

PLANNED COMMUNITY FOR PALESTINE

Jump-starting real estate development in Palestine is a US\$300 million affordable housing township nestled in the hills around Ramallah. **Claire Malcolm** speaks to Bayti, the developer behind this groundbreaking initiative

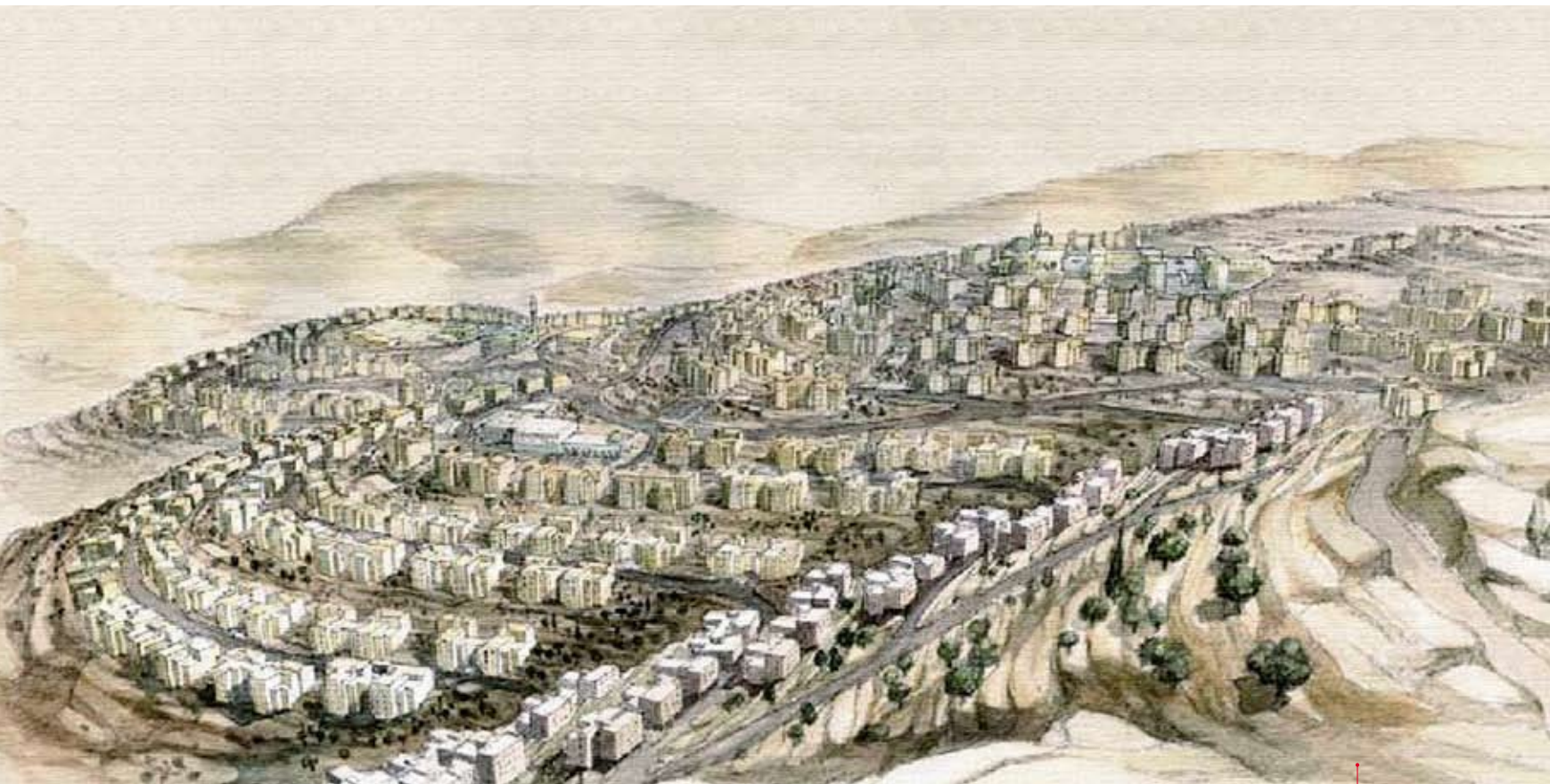
A first for Palestine, the Rawabi community development, located close to the key town of Ramallah, was quietly announced at the end of 2007, yet international interest in the project is slowly gaining momentum and ground is expected to be broken by the middle of 2008.

