Public-Private Large-Scale Downtown Redevelopment in the Middle East

by

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Submitted to the Department of Civil and Environmental Engineering
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ABSTRACT:

In the contemporary trend to privatize, the private sector has been called upon to help governments rebuild deteriorated city centers. The need to restore city centers in the Middle East has arisen from technological obsolescence of downtown buildings, or because of war that has led to central city destruction.

This thesis deals with two recent examples: one in Lebanon and another in Saudi Arabia. In the first, the capital (Beirut) is being rebuilt after 18 years of savage war that left the central district a no-man’s land. In the second, three cities --Arriyadh, Mecca, and Medina-- are redeveloping their respective centers because of obsolescence and the current preference for suburban development.

This thesis tries to capture the nature of these two experiences and to conclude by suggesting the usefulness of public-private downtown redevelopment. It analyzes the factors that have led these two governments to create these real estate holding companies (REHCOs) and the problems they have encountered. It compares the two experiences on three different levels. First, at the macro level, it compares the different governmental settings, the institutional setups, and the financial means between the two countries. Second, it examines the micro differences and commonalities of the different city centers. Finally, it looks at the dissimilarities in the REHCO structures, roles, and procedures concluding about their implications for the performance of the respective REHCOs.

The analysis aims at reaching an answer of when public-private arrangements are adequate tools to redevelop city centers. It concludes that REHCOs are important to (a) overcome stalled development efforts, (b) rectify unsatisfactory land use arrangements, (c) undertake downtown rebuilding at large-scale, (d) marshal private capital to complement large public investment and to bypass complex land tenure problems.

At a time when many countries in the Middle East and elsewhere are facing similar problems, it is imperative to learn from the experiences of the vanguards. This thesis begins to show the way toward yet more effective use of a very important organizational tool for countries facing urgent need for rebuilding their urban centers.

Thesis supervisor: Professor Ralph Gakenheimer
Title: Professor of Urban Studies and Planning & Professor of Civil and Environmental Engineering
To my beloved grandmother,
Olina Aouad-Berberi,
whom I hope would have been
proud of me had God given
her the chance to be among us today.
I can only wish that from up there,
she can read my message of love.
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GLOSSARY OF ACRONYMS

ADA: Arriyadh Development Authority

ADC: Arriyadh Development Company

BCD: Beirut Central District

MCCD: Mecca Company for Construction and Development

REHCO: Real Estate Holding Company

TCD: Taiba Company for Investment and Real Estate Development
CHAPTER 1:

BACKGROUND & DEFINITION OF THESIS GOALS

1.1 Overview

Privatization in the world increased dramatically during the 1990s. According to a study conducted by the Reason Foundation, at least 65 countries in 6 continents were reported to have initiated privatization programs of some sort. Privatization became more acceptable when governments realized that a lot of public services could be offered by private companies at a lower cost and a higher level of service. In addition, privatization reduces budgetary strains on the government, enhances the efficiency of the government apparatus (through market discipline), permits the allocation of resources to more "socially" important public activities, increases the growth rate and develops money markets. These benefits and the issues addressed by privatization are important in developing countries. Poor performance by public sector enterprises, severe capital shortages, and the World Bank bias in favor of private enterprise, led developing countries to adopt this idea.
This thesis intends to uncover the newest trend in the privatizing efforts to conduct the redevelopment of deteriorated city centers.

Large-scale land redevelopment issues were experienced, at large scale in Europe, when many cities were completely destroyed during World War II. The most striking examples are the reconstruction of Rotterdam, Warsaw, Brussels, and most German cities.

Another important experience occurred in the United States. This time the problem was that city centers were losing their high-income population, rendering them places of refuge for low-income people. Soon, the urge for urban renewal of city centers was expressed as a way to control growth in the suburbs, to curb declining prices, and to rebuild urban vitality. From 1949 to 1973, thousands of cities renewed their downtown neighborhoods under the federal urban renewal programs.

Nowadays, it is in the Middle East that we find a renewed interest in the application of these concepts. Indeed, the demand for public-private partnership for the effective redevelopment of areas like downtown Beirut in Lebanon, downtown Arriyadh, or even Mecca and Medina in Saudi Arabia, made the implementation of large joint ventures possible and marketable.

The study of these projects and an analysis of their process might reveal important conclusions that can serve other countries when venturing into these areas. It is therefore the intent of this thesis to
provide recommendations and guided assistance to any party involved in a public-private arrangement for the redevelopment of a deteriorated urban area.

1.2 Definitions

In order to avoid ambiguity in the use of the terms, some definitions, that the reader should keep in mind when going through the different chapters, follow. The terms used are merely chosen to clarify the text and do not refer to any preference of the author.

A public-private arrangement empowered with the tasks of rebuilding a deteriorated area shall be called in this thesis a real estate holding company (referred to as REHCO hereafter). These public-private arrangements can take several forms and involve several firms and institutions. We shall accept the definition and picture the REHCO as a work constellation involving all parties directly concerned with the redevelopment of the designated area.

The private party involved in the venture will be subdivided into two groups: the cash investors and the property-right holders.

Property-right holders designates all the individuals, institutions, or firms that possess physical assets or rights over parcels of land and/or buildings in the domain defined for redevelopment purposes. In fact, as soon as the REHCO is fully-fledged, the property-right holders
become "former property-right holders". Nevertheless, we shall refrain from using the term former to alleviate the text.

Cash investors designates the individuals, institutions, or firms that are acting as venture capitalists. This group can be formed by the property-right holders entirely, can be a combination of property-right holders and outside investors, or can be entirely made up of "outsiders".

The development of an area obviously requires provision for urban planning. The plan describing the general use of the land shall be referred to as the Strategic Plan. The Detailed Plan will then refer to a more focused plan in the design of a smaller area within the domain under study.

1.3 Research Goals

The implementation of REHCOs has many advantages. Privatizing is generally used to remedy such problems as a severe shortage of capital and poor performance of public sector enterprises. Indeed, the quality of service provided by the private sector is often expected to be higher than that of a public sector. Furthermore, by keeping all factors constant, a private venture can perform at the same level as a public one for approximately 40% less capitalization(2). Other factors for privatization policies include broader servicing
capacity of the population in terms of geography (because of increased financial capabilities), attracting foreign capital, developing money markets, liberating public sector resources which can be better used in social programs and tasks, by-passing the generally lethargic position of public institutions in changing times, hostile environments, or increased demand.

In the special case of redeveloping deteriorated city centers, the benefits of public-private arrangements are mainly the ability to attract high level expertise by providing higher wages than the public sector generally offers. These arrangements also respond to the need for large scale land readjustment, the need to overcome stalled development efforts, the need to recreate a central down-town focus for a city that has lost such a focus, and the need to provide investment opportunities for former land-owners and for local capital in general.

Still, REHCOs stimulate heated public debates. This is attributed to the fact that REHCOs use unconventional methods in solving redevelopment issues. Indeed, the main concerns of the public are that first, it sees the state in an evasive role and, second, that a public matter might be put in private hands that are more interested in short term financial profits than in long-term social benefits. Furthermore, REHCOs are seen as an attack on the personal freedom of the property-right holders, forcing them to go into a partnership they might not be interested in. The climax is reached when the property-right
holder finds himself owning a piece of paper (a share in the REHCO) in exchange for the physical asset (a parcel of land) he once used to possess. Besides the psychological problems associated with this special expropriation process, the financial evaluation of the land - according to which the shares have been allocated - is often disapproved. High uncertainty in the future value of the land, combined with even higher difficulty in estimating its current value, because of the demolished or obsolescent state of the area, render estimating the present eventual value a very delicate matter. Moreover, the appraisal committees' objectivity and honesty is often doubted, since they are generally paid by the REHCO proponents.

1.4 Research Question

Hence, REHCOs do have advantages but also bring complications and discontent. This raises the question: Are REHCOs really the best solution to redeveloping a deteriorated city center? The goal of this thesis is to search for an adequate answer to this fundamental question at a time when many countries need to redevelop city centers either after a devastating war or earthquake, or because the obsolescence of the infrastructure has led to a general lack of interest in the area.
1.5 Methodology Used

The methodology used will be a comparative case study perspective. Two countries, Lebanon and Saudi Arabia, are the vanguards in this "movement". In Lebanon, one REHCO, Solidere, is being charged with the rebuilding of downtown Beirut (Lebanon's capital). In Saudi Arabia, three cities have used different REHCOs to redevelop an obsolescent part of the city. One took place in Mecca, another in Medina, and the most recent one is occurring in the heart of the capital, Arriyadh.

The two countries show interesting patterns of development when the situational context is compared. Lebanon is a country coming out of 18 years of civil war. The state and its institutions have been significantly weakened both financially and socially. Conversely, the government of Saudi Arabia is strong and stable, and is endowed with large financial resources and social support. In addition, Lebanon's democratic society and Saudi Arabia's Islamic laws (that regulates the political system) conflict on many issues. Despite all these major differences, a number of commonalities are found when it comes to implementing a REHCO. Hence, after exposing the different case studies, the commonalities and differences will be analyzed. Problems encountered will be generalized for all situations when the need for a REHCO emerges. Finally, proposed alternative approaches and
solutions to diminish the effect of these problems will be suggested.

1.6 Thesis Organization

The thesis will be organized in the following manner:

After the introduction, the Lebanese experience in rebuilding downtown Beirut will be presented in detail. The REHCO arrangement that is now occurring there, will be pontiliously described. We shall first portray the structure of the REHCO. Second, the motivational factors that led to organizing the REHCO will be identified. Finally, the problems encountered and anticipated will be revealed.

In chapters 3, 4, and 5, the Saudi Arabian experiences will be scrutinized in three major cities: Mecca, Medina, and Arriyadh. Similarly to the Beirut chapter, the structures, motivational factors, and problems encountered by REHCOs in each city will be described. The only difference between the Lebanese case and the Saudi Arabian cases description will be the last part. Final comments on each Saudi Arabian REHCO will replace the anticipated problems’ section. THis final comments section will highlight the main features and try to relate the case to the previously described experiences. The author chose to substitute the "anticipated problems" section with a "final comments" one because, either the project was near completion, or the information was scarce and revealing few of the intricacies that happened in reality.
In chapter 6, the task will be to analyze the previously discussed REHCO arrangements. First, the macro contexts of Saudi Arabia and Lebanon will be compared. Second, the characteristics of each REHCO's domain will be revealed and their implication on the REHCOs identified. Third, the characteristics of each REHCO and their respective performances will be critically appraised.

Finally, chapter 7 will reveal the answer to our previously raised question. In addition, suggestions and additional considerations will be proposed in the light of the provided answer.
CHAPTER 2:
THE RECONSTRUCTION OF BEIRUT

CENTRAL DISTRICT

Lebanon is in the process of rebuilding its war-torn capital Beirut. A REHCO is being assembled to overcome the many problems faced by the reconstruction program. The name of the REHCO is Solidere and it recently finished the initial public offering stage. The recent nature of the holding makes a study of the process even more interesting. The case study will start with a general description of the setting. A detailed assessment of the motivational criteria that led the people in charge to form a public-private arrangement will follow. Next, the organizational structuring of the public/private relationships and the financing methods is shown. Finally, the problems encountered during the formation phase will be described, and some anticipated problems in the execution phases revealed.

2.1 General Description

Lebanon is a small country in the Middle East covering 10,452 square kilometers. The geographical boundaries are set as follows:
the Mediterranean sea to the west, Syria to the north and east, and Israel to the South (see figure 1). The capital of Lebanon is Beirut. It is also the largest city in the country, the home of one third of the total population.

Figure 1: Geographical Location of Lebanon

From 1975 to 1991, Lebanon endured a civil war that left the country bleeding in almost all the sectors (industry, agriculture, financial, banking, tourism,...etc). Physical demolition spread out over almost the entire country. The once flourishing central district of the capital, Beirut, was by far the most damaged region. Indeed, the Beirut Central District was the "no man's land" dividing the Christian and Muslim parts of the city that were engaged in the fighting. Figure 3
suggest in pictures the widespread demolition that occurred in that region during the war period. The extent of desolation can be more felt when one compares with pictures of Beirut taken before the war (see figure 4).

At the dawn of the peace, public servants, members of different professional corps, and prominent businessmen expressed the importance of rebuilding the ravaged district. On February 20, 1992, the domain to be redeveloped was delimited (see figure 2). The surface area of the project extends over 1.6 million square meters. The amount of built-up space totals 4.4 million square meters(3).

Figure 2: Aerial Photograh of Beirut Central District and Solidere's Domain
In today's BCD, wild plants grow in deserted streets.

In the background, a side view of the Municipality building.

Allenby street:

A North-West view of the BCD showing part of the Normandy landfill.

As it stands today.

Figure 3: Post-war Downtown Beirut

(Solidere Information Booklet)
Views from Beirut Central District in the 1970s: (clockwise)
- A Maarad arcade
- The Grand Serail
- A street porter
- Weygand Street

Figure 4: Pre-War Downtown Beirut

(The Solidere Information Booklet)
After a preliminary design, the space distribution among the different categories was approximately (4):

- Offices: 1,465,000 sqm
- Residential: 1,814,000 sqm
- Commercial: 563,000 sqm
- Cultural Facilities / Government Offices: 358,000 sqm
- Hotels: 200,000 sqm

The planning studies were based on the assumption that the district’s projected population would be 40,000 residents and 100,000 day-time workers.

The most capital intensive aspect of the redevelopment process is the entire rehabilitation of the infrastructure. Indeed, the infrastructure in the area was rendered obsolete and unusable after eighteen years of war. According to the strategic plan, the first estimate of the infrastructure cost amounts to 565 million 1993 U.S. dollars (5).

After lengthy negotiations between the concerned parties, it was agreed that a single REHCO would be given the rebuilding task of Beirut Central District. The following describes the milestones in the formulation process of the redevelopment project. They are presented in a chronological order.
February 20, 1992:

Delimitation of the domain.

Appointment of 7 preliminary appraisal committees and one Higher Committee to evaluate the land within the domain.

July 22, 1992:

The Council of Ministers approves Solidere's articles of incorporation.

October 15, 1992:

The Council of Ministers approves the Strategic plan for the Beirut Central District submitted by Dar Al-Handassah Group (see figure 5).

December 23, 1992:

The Board of Founders of Solidere is formed.

