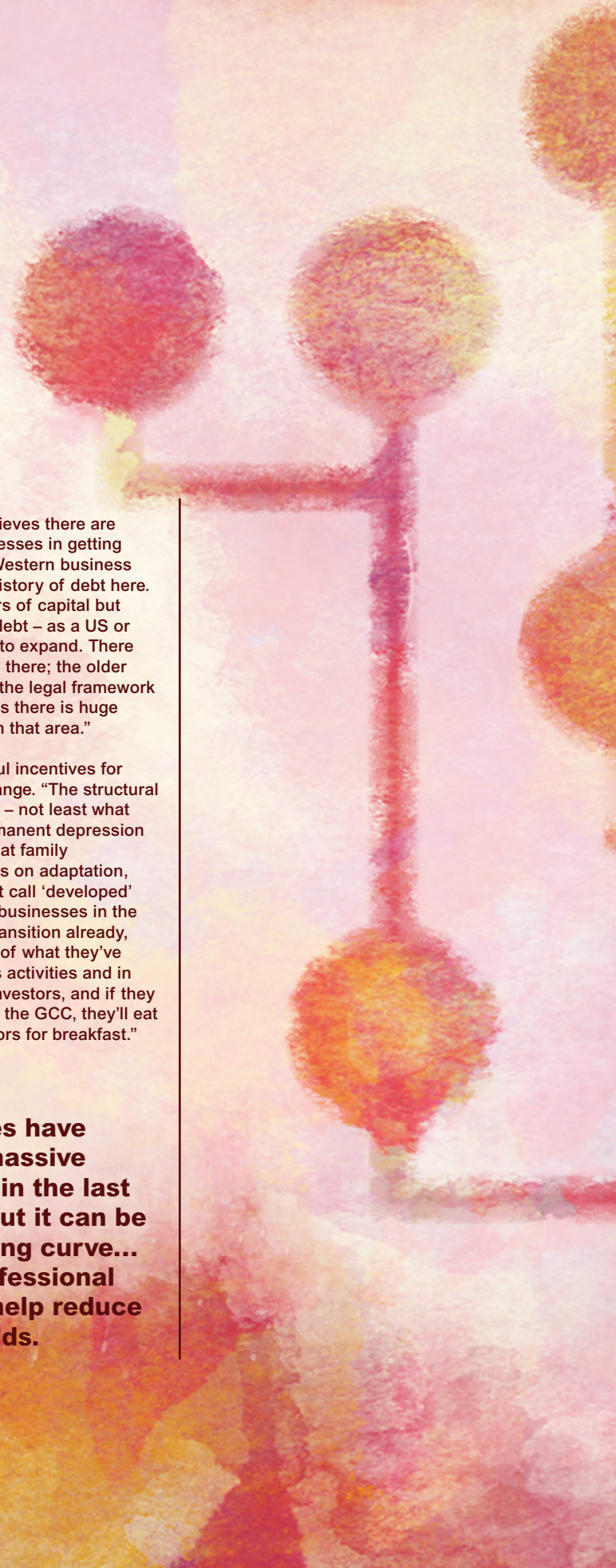
Youssef Boulos agrees. “While familial trust obviously provides a strong backbone for many of these businesses, their existing and future structure can cause challenges, particularly in competitive bidding situations. Very often there’s a patriarch, and what happens when he steps back - is he going to be a consultant, advisor or to continue to be heavily involved? Are you going to have a decision-making board with new board members? How are you going to make up for the lack of management experience among some of the next generation of board members, especially if the patriarch has been making all the decisions?”

Green points to another area where family businesses could tighten up the way they operate. “A historic mistrust of professional advisers means many family businesses may do comparatively little due diligence into the business they’re buying, the relevant sector or even the country they’re investing in. Very often, they go ahead because a friend or trusted contact has recommended it, and that’s enough for them. That means many might invest in a particular country or particular investment, with of course the risk that they all end up losing. And there are all sorts of family dynamics going on in the background, sometimes deals are pulled at the last minute not for any commercial reason but for a personal one, and that may have a serious impact on the business.”

Youssef Boulos also believes there are benefits for family businesses in getting more comfortable with Western business practices. “There is no history of debt here. There are huge reservoirs of capital but no experience of using debt – as a US or UK business might do – to expand. There is a generational tension there; the older generation doesn’t trust the legal framework behind debt. But it means there is huge potential down the line in that area.”

Nick Green sees powerful incentives for family businesses to change. “The structural changes in the economy – not least what seems to be a semi-permanent depression in the oil price – mean that family businesses need to focus on adaptation, instituting what we might call ‘developed’ market practices. Some businesses in the region have made this transition already, often as a consequence of what they’ve learned in their overseas activities and in partnering with inward investors, and if they choose to expand within the GCC, they’ll eat slower-moving competitors for breakfast.”

“**GCC businesses have all been on a massive learning curve in the last few decades, but it can be a painful learning curve... and proper professional guidance can help reduce the risk,”** he adds.



