Al Manara Tower

$892 billion FM market

Putting a figure on the potential value of the GCC's facilities management market is no easy task. Glen Osmond and Alexis Dijksterhuis, Managing Partner and Executive Manager respectively at Middle East Strategy Advisors (MESA), share their findings and conclude that FM is an opportunity not to be missed.

Facilities managers realise that operating and maintaining a facility represents the biggest proportion of the lifecycle cost of a building. However, many developers and landowners in the Gulf region do not consider the full facility lifecycle cost. Instead, prominence is given to the pre-sales of units and managing the profit margins between construction costs and the initial pre-sales values. Therefore, on numerous occasions the equation between squeezing the lowest possible construction cost and the total lifetime cost of a facility is not properly balanced. The consequences are not yet being felt by contractors who are using cheap, low-quality materials and introducing inferior building methods in order to finish projects within often unrealistic timeframes and budgets.

Facilities Management Market

In the GCC, facilities management expenditure is expected to increase dramatically over the next few years not only because of the existing boom in construction, but also because of the aging of existing facilities, poor construction quality of buildings, and harsh environmental conditions. For instance, air conditioning units operate year round in the region. Moreover, most projects are built on land that was previously desert. This requires extensive vegetation, landscaping and continuous care to provide a high quality living and working environment.

The demand for cleaners, security staff, gardeners, office administration, and so on will continue to grow as the economies of the Gulf keep expanding. Companies and residents are also demanding better service standards. All this, combined with a growing move towards outsourcing, makes the outlook for the FM industry look extremely positive.

Table 1.1: Estimated Life Cycle Cost of Construction Cost*

Country	Total Value of Construction Projects* US$bn	Estimated Life Cycle Cost FM Component** US$bn	Total Life Cycle*** Cost of Projects US$bn
UAE	176	704	880
KSA	24	96	120
Qatar	23	92	115
Total	**223**	**892**	**1,115**

Source: MEED and Middle East Strategy Advisors (MESA) research

* *Excludes oil & gas construction projects*

** *Based on the assumption that the initial investment (development cost) of a development is only 20% of the total money spent across the lifetime of a building; and that facilities management captures the remaining 80% over a 25-year period*

*** *Over a 25-year period*

Excludes existing building, infrastructure and residential communities.

It is estimated that the initial investment (development cost) of a facility is only 20 per cent of the total money spent across the lifetime of a building. Therefore, facilities maintenance and management captures the remaining 80 per cent.

"The FM industry in the UAE alone would be worth on average approximately $1.4 billion per year over a period of 25 years for projects that are being released in the coming five years."

It must be emphasized that there is much subjectivity in determining what aspects of the lifecycle cost should be attributed to FM and, consequently, what proportion of the lifecycle cost FM makes up. However, 'lifecycle' is typically taken to mean 25 years while buildings are obviously intended to last much longer than this. As buildings go into their second or third 25-year lifecycles, the proportion of the overall lifecycle cost that the development cost makes up decreases; and conversely, the proportion of the overall lifecycle cost that FM makes up increases.

MESA (Middle East Strategy Advisors) has made an initial estimate of the total value of the FM sector based on construction projects underway and planned in the UAE, KSA and Qatar over the next five years. More than $220 billion-worth of construction projects are being planned or are currently underway in these three countries for the coming years. Based on the assumption that >>

construction costs make up 20 per cent of the total lifecycle cost, the total lifecycle expenditure for these projects is more than $1.1 trillion ($1,100 billion) over a 25-year period.

Of this figure, the FM component (80 per cent) would equate to $892 million in the UAE, KSA and Qatar. Assuming that FM companies are able to capture a conservative estimate of five per cent of this market, this would bring a value of approximately $45 billion or $1.8 billion on average per annum over the next 25 years. The total FM spending could well be double if existing facilities are included.

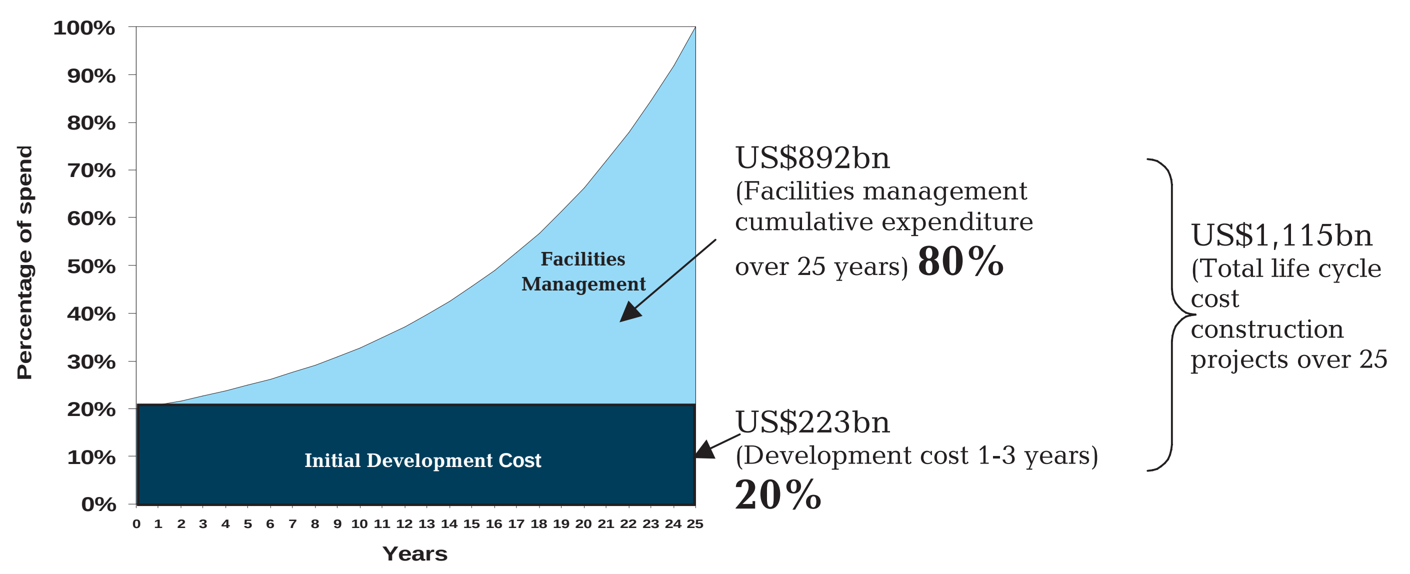
The FM industry in the UAE alone would be worth on average approximately $1.4 billion per year over a period of 25 years for projects that are being released in the coming five years (based on projects underway or planned, and excluding existing facilities). Please note that costs such as energy are included in the calculation. Moreover, this average figure might be lower in the first few years as expenditure on maintenance and replacement will be low. However, as buildings age, expenditure on maintenance and replacement will dramatically increase over time.