February 25, 1993:

The report by the preliminary appraisal committees dealing with the monetary evaluation of the real estate properties within the central district, is submitted to the higher appraisal committee.

Total initial value: 1,074 million U.S. Dollars.

August 26, 1993:

The higher appraisal committee publishes the final values of the
Figure 5: Land Use Plan (Strategic Plan) for the Beirut Central District
real estate properties.

Total finalized value: 1,170 million U.S. Dollars.

November 1, 1993 to January 10, 1994:

Stock offering period. Need to sell 650 million U.S. dollars worth of shares.

January 15, 1994:

Successful completion of the initial public offering. According to official sources, more than 900 million dollars have been collected.

March 31, 1994:

General Statutory meeting announced but did not secure quorum. At the time of writing the text, the date for a second meeting was not yet published.

The REHCO life span is 25 years. Over this period, the Beirut Central District (referred to as BCD thereafter) will be rebuilt according to the Strategic and Detailed Plans. At the end of the 25th year, all real estate properties of the REHCO will have been sold, and the company will be dissolved in the final meeting that it shall hold for that purpose.
2.2 REHCO Structure:

Solidere is a REHCO structured like a large corporation. Its capital is 1.82 billion U.S. Dollars. Solidere would have not existed if the cash subscription process had failed to raise 650 million U.S. Dollars. At the time of incorporation, all properties and rights in the BCD will be transferred to Solidere's ownership at values determined by the Higher Appraisal Committee. In the embryonic stage, Solidere exists through its Board of Founders which consists of prospective cash investors, land owners' representatives, and a State's representative. This Board of Founders will finance all the marketing and development efforts undertaken to give birth to the corporation form of Solidere. If they fail in doing so, they will lose the cash and time spent(6).

After the approval of the Strategic Plan, the Board of Founders financed studies that encompassed the following:

- A Detailed Plan;
- Preliminary engineering of the infrastructure works;
- Maritime works and landfill protection and treatment;
- Project phasing plan;
• Financial feasibility.

All of the above are meant to facilitate the marketable nature of the company.

2.2.1 Role of the Company

The REHCO in Lebanon has three major functions. First and foremost, it is aimed at financing and executing the infrastructure works for the account of the state. These works are estimated at 565 million 1993 U.S. Dollars. At completion, the reimbursement of all infrastructure costs shall be made either through cash payments, or through concession of State-owned land within the central district, or through concession of land within the reclaimed land zone (i.e. the current Normandy landfill, shown in figure 3), or through concessions for the exploitation of infrastructure services, or through any combination of the four previous options(7).

The second role of Solidere is real estate development. The company will be entitled to restore the preserved buildings not recuperated by their former owners (in the Articles of Incorporation of Solidere, provisions have been made for buildings that fall within the domain but are unchanged by the Detailed Plan. These buildings can be recuperated by their former owners following specific procedures). In addition, the company will develop part of the available land and sell
the rest to private developers. Bulk figures given by Solidere's management estimate the amount of land to be developed by the company as 35% of the total domain area. This role is very important on at least two counts. First, it is intended to ensure to the public officials that the company is not just a land speculator interested in easy profits\(^1\). The goal of Solidere is to develop the area. In parallel to its private nature, it carries public, national interests. Hence, Solidere acts as a semi-public institution. Second, Solidere strives to encourage individuals to venture into the area. Therefore, Solidere will not rebuild the whole. The 35% limit should serve its purpose.

The third role of Solidere is property management. The Company will be responsible for the management of real estate properties, buildings, and other facilities included in its domain, for a limited length of time.

2.2.2 Financial Structure\(^{(8)}\)

Solidere is a shareholding company valued at 1.82 billion U.S.Dollars. Its capital is 100% equity financed. Equity is divided into two components: real estate property value represented by A-type shares; and cash contributions represented by B-type shares.

\(^1\)The 35% figure is not in the Articles of Incorporation; rather we took it from the information booklet. This problem has been at the core of tensions concerning Solidere.
A-type shares are issued to property-right holders in the Beirut Central District in proportion to the amount of the real estate property contributed, the value of which was decided by a Higher Appraisal Committee (that was appointed by the government to evaluate the land). Approximately 1,650 real estate lots are found in the central district. Their total value reached 1.17 billion U.S.Dollars.

B-type shares are issued against cash contribution by investors. Each share’s face value amounts to 100 U.S.Dollars. The total amount of B shares is 650 million U.S.Dollars. They are to be issued in registered form only. This means that the company’s registrar will record the ownership of each share and will then pay directly to each owner both the dividends and the final principal at the end of the 25 years period. The exchange of these shares will be restricted among members of the following categories:

i- Property-right holders in the Beirut Central District;

ii- Lebanese nationals and Lebanese companies;

iii- The Lebanese State, Lebanese public institutions, and the Municipality of Beirut;

iv- Individuals of Lebanese origins, Arab institutions and nationals.

The shares will be regulated under the Lebanese Code of Commerce. In addition, the following rules are enforced:
i- B shares shall never exceed A shares (the maximum equity
capital structure is 50% cash contributors, 50% property-right
holders);

ii- Limited ownership by any one individual or corporation (directly
or indirectly) to 10% of the company's capital. This provision
ensures that no one entity will be able to control the decision
process;

iii- Immediate listing and trading at the completion of the stock
offering. Normally, under the Lebanese Code of Commerce,
shares floated cannot be listed or traded before a minimum of
three years of issuing audited financial statements;

iv- All dividends and capital gains shall be tax exempted for the first
ten years of the incorporated company's life.

2.2.3 Organizational Structure

The threshold for the creation of Solidere Board of Founders
was the approval of the Strategic Plan by the Council of Ministers,
which at that time delegated the CDR (Council for Development and
Reconstruction) with the power to initiate nominations for the members
of this Board. The Board of Founders comprises 12 chairs distributed
among the following categories: 1 chairman, 1 chair representing the
State, 5 chairs representing large property owners, 1 chair representing
all other property-right holders, and 5 chairs representing probable
future investors. The Board of Founders was entitled to take decisions only after the CDR approves the action.

The threshold for the creation of Solidere Board of Directors will be the successful selling of shares. At that time, the Board of Founders will convene all shareholders to a General Statutory meeting in order to elect the first Board of Directors. This Board will also be comprised of 12 members, one of whom will represent the Lebanese State and the Municipality of Beirut. The other 11 members shall represent the shareholders in proportion to their contribution in the capital. Since the B-shares constitute approximately 35% (650 millions out of 1,820 millions) of the total capital, the cash contributors will be represented by 4 chairs in the Board of Directors. Consequently, the property-right owners will occupy the 7 remaining chairs. The distribution of the chairs according to A/B-shares split ratio shall be observed at all times.

The Board of Directors service time is three years and is eligible for reelection. After the first Statutory Meeting and the election of the first Board of Directors, Solidere will become independent from the CDR. Hence, it will manage and control the construction activity without referral to any public institution. The control on the company will be provided through shareholders and the chair representing the Lebanese State and the Municipality of Beirut on the Board of Directors. This chair will be the only one appointed by a decree issued on the proposal of the Minister of Finance and the Minister of Public
Works and Transport; all others shall be elected on the general Meetings (where every share counts as one voting power).

2.3 Motivational Factors

The factors that encouraged the consideration of this entire project can be allocated in two main categories. The first one describes the motivational factors to undertake redevelopment of areas. The second category deals with the motivational factors that led to the creation of a REHCO to handle the redevelopment issue.

2.3.1 Why Large-Scale Redevelopment?

A further refinement of the issue suggests that the question be subdivided into two sub-questions. The first one being whether it is financially profitable, economically viable, and society advantageous to undertake redevelopment at all. The second question being whether to use large-scale redevelopment or let the natural market forces induce development.

Why Redevelopment in the First Place?

The redevelopment of Beirut Central District capitalizes on five major points:

(1) Beirut has a unique role as the main financial, cultural, political, and recreational center in Lebanon;
(2) Ability of Beirut's center to provide attractive real estate development competitive with other urban centers in the region;

(3) Expected increase in demand for office, commercial, and residential space due to the economic recovery of the country;

(4) Geographical advantage of Beirut's Central District with its proximity to the port and easy accessibility to the airport and the rest of the city (the airport is less than 5 kilometers away, and the port is practically adjacent to the BCD);

(5) Beirut Central District exhibits historical, architectural, and archeological heritage that are unmatched in the region.

The synthesis of the above points suggests that the redevelopment objective rests on the future promised prosperity of the region and thereby on the currently hidden value of the land.

*Why Large-Scale Redevelopment?*

Presently, the area suffers from major problems that render individual development impossible. The following factors depict the necessity of large-scale effort involving some kind of governmental intervention.

(1) Land reassembly and readjustment:

First, the land ownership pattern within the Beirut Central District is extremely intricate due to unsolved inheritance ramifications over the 18 years of war. Second, tense relationships exist between tenants and
landlords over the validity of the past lease agreements. Third, more than fifty percent of the land parcels (total number of land parcels is 1,650) are less than 250 square meters.

All the above factors render individual efforts useless in reconstructing the area. The land readjustment will have then to be made by a higher commission and should encompass the whole area.

(2) Need to overcome stalled development efforts:

The first-mover advantage does not exist in the development industry. Hence, a first-mover cannot sustain long-term competitive advantage. Quite on the contrary, a developer that first ventures in an area, faces considerable risks. Generally, the followers make more profit because the demand for the area has been already established. This effect is considerably blown out of proportion in the case of Beirut. Venturing in a desolated area is not a developer dream. In that sense, large-scale redevelopment is needed to break the tensions of each potential actor waiting for the other to go first.

(3) Presence of squatters in the area:

Many population movements happened because of war. Refugees, generally came to Beirut seeking shelter in vacant buildings. In down-town Beirut, around 20,000 people live in squatter developments. Any reconsideration of their status can be justified politically only through a large-scale plan to redevelop the entire area.
(4) Overwhelming destruction in the area:

All infrastructure in the Beirut Central District is damaged or idle. It will have to be replaced entirely. The design and execution of such services are expensive and need complete cooperation and coordination among interested parties in the area. Needless to say that left on their own, the property-right holders will be unable to deliver a decent job. Furthermore, the execution requires a large sum of upfront investment that needs to be shared among participants. The value is estimated at 565 million U.S. Dollars (in 1993 terms).

(5) Need for immediate response to urgent circumstances:

Private construction projects are not usually associated with a sense of urgency that would require immediate response. Only a large-scale development effort can induce quick and global action of the individual developers.

In Beirut, the urgency exists at different levels: political, economic, developmental, and demographic.

Politically, the reconstruction of the capital city center is an important symbolic indicator of the return of a powerful centralized government. The credibility of the government to control and effectively manage such an effort will better enhance the chances of unifying the whole country into one stream designated as the reconstruction era.
Economically, the country urgently requires a source of employment, a boosting of its financial and stock markets, and a strategy to reattract migrating capital back to the country. A regional economic threat is the imminent return of competition from Israel; particularly the city of Haifa, which threatens to become the major outlet of the Middle East in the Mediterranean, once peace is established between Israel and the Arab countries.

Development problems also require urgent response. During the war, the destruction of the city center has encouraged rapid decentralization of development in the city. This has resulted in the construction of whole areas which lack basic infrastructure support such as sewage and water supply. A recentering of development activity would at least help slow down this phenomenon.

Demographically, the city has become divided along sectarian lines between a predominantly Moslem west side and a predominantly Christian east side. The rapid reconstruction of the city center would encourage more interaction among the different groups.

(6) Recreate a central down-town focus for a city that has lost such a focus:

This is especially critical when the lack of center notion might distort the development of nearby regions. Once one of the most beautiful cities in the world, Beirut of today is not to be envied. Problems of congestion, pollution, and high density are glooming the
past picture. In addition, the lack of urban planning and enforcement, led the city to develop during the war into one of the ugliest in the world from the architectural point of view.

(7) Opportunities brought by a comprehensive approach to urban renewal mainly leading to a quality and attractive urban environment:

In the previous point, the need for urban planning has been already expressed. In addition, the opportunity to plan a new better environment through large-scale redevelopment should be advantageous to the Beirut population. Beirut is mainly in short of recreational areas like cafe-trottoirs, green spaces, walking facilities,...etc. These features are of prime importance for the growth of a healthy population. Therefore, the large-scale redevelopment can be justified as pertaining of the general public interest. Moreover, transportation planning is critical to the adequate breathing of the center. This activity is conditional of the reshuffling of the whole area design and a readjustment of the sizes, attributes, and capacities of the existing road network.

In addition to all of the above, architectural preservation of historical and archeological features in the central district ought to be preserved through public regulations. This can only be achieved if large-scale redevelopment is undertaken under the auspices of a regulating agency. Left to the greediness of individuals, archeological and historical buildings and monuments would vanish easily.
(8) The Normandy landfill health & environmental problems:

This is a particular problem in the Beirut case. The seashore in front of the Central District has been used during the war as a garbage dumping site because the incinerators were destroyed. Now, the site dimensions attain 45 hectares and creates high levels of air and sea pollution. According to experts, seven years are needed to nullify the pollution effects. The expenditure required is very high and no rough estimate has been provided yet. Obviously, the integration of this problem into the larger scheme of rebuilding the area will render its solution easier to be achieved.

2.3.2 Why a REHCO for Redevelopment Handling?

Now that the questions why we need redevelopment and why a large-scale one mainly involving public regulation have been answered, we need to provide arguments to why the private party is needed to carry successfully the reconstruction effort.

The following factors depict the necessity of large-scale effort involving some kind of private intervention.

(1) Superior quality of service because of the competitiveness effect in contrast with a state monopoly.

All things remaining equal, it has been proven that in a competitive mode, market forces induce a general increase in the quality of service. Moreover, keeping the level of service constant, the
private sector manages to produce at lower costs than the public sector. In Beirut, these implications are very important because of the financial scope of the project. The government lacks the financial power and institutional ability to undertake a large venture as this.

(2) No need to raise taxes to provide new services or upgrade old ones.

All the work shall be financed by Solidere. The Lebanese state is unable to collect tax effectively due to obvious reasons prevailing after a war crisis. Therefore, raising taxes to provide revenue for the rebuilding of the area is not adequate or does not fulfill its purpose.

(3) Public sector is most of the time lethargic in responding to changing times and needs.

