DESIGNING MODERN URBAN DEVELOPMENT PROJECTS FOR PRIVATE FINANCE –

RESIDENTIAL COMPLEXES IN IRAQ

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Presentation Program

- Introduction
- Success Factors for Modern Urban Development
- Causes of Failures & Conflict
- Risk Factors in PPP
- What can Iraqi Government do to attract investments?
- Conclusions & Recommendations
Introduction

- My observations and comments are based on my personal experience, experience of similar countries and experience of some private investors in Iraq in the housing field.
Introduction

- Quality and choice of housing has a tremendous impact on the physical and mental well-being of residents. Poor housing can contribute to damaged neighbourhoods, creating low demand and very little sense of community and stability.
Introduction

- Iraq today is in tremendous need for quality housing bringing together all related government and private sector entities which can bring happiness prosperity and help to build safe, sustainable communities.
Introduction

- Responding to the need to tackle the problems caused by decades of wars, political instability, wrong housing strategies and under-investment in public housing, the Iraqi government and local authorities initiated several proposals for huge residential complexes in different parts of the country, such complexes need significant private investment.
Introduction

- So far, in spite of its importance, neither of these programs/proposals were successful as planned for many reasons.
- This paper looks at the Success & Failure Factors for Modern Urban Development with recommendations on What can Iraqi Government do to attract investments?
Definitions & Success Factors for Modern Urban Developments in General
Definitions

• Urbanization is an economic, political and socio-cultural complexity, and so is its interaction with cityscapes.
• Economic transition determine the quality and volume of the built environment.
• Municipal and state decision making shape the nature of urban space.
• Socio-Cultural transformation influence perceived notion of the lived space.
• All the above in turn reshape the physical landscape itself.
• This subject is becoming more and more important as more people specially in Middle East choose to live in Urban Settings.
Sustainability

Department of Environment in Britain, in its report on “Sustainable Development” published in 1994, defined it as:

• The balancing of urban development with the conservation of environmental resources – such as – land, air, water, forests, energy, wild life, etc.

The official definition of “The United Nations World Commission on Environment and Development (WCED) stated in its report on “Our Common Future” published in 1988:

*Development which meets the needs of the present without compromising the ability of future generations to meet their own needs.*
Factors for the Success of Urban Development

1. **Performance**
   - Economic, Commercial, Social, Cultural.

2. **Population**
   - Growth, Age, Distribution.

3. **Politics**
   - Governance, Marketing, Funding.

4. **People**
   - Skills, Education, Entrepreneurship, Creativity, Innovation.

5. **Property**
   - Transparency, Liquidity, Volatility.
Factors for the Success of Urban Development

6. **Purity**
   - Quality of Life, Environment.

7. **Physical**
   - Architecture, Skylines, Infrastructure, Telecoms.

8. **Partnerships**
   - Bidding process, PPPs, Private Finance Initiatives

9. **Process**
   - Business Friendliness, Structures

10. **Place Making**
    - Events, Culture, Films, Open Spaces.
Infrastructure is very important in Modern Urbanism

• Any major development and reshaping of the Environment may create externalities both positive and negative.

• Positive externalities are for example creative atmosphere, more effective use of land, quality infrastructure, business centers, live work & leisure in one place, green environment, proximity to amenities, access to public transport, state of art IT & wireless communities etc.

• Negative externalities include risk from pollution, noise, traffic jams, high services charges, damage to environment etc.
Infrastructure is very important in Modern Urbanism

- Modern Urbanism and Successful Real Estate Development can only be achieved when the positive externalities outweigh the negative externalities and the development has a greater value.
Infrastructure is very important in Modern Urbanism

- A great part of the success of such a project does not only lay in buildings (bricks) but in the soft assets; Parking, Location, landscaping and the atmosphere.
- Infrastructure development is one of the most important drivers of Modern Urbanism.
- Research shows a convincing correlation between proximity to transportation nodes and property prices.
- In numbers of examples the total rise in real estate prices after the completion of a new infrastructure development is much higher than the initial infrastructure investment.
Factors of Failure & Conflict in Modern Urban Developments
Learning from Others
Causes of Failures & Conflict

• Creating successful “Super cities of tomorrow” is a challenge that we all face.

