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Megadevelopments in the Middle East

**Defining successful concepts that
stand the test of time**



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ABOUT THE AUTHORS

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EXECUTIVE SUMMARY

Megadevelopments, which include mixed-use development projects covering hundreds of thousands of square meters, are typically launched with a broad socioeconomic agenda in the Middle East. They can have a lasting positive impact when they succeed. However, success is never assured. These projects are highly complex, put substantial capital at risk, and require at least a decade to be completed. It is thus imperative that megadevelopments start with a concept that puts in place the fundamentals for success, and that allows for resilience in case of an unexpected event, such as the COVID-19 pandemic.

Successful megadevelopment concepts reflect three key principles:

- 1. Be rooted in the context:** Successful concepts consider all key opportunities and constraints, based on a detailed understanding of: fundamental needs and preferences of all stakeholders, tangible and intangible characteristics of the location, and long-term market dynamics
- 2. Be clear, customer-centric, and coherent:** Successful concepts clearly define their target segments and the value proposition for each, and ensure coherence between all components
- 3. Be flexible:** Flexibility is essential if the concept is to stand the test of time. It allows for adjustments to the concept as the context changes and in the event of unpredictable events. For any master developer who may have forgotten the importance of being able to rethink plans and switch directions, COVID-19 provides a stark reminder.

MEGADEVELOPMENTS: AMBITIONS, CHALLENGES, AND OPPORTUNITIES

Megadevelopments have been used across the world to pursue numerous socioeconomic goals and achieve national-level ambitions. Among the most important are:

- Introducing a new, improved urban offering that would not be possible within the existing urban landscape, with the goal of enhancing quality of life and/or addressing a major market gap (such as insufficient affordable housing)
- Regenerating an underutilized or previously neglected area
- Promoting the development of specific economic sectors, such as financial services, tourism, or manufacturing
- Showcasing a country's cultural richness to enhance its international status

Megadevelopments have many characteristics that help them reach these goals. Their sheer scale creates a beneficial effect in that the total is larger than the sum of individual components. Megadevelopments also allow for better planning in a way that integrates different components. Moreover, “greenfield” megadevelopments benefit from the flexibility and the potential innovation that come from not being limited by existing assets, infrastructure, or sociopolitical structures (see *“Developing Dubai,”* pages 4-5).

However, megadevelopments require large amounts of capital and considerable time, generally more than a decade, to be completed. Furthermore, shortfalls in the concept are rarely apparent in the early phases. They usually emerge only after significant amounts of time and capital have been invested. For all these reasons, it is crucial to get the initial concept right and to embed flexibility within it.

There are three main pitfalls commonly faced by megadevelopments. The first is when the concept's ambition is not supported by solid fundamentals within the project's context. The second is when the concept is loosely defined, which leads to incoherent components or gaps in the offering. The third is when the concept fails to adapt to changing external factors or unexpected events, which are almost certain to occur given the long time span of megadevelopments. The COVID-19 crisis is a new example of an unexpected shock; more familiar ones are commodity price shocks, financial instability, and political crises.

Developing Dubai

Dubai is an example of how megadevelopments can be effective engines of socioeconomic development. Collectively, these projects have turned Dubai into an international hub for tourism, commerce, industry, and logistics, and an attractive place to live.

There are two noteworthy examples, Downtown Dubai and the Dubai International Financial Center.

Downtown Dubai



THE VISION

A global tourism destination and a leading residential area of the city



THE TARGET SEGMENTS

Individual investors
(direct customers)

Upper-middle-income and
high-income residents
(end-users)

Tourists from a wide range of
segments



THE VALUE PROPOSITION

A rich range of
activities for
families, couples,
and singles

High-quality and
well-served
residential
buildings, located
centrally

High-quality
hospitality and
accommodation

Wide range of
activities and
shopping options

Unique tourism
experiences



THE PROJECT COMPONENTS

Wide range of
residential
offerings
catering to all
preferences

A vibrant
calendar of
events includ-
ing daily light
shows, New
Year's celebra-
tions, and
others

A wide range of
food and
beverage and
retail options,
including
numerous
experiential
offerings

Highly
publicized
launch events
for new
buildings, with
exclusive social
gatherings for
buyers

Unique
landmarks
(Burj Khalifa,
Dubai Mall,
Dancing
Fountains,
Dubai's Opera
House)

Proximity to
business hubs
such as the
Dubai
International
Financial
Center

Easily to walk around, even during summer, through indoor pathways



THE RESULT

Downtown Dubai transformed an empty plot of land into a global tourism destination and one of the city's most desirable residential areas. Downtown Dubai has been a resilient project. Despite being launched around the time of the 2009 market downturn, Dubai Downtown has been a success for its developer, investors, residents, and millions of visitors.

