

Expateconomics

Rising demand for private schooling in Dubai has created huge opportunities for providers. But could limited options for financing, staffing shortages and regulation hold them back, asks **Daniel Thomas**





In February, when Dubai's Knowledge & Human Development Authority (KHDA) announced that it would relax the limit by which local private schools could increase their fees, operators were still unhappy. Clive Pierrepont, director of communications at Taaleem, a major school chain, said: "It must be realised that our annual inflation costs range between 5% and 10% and this does not take into account any further investment." Parents meanwhile complained that the cap of up to 5.8%, up from 3.5% in 2014, would hit their wallets. One told the Khaleej Times, "Schools keep increasing the fees on some pretext or the other... [they] are run like businesses, and the main agenda is profit, not education."

Dubai's regulator has long had to strike a delicate balance between the needs of parents and schools in a market where demand for private schooling outstrips supply. According to a recent report from Colliers International, between 2009-10 to 2013-14, Dubai's school age population increased by over 80,000 to reach 243,700 as the expat and local population mushroomed. About 90% of that was catered to by the private sector, and volumes are set to grow. Colliers estimates that some 360,000 private school places will be needed by 2020, requiring 52 new schools to be opened, a rate of about 13 a year.

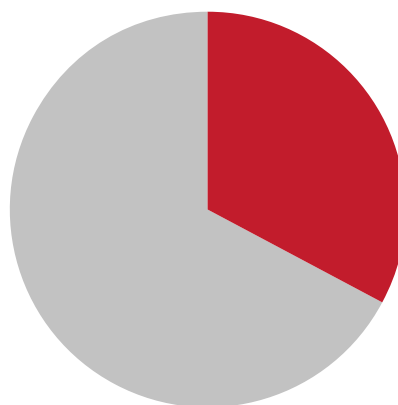
In such an environment schools could take advantage, the regulator reasons, and so it applies caps to protect parents. However, it also has to keep the supply side of the equation happy and that job is getting harder. Schools complain fee caps are just one of many barriers impeding their growth, others being staff shortages, bank financing and rising energy bills. And as the government knows, if there aren't enough good schools in the emirate, the allure of Dubai to the expats underpinning its labour market may start to wane.

A teachers' market

Despite their crowding, school businesses have done very well in Dubai, ranging from big chains like GEMS Education to elite foreign franchises like Repton. The city is a tax haven with a fast growing economy, sizable need for expat workers and a young and growing population. It's also bureaucracy-light, has good

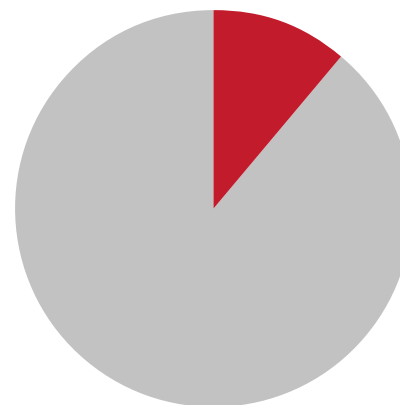
FIGURE 1

Total schools in Dubai



Public sector 32.8%
Private sector 67.2%

Students by sector in Dubai



Public sector 11.3%
Private sector 88.7%

Source: KHDA 2013, Colliers International Analysis 2014



transport links and healthcare, and is committed to opening more quality schools.

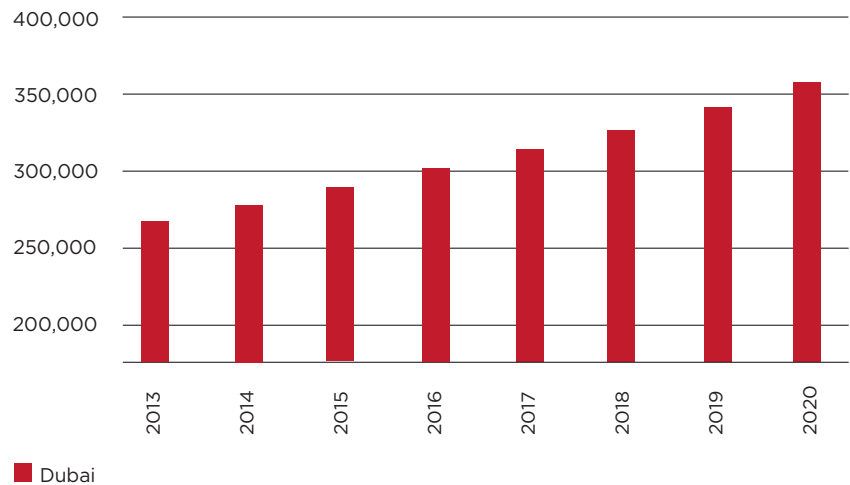
Given the benefits, it is perhaps ironic then that schools say they struggle so much to attract and retain quality teachers from abroad. As the majority of private schools in the emirate offer expat friendly international curricula, international experience is vital. However, as Mansoor Ahmed, director of education for the MENA region at Colliers, explains: “Before, the first destination for a teacher teaching the UK curriculum was the UAE or the wider Middle East. But now there are a lot of international schools being opened in places like China, Hong Kong and Singapore, so there’s more choice and competition.”

