MAY THE WATER IN YOUR WELL TURN INTO BLACK SMELLY MUD, AND OTHER SAUDI CURSES

“The stone age didn’t end because we ran out of stones”
Sheikh Ahmed Zaki Yamani, Minister of Oil & Mineral Resources for Saudi Arabia and Saudi OPEC Minister 1962-1986

What to do with over 20% of the world’s oil is really a teaser. You can’t possibly use it, so the first thought is to convert it all into cash. But then you have to play off how fast you want to pump against what price that creates against how long into the future anyone will pay for it. Furthermore, once the cash starts coming in, what do you do with that? A trillion dollars in and of itself isn’t all that useful, especially when it’s all tunelled into foreign stocks that are caroming up and down in value. So the thinking is, you use the cash to buy cities, and they start generating their own cash, and then you’re really riding the gravy train.

So figured Dubai (with far lesser oil reserves) when it began unfurling a gleaming metropolis into an almost arbitrary desert. So brilliant did this seem at the time that Reinier de Graf was inspired to declare Dubai had proven “the obsolescence of demographics to city-building”. What the credit crunch is rapidly proving is the obsolescence of the Dubai approach.

Saudi Arabia however is quintessentially different. Firstly, 25 million people are there already, and this population is growing at 2.5% a year (doubling in 28 years). Moreover, the recent decades of 4% population growth have bequeathed an astonishingly young demographic: 40% of Saudis are under 20; 70% are under 30. On top of that, 65% of families don’t own a home. Uniquely among GCC states, there are an awful lot of people in Saudi Arabia genuinely looking to buy a building. Demand is variously quoted at 200,000 homes a year, with a current 500,000 home deficit, and thus a million new homes needed within the next five years. What’s more, the new mortgage law comes in in 2009.

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RUSH TO RIYADH

There’s a strong sense that while the rest of the Gulf is folding up, there’s a supply bottleneck in Saudi Arabia. This has shifted the focus – and for a number of practices, the offices and personnel – from the UAE to Riyadh. Firms already there are expanding, and others with a toe in the Gulf are dropping their Dubai registrations to take up Saudi forms. The impetus is only strengthened by a general recognition of the need to show your face. As Jacob Kurek, Riyadh Director of Henning Larsen Architects (HLA) puts it, “If they can’t see you they don’t trust you”. The natural corollary is an exodus from cash-strapped states to the oil-rich Kingdom.

However, while crudely speaking Saudi Arabia has the moolah, a lot of Saudis themselves don't. The oil wealth is spread far thinner than across the rest of the Gulf (and naturally concentrated among the 30,000-son strong family of Ibn Saud), meaning that the power growth area is not in luxury villa parks, but in low to middle income housing. The genius of Danish firm SHL is to have recognised this fortune toward the bottom of the pyramid, and to have entered Saudi Arabia on a platform of cheap residential.

SHL's Saudi housing operations are based on mobile factories producing onsite precast elements. These are then ready for assembly into a variety of possible structures, ranging from one to eight stories, all packed with quality low cost units. The roll out is envisaged across multiple sites of between 500,000 and 1m sqm around Riyadh to create a new swathe of urban communities. The potential application though is far wider. With signature Scandinavian bathos, Carsten Hyldebrandt describes this as "our small niche" in the Saudi boom.

Implementation though in what *The Economist* appraises to be one of the world's most authoritarian states should not be regarded as simple transposition. Hyldebrandt acknowledges that working in Saudi Arabia is "definitely very let's see special". Aside from visa and bureaucratic issues (generally regarded as a drag but not a deterrent), the demands upon the architecture are heavily influenced by cultural singularities. For one, the masterplanning yardstick is the walk to the mosque. Privacy is a major concern, with stringent expectations around overlooking, and most residencies in Riyadh are encircled by 8 foot walls. And then within the dwellings, sex segregation needs to be considered – often meaning the provision of three bathrooms, different types of bedrooms, and allowances for men and women to eat separately. Women famously can't drive, and so pick up locations have to be thought through carefully. The flexibility of SHL's precast system is aimed at producing a range of community developments, each tailored to varying levels of conservatism among Saudi would-be homeowners.

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HOMES *AND* JOBS

But beyond housing, the employment outlook for young Saudis is at least as exigent. Estimates run toward 30% unemployment among young males (women barely count); and the government bodies where employed Saudis overwhelmingly do work are thought to be grossly overstaffed. From this situation stems a second huge reserve of demand.

Efforts to diversify the economy away from merely selling drilling concessions has long been high on the Saudi agenda. After a brief foray into desert agriculture, yielding the most expensive wheat in the world, early interests turned to industry. Revenues from the ’70s oil boom were used to found the industrial cities of Jubail and Yanbu – dubbed the biggest civil engineering projects in modern times – and expansions continue today with proposals for both Jubail II and Yanbu II, as well as a further 14 industrial clusters. The current development approach centres on the Saudi Industrial Property Authority (Modon), which rolls out vast infrastructure to the proposed sites, and then the Saudi Industrial Development Fund (SIDF), which offers soft-loans for factories to set up. Further attractions come in the form of cheap feedstock: essentially almost free power from the nearby gas reserves (formerly flared away); and, for the petrochemicals plants which dominate these industrial landscapes, cheap access to raw supplies. Anticipated investment into these zones over the next ten years runs to well over US$100 billion, with over 500km2 of greenfield land allocated.