As we have seen above, the reconstruction of Beirut comes at a time when urgent circumstances appeal immediate responses. The public sector can provide incentives to push private developers to react quickly. On the other hand, public institutions are rather slow at implementing projects; therefore, combining public policy with private initiative results in the most advantageous mixture of two opposite forces;

(4) Retrenchment of the public sector, liberating resources to be more focused on social activities.
Even though the reconstruction of Beirut is very important, it does not appear as a priority in the eyes of the government. More important sectors like education, health, national security, and public services need assistance. Whereas the reconstruction of Beirut can be handled by the private sector, the latter portfolios can only be treated through the public sector. The "privatization" of the reconstruction of Beirut Central District alleviates the burden on the state's balance sheet.

(5) Severe shortage of financial and physical resources of the government.

Lebanon comes out of a war weakened financially and physically. The current GDP is 50% less than the 1973 GDP (war started in 1975)(9). Moreover, the industrial sector suffered enormous losses. These need to be restored to back up such a project; if only public enforcement is used in the reconstruction effort.

(6) Inadequate ability of government to attract high level expertise required to undertake large area redevelopment.

This factor is directly linked with the previous one. Before the war, one U.S Dollars was worth around 2 Lebanese Pounds. Nowadays, the parity on the U.S. Dollar is around 1,700 Lebanese Pounds. This deflation has made the wages ridiculously low by Western standards. A project like the reconstruction of Beirut obviously is dependent on very high level expertise. Nevertheless, a private body
might be able to attract it by providing high wages and designing appropriate structures to retain motivation. The technology transfer opportunities available through the presence of high-level expertise ought to be taken advantage of.

(7) Attract foreign capital.

It is imperative for Lebanon to create foreign income to boost the economy. Furthermore, after being known worldwide for terrorism, Lebanon will, by attracting foreign capital, prove that it has recovered from the war. Foreign capital will more easily flow to the country if a private company is handling the job. Why? First of all, trust in the higher ability of the private sector to conduct a job successfully is unquestionable. Second, the corporate structure of Solidere resembles the corporate structures of Western businesses. This will induce further trust and attractiveness to capitalists across the modern world. Third, Lebanon's credentials on the loan international market are still very low. Fourth, the Lebanese government is is unable to provide guarantees and risk shelters to foreigners because of its financial and institutional weaknesses.

(8) Provide investment opportunity for former landowners and for local capital in general.

It is obvious now that the national economy needs to be boosted after severe damage has been left by war. Local lebanese capital is being transferred to safer bank institutions outside the country. Reviving
the economy will curb this movement and encourage people to dig out
their fortunes and invest them.

Moreover, when the inflation is increasing, general poverty
extending, and jobs becoming severely scarce, it is critical to provide
investment opportunities lest a social uprising occurs. More than 7,000
construction jobs and 100,000 permanent jobs will be created
throughout the life of the project(9).

(9) Develop money markets.

The establishing of a corporation-like firm in Lebanon has
induced an agreement between concerned parties to reopen the Beirut
Stock Exchange that have been out of operation since 1975. This will
provide new methods for business planning and financing to Lebanese
entrepreneurs. This kind of technology transfer will help Lebanon
rebridge the gap in technology and culture that occurred as a result of
the war.

(10) Bypass political frictions.

In Lebanon, political frictions have always existed even before
the war. Sectarian disputes over political power and search for financial
benefits of each sect over the others are expected to hamper the
progress of the reconstruction endeavor. It would be expected that
private entrepreneurs would be more concerned by the financial
outcome of the project. Political constraints are hence reduced when a
REHCO organization is responsible for reconstructing the highly
politically polarized area.

(11) Prevent a reinstitutionalization of the government to avoid corruption and red tape.

   Lebanon's public institutions have been considerably abused by corruption during the chaotic war period. Therefore, in order to conduct a large and demanding project such as the reconstruction of downtown Beirut, the government will be constrained to consider a reinstitutionalization of its existing facilities. This process is usually lengthy and expensive. The lack of resources and the need for immediate response (as stated in previous points) favor the creation of a REHCO.

(12) Need to create an impetus for a weak government at the national scale.

   The Lebanese government is in critical need to assert its credibility in the eye of the people. If it fails to do so, it will lose its legitimacy and will be overthrown. Hence, the REHCO is used by the government as a helping hand in the tentacular quest for popular confidence.

2.4 Problems & Complications

   All the factors, dealt with in the previous section, support the privatization procedure for land redevelopment of large areas. Yet,
many countries express fear and refrain from applying the concept. Indeed, opposition to REHCOs is abundant and their arguments are valid most of the time. In this section, we shall discuss in detail the problems and complications that occurred in the process of implementing Solidere in Beirut.

The main controversial issues that appeared in the Lebanese case can be grouped under three broad categories: social, economical, and organizational.

2.4.1 Social Problems

The social and psychological problems created by the establishment of such an arrangement are the most critical, relative to the other two categories. Indeed, in the Lebanese case, opposition to Solidere is abundant and mainly based on sentimental feelings and reasons rather than scientific facts. The author visited Lebanon and met with many antagonists to the project. These antagonists were all property-right holders in the district.

First, the general feeling is that this corporation represents a direct attack on the personal freedom of each and every right holder in the Beirut Central District. The property-right holders are dragged into a partnership whether they like it or not. Of course, they hold the option of selling the land, but this does not solve the problem. On the contrary, it worsens it: you're either in or out! This compulsory
partnership is exactly seen, by many property-right holders, as an expropriation process. In fact, the argument brought by many of these people is that they have lost control on the future of their relinquished asset. One example is some fellow named Abdo Semaan, whose carpenter shop is now designated to become a parking lot. The difficulty in convincing persons like Semaan of the sound foundation of the project is uncommensurable.

The second problem stems from the first one and is about the social implication of the land transmutation into paper. According to Solidere’s Article of incorporations, the property-right holders shall be compensated for their lands and rights in terms of equity shares in the company. Let’s go back to our carpenter Abdo Semaan. This person has been a resident in downtown Beirut for 40 years. He is handed a piece of paper that he does not understand. The share he was given will not yield any worthwhile dividends before ten years. His age now is around 70 years and he is worried for his future, now that his shop has been confiscated for redevelopment purposes.

Let us now play a game for descriptive purposes. In 1975 - i.e at the onset of civil strife - the average age of the property-right holders in the Beirut Central District ranged from 35 to 55 years interval (this is a conservative guess not based on any demographic information). The implication of this statement is that the age of the average property-right holder in Beirut Central District ranges now from 54 to 74 years
old because a freeze on land sales has been effective since 1983(10). Today, these people are offered shares that would yield substantial returns 10 years from now. At that time, they will have reached 64 to 84 years old. The fears felt by these people are understandable. Even if their arguments are not scientifically based, the psychological impact of a REHCO proposition on these people is undoubtedly major, rendering all advantages of the project, even though superbly exposed by advocates, sound bitterly biased towards profit-minded investors.

In addition to the above problem, comes the third complication created by a REHCO implementation. In Lebanon, land is considered as the safest asset, after education, that could be left to ones progeny. The inheritance characteristic of land is of major importance in the Lebanese and Middle Eastern culture in general. Indeed, even in times of great need, a typical Lebanese would refrain from selling land as long as he can afford. Land tenure is thought of as the last resort in the most desperate need. The implementation of the REHCO renders this once unviolated characteristic profane. Indeed, the shift in the fortune ensues from the selling of the land to wealthy developers. Solidere will sell the land to the highest offer always, because as any corporation, it is bound to increase the shareholders' wealth. Consequently, the former property-right holders are thrown out of the center, and new wealthy people are coming in.
2.4.2 Economical Problems

The economical problems that originate from the implementation of a REHCO are less severe than the social problems. Although these two categories are linked together, the opposition to this category can be more easily remedied.

The first problem that the REHCO poses is the assessment of land value for appropriate share distribution to property-right holders. Solidere opted for the following procedure:

Seven Preliminary Appraisal Committees were appointed to study the problem and provide solutions. These committees consisted of five members each: one judge, two engineers, one real estate appraiser, and one economist. They were given a period of time over which they had to study the issue and present a report to the Higher Appraisal Committee. The latter committee had the same structural form as the Preliminary ones with the distinction of more senior members. The Higher Appraisal Committee is the highest authority on the matter. Its decision is final and irrevocable.

The criteria used to evaluate the land were the location of the parcel, the physical properties of the land (empty, erect structure, intact building,...), the upgrading costs needed to restore the property, and the price of land to be marketable with respect to the surrounding regions. The discounted cash flow method was then used to estimate the values in present figures.
The second problem emanates from the tax privileged treatment that Solidere enjoys. The company is exempt from income taxes for a period of 10 years from the date of its incorporation. For the same period of time, all dividends and capital gains made by shareholders are also exempted from income tax. Furthermore, Solidere is exempted from the duties of the Notary Public, the duties of registration at the Commercial Court, and the stamp duty on the capital. On the one hand, these special privileges sweep enormous financial revenues from the state's treasury. On the other hand, they are compulsory conditions, without which, foreign investors would not be attracted to risk their capital in a still highly eruptive region of the world.

2.4.3 Organizational Problems

The most intricate part of a partnership of this kind is without any doubts the organization and the structuring of the public-private relationship. Solidere has full-fledged authority over the Beirut Central District once the Strategic and Detailed plans are approved by the Council of ministers. All decisions by the Board of Directors will be taken by the majority. Although the chair representing the State has no veto power, the advocates of Solidere argue that no decision will be taken without the informal approval of the state. Hence, Solidere is acting as a semi-public institution and the credentials lie in the good faith of the upcoming Board of Directors.
This evasive role of the State has led to many criticisms from the Lebanese intelligensia. They argue that the government is renouncing its role in rebuilding the Beirut Central District, managing the execution and planning processes, and controlling the project in all aspects. One objective in rebuilding the war ravaged country is to regain confidence in the state's ability to run the nation. But, this evasion of the state's role in the reconstruction process serves exactly the opposite goal and weakens the government even more. Moreover, the project aims at prospering the private sector. It is important to realize that without a solid public institution to guard the private interest there is no guarantee that the prosperity will ever last.

The unstructured public-private relationship worsens the fact that the project does not specify the obligations of the REHCO. Indeed, the Articles of Incorporation do not obligate the company to develop any specific amount of real estate. Moreover, the state has no control whatsoever on the cost of the infrastructure work. It is vaguely stated that the state will reimburse Solidere for all costs incurred to rebuild the infrastructure in the specified domain. Conversely, it is precisely stated that Solidere will be the responsible for the management and control of the issuing of the contracts and for the direct supervision of all contractors involved in the process of infrastructure rebuilding.
2.5 Anticipated Problems

The problems that Solidere might face once it is incorporated and the construction works starts are several. Foremost, Solidere will suffer from the lack of resources that Lebanon has. Due to its scope and scale of operations, Solidere will need to import much equipment, materials, and labor. The resulting pressure on the ports, airports, and the ground transportation network go beyond their respective tolerable levels. After 18 years of war, these services suffered enormous losses. Lack of adequate maintenance and upgrading render these services unable to cope with the future demand unless a considerable effort is made to modernize them.

Directly tied to the above problem, is the current unavailability of a stock exchange to list and trade the shares. As a temporary solution, it was proposed to trade the shares in the secondary Over-The-Counter market. In such markets (and even when the Beirut Stock Exchange will resume its functions), information technologies play a crucial role. Hence, Solidere will have to face all the problems linked with the lack of sophistication in information technology that exists in the country. The importance of information technology is increased since any share transaction has to carefully comply with two laws before it is legally approved: the maximum 10% equity ownership by one entity, and the law on the "acquisition by non-Lebanese of real estate rights in Lebanon"(11).
This brings us to a third anticipated problem: doubts as to how high the guarantees will be against a possible takeover by non-Lebanese of the Beirut Central District.

A fourth problem is the sudden release of hidden value (that was brought in historically) of the land. Indeed, when the work will start and approach the finish line, speculation on land values will be intense. The result is that the middle and low classes will be expelled from the center and forced to inhabit the suburbs. This may create a polarized environment where violence develops and spreads easily.

The fifth and final anticipated problem will be the one concerning construction management. Issues such as the development of housing for labor, the development of storage areas for materials and equipment, the establishment of criteria for construction scheduling and phasing, the establishment of broad lines for technology transfer and coordination, ought to be addressed before work starts, lest a complete chaos is established between the regulating offices and the sites, as this is a common feature of very large construction projects.
CHAPTER 3:

THE SAUDI ARABIAN EXPERIENCE:

RECONSTRUCTION AT MECCA

3.1 Background Information on Saudi Arabia

Saudi Arabia is a Middle Eastern country expanding over 839,996 square miles (see figure 6).

Figure 6: Map of Saudi Arabia
After the discovery of oil in 1938, the structure of the country began to undertake a major transformation. In 1973, the increase in oil prices boosted its economy. Urban areas began an incredibly prosperous growth. In 1932, the urban population was estimated at 300,000 people. In 1962/63, the figure had risen to 980,694. In 1974, urban areas gathered 3,137,118 people; thus, from 1962 to 1974, the urban population increased by 316%. Over the same period of time, the total population increased by 104%(12). By 1974, 38% of the population was urbanized. Today's estimates are even more astonishing. In 1990, the urban population had reached 73% of the total population. In figures, the percentage term converts to 12,233,340 people(13). Such a phenomenal growth rate has exerted very high pressures on urban land, mainly on the counts of availability and adequate servicing.

For this reason, Saudi officials have stretched their horizons on urban design and planning in order to find adequate solutions for their problems. Various tools for the planning and renewal of urban patterns have been used throughout the country. For the purpose of this thesis, we are mainly interested in three cities; Mecca, Medina, and Arriyadh, that exploited the usefulness of REHCO principles.

As the reader can comprehend, information on Saudi Arabia is not easily accessible. This has been emphasized in the case of the REHCO experiences. Indeed, the public-private relationship in those
arrangements are blurred by the informational packages available for public consumption. Nevertheless, an eminent Saudi Arabian authority on the redevelopment of Kasr el-Hoqm area in Arriyadh was at MIT on March 19 and 20, as part of a workshop on REHCO experiences in the Middle East. Much of what follows draws heavily on suggestions and revelations from this person.