• **But What is Success and How it is Assessed?**
  • Is it profit and return on investment for developers?
  • Is it providing High Quality Buildings (5 Star standards)?
  • Is it about building State of Art Infrastructure & Utilities?
  • Is it about highways with free flow traffic?
  • Is it about building “Green Environment”?
  • Is it about building high tech facilities or intelligent buildings?
  • Is it about minimizing risk and disturbance to people and neighborhood?
  • Or, Is it all the above points collectively?
Construction and safety hazards
Construction and traffic jams
Crane crushes nine workers Die
Construction dust & pollution
Freehold buyers face hidden costs

RESIDENTS REPORT SEPARATE FEE ON TOP OF LAND DEPARTMENT’S 1% REGISTRATION CHARGE

By Robert Ditcham
Staff Reporter

Dubai. Buyers in Dubai’s property market say they face hidden costs when registering their apartments and villas.

Those who have invested in freehold property and want to register the title currently have to pay Dubai Land Department a fee of 1 per cent of the property value (1.5 per cent under last year’s fee structure).

But some residents say they have been charged a separate fee on top of this amount by developers or owners, which can total several thousand dirhams.

“I knew about having to pay the Land Department fees, but then I found out that I would have to pay extra costs. It is unjustifiable that the developer is charging me or the building owner an extra amount for a relatively simple process,” said a resident in Nakheel’s International City development.

The issue comes to light as the Land Department prepares to register tens of thousands of apartments in buyers’ names, a process which officially kicked off last week.

David Nicholson, general counsel at Nakheel, said the issue of extra costs applies to cases where Nakheel has sold an entire building to a building purchaser.

“If the building purchaser has sold residential units in that building off plan, the sales contract for the building specifies that anyone who buys a unit must register their purchase with Nakheel and pay an administration fee of 2 per cent of the unit value,” he said.

Nicholson said the “administration fee” covers the issue of the unit contracts by Nakheel, internal registration to protect against duplication of sales and to properly record the ownership so buyers are eligible for a residence visa, if applicable. He added that the fee also has a revenue component for Nakheel.

“It helps to defray the risk that Nakheel accepts under the registration process. By being in control of the contractual process Nakheel also ensures conformity of contract conditions which is vital in a master planned community,” he said.

A spokesperson at Dubai-based developer Emaar, said the company does not charge for the first registration of the title deed.

“Emaar collects the fees required to be paid by the customer to the Land Department and adds the fee to be paid by Emaar. Together we submit it to the Land Department. No extra charge is levied by Emaar,” the spokesperson said.

Have your say

Have you faced a similar experience? What recourse did you seek? Tell us about your experience at letter2editor@gulfnews.com.
Residents seek regulations for building sector

BY ISSAC JOHN
Chief Business Reporter

DUBAI — A majority of Dubai residents who took part in a survey said the emirate’s booming property market faced a demand-supply imbalance, and called for Government intervention to regulate the construction industry and to ensure the creation of affordable residential communities.

The survey, which focused on urban planning and quality of life issues the city is facing, also revealed that most of the respondents are concerned with the drastic drop in the quality of life in Dubai due to the exponential construction boom. They believe rent inflation and traffic congestion are the key negative aspects of the buoyant building sector.

Of the 78 per cent of the 567 participants who felt that there is a demand supply imbalance, most of them said that while the luxury apartment segment is over supplied, the medium income group segment is undersupplied. Eleven per cent felt that there was a shortage of 2-3 bedroom villas in the market.

The survey conducted by DSL Exhibitions, organisers of the Resale & Rental (R&R) Property Show, revealed that Dubai residents have become harder but “look forward to the time when the construction will complete and Dubai will emerge as a truly desirable place to live and work.”

On the impact of the property boom on quality of life, 72 per cent of the respondents said that their lives have been negatively impacted by the construction frenzy, while 15 per cent said that their quality of life has improved because of it.

Of those who said that their quality of life has deteriorated, 54 per cent said that rent inflation was the most worrying factor while 46 per cent voted on traffic congestions as the critical determinant.

Of those who voted for a positive impact on their quality of lives, almost all named ownership of property as the most significant factor.

On whether Dubai will offer an attractive quality of life once construction is complete, a significant proportion of respondents (81 per cent) said that they were sure quality of life will improve once the construction projects are complete while 12 per cent felt it will not and seven per cent felt they were not sure.