However, substantial as the economic contribution of such developments may be – and Jubail already accounts for 7% of Saudi Arabia’s GDP – they fail on two conspicuous fronts. Firstly, they are invariably hydrocarbon-dependent or hydrocarbon-subsidized, and thus fall short of the diversification objective. Secondly, they are capital intensive but labour light. They create comparatively few jobs, and those which are forthcoming are of relatively little use due the almost complete absence of a Saudi working class. General expectations of feather-bedded government positions or their like have kept blue collars off white Saudi robes, and thus domestic unemployment continues to rise, while the industrial and construction labourforce is populated by immigrants from surrounding third world nations.

State-led industrial growth is enormous, and Saudi Arabia will continue to try to capture more of the downstream value chain of their crude resources. However consciousness that this is insufficient is high, and consequently King Abdullah is looking increasingly toward creating more sophisticated urban environments. Alongside the raw industrial developments is a proposal for six Economic Cities, which will lead the way toward more clean drive-your-Lexus-to-work jobs.

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ENTER THE METROPOLIS (PURSUED BY LARGE GORILLAS)

Over the last fifteen years in power, King Abdullah has been inching Saudi Arabia in the direction of reform. This has come on multiple fronts, but the key target has been opening up to international business. The Foreign Investment Act was introduced in

2000; WTO accession came in 2005; in 2008 foreign investors were allowed onto the Saudi stock exchange; and continuing easing of the business environment is now permitting 100% foreign-owned enterprises to operate in the country. Moreover Saudi Arabia is fervently committed to its “10x10” plan to hit the top ten of the world’s most competitive countries to do business by 2010. They’ve nosed their way up to 27 so far, and more modern institutions and environments, all wrapped in suitably world class architecture, are at the front end of the continuing effort.

Foster + Partners’ landmark Al Faisaliah Complex in Riyadh is soon to be joined by Al Faisaliah II, which freed of the former height restrictions will be running to over 60 storeys. Just down the road the new King Abdullah Financial District (KAFD) is under excavation. About 1,000 trucks roll in and out of the 1.6km2 site daily, as teams dig out tower foundations and 1.5km2 of subterranean parking. The masterplan, drawn up by HLA, lays out a built-up area of 5 million sqm, anticipating 50,000 workers, with a residential component and mixed-use elements to keep KAFD “alive and kicking 24/7”, says Kurek. Sustainability is high on the agenda, and renderings are replete with palm-lined skywalks. The central Financial Plaza will be cornered by KAFD’s 5 tallest towers, for whom the “right architects” are being approached. By this Kurek means the global heavyweights: Fosters again, HOK etc.. However, less than 10% of the district has been handed out thus far, and many competitions will coming up. Along with the new drive to competitiveness, bids and contracts across sectors are now massively more transparent than in the old days of Prince-to-Prince ermine deals.

But while KAFD is impressive, the King Abdullah Economic City (KAEC) is Saudi Arabia’s real desert jewel. Located some 100km north of Jeddah on a section of coastline which, but a few years ago, was flat void, KAEC is a 168km2 masterplanned metropolis. The scale is Manhattan; the context a pure notopia. On their first site visit, the WATG urban designers were on their knees digging the Chevy 4x4 out of the sands. After that experience, they worked more off Google Earth from the more mannerly setting of West Coast America, teaming up with Parsons and SOM to create a scheme of astonishing detail. The developers Emaar supplied complex underlying demographics, and WATG set to designing where the CEO was going to live, where his cook would live, where the cook would shop, where the shopkeeper would live, where the university professor would blow his nose. “I remember 14 foot spreadsheets taped to the wall in the office” Bryan Algeo, Vice President of WATG, muses as he remembers the process. A series of zones got brushed in, each based around concepts of critical mass, with carefully limned “towncentres”, “places for people”, and walking distances to rapid transit systems. Pleasing density curves respected the urban core, with a downtown for the likes of Panasonic and Mitsubishi, and resort marinas stretching off to the east. “We wanted to create a fully viable international city," WATG Associate Meghna Andley remembers – "a world city [...] a world class city."

As Bryan and Meghna are talking I find myself phasing in and out on account of the two large gorillas thundering around inside my brain. For one, in spite of the almost psychotic degree of pico-planning – to the level of how many people of what income requiring how many square metres a piece – nobody seems to have thought too hard about who these 1.8 million people actually are. Are they internationals? Are they Saudis? In what proportions? In Riyadh internationals live almost 100% in compounds (in some of which Saudi dress is prohibited) – are there compounds in KAEC? Do different cultures present different spatial demands? At one point Meghna slips, referring to KAEC's metropolitanism as "like anywhere on the planet", meaning, presumably, like any rich Westernised metropolis. But KAEC *is* in Saudi Arabia – a country where law means sharia law, criminals are publicly beheaded by sword, and a 10,000-man strong Moral Police patrols the streets daily. It seemed as though in all the zooming around on Google Earth, and beetling through behemothic spreadsheets, certain elemental questions had gotten lost, such as: 'Would Saudis accept an internationalised metropolis?' and, even if they did, 'Would internationals be prepared to go live there and set up shop?' The approach is giddily abstract for all its pinhead detail.