FAMILY MATTERS

- » **Get advisers into the deal earlier.** “You need to get us involved at the outset, before you agree commercial terms, if you just get us in at the end to ‘do the paperwork’, then our hands will be severely tied” (Youssef Boulos)
- » **GCC family businesses prefer face-to-face meetings;** “nothing closes without at least one face-to-face meeting” (Nick Green)
- » **Relationships are key, and can take a long time to build** “You need to be very patient, but once you’re in, you’re in if you continue to perform at the required level” (Youssef Boulos)
- » **They don’t release ‘family-confidential’ information** outside the family group. “You often find out things you should have known early on at the last minute.” (Nick Green)
- » **Family directors don’t tend to move** once they’ve been given a trusted advisor role, and if they don’t like you, they’ll remove you. “They often go through four or five professional advisers before they find someone they like to work with and trust” (Youssef Boulos)
- » **UK and European businesses often tend to do better than US ones.** “The US willingness to work as hard as possible, round the clock, can lead to frustration on both sides when dealing with the culture in the GCC”. (Nick Green)
- » **The younger generation use digital comms, text, Whatsapp, and have a greater appetite for risk.** “But they still need to get sign-off from dad, uncle, mum or aunt” (Youssef Boulos)
- » **The GCC is not one bloc with identical cultural norms.** “You have to be everywhere you want to do business, and ideally have presence on the ground” (Abdul-Haq Mohammed)

Swings and roundabouts

With the combination of speed, decisiveness and commitment that only a highly-motivated and centrally-controlled economy can deliver, the government of the United Arab Emirates has, at a stroke, changed the game for employers, investors and low-paid workers across the UAE.



On 18 July, the Ministry of Human Resources and Emiratization announced the extension of a decree, which requires employers to provide free housing for employees earning less than 2,000 dirhams (US\$544) a month. Previously, the decree had only applied to employers with more than 500 employees, but the change extends the obligation to businesses with 50 or more employees.

“This is an extremely important development,” says Abdul-Haq Mohammed, international managing partner at Trowers & Hamlin, “not just for key workers in the region, but also for investors too. We can see employers outsourcing accommodation through nomination agreements and the like.”

This last point might be lost on some observers, who are content to see Dubai as the preserve of high-priced hotels, marina-side luxury apartments and mega-malls.



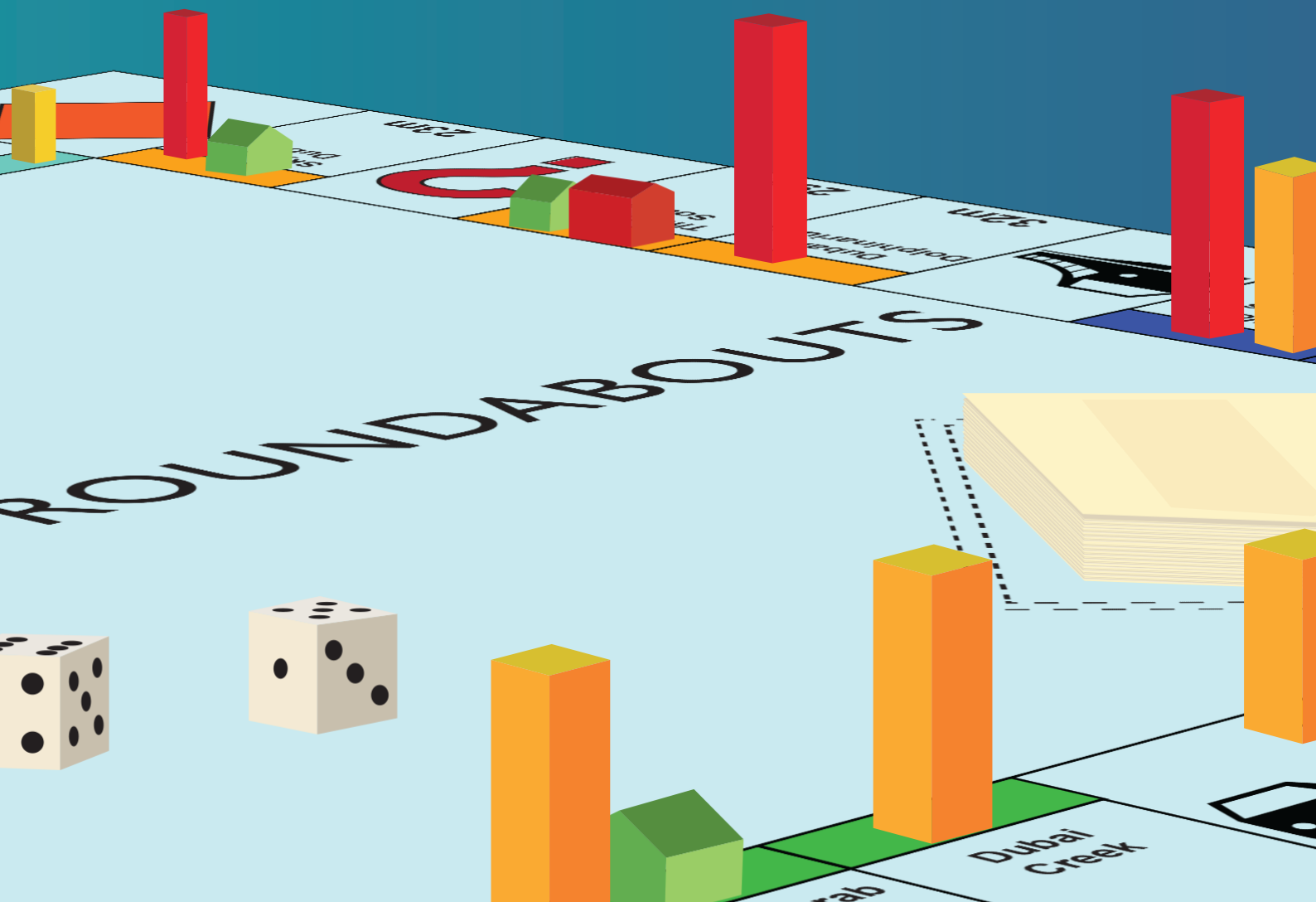
There’s no doubt that Dubai has been immensely successful,” says Mohammed.