Dubai International Financial Center (DIFC)



THE VISION

A leading hub for financial services in the Middle East



THE TARGET SEGMENTS

Leading international and regional corporations

Employees of leading corporations



THE VALUE PROPOSITION

A special economic zone with a world-class and efficient regulatory framework

Easy access to administrative and judicial services

An integrated and high-quality live-work-play environment



THE PROJECT COMPONENTS

A mixed-use central development with offices and food and beverage outlets (DIFC Gate Village)

Unique lifestyle offerings, including art galleries, gyms, and unique high-end food and beverage outlets

High-quality residences, located within walking distance from offices

Human-scale environment, connected through indoor pathways, and easy access between residences, offices, and food and beverage outlets (recently enhanced through an indoor linear mall linking several buildings)



THE RESULT

Launched in 2004, DIFC is now home to more than 2,200 registered companies and 24,000 employees. Demonstrating the flexibility of the initial concept, DIFC is now expanding to attract financial technology and professional services.

THREE PRINCIPLES FOR A SUCCESSFUL MEGADEVELOPMENT CONCEPT

Megadevelopments can ensure sustainable success if they follow three guiding principles: Be rooted in the context; be clear, customer-centric, and coherent; and be flexible.

1. Be rooted in the context

The starting point is developing a clear and complete understanding of a project's external context. A large part of this involves understanding the project's constraints and taking them into account when setting the ambition. At the same time, a comprehensive understanding of the context makes it possible to identify all opportunities to capture demand and enhance the concept.

The principle of understanding context is not an argument for playing it safe. On the contrary: playing it too safe reduces the chances of success. Megadevelopments should not copy existing ideas. Rather, megadevelopments work best when they embody new ideas and encourage innovation.

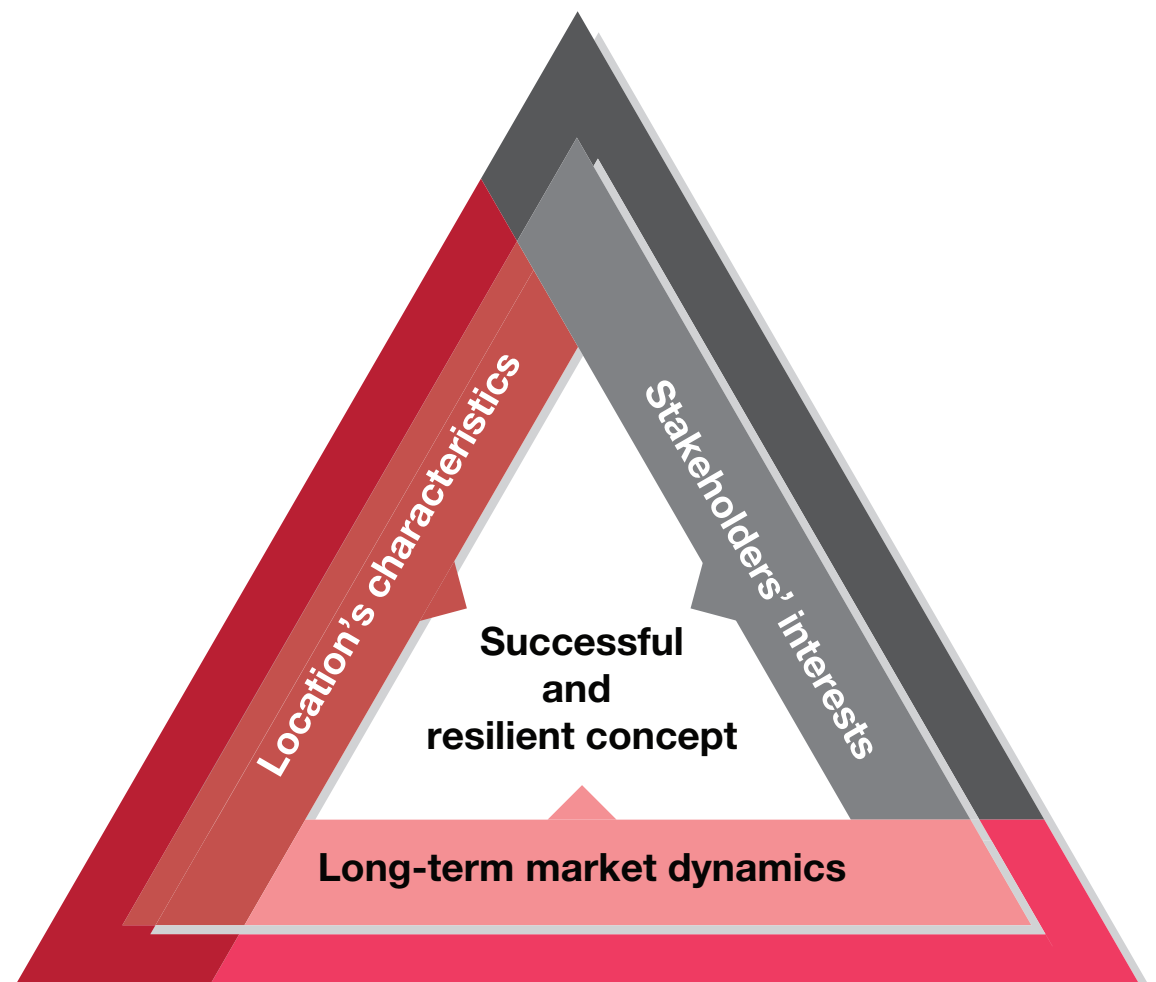
Three main aspects of the context should be considered: the location's tangible and intangible characteristics, long-term market dynamics, and stakeholders' interests (*see Exhibit 1*).