3.2 General Description

Mecca is the focal point towards which Muslims all over the world turn to pray five times a day. To go to Mecca, once during a lifetime, is an act of faith prescribed by the Muslim religion. Each year, millions of faithful go there on pilgrimage. Moreover, owning a piece of land in the area close to the shrine, is a main aspiration for many Muslims. These acquired lands are seldom sold; on the contrary, they are often preciously kept for one’s progeny. Consequently, properties are sliced into midget portions as a result of inheritance procedures. Over 70% of the properties in the area adjacent to the Holy Mosque have surface areas less than 50 square meters (14). This area also includes wakf properties from Muslims from all over the world dedicated to the specific uses of pilgrims from their countries.
The first idea for the redevelopment of the region surrounding the Mecca shrine emanated from a locally well-known business man. He proposed the creation of a real estate development company through which capital holders and property owners could participate in the redevelopment effort. Following this proposition, a coalition of prominent business men formed the Mecca Company for Construction and Development (MCCD). The initial task of MCCD was to convince others (mainly landowners) to join in.

The MCCD concentrated its efforts directly on the area that overlooks the shrine and is delimited by 4 major roads (see figure 7). Its surface is 17,000 square meters(15).

Around 140 different landholders were counted at that time in the delimited MCCD "domain".

After an effort that lasted two years, the Board of Founders of MCCD successfully convinced approximately 80% of the property-right holders to join the company capital with the value of their property or part of it. The remaining owners were given three options to chose from:

i- To own shares in the company equivalent to the value of their land;

ii- To sell their land rights to the company;
iii- To be compensated with land of equivalent value outside the area of concern.

If option (i) is chosen and the property-right holder used to get revenues from his land, the company would compensate him for all foregone profits during the construction phase. These payments would

**Figure 7: MCCD Domain**
(Higher Commission for the Redevelopment of Arriyadh City: Patterns of Private Involvement in Redevelopment Projects)

then be deducted from the portion of future dividends that might exceed the original revenues. This amendment to the first alternative proved to be a key argument in the persuasion strategy.

3.3 REHCO Structure

Once the MCCD secured the 80% approval rate (i.e around 112 land owners agreed to opt for alternative i, or a combination of i and ii, the founding members presented to the King a request for permission to incorporate the company. King Fahd Bin Abdul Aziz issued a directive (Number 4/7342/M the 26 November 1984 hi.) to the Minister of Trade. The following conditions were set as prerequisites for the formation of the company:

i- The company should be a 100% Saudi Corporation\(^2\)

ii- Only the first option (i.e. to own shares) would be given to the owners\(^3\).

A few land owners continued to challenge the usefulness of REHCO even after having sold their land or participated in the capital. Due to the low number of those refusing to participate (only four), the

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\(^2\) Some property-right holders in the area under study were of multiple nationalities.

\(^3\) A later change allowed the use of the second option or a combination of both options.
King decided to expropriate their land, putting forth the overriding public interest. The MCCD was then formed and its subscription started officially early in September 1988.

3.3.1 Role of the Company

The company's major goals were to upgrade the area (which was in a depleted state), and to increase the Floor Area Ratio (MCCD studies showed that the area could support ten times denser residential facilities, see table 1 for that purpose). The third and fourth goals are derived from the first two. These are to provide adequate residential and commercial spaces along with higher standard services, and to achieve a better return on real estate investments in the area.

In the MCCD proceedings, the objectives were stated as follows:

i- To develop the area around the Holy Mosque to render it more suitable for its Holy status;

ii- To have landowners contribute to the development venture;

iii- To expand spaces and streets to absorb Haj crowds;

iv- To expand public facilities;

v- To expand car parking;

vi- To expand commercial areas;

vii- To expand residential areas;
viii- To increase the landowners' income (those who became shareholders).

In addition to the above functions, the company committed itself to re-house all underprivileged residents by renting or purchasing housing units for them. The expenses incurred would be deducted from future income and/or their shares in the company would be reduced.

3.3.2 Financial Structure

MCCD is a shareholding company valued at 1.335 billion Saudi Riyals. Its capital structure is 100% equity, with each share's par value amounting to 100 Saudi Riyals. As a matter of fact, the choice for capital options is limited. Indeed, Islamic Laws prevail in Saudi Arabia, and strictly prohibit the issuing of bond-like securities.

The capital is divided into two components: real estate property valued at 500,141,732 Saudi Riyals and cash contributions valued at 800,408,068 Saudi Riyals.

The land valuation technique was elaborated by a special local appraisal committee appointed by the government.

Although more than 8 million shares were approved as cash solicitors, only 3 million were actually floated for a period of two months (early September 1988 through early November 1988). The subscription process was a success. According to local banks,

4 1 U.S. Dollar approximately equals 3.7 Saudi Riyals.
oversubscription reached 30%.

3.3.3 Organizational Structure

MCCD is organized like a corporation. It has a Board of Directors that is elected by the shareholders. At all times, the elected Board of Directors shall represent the share owners in the proportion of their contribution to the total capital of the company. The Government of Saudi Arabia is represented by the Ministry of Endowments and Pilgrimage. It holds a permanent seat on the Board of Directors and is the only entity nominated, as opposed to the others which are elected.

3.4 Motivational Factors

Several reasons led to the adoption of a REHCO structure for the redevelopment of the areas surrounding the Mecca shrine.

First, the redevelopment of the area was sparked by the incongruency between land value and land use. According to the Mecca Company for Construction and Development, 83.38% of the area was not effectively utilized. Table 1 summarizes in numbers the discrepancies between the existing conditions and projected capabilities of the renewal project. Notice that some of the information in this table are rather of sloppy nature. For example, the fact that 83.38% of the area is unutilized is rather difficult to believe. Judging from pictures of the area, it has been implied that the "unutilized"
meant "not effectively used".

Second, most of the buildings in the area were in deplorable condition (according to MCCD studies, 58% of the existing housing are in dilapidated conditions). Several were even considered structurally unsafe. This exposed the fact that there had been serious flaws in the application of building codes and land use regulations. Proper designs to sustain desert climatic conditions, regular maintenance checking ought to be reengineered. Therefore, the need to redesign the area emerged and could only be achieved through large-scale redevelopment.

Third, the entanglement of property-rights(14), and the severe lack of adequate services (see table 1) because of the organic rapid development called for urban rearrangement on a large scale.

Fourth and last, was the scarcity of government subsidized loans by the Real Estate Development Fund\(^5\) (REDF) for investments at that time. "Less than 1% of the number of loans provided by the REDF were for investment purpose and when available, there was also a 50% leverage requirement."(14). The private sector bypassed this constraint by uniting its actions in order to secure financial leverage for the project. Hence, the idea of a REHCO emerged as a winning combination that answered all the above problems.

\(^5\) National fund that distributes soft loans to Saudi citizens to build houses.
<table>
<thead>
<tr>
<th>CATEGORY</th>
<th>EXISTING</th>
<th>PROPOSED</th>
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<td>Offices &amp; Clinics</td>
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<td>Unutilized Area</td>
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<tr>
<td>Project Management Facilities</td>
<td>0</td>
<td>700 sqm</td>
</tr>
<tr>
<td>Return on Investment(16)</td>
<td>2.02%</td>
<td>8.0%</td>
</tr>
</tbody>
</table>

Table 1:
Comparative Provisions and Conditions Between Existing and Renewal Conditions
(Mecca Company for Construction and Development, 1986)

3.5 Problems & Complications Encountered

According to personal interviews with protagonists and antagonists of the project (17), the following objections were recognized: taking of property, building heights and arrangement, complexity of land ownership, valuation of property.
Taking of property

The "public good" pursued by the protagonists of REHCO is ambiguously defined. In fact, the taking of property by a private entity is perceived to serve a private investment. This can be justified if one party in the deal becomes better off without any other party being made worse off. Obviously, many residents of the area were complaining that the expected benefits from the project did not justify its undertaking. This group included the property owners of buildings which were in good condition and/or owners receiving large revenues from the exploitation of their land rights.

Building heights and arrangement

Since the developers main argument was that the area could hold 10 times more residential facilities (15), the increase in Floor Area Ratio resulted in an increased storey height. Many people felt that this arrangement contradicted the holy aspect of the region.

Complexity of land ownership

This factor complicated the compensation and/or distribution of shares process. The first implication was that the general feeling of unfair interpretation of public good had become stronger. The second implication was that the people at the receiving end (whether money or shares) felt that they would be better off holding the real asset than a
paper one, no matter how highly praised, the project had been. Hence, marketing and soliciting participation became more difficult.

Valuation of property

This was the salient argument of the antagonists. The value estimated did not reflect fairly the present and future opportunities existing in the area. It was not clear whether the antagonists, were inventing negative arguments in order to extract the maximum from the MCCD. It was believed that this was the case since only four people had refused any of the three options which had been offered to them. Out of 140 land owners, this was a remarkable achievement. The 20% opposing the project got high remuneration for their land with the exception of the four individuals who had not accepted any compensation and were forced out through an expropriation decree ordered by the King\(^6\).

3.6 Final Comments

The MCCD began construction work shortly after King Fahd laid the Foundation stone on the 19th of October 1988. Today, the MCCD has reached the final stage of its first project in redeveloping the area (see figure7). The venture was successful in "riding the storm" and bringing the boat to the shore. Consequently, a local governmental

\(^6\) Because these people refused categorically any monetary trading for their land, the expropriation was "free".
authority was created and empowered with buying land in the area, whenever it was approved as pertain to public interest. This authority is known as the "Committee for the Development of Plazas and Public Spaces in the New Areas", and its members include the Prince of the area, its mayor, and the main contractor for the enlargement of the shrine. As previously stated, the Committee is involved in the expropriation of private property for public use, and in the planning of the area surrounding the Holy Mosque. MCCD has already begun presenting project proposals for the redevelopment of the remaining shrine, in coordination with the Committee's guidelines. At the time of the composing of this text, the fate of the owners in the new area was still not clear. Three main hypotheses were vaguely reported. The first one related that the owners would eventually become partners in MCCD. The second one suggested that a new company would be formed, comprised only of the new owners. The third one supposed that MCCD would simply own the land through a transfer ordered by the "Committee for the Development of Plazas and Public Spaces in the New Areas".

Three issues are noteworthy here:

First, MCCD is in the vanguard of a trend in Saudi Arabia, which consists of bringing together capital holders and land owners for redevelopment purposes.
Second, the founding owners have exerted considerable effort in marketing their venture in order to encourage the reluctant land owners to participate. This has been primordial in obtaining the government support.

Third, the special condition of Mecca and most important, the special location of the project and the necessity of maximizing land use within the area, left no doubt as to its economic viability. This facilitated, to a certain extent, the marketing task of the MCCD owners.
CHAPTER 4:

THE SAUDI ARABIAN EXPERIENCE:

RECONSTRUCTION AT MEDINA

Medina is the second holiest city of Islam. It was in this city that the Prophet Mohammad found refuge when he was expelled from Mecca by non-believers. He and many of his early followers, were buried in Medina.

Figure 8: Map of Medina
In terms of population, Medina is the third largest town in the western region, after Jeddah and Mecca. Whereas Mecca is surrounded by desértic, arid features, Medina is near fertile oasis: Bathan, al-Agik, Kanah, etc.

As in many religious Islamic cities, Medina is centered on the Holy Mosque of the Prophet. Markets and residential areas have developed around it (see figure 8). Throughout time, a strong relationship has been established between the expansion of the Holy Mosque and the city’s growth. Indeed, the idea to develop the central area of Medina emerged after the government took major steps toward enlarging the Prophet’s Masjid. In addition, the King’s support for more efficient urban structures in Medina and Mecca launched the private sector’s interest to become part of the process.

4.1 General Description

In 1987, the Taiba Company for Investment and Real Estate Development (TCD) was established to take part in the upgrading of the Medina region in particular, and the Kingdom in general. Its duration was set for 99 years from the incorporation date. The formation of TCD was initiated after the Emir of the city issued an invitation to local business men, requesting them to join in a shareholding company, in order to fully benefit from the area upgrading
projects to come.

Meanwhile, a new urban design plan was sought for the whole area surrounding the Mosque. The total area involved in the plan was 140 hectares (1,400,000 square meters). This domain was densely constructed and the buildings were in fairly good condition. Nevertheless, the new plan assumed the premises would be completely rebuilt. The King approved the plan without stating or suggesting implementation procedures. Nonetheless, a decision was taken to freeze the issuance of building permits in the concerned area.

Although the Mecca and Medina redevelopment projects were closely monitored, they differed in several aspects. First, the size of the Medina domain was 100 times the size of MCCD’s\(^7\). Second, no effort was made to persuade landowners to participate in TCD. Third, the government helped in forming the TCD, whereas MCCD formed itself, then applied for governmental approval. Fourth, urban design in Medina was carried out by a public institution; in Mecca, it is a completely private initiative achievement.

4.2 REHCO Structure(18)

TCD was formed from cash contributions only. No guarantee of the land owners’ participation was available or needed for its

\(^7\) But in Medina, TCD did not own the land at the time of urban plan conception.
establishment. Its structure is that of a shareholding company. TCD's capital is three billion Saudi Riyals.

The articles of incorporation of TCD were signed by two hundred and sixty nine individuals, all of them considered as founders of the company. The majority was elite business men, followed by merchants, housewives, and a few engineers and lawyers. Three semi-public institutions were also amongst the founders. They were the General Institute for Social Insurance, the Retirement Fund Agency, and the General Investment Fund.

4.2.1 Role of the Company

According to the by-laws of TCD, the company is set to resume and execute the following functions:

- To own the land parcels and hold the right to buy, sell, lease, rent, administer, operate, and/or maintain them.
- To own hotels, hospitals, leisure and touristic ports, and invest in, maintain, administer, as well as operate them.
- To undertake the maintenance and the managerial and the operational contracts for cities, ports, and public or private establishments.
- To contract work in the construction, architectural, mechanical, and electrical fields.
• To partake in agricultural, industrial, and metallurgical efforts as confirmed by local policies.

• To trade as a dealer and/or retailer in commodities, as well as in agricultural, electrical, and electronic equipment and materials.

More generally, Article 4, Chapter 1 of the By-Laws states: The company is allowed to hold stakes or undertake partnerships of any kind with institutions, firms, or individuals that operate in the same business environment or when unity is primordial to achieve a goal. In addition, the company is allowed to undertake mergers and acquisitions with any of the above actors. Finally, the company is allowed to invest its cash in any suitable manner leading to advantages of any kind.