“but there are still only a couple of locations in Dubai that could be considered institutional investment grade. To date, the focus has been on prestige developments, with less attention given to leases and long-term income streams. But with key worker housing, you need much longer leases and security for tenants. And that is considerably more attractive – even if the year-on-year returns might be lower – for the institutional investor class who are looking for reliability of income, not just quick capital growth. As more and more sovereign wealth funds are created and investment houses set up, the need to create attractive and solid assets has become increasingly pressing. This is even more acute as political sentiment encourages these funds to invest more of their capital within the region.”

Mohammed points to the granting of longer leases of up to 70 years in places like the Abu Dhabi Global Market district as a demonstration of a new attitude to real estate development in the region.

The change is just one piece of an increasingly-complex jigsaw as economies in the UAE and the other countries in the Gulf Co-operation Council (GCC) mature into fully-fledged modern economies.

There is a relentless logic to it all. Take Dubai, for instance. The Emirate is currently in the process of working towards Expo2020, and that means a huge expansion in the number of hotel and retail destinations. More hotels and shops mean more staff earning modest salaries, who not only need somewhere affordable to live but somewhere to send their kids to school, and affordable places to shop. The teachers at the new schools also need somewhere to shop and live, and they all need healthcare. And the healthcare workers need somewhere affordable to shop and live and so on.





“

We are seeing developers getting on board, with more affordable projects aimed at the middle segment of the market being announced by real estate giants such as Emaar, Damac and Danube in the past 12 months” reports Bowtell. “We are also seeing more creative purchasing structures being offered to create opportunities for investors for whom investment in the market would otherwise be impossible.”

“Throughout the region, we are also seeing a lot of focus on developing schools,” says Sallie Bowtell, real estate partner in the firm’s Dubai office. “A lot of teachers already live in provided accommodation, or get allowances, but there is massive demand for more reasonably-priced education services, and that is going to mean an expansion in housing for the teachers at those schools.”

“

Government’s role is essential in this stage of development,” says Mohammed.

“They have tried this before, setting up separate affordable housing arms of some of the bigger developers, but it was admitted that they had struggled to demonstrate the returns that investors have grown used to expecting. Driving these kinds of social infrastructure projects, with lower returns for developers, yes, but

a more stable framework for investors, is going to be a matter of getting the policy right in the first instance and making sure it happens on the ground in the second. Government needs to get involved to change planning policy and introduce the kinds of planning conditions associated with the UK and Europe, where high-end development must be coupled with some ‘community’ benefit or contribution. But it’s vital they do; the need is there right now.”



Sustainable Cities

As development in the region starts to diversify, governments are running into some of the issues that are top of the agenda for planners in the West.

“There are some interesting developments coming online,” says Bowtell

Pointing to Diamond Developers’ Sustainable City, a 500-house residential complex with a 143-unit eco-hotel across 5m sq ft. Sustainable City’s 3,000 residents benefit from 100% waste and water recycling, free solar-generated electricity, with greenhouses producing some food, and 10,000 trees in total.

Abu Dhabi’s Masdar City, designed by Foster & Partners, is along similar lines, although has hit teething problems and is due for completion by 2030. Among Masdar City’s innovations is the use of short streets (no longer than 230ft) which Foster’s team, researching in the ancient cities of Cairo and Muscat, found create just enough wind turbulence to have a ‘flushing’ effect which cools those at pavement level.

“Governments and investors are going to have to adapt to changing conditions,” says Mohammed

“but if you look how far the GCC states have come in such a short time-frame, we have every reason to think they’ll not only do it, but come up with some interesting lessons for other countries as they do.”



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