Understanding the interests, needs, and preferences, of all the main stakeholders is crucial. This includes the end users who determine demand; the partners who invest in, develop, or operate assets; any relevant regulators; employees; and the surrounding community. The focus should be on the fundamental needs of these stakeholders, rather than on their short-term demands. A relentless focus on stakeholder needs will ensure a project's relevance over the long term. A common pitfall is when developers rely on overly ambitious assumptions in their plans, thereby neglecting stakeholder needs. It is therefore important, as early as is feasible, to gain a sense of the market through primary research with potential customers, investors, banks, operators, and other necessary partners. For a similar reason, megadevelopments should be consistent with long-term national objectives and plans, including any other such developments or large-scale projects. This increases the likelihood that the megadevelopment will continue to receive support through economic shocks and unpredictable events.

In terms of market dynamics, a common blind spot for megadevelopments is the impact that they can have on the supply chain. Given the scale of some of these projects, they might face bottlenecks in the supply chain and add inflationary pressure, affecting timeliness and profitability. In many cases, it makes sense to conduct a supply chain assessment to better understand and manage these risks. Similarly, it is important to understand the effect of market dynamics on all suppliers and the capabilities they need to participate in the project. Most notably, for developments with a large hospitality component, it is vital to clarify the availability of qualified manpower during the planning process. This may require initiatives to fill any manpower shortages.

An understanding of the location's characteristics should cover tangible and intangible components, and the location's surroundings. Tangible components include technical site characteristics (topography, geology, hydrology, etc.), weather, accessibility, existing assets, fauna, and flora. Understanding the weather is essential to deliver the best solutions and design for walkability. A thorough understanding of native fauna can enhance sustainability.

EXHIBIT 1
Developing a clear understanding of the project's context



Source: Strategy&

Among the intangible components are socioeconomic and cultural characteristics. For instance, locations or assets with historical or cultural significance can serve as “anchor” attractions. So can unique activities that occur within or around the site. Examples include art fairs and cultural festivals, agricultural activities, and unique traditional practices. Integration with the surrounding urban fabric, when there is one, can also enhance the concept.

An analysis of market dynamics should go beyond currently known supply, demand, and pricing — parameters that will fluctuate during the project’s long duration. Potential new competition or alternatives should be assessed. For projects with residential components, economic sectors that drive employment opportunities should also be looked at. Funding availability is another critical factor, especially given the failure in the past of some high-profile megadevelopments because their funding sources dried up. Assumptions about the available funding from project owners/sponsors as well as third-party investors and creditors should be rigorously validated and frequently reviewed and (if necessary) refreshed.

2. Be clear, customer-centric, and coherent

A critical pre-condition for the prudent allocation of available resources, including funding and land, is a concept with a clear focus and well-defined priorities. This stands in stark contrast to an “everything for everyone” approach, which typically leads to a badly defined concept and an offering that is not sufficiently attractive or differentiated. A clear concept and clear priorities also help ensure coordination across the multidisciplinary teams crucial to any megadevelopment, including owners, designers, contractors, marketing and communication agencies, and operators.