Hence, the role of TCD is not limited to real estate activity. Neither is it limited to the redevelopment of a specific area. TCD is an investment company, whose scope is vast.

4.2.2 Financial Structure

The capital structure of TCD is set to 3 billion Saudi Riyals (SR). It is constituted of 20 million equity shares with S.R. 50 par value each. The initial offering is restricted to one billion Saudi Riyals, of which at least 500 million Saudi Riyals are to be settled in cash immediately.

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8 The interest in the agricultural field of the company might sound strange. The reader should remember that Medina is located near oases and has more than 1500 hectares of cultivable land.
The founders subscribed for 8 million shares, and the remaining were eligible for public offering. For all bought shares, only 50% of the purchase value was due when sealing the contract. The remaining 50% will be due at a later date which will be set by the Board of Directors.

4.2.3 Organizational Structure

TCD will be presided over by a Board of Directors comprised of 19 elected members. The duration of office is three years, renewable. Exceptionally, The first Board of Directors was nominated by the founders for a period of five years non-renewable.

The Board of Directors elects from within a President, a Vice-President, and a Secretary. In addition, six members of the Board are chosen to form the Executive Committee, whose task is to follow-up and execute the Board’s decisions.

4.3 Motivational Factors

The government request to establish an investment company was fundamental in the formation of TCD. Particularly, the King’s personal propensity for private initiative was clearly outspoken through his messages to the people. In his own words⁹: “I still prefer the

⁹Translated from Arabic.
existence of companies undertaking this kind of work, with the assistance of the state". About Mecca and Medina, the King said: "I am fully interested in the state of Mecca Al-Mukarrama (the endowed) and Madina Al-Munawara (the enlightened), and in a conscientious and thorough analysis of the projects (before implementation)"; also, "the planning of these two cities, Mecca Al-Mukarrama and Madina Al-Munawara, is of major importance to me, and I shall give it priority in my time and thinking, and make it the primary focus of governmental efforts".

The following factors also helped in considering large-scale redevelopment.

First, the area was lacking in hotels and commercial centers. Demand for hotels was increasing with the increasing number of pilgrims to the area each year and the expansion of the Holy Mosque that eroded around 5,000 rooms. Many stores were also demolished to accommodate the Mosque's expansion. Large-scale redevelopment will allow the construction of nearby large commercial malls that will respond to the increased demand and at the same time will alleviate the burden on the transportation network.

Second, the existence of hotel complexes and huge malls will require proper management and maintenance. The provision of a private entity to deal with these tasks has always proven to be better than installing a public institution.
Third, at that time, there was a critical need for strengthening the agricultural, industrial, commercial, and service sectors.

Moreover, the following factors were seen as positive implications resulting from private venturing into large-scale redevelopment supported by the government(19):

(i) Enhancement of Medina’s architectural and functional facets.
(ii) Increase the intake capacity of the area near the Holy Mosque.
(iii) Create investment opportunities for land owners to improve their real estate properties and their respective revenues.
(iv) Create investment opportunities for local and national capital.

4.4 Problems & Complications Encountered

It seems that the general public did not oppose the expropriation process by the government. Nevertheless, they opposed the land transfer mechanism to TCD (i.e. the auction market).

It is strange that no objection to the expropriation was met. When, we think about the spiritual value of the land near the Holy Mosque, it appears unlikely that no resistance was heard of. Unfortunately, no information on public reactions is available.

On the other hand, land transfer (from the original land owners to TCD) arrangements were quite complex and aroused a lot of opposition. TCD proposed several alternatives for dealing with the
original land owners and specifying methods in which they could partake in the development project. Hot debates might have evolved around the subject since it took TCD two years to design a workable formula. Another possibility is that the government approval took time. Unfortunately, no available information can back any of these hypotheses. What we can only imply is that since TCD provided many options to transfer land and only one was retained that presented as such: the land would be expropriated by the government and then resold in auction.

This policy enabled TCD to acquire many land parcels, where redevelopment projects took place in accordance with the earlier developed urban plan. The price estimates to expropriate land ranged between S.R. 6,000 and S.R. 6,500 per square meter. The auction prices ranged between S.R. 64,000 and S.R. 80,000 per square meter. In one specific case, the price reached S.R. 140,000. According to local sources, no major objection happened in accordance with the estimates of property expropriation costs. Nevertheless, we should have expected opposition at least on two counts. First, the difference between the expropriation price and the auction price, indirectly implies that the former did not reflect adequately what the land retains in growth opportunities. Second, the government appears as a land speculator; whereas its task should have been expected to stop or regulate the speculation had it happened.
Finally, it seems that the method used to expropriate land initiated conflicting points of view. Obviously, the expropriation of private land to resell it to the private sector is somewhat difficult to defend as pertaining of the "public interest". Some people will accept it and some will never do.

4.5 Final Comments

TCD is, at the same time, a REHCO and an investment company in general markets and industries. It was created by private individuals as if it was a normal business company.

No effort to persuade land owners to join TCD were made. Instead, TCD waited two years until it was able to address the government with a workable solution. It does not appear that TCD was going towards the original land owners during these 2 years as much as it was turned towards the government.

Conversely to Mecca's case, the redevelopment effort was not the experience of one company; rather, the whole city was involved in the process. Indeed, the urban plan was developed for the whole area and then applied by the different new land owners. Moreover, it is the King that appealed to the private sector to converge all efforts toward rebuilding the city. In Mecca, the idea emanated from one company which was presented afterwards to the King. The bottom-up approach
in Mecca confined the efforts to the company; whereas the top-bottom approach in Medina embraced the whole population into the debate.

On the other hand, as in the case of Mecca, the special religious significance of Medina left no doubt on the economic viability of the development project.

Finally, the area the REHCO is trying to redevelop is not deteriorated or obsolete. In fact, many of the buildings are new and in good condition. The problem to be resolved was mainly the lack of exploitation of the area capacity, the need for wider roads and pedestrian space, and the aesthetic incompatibility with the area's sacred sense (due to the rapid uncontrolled growth that occurred since the 1970s).
CHAPTER 5:

THE SAUDI ARABIAN EXPERIENCE:

THE RECONSTRUCTION OF

KASR EL-HOQM AREA

Arriyadh is the capital of the Saudi Arabian Kingdom. It is located in the center of the country (see figure 6), 992 and 901 kilometers to the east of Medina and Mecca respectively.

During the last 30 years, Saudi Arabia was the scene of dramatic demographic expansion. The population grew from 82,000 in 1930 to 1,380,000 in 1986, to 2,500,000 in 1992 (20). Coupled with attracting the housing for Government buildings, and headquarters of principal financial, commercial, and industrial firms, these phenomena have forced Arriyadh to urbanize and accommodate rapidly the exceptional increase in human activity over a short period of time. Due to the vast desert land available around the city, the expansion behavior went mainly horizontally. The directional movement of the urbanization was to the North, East, and South. The presence of Wadi
Figure 9: Arriyadh City in Pictures.
Hanifah, curtailed the expansion to the West. In 1992, the metropolitan area of Arriyadh stretched 50 kilometers in the east-west direction, and 70 Kilometers in the south-north direction(20). The transportation network and the public services were henceforth strained to the extreme.

In 1953, the city of Arriyadh was entrusted with a municipality body to facilitate, orient, and coordinate local private initiatives of any sort. In 1974, a "Higher Committee for the development of Arriyadh city" was specially charged to tackle the problems related to the extension of Arriyadh. The Higher Committee was the highest authority in urban planning and development of the region. It even held the power of land expropriation, and approval of any development programs, public or private, before implementation.

5.1 General Description

More than third the population of Arriyadh live in a metropolitan area whose radius is 4 kilometers, originating from the center area called Kasr El-Hoqm (see figure 10).

The Kasr el-Hokm region is what the city of Arriyadh was seventy years ago. Due to the lateral expansion, the inner city suffers emptiness and lack of interest. Indeed, the dwellings have deteriorated over time as well as the infrastructure (see figure 11). Out of 2.5 million
living in Arriyadh, only 12,000 live inside the old city. The obstacles to private development were threefold: first, the accessibility to private land parcels was extremely difficult due to the existence of tiny roads dating from the period of pre-expansion; second the land ownership were too small to undertake an effective reconstruction under a new urban master plan; third, the shift of activities to outskirts made it more interesting for developers to invest capital outside the down-town. Only one activity remained in the down-town; the Emirat, where the Emir of Arryadh met daily with delegations. The total area of concern is about 54 hectares (540,000 square meters), subdivided into individual lots which varied, in size, from 12 to 200 square meters.

Figure 10: Map of Arriyadh (In Red: Kasr el-Hoqm Area)
Figure 11: The Kasr el- Hoqm Area in Pictures
Due to the political, financial, and economical importance of Arriyadh, the redevelopment of its center was at the heart of public debates and thinking. An independent office was created to manage and overview the redevelopment process. Many ideas were proposed to identify the major actors and portions of the redevelopment. The following section encompass this issue. More detail about the created REHCO will be discussed in the later sections.

5.2 Emanation of the REHCO idea

The Arriyadh Development Authority started rethinking the whole process of redevelopment to combine the best actors and the best available tools for the purpose (15).

The first idea was to let the government rebuild the concerned area. This idea resulted from the fact that initially, only government offices were to be rebuilt: mainly, the Police headquarters, the Kasr el-Hoqm (Ruling Palace), the Emirat, and the Imarn Mosque. This option was declined when it was realized that private involvement was crucial to an effective "lifting" of the whole area.

The second idea was to establish one REHCO responsible for the redevelopment of the specified region. This option was never implemented for unknown reasons.
The third idea was to redevelop the area through a company combining the government and semi-government institutions.

The fourth idea was to assist the market forces and direct them towards redeveloping the area.

Finally, the fifth idea was a consolidation of the previous two with the major actors defined: a public and semi-public company, a REHCO (Arriyadh Development Company), a single developer\(^\text{10}\), more individual people to be assisted in rebuilding parts of Arriyadh downtown.

5.3 The Phasing of Development(21)

To allow all the actors to fully participate in the redevelopment effort, the Arriyadh Development Authority opted for three different phases according to which the redevelopment pace would be regulated.

In the first stage, the following buildings were built: the Emirat of Arriyadh, the municipality of Arriyadh, and the Police Department of Arriyadh. The construction ended in 1986 and the affected authorities resumed their functions from the newly built quarters.

\(^{10}\) who bought many parcels and combined them into one huge entity over a 20 year period
The second stage focused on planning and executing the modernization of the Imam Tirki Ben Abiellah Mosque, the Kasr el-Hoqm, the open spaces, the public services, and the ancient wall surrounding the region.

Figure 12: The Kasr el-Hoqm Region:
phases I (mauve), II (green), and III (blue)
The projects were offered for public bidding as soon as the tendering documents were ready. Many contracting companies were selected and the construction work began on October 8, 1988. The time for completion was set initially at five years. The total value of the contracts reached 447,761,355 S.R.

During this stage, the urban plans for the remaining area to be built by individual developers were also prepared. Figure 12 delimits the different regions where the first, second, and third stages are to be carried over.

The third phase is the most important one. It encompasses 60% of the total area of Kasr el-Hoqm. Furthermore, its ownership pattern comprises 1,200 different owners (the highest private ownership compared to regions one and two). The following discussion shall focus on this area because of its obvious characteristics that renders it more interesting to our comparative analysis with Beirut.

5.4 Motivational Factors

The present condition of the area, back then, was overwhelmingly unfavorable for private development. Indeed, the region suffered from(21):
(i) Small parcel sizes. Many being less than 100 square meters.

(ii) Demolished and unsuitable structures. As much as 40% of the area\textsuperscript{11} consists of demolished and depleting buildings and houses.

(iii) Decrease in land value. In 1989, the price ranged from 3,000 to 10,000 S.R. In 1980, the same land used to sell for 5,000 to 50,000 S.R. respectively\textsuperscript{12}.

(iv) Increased motorization level. The number of cars transiting through the region accrued enormously while the streets remained small and non-maintained. Moreover, the parking facilities did not accommodate to the new demand.

(v) Lack of adequate public services. Compared to the modern suburbs, the downtown was, rather equipped with low quality services.

The plan for the redevelopment of the Kasr el-Hoqm area aimed at the following:

(i) To provide suitable commercial, business, and residential facilities. 70% more facilities will be constructed, of which, 46% will be commercial and residential (that is 379,000 sqm each), and 54% offices (that is 645,000 sqm).

(ii) To increase the qualitative and quantitative levels of the construction materials in the area. The first and second phases have

\textsuperscript{11}That is the 32 hectares forming the third phase of development.

\textsuperscript{12}Shortly after 1980, a development freeze was applied to the Kasr el-Hoqm area. Although this resulted in price decrease, nothing refers to this in the information booklet.
set a precedence for the region. In addition, the FAR has been augmented to allow provisions for high-rise structures.

(iii) To preserve the historic characteristics of the region. A particular land expanding over 15,000 sqm will be refurbished yet will still maintain its complete original relief.

(iv) To provide public services and recreational parks. To link the Kasr el-Hoqm area with the rest of the city is an absolute necessity without which, the area will fail in dragging people to inhabit it again. Similarly, the need for breathing space is major for any healthy societal environment. These major works will be performed by the public agency Arriyadh Development Authority.

We have already stated that the redevelopment authority was aware of the limitations of the private sector and the primary role that the private sector should play to globalize the effort. Hence, many public-private covenants were arranged, in the midst of direct patronage by Arriyadh Development Authority. These were the "Commercial Complexes Companies", the "Saudi Company for the Mou'aikila Commercial Center", the "New Souwaika Center", the "Investments of the Authority for Retirement Salaries", the "Treasurary of Investments of the Welfare Wakf"\(^{13}\), and the "Arriyadh Development Company".

\(^{13}\) Special trust under the legislation of Islamic law.
5.5 REHCO Structures

Since in this case many REHCOs took part in the redevelopment, we shall briefly survey the role of each one. The financial and organizational structures reproduce those already introduced for Mecca, Medina, and Beirut to a lesser extent. It would be more interesting here, to survey the companies and point out the particular roles and characteristics (if any) of each one. Nevertheless, we shall detail more on the Arriyadh Development Company for it is the largest and most implicated one.