What are needed are sensible recruitment policies, he says. Sabis Education, which has schools across the region, for example sets great store by its internal training and professional development programmes, which are designed to turn mediocre teachers into good ones. But the danger, says Ahmed, is that others take the easy way out by offering higher salaries to the teachers they already have – and that pushes up their operating costs.

Land locked?

Certainly attracting teachers to work in Dubai is easier than doing so to other countries in the region, like Saudi Arabia, given its perks and comparatively liberal

FIGURE 3



Source: TALK LONDON

rules. Perhaps a more fundamental issue facing operators, though, is the availability of land and financing.

For years the KHDA has generously provided land for schools at highly subsidised rates on long-term leases, as long as operators are of exceptional quality with a track record to prove it. However, according to Ahmed that pool of land is getting smaller and operators are increasingly setting up in freehold areas, where most of the mid to high income population lives. And that means paying higher market prices.

The cost of setting up a school is anyway quite high, he adds, with total

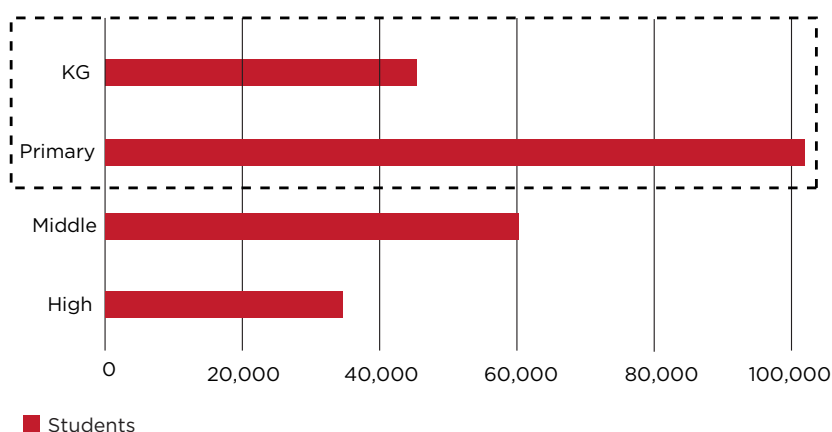
capital costs for land, construction and fit-out ranging from about AED 185 million (£33.8 million) to AED 275 million. This requires access to financing, but according to Colliers, the majority of banks in the region, be they local or international, tend only to lend on five to seven-year terms. That may be fine for a commercial development or a residential building, but not for a school which needs closer to eight to 12 years.

The upshot is that banks typically only lend to the bigger and more established school operators. “This tends to encourage existing players to open up more schools which is good on the one hand, but then you are creating a sort of monopoly,” says Ahmed.

There are reasons to be more optimistic about financing, however. Some banks are becoming more progressive and offering loan terms of over 10 years, and this should improve. And as Ashwin Assomull, partner in Parthenon’s International Education Practice, notes: “Banks like the sector because it is pretty a-cyclical: you don’t have massive downturn in school revenues even when the market goes soft because it’s the last thing that people tend to cut their expenditure on.”

Operators have also started looking at alternatives. There have been a number of sale and leaseback deals over the last 18 months, whereby schools use the cash released to open new sites. ▶

FIGURE 2



Source: KHDA, 2013

FIGURE 4

**AED
120
million**

Land

40,000 sqm to 80,000 sqm

- Purchase: AED 60 million to AED 120 million
- Lease: AED 5 million to AED 10 million p.a.

**AED
120
million**

Construction

BUA 25,000 sqm

- @ 4,000 / sqm = AED 100 million
- @ 5,000 / sqm = AED 120 million

**AED
30
million**

Fit-outs and Others

BUA 25,000 sqm

- @ 1,000 / sqm = AED 25 million
- @ 1,500 / sqm = AED 30 million

**AED
275
million**

Total Capital Cost

AED 185 million to AED 275 million

Source: Colliers International

► Landlords are also doing 'build to suit' property, cutting operators set up costs dramatically.