The most effective approach is to put target segments at the center of the planning process. This ensures that the project generates sufficient demand and remains relevant for the long term despite market fluctuations. Sometimes, however, the megadevelopment’s vision is focused on the assets that will be developed, driven by the ambition to create a landmark that is iconic, but which leads to the error of treating the perspective of customers and end users as secondary.

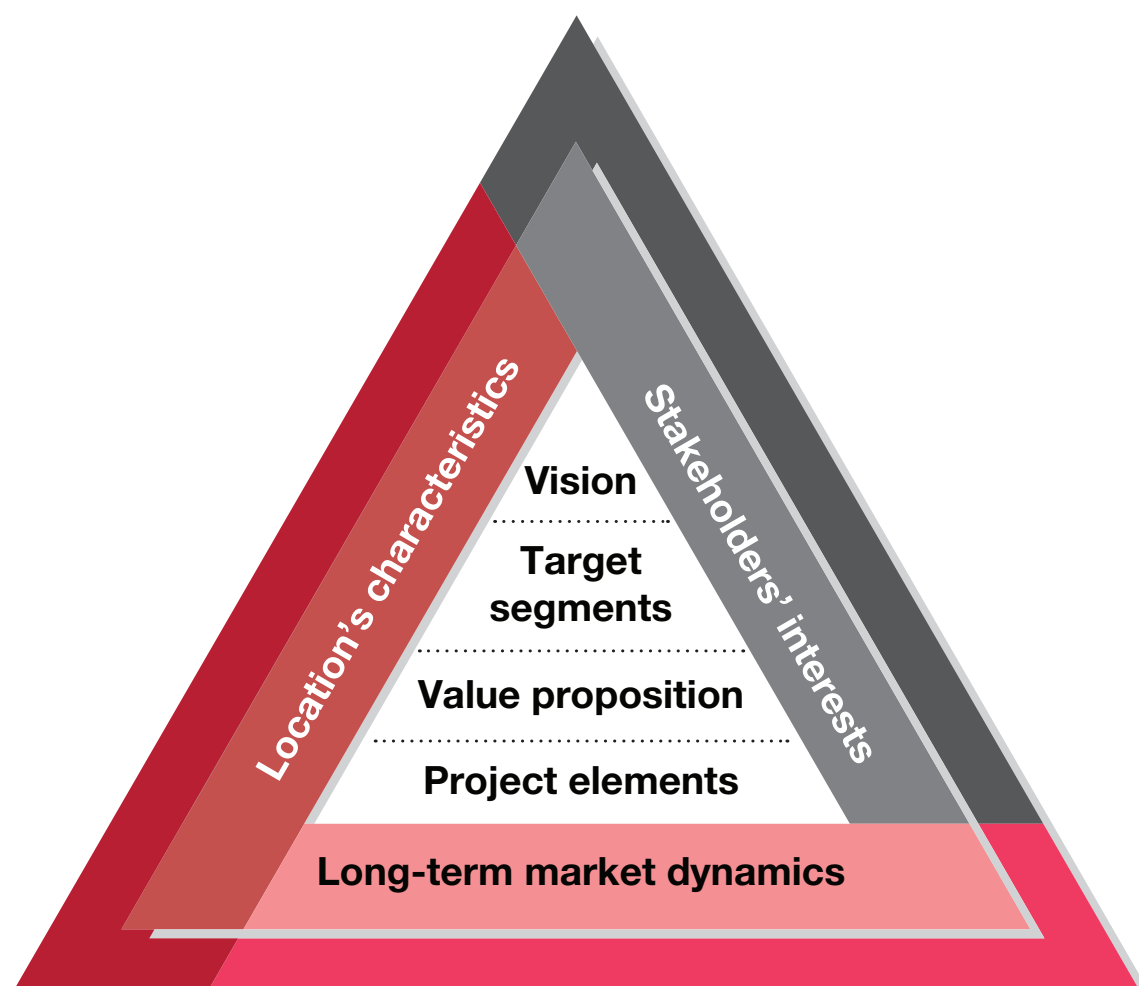
The customer-centric approach involves identifying the key target segments (Who are we targeting?) and the value propositions (What are we offering?). These then become the basis for determining the project elements (What will we build? What services will we offer?). A customer-centric approach also ensures that the concept considers tangible and intangible parts of the experience. Indeed, beyond the right mix of assets, a successful concept includes an attractive mix of ample tenants, services, and amenities; strong events and activation programs; and (in some cases) regulatory enablers (see *Exhibit 2*).