The changing effect of FM

Change is likely in the foreseeable future. A large number of developers, contractors, property agents and banks in the region have entered the FM arena. These owners are becoming aware that the capital expenditure and the operational cost of maintaining, refurbishing, retrofitting and renovating buildings, offices and communities far outweighs the initial development costs. Understanding FM can save companies money through better integration of the development value chain and by introducing building lifecycle costing. This will push the role of the FM department to the forefront. Integration of facilities management expertise in the initial development can be of crucial importance to the total success of the development. This will result in changes in terms of tendering, delivery methods, quality, construction, financing and management of the project.

Moreover, an increasing demand for quality build, combined with the challenges of finding good 'executioners' (project managers, construction companies and operators), will accelerate the introduction of different delivery

Graph 1.3: Total Life Cycle Cost, UAE, KSA and Qatar over next 25 years



Source: Middle East Strategy Advisors (MESA)

OPTIMISTIC: Alexis Dijksterhuis is Executive Manager at MESA.

methods in the Middle East. Traditionally, real estate development projects in the Middle East are tendered using the design-bid-build model. This approach segregates design, construction and operation responsibilities. However, delivery methods such as construction management and Build-Operate-Transfer (BOT) are aligning time, cost and quality better.

Particularly so with the latter – where operations are part of the project delivery or the developer has an interest in operating the building after completion - the impact of facility life cycle costing will be taken more into consideration. For instance, the cost of certain quality materials might be 10 per cent higher than standard. However, the lifetime value of the better quality and more expensive product might be worth millions of dollars in savings in the long term. For those developers, contractors and engineering companies that currently have facilities management departments or companies, input from FM experienced staff should be incorporated into the decision-making process in the early stages of the value chain – design, engineering and project management – of any new project.

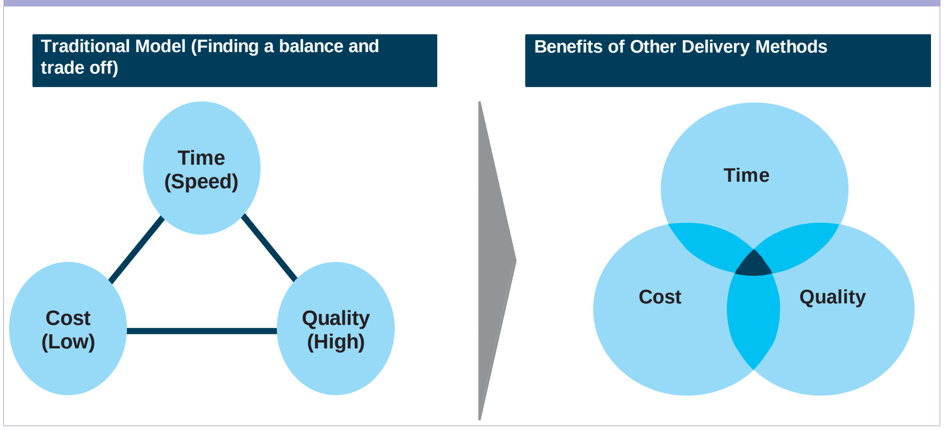
The way forward

MESA has identified significant potential for companies to move into facilities management in the Middle East. We envisage an increasing number of local and regionally based construction companies, developers, and property agents to expand into the FM market. Growth in the sector will be both organic and through acquisitions of existing players. Companies will seek partnerships with potential international players to gain expertise and access to resources. MESA foresees strong growth for the FM industry in the Middle East in the coming years.

For many owners, developers, property advisors, and construction companies, FM will be an attractive market to enter in the long term, as it assists in diversification away from solely development and construction, and it provides long-term steady cash flows, especially when there is a downturn in the construction sector. Finally, we deem the input from experienced FM staff in the earlier stages of development will dramatically improve the quality of the built environment in the GCC, as facility lifecycle costing will be considered much more.

* *Middle East Strategy Advisors (MESA) is a management consulting firm that operates in the Middle East, combining consulting, change management and investment advisory services.*

Graph 1.1: Aligning Time, Cost and Quality



Source: Middle East Strategy Advisors (MESA)