"Commercial Complexes Companies"

The "Higher Committee for the development of Arriyadh city" decided in 1980 to create this company to provide opportunity for the private sector to participate in the reconstruction process. Its headquarters and principal engagements should have been in Arriyadh. The role of the company was primarily to erect buildings for the Municipality. Its capital was S.R. 1.5 billion. The municipality was intended to participate in the venture with an amount of money equivalent to the value of the expropriated land in that region. The remaining shares would be released for public registration; the original landowners having priority rights.
This company was never incorporated because the idea met many difficulties and opposition to implementation.

"Saudi Company for the Mou’aikila Commercial Center"

This company was formed out to counterattack the failure of the previous one, and to respond to the urgent need for starting work in the region. The founders and members of the company are the Municipality of Ar Riyadh, the Authority for Retirement Salaries, the Social Security, and the Saudi Real Estate Company, all of which being either public or semi-public institutions.

The role of the company was to develop a commercial, residential, and offices complexes on the Mou’aikila estate owned by the Municipality. Its capital was first set at S.R. 100 million then raised to S.R. 500 million (with the consent of all members). The Municipality’s contribution to the capital was the value of the land, estimated at S.R. 291,392,470 minus 30% for the provision of upgrading the transportation network. The difference was accounted for, as a loan from the Municipality to the company, to be repaid according to a scheme who’s elaboration is beyond the scope of interest of this thesis.

The company is still going on successfully and has already completed two commercial projects.
"New Souwaika Center"

This company was formed out by one single developer who started acquiring the land as early as 1956. By 1990, he owned 12,400 sqm in the region combined into one land parcel. The Higher Committee's role was to facilitate the last buyouts which became extremely difficult due to escalating speculation and opposition by original landowners. The project was finally carried out and completed for S.R. 24 million. Buying the land cost S.R. 80 million. Besides helping in resolving conflicts with the original landowners, the Higher Committee surveyed the planning and execution of the project, as well as assisted in the displacement of the old "Souwaika Souk" to the new one.

"Investments of the Authority for Retirement Salaries"

This coalition invested in the modernization of 120 condominiums and two centers comprising 94 stores, 69 offices, and 122 condominiums. All of the above were executed on mainly one street known a the "Embassies' Street".

"Tresury of Investments of the Welfare Wakf" 14  "

The Arriyadh Development Authority, after completing the design for the "Souks" 15 , proposed it to the Saudi Company for the

14 Special trust under Islamic law legislation.
15 Commercial center in arabic.
Mou'aikila Commercial Center. The latter expressed no vif benefit. Conversely, the Tresury of Investments of the Welfare Wakf was interested and helped in evaluating and expropriating the land in the concerned region. The total value of the project is S.R. 21 million, and is still underway.

"Arriyadh Development Company"

This was the largest company to form in the region and the only one not involving a public intervention. Its capital was S.R. 1 billion. Its organizational structure is similar to Solidere (refer to chapter 3). Its financial structure is made out only of shares; approximately half of them are owned by the members of the founding committee, the rest are publicly offered. Its role is exactly similar to the MCCD one (refer to section 4.1.2.1). The number of shareholders is approximately 1,300. The chairman of the Board of Directors is always the Mayor of Arriyadh.

The Arriyadh Development Company (ADC) was entitled to rebuild areas 3, 6, and 7 (see Figure 13). These areas have the least proportion of public buildings and the most proportion of "demolishable"ones. The striking differences with the other ventures, are that ADC is responsible for devising an urban plan for these areas, which will have to be approved by the Higher Committee before proceeding, and it is responsible for buying out the land from the
original landowners.

No law obliges the owners in the designated areas to sell their land to the company. ADC is only entitled to contact the owners and convince them to sell their land at the price set by the Municipality. Of course, the original landowners can also become associates in the company by buying shares.

At the time of writing this thesis, ADC had successfully raised its capital. Nonetheless, doubts still cloud on the willingness of the landowners to sell their land.

Figure 13: Subdivisions in Phase III
5.6 Problems & Complications Encountered

It seems that problems encountered were minor. At least, if they existed, they were not transparent to the public.

Nevertheless, we have a feeling that the complaints were reduced through the probing of options, plans, and schemes to effectively build the area.

Probably, the only problem faced was the surrendering of land since a lot of expropriation have been used to satisfy this requirement.

It is interesting to note also that initially, a complete public involvement was rejected by the population who demanded a more active role in the decision-making process.

5.7 Final Comments

The development objectives in phase III are:

(i) To provide commercial, residential, and office space,
(ii) To upgrade the urban quality environment,
(iii) To preserve the heritage of the region,
(iv) To provide public services.

The development considerations in phase III are:
(i) Flexibility in the urban layout. A flexible urban design that does not dictate rigid street routes or capacity, open areas or public facilities. All of these shall be determined according to actual measurements of performance and demand induced by the new projects (carried out phase by phase).

(ii) Integration: try to make the area as workable as possible during the development. Also the development of public utilities and services should be done according to the actual needs and development trends.

(iii) The guide plans should provide the following information: land use, development capacity, traffic and parking, pedestrian movements.

(iv) Private sector participation in the project. To provide the opportunity for all interested developers, whether individuals or groups, while carefully maintaining a balance between the protection of the area and the owners' rights.

The role of the Arriyadh Development Authority is to ensure the following:

- Planning

- Development control

  a) encourage the formation of development companies

  b) encourage land amalgamation
• Providing incentives (loans, priorities, flexible building permits...).

The patterns of development, set by the Arriyadh Development Authority are:

(i) Major property owners to develop their own lands,

(ii) encourage owners of lands exceeding minimum size (750 sqm) to develop their land,

(iii) encourage small property owners to combine their lands,

(iv) establish development companies among major property owners so as to create large development areas. Land owners either participate by the value of their land or sell it to the company,

(v) encourage development by existing development companies,

(vi) purchase land against stocks with cash-in delayed until the land is planned and sold back,

(vii) establish development companies among private sector investors who presently are not owners.

Along these guidelines, ADC and the other companies were created. It ensues from the above that the Kingdom was taken very serious in considering the redevelopment of the Arriyadh city. This willingness coupled with high work and finance, made it possible to minimize litigations and clashes with the public interest.
CHAPTER 6:

COMPARATIVE ANALYSIS

In the previous chapters, the Lebanese and Saudi experiences have been described to the extent allowed by the available information. Many differences and commonalities have been already identified. In the following chapter, the task will be to analyze carefully the cases in order to reach a conclusive argument on the applicability and usefulness of REHCO principles.

6.1 Macro Analysis

The first part of the discussion will be to compare at a macro level the contexts in which the REHCOs evolved. Six main items will be analyzed. The government types, the available financial means, the institutional environment, the landholders' financial means, the availability of land, and the availability of technical expertise.

6.1.1 Government Types

Although Lebanon and Saudi Arabia are both arab Middle Eastern countries, their respective governments and societal cultures differ greatly. Saudi Arabia's government is a monarchy with a council
of appointed ministers. There is no constitution, no parliament and the King retains absolute legislative power. The Coran is the supreme law. The population is 99% Muslim.

On the other extreme, the Lebanese government is a confessional democracy. The legislative body is an elected parliament. The parliament elects a president of the Republic whose tenure extends over a seven-year period. The President, in conjunction with the Parliament, nominates a Prime Minister. In turn, the Prime Minister appoints several ministers to form the Council of Ministers which is the executive body of the country. The constitution, written during the French mandate in the early 40s and amended in 1991, is the supreme law of Lebanon. The population is half Christian, half Muslim.

These different types of government entail rather interesting patterns of public opposition or approval of an eventual REHCO creation. Indeed, in Saudi Arabia, the King's request to engineer a probable reconstruction of Mecca, Medina, and Arriyadh was enough to propel private efforts towards creating ventures to perform redevelopment. At the same time, a simple directive from the King to expropriate the land settles the issue of transfer and possible opposition.

In Lebanon, the democracy type of government results in more debates around controversial issues. Moreover, the transfer of land needs creation of a legal structure. Thus a REHCO is much more
difficult to implement. Indeed, the degree and number of reported problems encountered by protagonists of REHCOs in Lebanon is much higher than in Saudi Arabia as the description of the cases had previously showed.

6.1.2 Environment Discrepancies

Lebanon is coming out of a bloody civil war that lasted 18 years. The government lacks credibility on the national scale to run the country effectively. Furthermore, corruption permeates all the levels of public institutions. Moreover, the Lebanese public firms and institutions are nowadays evolving in a very dynamic environment. Indeed, a re-engineering of the whole governmental apparatus is proceeding to cover the gap left by 18 years of sluggish institutional development.

Conversely, Saudi Arabia enjoys a stable, strong government. The effective gearing of the country into the technological advances of the 20th century, the increased general wealth of the population, and the increased quality level of life, have won the monarchy great respect from its people. In addition, corruption is less prevalent because of the severity of Islamic laws applied, and the excellent social benefits available to public servants.

These environmental differences permeate the public-private relationship in the REHCO context. In Lebanon, the state had a limited role in the creation of Solidere. In Saudi Arabia, the role of the
government in the creation of each company was more important. As to the role of the government in controlling the future work of these companies, again, the Lebanese government has no real power over Solidere, whereas the Saudi Arabian one is fully controlling the redevelopment process through continuous monitoring by public bodies such as Arriyadh Development Agency, and the "Committee for the Development of Plazas and Public Spaces in the New Areas" (in Mecca).

6.1.3 Financial Abilities of Public and Private Sectors

Saudi Arabia is a wealthy country with a 1989 GNP of $89.9 billion. Lebanon was a wealthy country and is now trying to restore its lost primary and secondary economical sectors. The 1989 GNP was around $3.3 billion.

The private sectors in both Saudi Arabia and Lebanon are financially strong. Obviously, the average Saudi individual is much wealthier than the Lebanese one. Nevertheless, relative to the national economy’s scope, the Lebanese people is considered well-off. Indeed, the Lebanese foreign diaspora’s fortune is estimated at 30 to 40 billion U.S. dollars.

The implication on REHCO is first the inability of the Lebanese government to undertake large redevelopment projects, and second, the plausible reliance on the citizens’ personal opulence.
For Saudi Arabia, the government is financially capable of dealing with large redevelopment projects. Nonetheless, it is embarked on several projects that considerably drain the resources. First, the defense budget expenditures are very high. Saudi Arabia is constantly threatened by instabilities in the Middle East. Second, Saudi Arabia endows its citizens with many social security benefits and programs. Finally, the modernization of the country through extensive building of transportation facilities (airports, highway networks,...etc), university settings, and even whole cities (Jubail, Yanbuq), have imposed heavy burdens on the budget. Therefore, the use of private capital to enhance the downtown centers of cities comes in handy at a time when the government is heavily engaged in costly projects.

6.1.4 Land Availability

Saudi Arabia’s surface is approximately 200 times Lebanon’s surface. The vast desert land that is available for construction in Saudi Arabia is immense. Hence, horizontal growth of cities is not hampered by geographical constraints. Conversely, the restricted area available around Beirut renders horizontal growth impossible to absorb the increased demand. This implies that a REHCO for developing central Beirut would have much more impact than a REHCO empowered with rebuilding downtown Saudi city centers. An error in the planning process could be fatal for Beirut’s future expansion, whereas in a Saudi
city, an error would be "less severe" since accommodation outside the city center would be always possible\textsuperscript{16}. Therefore, the planning process in Beirut, as well as the examination and reevaluation of all designs, ought to be thoroughly performed. This should theoretically result in greater time and resource consumption prior to the beginning of the construction work.

\textit{6.1.5 Availability of Technical Expertise}

Both Saudi Arabia and Lebanon lack local technical experts to undertake the planning and the management of such large-scale projects. Thus, there is a need to rely on international expertise. This reliance is critical because of the continuous nature of the redevelopment process. Therefore, to out-source the design and planning tasks is not enough. International expertise have to be brought in to continuously monitor work and reevaluate the plans already done.

The public sector generally fails to attract this needed expertise. The main reason is that government wages are typically low in the world and especially in the Middle East. In addition, the public structures fail to provide adequate incentives to sustain motivation over a long period of time. These issues are highly stressed in the Lebanese case. Due to the war, the intelligentsia left the country. The need to

\textsuperscript{16} Of course, no one likes to make mistakes. All what is said here is that a failure to accommodate demand in Beirut would be more dramatic.
reattract these people is primordial for the rising of the cultural society Lebanon was known for in the past.

Consequently, REHCO structures come to the rescue in providing higher wages, better incentives and increased motivational criteria.

6.1.6 Wrap-up Summary

The following table summarizes the above discussed factors.

<table>
<thead>
<tr>
<th></th>
<th>Saudi Arabia</th>
<th>Lebanon</th>
<th>Implication on REHCO Models</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government</td>
<td>Monarchy</td>
<td>Democracy</td>
<td>More public debates and opposition in Lebanon.</td>
</tr>
<tr>
<td>Environment</td>
<td>Stable</td>
<td>Less stable</td>
<td>Easier control by public institutions in Saudi Arabia.</td>
</tr>
<tr>
<td>Gvt. Wealth</td>
<td>High</td>
<td>Low</td>
<td>Financing in Lebanon more difficult (especially in the preliminary consulting stages).</td>
</tr>
<tr>
<td>Citizens' Wealth</td>
<td>High</td>
<td>High</td>
<td>Higher probability of success in privatization programs. (esp. in initial offering stages)</td>
</tr>
<tr>
<td>Land Availability</td>
<td>High</td>
<td>Low</td>
<td>More pressure on urban planning in Lebanon.</td>
</tr>
<tr>
<td>Technical Expertise</td>
<td>Required</td>
<td>Highly required</td>
<td>Need to provide incentives to attract international expertise.</td>
</tr>
</tbody>
</table>

Table 2: Summary of Macro Analysis
6.2 Micro Analysis

By micro-analysis, we mean the analysis of the specific features in each REHCO's domain. Many "micro-factors" do condition the REHCO structures, applicability, usefulness, and relation to the government. The following is a list of the salient factors for Beirut, Mecca, Medina, and Ar Riyadh.

6.2.1 Infrastructure Condition

The infrastructure in Beirut needs to be rebuilt completely. The cost is estimated at $565 million U.S. dollars (1993). In Mecca and Medina, the infrastructure is in good condition. It will only need upgrading to support the increased demand that will be made through the redevelopment of these areas. In Ar Riyadh's Kasr el-Hoqm, the infrastructure has been made obsolete by two main conditions. First, the lack of interest during a long interim in the Kasr el-Hoqm area corresponded with a decrease in the maintenance expenditures. Second, the modern buildings that were built in the suburbs had higher level of services.