Target segments, value propositions, and project elements should be aligned with the context, and they must be fully coherent among themselves. Coherence requires that project elements are sufficient and necessary to deliver the value proposition for each individual target segment. This ensures success of the concept and an optimal allocation of resources. Developing illustrative customer journeys for target segments helps to identify any gaps or inconsistencies in the concept.

Ensuring that the concept is coherent requires an iterative approach to defining all components (vision, target segments, value proposition, and project elements), all of which should be revisited whenever there is a new analysis, a fundamental change in the context, or a further detailing of the concept. What this means is that winning concepts require an open mind and flexibility, the third principle (see “*Canary Wharf*,” page 10).

EXHIBIT 2

Components of a clear, customer-centric concept



Source: Strategy&



Coherence requires that project elements are sufficient and necessary to deliver the value proposition for each individual target segment.

Canary Wharf

The Canary Wharf development in London covers around 0.4 square kilometers. It started in the 1980s as a government initiative to regenerate the depressed Docklands of East London, which had been left unused after the decline of the shipping industry. The project's concept and setup allowed for change, which enabled the developers to successfully navigate several challenging periods. Today, the area has been transformed into a major hub for commercial activity, with more than 37 commercial buildings, 1,500,000 square meters of office and retail space, and 120,000 people passing through daily.

A dedicated new entity, the London Docklands Development Corporation (LDDC), was given substantial authority, including land expropriation and the right to develop the area's infrastructure and social amenities (e.g., education, health, and social services).

The area was also declared an Enterprise Zone, giving the designers a freer hand than they would otherwise have had and reducing the tax burden.

From the beginning, the LDDC opted for a flexible and market-driven approach. The LDDC did not put forward a detailed masterplan for the area. Instead, it let the market determine the land's use.

LDDC's strong mandate, its focus on public-sector roles, and its market-driven approach helped the project adapt through several market cycles and changes in private-sector control. It also lowered the cost to the government.

Building on its success, the Canary Wharf Group is planning to expand further and introduce residential units to its mix.



Changes in market conditions and customer preferences are inevitable, making flexibility crucial to the long-term success of megadevelopments.

3. Be flexible

Changes in market conditions and customer preferences are inevitable, making flexibility crucial to the long-term success of megadevelopments. There are a number of methods that developers can use to ensure that the concept remains flexible, including ensuring revenues, smart phasing, partnerships, stress tests, and having a dedicated developer.

Developers can ensure their program includes stable and sufficiently large recurring revenue streams. These will cover operating expenses and provide a source of funding for later phases in case external funding dries up.

Developers can have diverse target segments and a similarly diverse asset mix. Not having a narrow target segment or asset mix/types of structures can help mitigate fluctuations in market demand. In some instances, developers can use flexible space, allowing the built-up area to be used for either residential or commercial purposes depending on demand.

Developers can use smart phasing. Megadevelopments take over a decade to complete. Developers should ensure that each phase is self-contained and offers a sufficiently attractive value proposition on its own. This helps to manage any unplanned delays or required modification. They can also explore phasing the building of primary infrastructure, which could raise returns and lower project risk.

Developers can use several partnership models to do a better job of allocating available funds and of managing the risks. The sharing of risks can tap into resources of tenants, residents, developers, and contractors. For instance, tenant pre-commitments allow developers to obtain a clear picture of demand from retailers and commercial businesses and to reduce funding requirements. Likewise, with residential assets, pre-sales can be used to enhance the project's cash flow. Relying on sub-developers can reduce capital outlay and risk. Smart procurement approaches and risk-sharing partnerships with contractors may also help mitigate the impact of any construction-cost overruns or delays.

Developers should stress test their financial forecasts under different scenarios, using market cyclicity as a key variable. The available funding should be sufficient and the returns acceptable under a reasonable range of scenarios.

Developers can have an institutional setup in which one of them is the dedicated developer for the project to ensure continuity. In addition, establishing a dedicated regulator can enhance flexibility by ensuring that development guidelines and approaches are tailored to the unique characteristics of any project.¹

1. Karim Abdallah, Ramy Sfeir, Charly Nakhoul, and Fady Halim, "Managing the \$1 trillion wave of GCC real estate megaprojects: The institutional setup," Strategy& 2020 (<https://www.strategyand.pwc.com/m1/en/reports/2020/real-estate-megaprojects.html>).

CONCLUSION

Megadevelopments have a unique ability to deliver broad socioeconomic impact. To succeed, they need to start with a robust concept that is aligned with the context, clearly defined in a customer-focused and coherent manner, and sufficiently flexible to adapt to changes.

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