On critical urban planning challenges facing Dubai, issues related with real estate prices (both rental and resale values)
And the Government response

Dubai to investigate service charges for freehold units

Residents say property developers must clarify their rates and give notice of upcoming fees well before keys are handed over

By Robert Ditcham
Staff Reporter

Dubai Land Department will investigate service charges tagged onto property registration fees for freehold units.

Gulf News reported yesterday buyers face hidden costs when registering homes, either charged directly by the developer or passed down by a middle man, in addition to the 1 per cent fee levied by Dubai Land Department.

Some residents say “lack of clarity” over charges is undermining confidence in Dubai’s property market.

“We’re trying to calculate how many extra costs there are and assess the impact they are having on the property sector,” said Mohammad Sultan Thani, director of development and marketing in the department.

A resident at Nakheel’s International City said he paid the department’s fee, as well as a 2 per cent registration administration charge to Nakheel and a further Dh2,000 service fee, which he claims was passed on to him by the building owner (an organisation that buys an entire building from a developer and sells individual units to end users).

Homeowner Haana Kurmi said Nakheel should have charged more for the flats instead of adding costs at a later stage. “At least it would be a fairer and more honest practice.”

If homeowners already holding title deeds wish to transfer their property to another party, they must produce a “no objection certificate” supplied by the developer. Nakheel says it charges Dh1,000 for this service, while Emaar Properties levies a Dh5,000 fee.

“I think Dh500 would be more appropriate for issuing a letter and registering new owners’ details,” said Natalie Moore.

“I am disappointed the developers are getting away with charging unreasonable amounts for what is clearly just an administration task.”

Residents say developers must clarify their charges and give notice of upcoming fees well before keys are handed over.

Nakheel said in cases where a purchaser has sold residential units in a building, anyone who buys a unit must register their purchase with Nakheel and pay a 2 per cent “administration fee”.

Conflicts between Planning and Market Demands

- Developers are concerned with investment and profits in a shorter term than in planning world (rather long term land use aim).
- Developers need to act quickly to market trends and opportunities, planners (government employees) operate in a different time scale.
Conflict between Planners & Developers

• Demand mediation among different groups
• Compromise among the conflicting desires of individual interests
  – (for example: personal gains against public benefits, short term profit against long term gains, efficiency against cheapness)
• Balances a range of individual and community concerns, costs and rights.
  – It is a political, technical and legal process
RISK FACTOR
IN
PPP PROJECTS
Who are the major stakeholders & supporting system?

The key stakeholders:
- State Government
- Investors, other finance providers
- Construction & maintenance providers
- Users

The key supporting systems:
- Policy & Regulatory environment
- Contractual framework

The investors look for low risk and high return.
Clear allocation of risk between public and private sectors (balance of risks):

Risks in PPP Projects

- General Risk
  - Legal Risks
  - Political risks
  - Commercial risks

- Project Specific Risk
  - Development & Design Risk
  - Construction Completion Risk
  - Operation Risk

Risk of obsolescence;
PricewaterhouseCoopers 2007
Role of the legal and Regulatory Environment in Private Infrastructure Projects:

- Political Support
- Administrative support
- Legislative support
What do investors look for in PPPs?

Project specific considerations

– Unmet Demand
– Revenue generating capability
– Revenue development potential
– Demonstrated Project viability
– Demonstrated political commitment to the project by local government
– Risk transfer: Proposals that balance risks and rewards between public and private partner
What can Iraqi Government do to attract investments?

1. Develop and publicize a program,
   - Not one off projects
   - Target investor profile

2. Clarify & develop
   - Legal, Regulatory framework
   - Institutional framework & arrangements
   - Contractual framework (balanced risk sharing)

3. Invest in capacity building of state level personnel (training) improve productivity & efficiency of staff (right person in right place)
What can Iraqi Government do to attract investments?

4. Rigorous evaluation
   - Value-for-money
   - Attractiveness to investors

5. Invest in project preparation
   - Good quality Documentation & Information
   - Attractive project structuring/configuration
   - Early land acquisition etc.
What can Iraqi Government do to attract investments?

• Authorities should describe location of the proposed scheme and the number and type of dwellings to be included.

Authorities should describe the scope of work and length of contract

Authorities should describe how the proposed scheme fits within their wider housing and regeneration strategy.