The new town, which will be called Rawabi – which translates as ‘the hills’ – will offer 5,000 affordable homes. It is targeting the emerging Palestinian middle class single professional and young family market, with a collection of apartments ranging in size from 90 to 170 square metres, and priced between US\$40,000 and US\$75,000.

Bayti Real Estate Investment Company, a subsidiary of Ramallah-based Massar International, is the developer behind the project, and decided to launch an already successful concept on home soil, as the chairman Bashar Masri explains: “In early 2004 we decided to diversify our operation, and we invested in real estate in Morocco, Egypt, and Jordan.

“We did very well for ourselves and our investors, particularly in Morocco where we specialised in lower and middle income developments.”

Bayti has already delivered thousands of homes in these markets with more under construction, and wanted to apply the same expertise to an undersupplied market: Palestine. “Every one of us, in any culture, has a goal once they start working to settle



Rawabi



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down, buy a house, get married, etc. In Palestine this has been difficult as the economy has been miserable, due to the occupation, but at the same time the prices of land and real estate have been going through the roof," says Masri.

SECURING THE SITE

The mixture of a depressed economy, limited land availability for development within cities, and rising prices has historically meant that owning their own home was nothing but a pipe dream for the average Palestinian. Bayti plans to change that. Masri says: "We decided to use the knowledge and the money we made in the region, to give a large segment of the Palestinian population the opportunity to own a home. It is a high risk project, but should give us fair returns now, and higher returns if the current political situation improves."

With land availability restricted, locating and securing the perfect site was a long drawn-out process, as Masri explains: "We spent at least 10 months securing the site in Area A, which is the area in the West Bank controlled by the Palestinian Authority. This represents less than 25 percent of the total land available, and is already highly populated.

"We wanted to be within 20 minutes of Ramallah, the centre of business and government, and we couldn't risk being further away, not for our first project. We also wanted it to be within 40 minutes reach of Nablus."

The site chosen for Rawabi is 10 kilometres north of Ramallah and 25 kilometres from Nablus. "It was not easy, but we really lucked out. We got all our limitations and a bit more. Now we have a stunning site. It also happens to be just three kilometres from Birzeit University," he adds.

RIGHT PRICE, RIGHT PLACE

Once the site was identified and approved, Bayti spent a significant amount of time negotiating individual land purchase agreements with hundreds of Palestinians, many of whom were living abroad, from the Gulf region to the US and even as far as Chile. With such a strong attachment to their homeland, were they willing to sell? "Some yes, some no," smiles Masri. "Everybody who sold to us was ready, and it was just an issue of the price.

"Many of these people never expected to sell the land because, while it is only 20 minutes from Ramallah, it is in the middle of nowhere. The only people who normally build planned communities in our area are the Israelis. So, for a lot of people it was a great opportunity. The majority were living abroad and what was essentially forgotten land for them is now worth something."

As in any emerging market, the hot topic of infrastructure impacts land prices and was a key driver in the decision-making process for Bayti. "In Ramallah the price of land downtown ranges from US\$150,000 per thousand square metres, to as high as US\$4 million.

"Most of the liveable areas in Ramallah go for between US\$300,000 to US\$400,000 per thousand square metres, and some of these prices are close to Manhattan rates! Even in the nice suburbs it can reach up to US\$600,000," he clarifies. →

The Rawabi site was affordable, with land in the area markedly lower in price, costing US\$15,000 to US\$30,000 per one thousand square metres. The availability of close to one million square metres of virgin land was another major bonus.

