

The Master Development Delivery Model

Challenges and Opportunities for Master Developers in Saudi Arabia

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The Kingdom of Saudi Arabia is currently engaged in a transformative building and infrastructure program at the national level and on an unprecedented scale. From affordable housing to high-end seaside resort cities, the Kingdom’s ambitious real estate development programs are a key component of Vision 2030 and the government’s national objectives.

In order to execute development on this scale, various real estate business models are being considered including public-private partnerships, foreign direct investment, and government funded building programs. However, just as important as selecting the overall business model is the enabling of a technical execution model at the project-level which is both capable of delivering projects on a mass-scale, providing opportunities for private-sector involvement, and allowing project delivery at both the speed and quality required to match the national vision.

Based on lessons-learned from other GCC countries which have already undergone transformational real estate development cycles, Saudi Arabia has the opportunity to implement a technical execution model on a national scale which can increase project delivery efficiency, reduce overall project cost, and provide an organizational envelope that will help projects to be delivered in-line with the desired project vision, through the Master Development Delivery Model.

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THE ORIGIN OF THE MASTER DEVELOPMENT DELIVERY MODEL

The Master Development delivery model was originally conceived as a way to accomplish the following objectives:

- Create a system whereby limited government investment would “kick-start” large-scale projects
- Spur private-sector investment and create a viable private-sector real estate development industry ecosystem
- Enable government regulation and oversight of key aspects of real estate development without hindering project efficiency

- Offset the high cost of infrastructure needed for new projects with a service charge system which passes on long-term maintenance costs to investors

The intended result was a form of PPP (Public Private Partnership) which could be rolled-out on a large scale with the flexibility to be adaptable on an individual project basis.

The model enables an accelerated rate of development due to the following factors:

- By limiting government investment into the early stages of a project and soliciting private-sector investment to build-out the latter stages of a project, limited government funds can be spread across a larger number of projects
- By creating a “semi-government” entity with private-sector systems and processes to control and manage the master development (versus a government ministry), inefficient bureaucracy is largely reduced.
- By allowing the master developer to serve as the de-facto “municipality” and organize and control much of the monitoring and technical auditing tasks needed for execution of projects on a large scale, private sector developers experience increased efficiency in the approval process which allows projects to be delivered faster
- By offsetting some or all of the long-term infrastructure maintenance and upkeep required for new projects with service charges passed-on to the private sector (versus handing-over all the responsibility to government ministries), development projects can be executed without the costly expansion of government departments

EXHIBIT 1

Conception of the Master Development Delivery Model



Create a system whereby limited government investment would “kick-start” large-scale projects



Spur private-sector investment and create a viable real estate development ecosystem



Enable government regulation and oversight of real estate development without hindering project efficiency



Offset infrastructure costs with a service charge system which passes on maintenance costs to investors

These steps require a significant re-thinking of the relationship between government entities and private-sector companies, as well as a re-working of the typical roles and responsibilities of government agencies within the real estate development process.

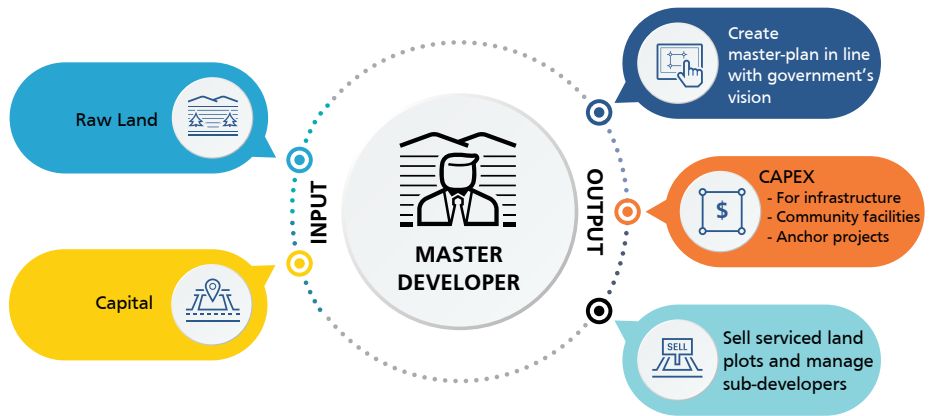
THE MASTER DEVELOPMENT DELIVERY MODEL

Within the GCC region, the model was first implemented in Dubai in the early 2000's. The business model is based on the concept of public-private partnerships, adapted for local business requirements:

“Within the GCC region, the Master Development Delivery Model was first implemented in Dubai in the early 2000's.”