Therefore, in Beirut, adequate financing schemes had to be developed to build the infrastructure. Since the government lacks the financial ability (see section 6.1.3) to undertake such a project, it was decided to leave it in the hands of the development company, Solidere.
Whether this was a wise decision or not will be discussed in the next chapter.

6.2.2 SuperStructure Condition

The superstructure in Beirut is completely destroyed. In addition, the Normandy garbage dump site needs urgent remedial to halt the spread of pollution.

In Mecca and Arriyadh, the superstructure is in a dilapidated condition. This is mainly due to a general lack of maintenance and poor initial construction.

In Medina, the superstructure is in a fairly good condition.

The fact that the superstructure is in this state is one of the major conditions for the emergence of a REHCO. Indeed, REHCO arrangements serve to overcome the stalled development effort by reducing the tensions of each potential actor waiting for the other to go first. In addition, REHCO arrangements provide new alternatives for the region brought in by a new comprehensive urban approach. Finally, the superstructure condition, coupled with the stalled development effort factor, render the accurate appraisal of land value practically impossible. The financial structure of the REHCOs permits equity shares with floating values correlated with the upgrading of the area. This solves the appraisal problem smoothly. Further detail will be discussed in the final chapter.
6.2.3 Land Ownership Condition

The land ownership patterns are very complex in all of Beirut, Mecca, Medina, and Arriyadh. Due to inheritance procedures and unrecorded changes of land tenure over a long period of time (because of war in Beirut, decreased selling market in Arriyadh, and unwillingness to sell in Mecca and Medina), the land parcels became fragmented. For example, more than 50% of the parcels in Mecca are 50sqm or less, more than 50% are less than 250sqm in Beirut. Moreover, the complex ownership patterns (even on single land parcels) render a possible join venture between them unlikely. REHCO arrangement comes to the rescue by first reassembling the land to create better development alternatives, and second by bringing together all property-right holders under one umbrella. This latter factor bypasses the possible personal dilemmas that might exist.

6.2.4 Domain Size

The Saudi Arabian REHCOS are not confined to a specific area. Nevertheless, their first projects and their creation came out of a need to redevelop a specific area. The Mecca company first redeveloped 17,000sqm. Afterwards, a governmental committee was charged to expropriate the remaining lands around the shrine. The relation of the Mecca company regarding this new land is not yet known.
The Medina company undertook the redevelopment of 1.4 million square meters. But, the company does not own the land, it is the government who does, through an expropriation decree. The company only helped in establishing land transfer criteria and in drawing up prototype design plans. The company was assigned five sub-areas to redevelop. The first area covered only 5,500 sqm and is completely redeveloped.

The Arriyadh Development Company (ADC) was assigned the redevelopment of 320,000 square meters. The first project ADC is handling covers about 135,000 sqm. The total area to be redeveloped is 540,000 squared meters.

In Beirut, Solidere's domain was established and covered 1.4 million square meters. The company owned all the land and was responsible for its redevelopment.

Therefore, it seems that in Saudi Arabia, the areas to be redeveloped were divided into several smaller sub-areas. The idea is to start redevelopment through pilot projects. This helps in testing the demand, as well as the social acceptability of these arrangements. In addition, the companies were better equipped to market the venture into a smaller area that consisted in a smaller number of land owners. Moreover, since similar developments were occurring at the same time in the nearby parcels (refer to section 4.4), land owners were eager to start developing so as not to lose competitiveness with the other areas.
Also importantly, it relieved ADC from any allegation that it had invaded the prerogative of the rest of the private sector, since the rest of the land was still available to other developers. At the same time, this arrangement secured ADC an uncontested competitive leverage over all other interested developers. Hence, the "divide to conquer" principle seems to be theoretically successful in managing the opposition. This theory is yet to be proven in Kasr el-Hoqm as soon as development is launched. Conversely, the Beirut company did not divide the area at all. It acquired all the land in one chunk. Actually, Solidere retains monopoly on all the domain. It is at the same time the developer and the urban design producer.

Another major difference between downtown Beirut and downtown Arriyadh is the proportion of these areas with the rest of the city. For Beirut, the center is a large part of the city. Conversely, the Kasr el-Hoqm area is a tiny portion of Arriyadh (see figure 10). Unfortunately, at this time, the proportional areas of Mecca and Medina's cities and their respective downtowns are unknown to me.

6.2.5 Area's Future Condition

The future demand for office, residential and commercial space in Beirut was demonstrated earlier in chapter 2. The viability of the project, from the economical and financial point of view, is quite certain. In section 2.3.1, the special conditions of Beirut Central District were
pointed out. The forecast for the region is bullish. Apart from political risks, the outcome of an investment in the area should prove to be positive.

In Mecca and Medina, the special religious conditions and the affluence of millions of pilgrims each year leave no doubt about the financial outcome of an investment aiming at increasing the intake capacity of the area.

As for the Kasr el-Hoqm area in Arriyadh, the future demand is uncertain. Urban blight has occurred because of the modern, better serviced buildings that have been blooming in the surrounding suburbs. Recreation of the demand for the central area is an uncertain outcome, albeit current indications are promising. Therefore, an investment in this area is riskier than in Beirut which in turn is riskier than an investment in Mecca and Medina.

The consequence of the different perceptions of risk on the REHCOs is mainly on the balance between the public and private involvement in the partnership. Where the future is uncertain, the public sector is much more involved in the creation of the REHCO. Furthermore, incentives to create such an arrangement or to join in such a venture for the public sector are more hesitant where demand forecasts are less accurate. Therefore, in the Kasr el-Hoqm (the riskier project in this case), the public involvement is much heavier. The packaging of the strategic plan, as well as the phasing of development
is carefully handled by the Arriyadh Development Agency.

In Beirut, the state is practically nonparticipant in the redevelopment effort. This does not mean however that the project is risk-free. Actually, many financial advantages were given to Solidere to help in its difficult task. Indeed, tax exemption of all kinds cover Solidere for the first 10 years after its incorporation. In addition, share holders are exempted from personal taxation on received dividends and capital gains for the same period of time.

On the other extreme, the Mecca venture emanated solely from private initiative without any special support from the government. It is after the formation of the company that founders requested the King's approval for incorporation. In Medina, quite the reverse happened but again, no special incentives were given. The King publicly announced his intentions to redevelop the area. Afterwards, 269 persons joined together to form a real estate and investment company to grasp the coming opportunities.

Another interesting feature resulting from the underlying uncertainty is the share holders' identity in each company. Where uncertainty was high, the original land owners formed an important part of the company (as in Solidere and the Kasr el-Hoqm REHCO). On the other hand, where the uncertainty was low, the companies first structure only grouped cash contributors. The fate of the land owners was resolved after the formation of the company.
6.2.6 Wrap-up Summary

The following table summarizes the factors discussed above.

<table>
<thead>
<tr>
<th>Infrastructure</th>
<th>Beirut Central District</th>
<th>Mecca</th>
<th>Medina</th>
<th>Kasr el-Hoqm</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Needs complete restoration</td>
<td>Needs little upgrading</td>
<td>Needs little upgrading</td>
<td>Needs major upgrading</td>
</tr>
<tr>
<td>Superstructure</td>
<td>Demolished</td>
<td>Dilapidated</td>
<td>In good condition</td>
<td>Dilapidated</td>
</tr>
<tr>
<td>Land ownership</td>
<td>Fragmented and complex</td>
<td>Fragmented and complex</td>
<td>Fragmented and complex</td>
<td>From fragmented to government to private monopol</td>
</tr>
<tr>
<td>Domain Size</td>
<td>Very large and undivided</td>
<td>Small and divided</td>
<td>Small and divided</td>
<td>Medium and divided</td>
</tr>
<tr>
<td>Project viability</td>
<td>Medium risk</td>
<td>Low risk</td>
<td>Low risk</td>
<td>High risk</td>
</tr>
<tr>
<td>based on future</td>
<td>High financial outcome</td>
<td>High financial outcome</td>
<td>High financial outcome</td>
<td>Med. financial outcome</td>
</tr>
<tr>
<td>of the area.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 3: Summary of Micro Analysis

6.3 REHCO Analysis

Each REHCO used different approaches to deal with the problems it meant to solve. In this section, we turn to the analysis of the internal differences between each specific REHCO arrangements.
6.3.1 REHCO Structures

The role of the Saudi Arabian companies differed greatly from the Lebanese one. Solidere has a defined role summarized in three major points: infrastructure finance, real estate redevelopment, and property management. The Saudi companies have a much wider role. For example, the Mecca Company is an investment company that is entitled to enter nearly any kind of business. Even though it was created primarily to redevelop dilapidated areas in the city, its scope of potential work as defined in the articles of incorporation is very large. The Arriyadh Development Company was created as a response to the patterns of development set by the ADA (Arriyadh Development Agency). The latter expressed the need to establish development companies among major property owners so as to create large development areas, and among private sector investors (who are not land owners) to induce interest in the area. The Medina company was a special case since it was the first experience in Saudi Arabia. Its role was to upgrade the small area next to the shrine.

The financial structure of all the REHCOs is similar. All of them are shareholding companies with a capital structure formed 100% from equity.

The organizational structure is also similar in all cases. A Board of Directors runs each firm. Although the number of chairs differed in
each company, there was always one chair reserved to a public servant representing the government.

Therefore, even though the "micro" and "macro" factors differed greatly, the REHCO structures are very similar. Only one major difference occurred among the roles of the REHCOs. This difference existed because the REHCO arrangements in Saudi Arabia include at least two separate organizations. One deals with the planning of the redevelopment and the outlining of the strategic plan, and the second is an investment company that owns the land and executes the work. The former is a public institution (like the Arriyadh Development Authority), and the latter is a shareholding private company. In Beirut, these two bodies were incorporated in one organization (Solidere) which at the same time develops the strategic plan, manages the phasing of development, finances the infrastructure, owns the land, and develops it. The reason for this amalgamation of all roles into one organization is that the Lebanese government lacks the financial ability and the proper institutions to impose a differentiation such as the one in Saudi Arabia.

6.3.2 Motivational Factors

The creation of a REHCO is motivated by many factors. As subdivided in chapter 2, the following discussion will compare in
parallel the reasons in each case: why redevelopment, why large-scale redevelopment, why REHCO arrangements for redevelopment purposes.

First, the Mecca, Medina, Arriyadh, and Beirut ventures were created because the redevelopment of these places would allow the enterprise to fully benefit from the currently hidden value of the land.

Second, large-scale redevelopment in these places was needed to achieve the following:
(1) Overcome stalled development efforts. This factor was predominant in Beirut and Arriyadh.
(2) Need to reassemble land because of small land parcels. This was the case in all four cities.
(3) Need to provide better public services and recreational areas. In the case of Beirut the whole infrastructure had to be rebuilt. In the Saudi cases, only an upgrading was needed. In all four instances, public "breathing" spaces greatly lacked because the cities had developed without comprehensive urban planning.

Finally, REHCO arrangements to handle redevelopment were created mainly to overcome the difficulties in expropriating and valuing land, to create investment opportunities for land owners and national capital in general, and to include them in the redevelopment effort. In the special case of Beirut, the privatization was also used as a means to finance the design and the infrastructure.
6.3.3 Problems and Complications

Three major problems were faced by all REHCOS. First, land owners were reluctant to exchange their land for shares. Indeed, in all four cases, the process to convince the land owners to give up their land rights was difficult. For example, in Mecca, it took the founders two years of continuous effort to convince 80% to join the company. In Beirut, opposition to Solidere is still going on, even though the board of directors has been elected and the company is expected to start work in mid-summer.

Second, the land transfer for public use was felt unjustified in all cases. Indeed, the antagonists were complaining that this expropriation of private land for public use was not understandable since it was then redistributed to private investors.

Third the lack of confidence in the honesty of the development companies created fear among the landowners. This was especially the case in Beirut where people felt that nothing prevented Solidere from being a mere speculator that would rather sacrifice social benefits for higher financial outcomes.

All of these problems can be solved through effective marketing and structuring of the REHCO. These shall be discussed in the final chapter of the thesis.
6.3.4 Origin of Idea

It is interesting to note that in Beirut and Mecca, the idea to create a REHCO emanated from well-known powerful businessmen. Conversely, in Medina and Arriyadh, the idea was expressed by the King. This had the effect to reduce the antagonism to the project. It is believed that the public felt more comfortable when the idea originated from a high public source. This is intuitively obvious since private businessmen are often seen as greedy individuals, whereas the public sector may be viewed as being more interested in seeking social goals and equitable benefits.

6.3.5 Transfer of Land Mechanisms

The transfer of land from the original land owners to the development company was in each case slightly different. In Mecca, the land owners were directly contacted and offered the chance to become a partner in the company (proportionally to the value of the land) or to sell the land to the company for an agreed price. Only four people out of 140 refused these options. The King had to expropriate their land and transfer it to MCCD\(^{17}\).

In Medina, the land was first expropriated by the government and then transferred to the public through an auction. To participate in

\(^{17}\) The Mecca Company for Construction and Development
the auction, the potential buyer needed to prequalify according to conditions set by the government. These conditions are set to make sure the buyer will be able to develop the land according to the strategic plan prepared for the area.

In Kasr el-Hoqm Arriyadh, the area was divided into several sections (see figures 12 and 13) to accommodate the different land transfers. First, the area was divided into three regions according to the three phases of development. The first phase area included mainly the government buildings (the police headquarters, the Emirat,...etc). Therefore, no land transfer was needed to redevelopment it. The second phase area included the land in large parcels suitable for commercial use and poised for development. The third phase area included mainly the small land parcels owned by private individuals. To accommodate land transfer, this region was further divided into 7 different sections (see figure 13). Three of these sections were allotted for ADC (Arriyadh Development Company) attention. The land transfer was to be undertaken by the ADC in conjunction with the ADA. The involvement of ADA in this issue, and the many incentives to form development companies in the area among land owners, facilitated enormously the floating process of ADC by which land was finally transferred.
In Beirut, the land transfer was one of the most radical. The whole domain was first expropriated by the government. Then, upon the incorporation of Solidere, all the domain was transferred to it. The land owners were compensated by shares in the company according to the land value set by the Higher Appraisal Committee.