Secondly, and more pragmatically still, where's the money going to come from? The full size KAEC anticipates US$100bn in investment, and though an initiative of the Saudi Arabian Government Investment Authority (SAGIA), it is slated to be 100% private. But private investors and multinational corporations are somewhat less exuberant than once they were. The unhappy assumption that Emaar, KAEC's Dubai-based developer, was working under at the hallucinogenic apogee of the Gulf boom, was that credit was plentiful. In 2006 it was. The irony of Saudi Arabia opening up to foreign investment at the very moment that global finance implodes could not be more bitter.

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SO WHAT WILL HAPPEN?

The answer depends on who you ask. Developers are upbeat, architects are being told to keep drawing, contractors are more cautious, economists are positively hesitant. On the upside, Saudi fundamentals are good. Government and public debt are both low at less than 20 and 2% respectively, and last year's oil spike landed the Kingdom with a US$157bn budget surplus. Aggressive spending has been announced for 2009 – specifically to take advantage of cheap times for commodities (steel in Saudi Arabia has fallen by 70% since its summer highs), as well as for international consultants, who are now scratching around for work. At the same time, the instinct not to buy when prices are falling is strong. On a number of projects the government has asked for bids to be resubmitted because quotes from 3 months ago now look steep, and this inevitably slows things down. And unfortunately, as Saudi Arabia slows, it is given more time to consider what is in effect the quintuple whammy currently being delivered to its economy: oil prices have dropped vertiginously from US$147 a barrel to less than US$40; to salvage prices, oil production has dropped from 9.7 mb/d to 7.7 mb/d; maintaining unused capacity is costing US$15m a day; demand for oil-derived and non-oil exports (plastics, aluminium etc. accounting for a good part of the rest of the economy) has dropped; and the very significant portfolios of Saudi-owned foreign assets have all taken a hammering.

This last raises interesting questions, in particular about the vast sums of privately-owned Saudi petrodollars (estimated in 2004 to stand somewhere between US$600bn and US$1.1tr). Ever since the first Gulf War, deteriorating relations with the US have given ultra-rich Saudis a reason to want to divest their US holdings, which today’s poor performance can only strengthen. At the same time, Saudi money in other parts of the Gulf – Dubai in particular – is likely to be being drawn back. Thus Saudi Arabia’s finance-hungry real estate projects are increasingly turning their bowls from foreign investors to the possibility of repatriated domestic capital. Asked if this if happening, John Sfakianakis, Chief Economist at SABB, tentatively comments “I would hope so,” quickly adding “it’s too early to say”. For many it many be too early to invest. Having taken a blood-letting, the rich are inevitably looking a touch recalcitrant if not anaemic, leaving it largely up to the government to be 2009’s “developer of last resort”.

With money saved up but a bleak outlook, the Saudi government is likely to be a good deal more judicious in its actual spending than many would like to believe. Prioritisation is key, and priorities are infrastructure, with $400bn forthcoming over the next five years for water, electricity and transport; and education, with 1,500 new schools and several ambitious universities put forward. Industry and real estate will keep moving forward, but most likely at a diminished pace. Tourist and hospitality projects may find themselves sputtering.

And so what of the visionary projects? One line of thinking is that anything with the “King Abdullah” label (KAEC, KAFD, KAIG et al.) has too much face attached to get binned. In a bold move, phase one of KAEC, on site now, involves simultaneously the Sea Port and the Resort District. These are situated at near opposite ends of the plan, thus committing the city up front to a 35km coastline (though the released figure for anticipated overall investment has been quartered). Confidence levels regarding phase ones of other downtown urban developments are relatively good. As Kurek puts it, “they have the money”, and the first round of towers at least are felt to be reasonably secure. Regarding the sketched succeeding waves, John Harris, Riyadh Director of the global real estate service firm Jones Lang LaSalle, is breezily thoughtful: “I guess the jury’s out.”

The jury nevertheless is coming in on some of the most egregiously gratuitous proposals. Kingdom Holding’s putatively one mile high Dubai-busting Jeddah tower seems to be on hold, and well it may be given how free it is from real demand. Aside from the thin market for new office space in Jeddah, and the fact that there’s plenty of desert around and so no great call for hyperdensity, you do have to ask, how useful is a one mile high building? Say you arrive at your top floor office and realise you’ve left the keys to the executive washroom in the glovebox of your car, you’re faced with a two mile round trip. Just to have a pee. An executive pee that is. It’s maybe not so helpful.

The tilt of the world right now is forcing us to crawl back from large desires and toward real needs. As much as Dubai was a once paragon for the Middle East, it’s now becoming a parable. And what Saudi Arabia needs in truth are big pipes and little homes.

Adrian Hornsby, 21.02.09