Evidence of long term need and demand (guarantee selling and revenue generation)

Move from general submissions to more specific objective submissions with very clear tangible benefits (interest /profit)
What can Iraqi Government do to attract investments?

- Proper Urban Planning
  Land acquisition
  Infrastructure (water, electricity, sewerage, gas, ..etc)
  Quality of Environment and location
  Accessibility and Connectivity
- Propose a financial model supported by credible feasibility study (by an international consultant/expert)
- Evidence of Project Affordability and value for money (low cost home ownership)
- Marketability; identify the commercial interest of financial institutes and provide evidence of the authority’s test of the market (feasible & viable business case)
What can Iraqi Government do to attract investments?

- Evidence of enough consultation with tenants, other government authorities, stakeholders, etc.
- Identify the Project Management Team (point of contact and decision making process)
  - Provide an indicative timetable
  - Efficiency and value for money
  - Design Quality (promote use of innovative and sustainable construction)
  - Management of the residential complexes after completion (service charges, water, electricity, public services)
  - Public disclosure of concession agreements
Incentive Schemes

How can the government provide incentives for private sector firms to participate?

– Cost sharing and reward for early completion
– Incentive payments (or penalties) linked to performance standards
– Support the provision of guarantees (e.g., World Bank Partial Risk Guarantee)
World Bank Group Instruments Available to Support PPPs

- **The World Bank**
  - Loans to governments
  - Partial credit and partial risk guarantees
  - Technical assistance

- **International Finance Corporation - IFC**
  - Loans to the private sector
  - Equity investment
  - Technical Assistance

- **Multilateral Investment Guarantee Agency - MIGA**
  - Political risk insurance
Conclusions & Recommendations on How can Residential Complexes in Iraq Become a Successful Modern Urban Development
Recommendations:

Political stability and the security system is essential for the success of any PPP.

The will, vision and support of Political Leaders is essential for the success of such projects.

Private Opportunity & Public Benefit.

Removal of barriers between public and private sector (education for public)

Success depends on a synthesis of public and private sector strength and resources which satisfies the priorities of both.
Implementation Process

• Environmental Analysis (ecological assets)
• Develop a Comprehensive Master Plan including all the new developments and need to housing
• Assess city’s needs to infrastructure and transportation network
• Discussions and Workshops with local communities, different government representatives and experts in the field
Key Directions

• An Evolving Culture
  – Flexibility and Creativity in integrating traditional way of living with new lifestyle.

• Identity & Opportunity
  – Authentic and Safe
  – Place for Business, Government & Culture

• Excellence and Livability in all development decisions

• Connectivity : Multi layered transportation network
Conclusions & Recommendations

- People, People & People if you do not improve performance productivity and efficiency and be prepared to change private finance will not come
  - Selection of Human Resources must be based on qualifications, experience and objectivity rather than favouritism, political and religious groups.
  - Improve productivity and efficiency (Reduce holidays and religious events).
  - Reduce the probability of corruption and inefficient practices.
  - Continuous training & Education
Conclusions & Recommendations

- Infrastructure & Utilities development are one of the most important drivers of Modern Urbanism and Government Planning and Contribution to it is an essential factor for success.
- Clean up process: Control and monitoring of the financial and banking system
- Escrow and Condominium Laws are right steps
- Openness & transparency are important elements (Laws & Regulations)
Conclusions & Recommendations

• Cultural Change for both Public & Private Sector are all essential elements for the Future Development
• Construction Competitiveness
• Innovation & Creativity are needed for further competitiveness
• Business Ethics & Values
• Private business and Public role should not be mixed (conflict of interest)
• Careful selection of Consultants and Contractors
SUMMARY

• INVEST IN PEOPLE

• JV WITH INTERNATIONAL COMPANIES FOR FASTER LEARNING PROCESS

• LEARN FROM EXPERIENCE

• BALANCE PUBLIC INTEREST ∞ PRIVATE INTEREST

• PLANNING FOR CURRENT & FUTURE GENERATIONS
SUMMARY

Joint committees representing both government and private sector to work on legal documentation.

Openness ~ Closeness (Environment Sensitive Approach).

Win Win situation (Creativity).

Realistic allocation of risks.

Incentives for investors.
Thank you for your Patience

It's QUESTION TIME!!