The method used in Kasr el-Hoqm resulted in the lowest opposition. It may therefore be the most recommended one. Albeit, environments may diverge enormously resulting in peculiar problems. Nevertheless, once these problems are overcome, and such a method is applied, the resulting benefits are unequaled by any other method.

6.3.6 REHCO Power Over Domain

Solidere has by far the most power over the domain it is empowered to rebuild. MCCD (Mecca) also had power over the domain, and both of these companies created the required Strategic Plans. The difference is that MCCD's domain was only 17,000 sqm. Solidere's domain was 1.4 million sqm. In addition, the size of Solidere's domain relative to the rest of the city was very important. In the case of MCCD, it is fairly justified to have that much power over the domain because of its small size. Solidere had to be more similar to the ADC and TCD (Medina's company). Indeed, these two had virtually no power over the strategic plans developed for the area (though, we do not know how closely development followed these plans). In both
cases, it was the complete responsibility of public institutions. Solidere’s power over the domain is regarded by many as unjustified and creates understandable public apprehension.
CHAPTER 7:

CONCLUSION & RECOMMENDATIONS

The following article taken from "The Economist" depicts the difficulties governments face when implementing privatization programs. Even though the example of Britain’s post office is far from these redevelopment projects, this report suggests that the residual public hesitation about privatization is likely to be present before, during, and even after any such action is carried out.

"Rarely any government have received so little credit from so many of its citizens for achieving so much. One of the Conservatives’ clearest triumphs over the past 15 years has been the privatisation of state-owned companies. Fat nationalised industries have been transformed into fit and profitable enterprises. Huge subsidies have been eliminated. The price of phone calls, electricity and gas have dropped in real terms. Services have improved strikingly. Eager to learn from this success, scores of governments have studied the British example, and much of Europe is now following in Britain’s footsteps." (23).

Indeed, privatization carries many advantages that were outlined throughout this thesis. In addition, for the case of downtown redevelopment projects, REHCOs offer the following advantages:

1- Overcome stalled development efforts
2- Rectify unsatisfactory land use
3- Undertake area rebuilding at a large scale
4- Complement large public investment
5- Bypasses complex land tenure

7.1 Answer to Research Question

Our research question raised in chapter 1 section 1.4 was whether REHCOS really provide the best tool to redevelop deteriorated city centers. Why can't government alone undertake such a venture? or Why can't market forces induce development in the concerned zone?

Why can't the government redevelop the area without the private sector involvement?

In a time when all countries are shifting to privatization of state-owned enterprises, when privatization advantages have been widely recognized, the answer to the above question seems obvious. Besides all typical privatization advantages such as better efficiency of private sector, shortage of financial and physical resources of the government, liberation of resources to be more focused on "social assistance", the case of redevelopment projects offer even more arguments for privatization.
First, governmental structures are inadequate to attract high level expertise. In the previous chapter, the need for this high level expertise was identified as primordial for the success of such large scale projects (see table 2). Incentives, motivation, and high wages are factors that typically attract international expertise and lack in governmental bodies.

Second, if the public sector undertakes the rebuilding of the city centers, the original property-right holders would lose a lucrative investment opportunity. Therefore, they will have to be compensated for this loss. Since the government is seeking methods to reduce the budget strains, this former implication opposes the latter goal.

Third, in some countries, development is considered the prerogative of the private sector. Hence, any public intervention in that field would be considered an invasion of private sector rights. Albeit, redevelopment differs from development in scope and impact; therefore, all actions needed in redevelopment that are not generic to development could be handled (and would actually be better if) by public authorities. This leads to an interesting thought, that the public-private involvement dosage would be proportionally related to the amount of effort redevelopment needs outside the scope of mere development.
Fourth, the public sector endeavor might be impeded by political frictions. This could be critical in countries recently surviving stress like Lebanon. Since these countries are most likely to need reconstruction of destroyed city centers, the use of public institutions might not convey the required results.

Finally, the corruption as well as the bureaucratic structure of governmental decision-making would most probably fail to respond to an urgent need. As shown for Beirut, the reconstruction of the city center is an urgent need. It would in most cases be the same for any reconstruction of city center.

Why can't market forces, or individuals alone undertake redevelopment?

First, the deterioration or the partial destruction of the concerned area stalls the development efforts. Every potential actor is waiting for the other to go first because the latter will occur the highest risks. Public involvement is needed to break these tensions.

Second, land tenure is very complex. A possible agreement between property-right holders of the same parcel, to redevelop it according to some strategic plan is unlikely to materialize. It is important to call upon public authority to undertake the timely adjudication of tenure in order to enable redevelopment to proceed.
Third, as we have seen in Saudi Arabia and Lebanon, lot sizes were relatively small. This factor impeded the developers to venture in interesting projects. The need to reassemble land was therefore essential to render the area more attractive both for developers (in the short run) and for future occupants and users (in the long run).

Fourth, the need to create a new urban design for the region (to make it attractive again) and the opportunities brought in by a comprehensive urban plan cannot be undertaken by private parties alone. Indeed, public regulation and control is needed to ensure that the financial profile of the project does not sacrifice the "social" aspects (such as the creation of recreational facilities).

Finally, a global approach to upgrade or restore the infrastructure is needed because the problem encompasses the whole area. Obviously, individual subprojects cannot solve the problem. Therefore, a structure that globalizes the effort is needed.

Hence, if neither the public nor the private sectors can effectively undertake the redevelopment of large scale projects alone, they both need to coordinate their efforts in some sort of a structure that combines the best of each party. This structure, we have called REHCO (Real Estate Holding Company) in chapter 1, fits all the expressed needs above. Indeed, remember that in section 1.2, REHCOs were defined as complexes of work organizations involving
all parties directly concerned with the redevelopment of a designated area.

7.2 REHCO Structuring: A General Model

Although, REHCOs effectively responded to the need for reconstructing city centers in Beirut, Arriyadh, Mecca, and Medina, their implementation faced many problems. For the earlier ones, the methods used were not yet adequately refined. What follows is a proposition of a better structured general REHCO.

Figure 13 represents the five basic parts of a general organization. According to this organizational concept, all firms' structures are similar to that figure. However, we do not intend to apply strictly this "model" to REHCO organization. Nevertheless, to follow the framework provided by the "model" would help us structure our discussion effectively. Therefore, what follows is an elaborate analysis of how different actors assume different positions in the public-private arrangement for redevelopment of city centers.

7.2.1 The Strategic Apex

"The strategic apex is charged with ensuring that the organization serve its mission in an effective way, and also that it

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18 The pun was (at first) unintentional.
serves the needs of those people who control or otherwise have power over the organization." (24). It ensues that in a REHCO, the strategic apex should be occupied by the public body that is in charge of the whole redevelopment planning. The best match would be a higher committee appointed by government like the Higher Committee for the Redevelopment of Arriyadh City or the Committee for the Development of Plazas and Public Spaces in the New Areas in Mecca.

Figure 14: The Five Basic Parts of Organizations

(Mintzberg H., The Structuring of Organizations, p.20)
The creation of a Higher Committee does not imply large expenses by the government. Hence, even if the financial abilities are low, such as in Lebanon, the appointment of a committee is still feasible. Indeed, this is one reason why the Municipality is bypassed and not given the strategic apex position. Reinstitutionalization, red tape, and corruption are avoided. The other benefits is that the strategic apex involves the management of the organization relationship with its environment and the development of the organization's strategy. Hence, the Higher Committee will have to deal with the opposition, try to convince them of the positive nature of the REHCO as well as formulate long-term strategies to encompass the public demand.

7.2.2 The Technostructure

The technostructure includes all "analysts who serve the organization by affecting the work of others" (24). In the REHCO organization, the technostructure should include all the design firms and urban planner consultants. Therefore, the strategic, detailed, and engineering plans should be prepared in the context of this technostructure. The advantage of having all these plans prepared by side organizations is that the consultants can freely interact with the development companies (that are found in the middle line), the original property-right holders (found at the operating core level), and the
Higher Committee (strategic apex). This interaction will serve the consultants in preparing plans that best respond to the needs of all the parties involved. Moreover, the technostructure does not have any vested interest to promote financial profits rather than social benefits. First, it does not own the land (like Solidere). Second, the plans have to be approved by the Higher Committee who's primary role is to ensure the general public interest is not harmed.

7.2.3 The Operating Core

"The operating core of the organization encompasses those members -the operators- who perform the basic work related directly to the production of products and services." (24). Therefore, in the REHCO organization, the operating core will be constituted of all contractors, subcontractors, vendors, and original property-right holders. One might ask why the original property-right holders are found at this level. Indeed, the special situation of this group (the property-right holders) renders it at the same time at the fringes of the organization and right at the bottom of it. By being at the fringes, the property-right holders constitute the external environment group that mostly interact with the strategic apex (see section 7.2.1). On the other hand, including them in the operating core is essential because they will need to provide direct support to the input, transformation, and output functions. Their role is not critical to the physical continuation of
the project. It is critical psychologically. By giving them the chance to participate at the bottom of the organization, they will not feel excluded from the direct supervision of their once owned land.

7.2.4 The Middle Line

"The strategic apex is joined to the operating core by the chain of middle-line managers with formal authority.(...) In general, the middle-line manager performs all the managerial roles of the chief executive, but in the context of managing his own unit.". Therefore, the middle-line managers in the REHCO organization should be a body empowered with the development of a specific area within the domain. Again, when we look back at our case studies, the Arriyadh case is the one most resembling our proposed structure. Indeed, the ADA subdivided the Kasr el-Hoqm area into several parts. In each part, one or more development companies were working to rebuild it. This enhanced competition through market diversification. This primordial effect is the one most pursued by privatization. In addition, by dividing the land into smaller parcels, the complex problems of land tenure are simplified as well as the opposition to the REHCO is better handled because of fewer property-right holders. Most importantly, subdividing the area into homogeneous groups of property-right holders, will help urban designers as well as policy makers to provide a tailored solution
to each group's needs and problems. Therefore, the probability of one kind of property holders benefiting at the expense of another is reduced. According to welfare economics, projects are evaluated along two broad conditions. First everybody has to be made better off due to the project. Second, if someone is made better off, then that happens without anyone else being made worse off. Hence, by subdividing, focusing, and fine-tuning the solutions to each groups' characteristics, the probability of increasing the project value (as defined by welfare economic's theory) is augmented.

The criteria to divide the domain should be set by the higher committee in charge (i.e. the strategic apex) in consultation with the technostructure. Although every situation retains its particularities, some similarities in the city centers of the world render some of the criteria "universal". Indeed, the subdivision could be carried out according to the following:

1- Identify the areas where public buildings are concentrated.

2- Identify areas where private holdings are large enough to allow the application of the urban plans without the need for reassembly.

3- Identify the areas where historical buildings will be renovated.

4- Identify areas where private properties are small and tenure
complex, needing therefore reassemblage to apply the urban plans.

7.2.5 Synthesis

In certain cities, if land tenure are scattered across the whole domain, we recommend to group certain property-right holders in confined areas so as to be able to subdivide according to the criteria outlined above.

To clarify the picture drawn in the previous sections, figure 14 presents the real structure proposed for the general REHCO. This structure is referred to in the organizational literature as the divisionalized form.

Figure 15: The Divisionalized Form

(Mintzberg H., The Structuring of Organizations, p.20)
The reader will easily identify the location of the strategic apex occupied by a Higher Committee, the importance of the technostructure, and the middle-line section which is now formed of small organizations. Indeed, the development companies that we introduced in the previous section are also structured like figure 13 but they occupy the middle section in the REHCO and hence their strategic apexes are not as important as the overall one. In the development companies, the strategic apex will handle the problems in his jurisdiction, such as the local opposition, and the assessment of land tenure. Also, the "local" strategic apex might enter directly in contact with the original property-right holders to convince them to join the company (exactly like in the case of Mecca).

The advantages of adopting a divisionalized form are several. In Mintzberg words, "strategic diversification, because it leads to structural divisionalization, encourages the efficient allocation of capital within the organization; it (...) reduces risks, and increases strategic responsiveness." (25).

7.3 The Financing Problem

Now that the general structure has been identified, one major problem remains: what about the financing schemes? This question is critical in Lebanon where the government is financially weak and the
infrastructure needs complete restoration. Three major actors need to be paid for their services before profits start. These are the strategic apex salaries, the consultant fees and the infrastructure financing.

The financial structure of the REHCO will constitute of shares. Basically, two types of shares will be issued. One type will be issued as a compensation for land, and the second type will be issued against cash subscription. In our general REHCO, the shares representing land tenure should be subdivided according to each sub-area. Hence, each middle-line organization will have its own shares representing land. The shares representing cash contribution shall be common to the whole organization.

By generalizing the cash shares, the problem of financing the consultant fees and the strategic apex salaries, is fixed.

As for the infrastructure financing, it could be also handled by the REHCO. Nevertheless, this project will result in lost money and time and will burden the capital structure of the company with either debt or more shares issued for cash contributions. Therefore, we believe that tendering the infrastructure (or part of it) on a BOT contract basis for an outside party would provide better allocation of the resources within the REHCO organization. This BOT contract can either be managed by the state or the REHCO itself. This will depend on the ability of the specific government to undertake such activities. Few countries in the world cannot initiate BOT contracts themselves.
Thus, in most cases, the government (represented by the Committee in the strategic apex) will handle this part of the reconstruction.

7.4 Concluding Remarks

REHCOs do provide many advantages in redeveloping city centers. Nevertheless, the numerous problems continuously erupt throughout the life of the project. Moreover, each solution to a specific problem breeds in itself another problem that will prevail as time passes by. This vicious circle of emergence of problems and solutions is the subject of many organizational literature and debates(26). No panacea exists. Only continuous monitoring and adequate measures help the organization to smoothly cross the different stages.

In the REHCO case, we cannot but emphasize the need for this continuous reevaluation of performance and reformulation of strategy.

Marketing plays a crucial role in performance influence of REHCOs. Indeed, many of the problems a REHCO encounters emanate from the fact that landholders feel bypassed and excluded from the redevelopment process. Tough marketing strategies directed toward more transparency of the organization would dilute many problems. "Lack of knowledge brings fear, fear brings antagonism, antagonism brings violence, violence brings revolution".
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