Assomull also notes that private equity funds are practically queuing up to enter the space. Perhaps the best example was a deal last October, where Blackstone, Dubai's Fajr Capital and Bahrain sovereign fund Mumtalakat bought a minority stake in GEMS Education. As part of the transaction, GEMS was split in two, with the investor group acquiring a stake in the side of the business focussed on the Middle East, Asia and north Africa – a clear sign of the investors' confidence in the region.

"I don't see why finance should be a problem," says Assomull. "In fact what we see is just a plethora of private equity funds and family funds which are very keen to invest in schools."

Rules and regulations

If anything still worries investors, he says, it's the issue of regulation of fee increases. The aim is to protect parents, particularly expats, from the cost of education becoming burdensome, and in a market where operators would otherwise hold the whip hand, it makes perfect sense. As one source points out, the emirate has done a lot to raise standards from the days when schools



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Mansoor Ahmed, director of education, MENA region,

were often poor quality and little more than cash cows.

Operators however complain the caps create uncertainty. Based on both performance and an inflation-linked index demonstrating the true cost of education, they can fluctuate, standing at 3-6% in 2012, minus 1% in 2013, and 1.7-3.5% in 2014. They also make other expenses harder to deal with, such as inflation, capital investment, rising utility bills and renovation and maintenance costs. As Taleem's Pierrepont pointed out, to lure the best teachers, schools also have to provide housing allowances as standard in their pay packages.

The issues around fee caps may be more smoke than fire, though. Despite parental complaints Dubai has a much broader range of fee price points than other expat hubs like Singapore, with costs ranging from around £1,500 up to £15,000. Importantly too, elite schools represent less than 10% of the total supply in the market, says Ahmed. "It's a popular misconception that they are unaffordable. Schools here cater to different income brackets – unfortunately everybody concentrates on those four or five names that are charging very high fees."

School businesses may also be exaggerating their difficulties. Colliers estimates that well run outfits still enjoy net profit margins of 15-20%, not to mention inflation rates that are, at least comparatively, low and no corporation tax. On top of this, the better you perform the more you can raise your fees by – an incentive that should drive up quality and competition.

The debate over fee caps is long running, says Assomull, but he believes it will resolve itself over time as supply starts to meet demand. However, whether solutions to this and other problems can be found in time to generate the extra places required by 2020 is an

HOTSPOTS

Dubai is known as the Middle East's most buoyant private school market, but there are other hotspots in the region:

Abu Dhabi

Abu Dhabi is considered to be the second best market for private schools in the region behind Dubai. Like its glitzier cousin, the emirate provides school operators with land at highly subsidised rates, although demand has pushed providers into buying freehold from the private sector which is costlier. The regulatory environment makes it relatively easy for international operators to set up schools, and the government is encouraging new entrants with good track records (Brighton College and Nord Anglia both have sites there). However, investors are wary of the process by which fees are regulated, which some argue is tougher and less uniformly applied than in Dubai.

Qatar

Qatar has good demand characteristics but the market is smaller and growing less quickly than in Dubai or Abu Dhabi. It is also made up more of locals than expats, meaning schools must offer lower price points. Regulation can be tough and some investors have found it challenging to understand rules on setting up new schools and capping fees. However, the government does provide school operators with generously subsidised land and operators will find it relatively easy to attract teachers.

Saudi Arabia

Saudi is a big market but operates again at slightly lower price points to Dubai, Abu Dhabi and Qatar, with the lion's share of demand coming from locals. Traditionally investors have found it harder to invest directly into Saudi on their own and require partners. However, the government provides subsidised land for schools and non-subsidised land is cheaper than in the UAE. Financing may also be easier to come by and interest rates lower. Some however complain the regulatory system can be cumbersome with the government known for making u-turns and introducing unexpected reforms.



open question. Certainly there are still decent opportunities to generate profit and operator interest shows no sign of waning; last year alone 11 new schools opened in Dubai, and fee revenue annually has reached 5.35 billion AED (£980 million).

However, there is another potential scenario – that other expat hubs in the Gulf and Asia up their games and start wooing Dubai's expats and the international schools chasing their business. The emirate is well able to avoid this, but shouldn't take it for granted. It's going to require compromises from the regulator, banks and operators themselves, but a more competitive market almost certainly lies ahead. ■