- A government-owned company is established, called the “master developer”
- The government grants raw land to the master developer at a zero or near-zero land basis
- The master developer is responsible for
 - creating a master-plan in-line with the government’s vision for the project
 - injecting the capital expenditure required for infrastructure development, community and public facilities and key “anchor” projects
 - executing the project to completion by organizing private-sector participation in the project through selling serviced land plots to sub-developers and then managing the sub-developer’s build-out of the project

EXHIBIT 2
Business Model



In order for this model to be executed at the project level, the master developer must establish certain business and technical processes. From a technical project execution perspective, the master developer then puts in-place a series of systems and processes which allow for efficient project execution:

- A comprehensive land-sales process; this includes a government-approved SPA template (Sales and Purchase Agreement), a land title transfer system, a customer relations helpdesk for investors, and a clear development timetable with land control regulations
- A series of Development Regulations and Guidelines (DRGs) which clearly outline the roles and responsibilities of the master developer versus the sub-developer
- The setup of a Technical Interface Office (TIO) which functions as a project-specific

“mini-municipality” to field incoming sub-developer requests and applications, and coordinate on behalf of the project and the sub-developer with necessary government agencies and ministries, thus improving efficiency and reducing delays

- Managing the development’s service charges by engaging in a Service Charge study and levying and collecting service charges from private sector investors and sub-developers, and managing the community accounts over time
- Setup and management of the Master Community Association, a governing body made up of representation from investors (similar to a Homeowners Association) mandated for long-term community management of public areas, community facilities, and infrastructure



EXHIBIT 3

Key Steps towards Executing the Master Development Delivery Model at the Project Level



KEY ISSUES TO IMPLEMENTATION IN SAUDI ARABIA

There are 3 key technical challenges to implementing the Master Development Delivery model unique to the Saudi market which would need to be addressed in order to successfully adapt the model and execute the model across the Kingdom:

- **Coordination with municipality and government ministries**
In order for the model to be successful, extensive and up-front

communication and coordination is necessary between the Master Developer's technical interface office and all relevant government ministries involved in the building process. A series of systems and processes must be setup which clearly delineates the roles and responsibilities of each entity. In addition, government ministries must agree to enforce the master developer's approval process when accepting applications from private-sector developers so that the system can function properly.

- **Issuance of the land title deed and development control**
At present, the issuance of the land title deed is the sole form of development control in the KSA Market. Once a private-sector developer obtains a title deed, they are able to effectively exercise full control over the land. This system would need to be altered in order to execute the master development delivery model. Firstly, the master developer would need to retain some degree of development control even after issuance of the title deed in order to execute the design, development and other regulations inherent to the system. Secondly, government agencies and ministries would need to adjust their systems so that there is coordination between the master developer and the sub-developer. Thirdly, banks would need to accept that title deeds, even with development control regulations attached to them, are still acceptable in order for the sub-developer to apply for construction loans.

- **Lack of a Real Estate Regulatory Agency**
The master development delivery model requires extensive coordination and interaction between ministries, private-sector entities, government developers, and financial institutions. In addition, the rules and regulations required to execute the model cut across traditional lines of government authority. Therefore, the setup of an overall governing body (a Real Estate Regulatory Agency) to monitor the entirety of the system, implement needed coordination, track and monitor all documents,

and provide training and assistance to private-sector sub-developers, would greatly accelerate successful execution of the model.

EXHIBIT 4

Technical Challenges to Implementing the Master Development Delivery Model in Saudi Arabia



These technical challenges would need to be initially addressed at a national level and from a policy perspective. After a baseline is established by the central government, local municipalities would then require a series of initiatives based on local market realities in order to activate the master development delivery model.

ATTRACTING PRIVATE SECTOR INVESTMENT

The primary outcome of implementing the Master Development Delivery Model is to attract private investment into projects, and efficiently organize and manage private-sector participation in master planned projects.

Without a technical project execution system in-place, the mass scale of development projects envisioned by the government entities in charge of giga-projects will face difficulty in seeking private-sector participation. And without effective private sector participation, the entirety of the development burden is borne solely on the back of the government developers - which will strain resources and cause inevitable delays.

The Kingdom has a vibrant and eager private-sector real estate industry which could contribute greatly to the achievement of the country's national real estate development objectives. Utilizing and executing a master development project execution model, is a key step in unlocking the private sector's potential and achieving the Kingdom's ambitious real estate development goals.

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