INVESTMENT OPPORTUNITY

The US\$300 million development is to be financed through a combination of investor equity, commercial loans and buyer downpayments and, at present, Massar International's group of companies is the sole investor. But the situation is looking positive, according to Masri. "We are seeking additional investors who will accept the risk and not be turned off by the obstacles. An investor from the Gulf asked me if he would be able to visit and I couldn't give him a firm answer as permission is needed from Israel, and depends on the mood of the military commander that day.

"But we have been approached by a number of investors since the initial announcement, and are currently in discussions with potential investors from the Gulf, Jordan and Egypt."

International donor assistance is also being targeted to boost the infrastructure financing requirement, as Masri explains: "In order to have the price of the apartments within reach of the working population we need the international donor community to contribute towards the cost of the physical infrastructure like roads, water, sewage, schools, hospitals, municipal services etc."

At a donor conference held in Paris, last December, US\$7.7 billion was pledged for Palestine by the international community, and Masri wants to see delivery on this promise through investment into the Rawabi project. "This housing project has been placed in the Palestinian Authority's three-year development plan for which US\$100 million has been allocated to the provision of affordable housing. So we would love to see the money come through to build the infrastructure. We could do it within the private sector, but we would have to charge that cost as an add-on to the homes, and that would increase prices by at least 20 percent which would take it out of the reach of the vast majority of people."

An IPO is also under consideration, although Masri is hesitant to commit to a firm date. "We will offer the IPO only after construction is well underway, and after 50 percent of phase one is sold. We want to make sure that the risks are much lower, and we anticipate this will happen in the first half of 2009."

BREAKING GROUND

The logistics of facilitating the actual construction process is the next hurdle once investment is secured. Explains Masri: "It is difficult, but then everything in Palestine is difficult. We minimised the risk by picking land in an area where we don't need to take any permissions from the Israeli government to develop the land. But you still have the hassle of the day-to-day business and bringing in materials, etc.

"We have to pass through areas that are controlled by Israel, for which we need permission, but again these are issues that all Arab businesses have been dealing with in the past. The difference is the scale of the project. This is probably the largest greenfield project ever seen in Palestine."

The multi-phased development will see the infrastructure, at least 1,000 units, and the downtown commercial area (offices, cafés, shopping centre) completed in phase one, with plans in place for a major mall and a hotel product also under consideration.



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The question on everyone's lips at the moment is when will groundbreaking commence? Masri says: "Providing we get the donors, which is one of our biggest challenges, we are aiming for the second half of 2008. We are currently screening international firms to do the master plan, and local companies to execute the detailed designs."

The first phase of homes should be delivered in early 2011, with subsequent phases being rolled out every four years, and project completion by 2014.

But it doesn't end there, as Masri explains: "We are doing a master plan for a much larger area, so others who own land there can develop it themselves in line with the master plan. We believe that this will probably add another two to three thousand units, creating a town with a 40,000-strong population."

PRESERVING IDENTITY

The aesthetic appeal of Rawabi and a strong cultural sense of place is also essential to the success of the project, as Masri explains: "We are currently using young Palestinian architects who we've hired to ensure that the designs preserve the Palestinian culture. The last thing we want to do is to remind people of the settlements that are all over the place."

International architecture firms are being briefed to finalise the architectural work, based on locally-prepared designs, and Bayti is undertaking extensive research to ensure that this will sell in the market. "We are now holding focus groups with potential buyers to show the designs and make sure that these are homes that people will want to live in," says Masri.

"For example, 95 percent of people want homes that are constructed from stone, even though it costs a little more. There is no track record for development here as the largest development previously was 98 independent homes which took 15 years to implement. So this is a project on an unheard-of scale."

The construction process will also mean that thousands of much-needed jobs will be created. Cost concerns are front of mind for Bayti, but Masri is confident that unit prices will appreciate substantially between phases one and two. "But we're not counting on that," he says, adding, "We are designing and building on a conservative level, in terms of the financials, because we are in a touch and go political situation."

LOANS FOR HOMES

With mortgage provisions embryonic in the region, the issue of home financing in volatile Palestine is in its infancy. Masri comments: "Mortgage is an issue here and there is limited mortgage financing. We have more than 20 local and international banks operating here, and they do offer loans, but mostly to high-income earners."

"There is a new initiative from OPIC (Overseas Private Investment Corporation), a US government agency, which is leading an initiative to secure US\$500 million in mortgage lending for affordable housing. As I understand it, plans are underway to set up operations here following a board of directors meeting this month," he adds.

The Islamic lending option is also gaining popularity and is a growth business opportunity, according to Masri. "I would hope that companies in the Gulf region who have experience in Islamic home finance lending will be interested to come to Palestine." →

The basic need for new homes remains top of the agenda. "The shortage in Palestine today is well over 200,000 homes," confirms Masri. "There are no formal studies available, but annual demand is reaching 30,000 homes per year. People are building, but the city apartments which cost US\$100,000 only meet the demands of the upper middle class.

"Most people either live with their parents or rent. Rawabi will allow them a new level of freedom. Purchasers will own their apartment and a portion of the land that the apartment is on."

And interest in the development is flourishing, as Masri explains: "Interest in new homes, especially those that are part of a planned community, is extremely high. People want to move away from the congested cities to a more modern well-planned community.

"Although we are not ready for sales as yet, we are bombarded by potential buyers who come to our offices every day with deposit cheques."

Bayti is also garnering interest from companies with requests for block bookings of as many as 138 units, crossing Masri's desk.

The development is not restricted to Palestinian residents, and Masri is emphatic that everyone is welcome. "Absolutely the last thing I would do is prevent Palestinians from outside investing in their homeland. I fall into that category myself, returning from diaspora in the US. We want people to connect to Palestine and keep their roots here."

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Rawabi



Masri has also had interest from Arab investors who are not Palestinian. Isn't he concerned about speculative investors inflating prices out of the reach of the general population in a secondary market scenario? "I don't think it's a danger. These are normal market conditions. Studies show that 80 percent of the buyers are people who desperately need the homes to live in. Yes, 20 percent will be speculators, but this is OK and I encourage people to do both."

ENVIRONMENTAL INITIATIVES

One area where added end user cost is not a major red flag, is in the inclusion of environmental initiatives, and there are several ideas under consideration according to Masri: "We are looking at using an advanced solar system to heat water for daily home use. This is used in Palestine already, but now there are even more advanced technologies which use just 30 minutes of sun to tap the water for home use.

"We're in an area where electric power and fuel is extremely expensive, as we get it through Israel."

"We have very complicated proposals on the table right now, and since our announcement in December we have had several companies approach us, including one to produce power from the wind and sun for the whole town."

Masri also attaches great importance to area landscaping. "There is plenty of water there, but hardly any trees. We will plant them all over to give the community a forested feel."

All this is bound to impact on costs, but the long-term benefits are meaningful. "We know that the solar heating for example is a bit more expensive than what is on the market but, in the long run, the consumer will save money despite a potential initial additional unit cost of US\$300," he says.

"We don't yet have a completed feasibility study for the initiative to produce electricity through the sun and wind, but this is something we will talk to donors about to see if they can support it."

MODEL COMMUNITY

The success of this project as a future model for development within other areas of Palestine is also under consideration, and other developers are already entering the arena, according to Masri, who expects more to follow.

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In a destination where incursions and aggression is par for the course, does Masri really believe that there is hope for a proliferation of sustainable communities? "These areas are not going to be at any more at risk than other places in Palestine today. We still get major incursions once in a while. I think that Rawabi will have its fair share of problems if the political situation is not good.

"That is the risk, but it's the same risk all over Palestine." Another goal for Bayti is to attract international companies to move to Rawabi and foster economic self-sufficiency, as he explains: "For example if you are a US company doing IT in India with 5,000 employees, then set up a small operation here with 300 people. Your investment is an investment in peace, in Palestine and in the people."

That statement may have cynics snorting derisively, but Bayti is already talking to several companies which have indicated interest. And you ultimately have to applaud the initiative, which has been a long time coming, according to Masri: "There has not been a planned community in Palestine for probably 3,000 years; not since Roman times." ●