

Scandals in Dubai Cast a Cloud

Some Problem Deals

In Real Estate

May Dent Trust

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DUBAI, United Arab Emirates -- This city-state's real-estate market is booming. Massive building projects scrape the sky. Sales and rental prices appear buoyant as investments flow in from other oil-rich Persian Gulf states, the former Soviet Union, India and Iran.



But a series of legal tussles and property-related scandals could dent foreign-investor confidence and tarnish the business-friendly reputation the government has tried so hard to burnish.

Earlier this month, the chief executive of one of Dubai's largest publicly traded developers was jailed. And two disputes involving European and U.S. investors have raised concerns about Dubai's regulatory and legal safeguards.

Foreigner-Friendly

Real estate is thriving in oil-rich Dubai but so is litigation.

The U.A.E., a collection of seven, semiautonomous emirates, was the first of the Arab Gulf states to allow foreign-property ownership. The country, a major oil producer, remains at the center of the Gulf region's construction surge. More than a third of the estimated \$1.2 trillion in projects under way in the region are in the oil-rich U.A.E., according to a report by the London-based Middle East Economic Digest, which tracks building projects.

While Dubai lacks the big oil reserves of its neighbor Abu Dhabi, it has diversified away from petroleum, building a reputation as a hub for tourism, business and transportation. Crucial to that strategy are its development projects.

Dubai has regaled tourists and investors alike with megaprojects such as the construction of Burj Dubai, the world's tallest building, and the planned Palm developments, three separate man-made island clusters in the shape of palm trees.

"The perception of Dubai is based on the Burj, the Palm trilogy and sunshine 365 days a year. So far, you could call it a successful marketing campaign," said Martin Kohlhase, a senior analyst in Dubai for Moody's Investors Service, the credit-rating company. "There is so much at stake."

Marwan bin Ghalita, chief executive of Dubai's Real Estate Regulatory Agency, said he has worked hard over the past few months to improve rule making and enforcement among Dubai's 742 licensed developers. "We are doing a very good job, but there are still lots of things to do to achieve awareness about the rules and procedures here," said Mr. bin Ghalita.

Deyaar Development PJSC said earlier this month that its former chief executive, Zack Shahin, had left the company and was being held by Dubai police. The company, listed on the local stock exchange, disclosed the moves after the Zawya Dow Jones wire service reported the arrest.

Mr. Shahin, a U.S. citizen, is being held as part of an investigation into alleged financial wrongdoing at the

company. In a jail-house interview, he told the wire service he was innocent. Mystery has shrouded the case, raising concerns about the extent of its repercussions on the company, one of Dubai's biggest developers. A Deyaar spokeswoman declined to comment.

Another project -- on the Palm Jebel Ali archipelago, one of the three clusters -- also recently became a battleground between a Dubai developer and disgruntled investors.

In 2003, Damac Properties, one of Dubai's largest private developers, sold apartments in a 25-story building, known as Palm Springs. The company targeted British investors, eager to snap up retirement or rental properties.

Last month, Damac sent letters to those investors, saying the project had been canceled, giving few details. When investors pressed, they were told Palm Jebel Ali's government-controlled master developer, Nakheel PJSC, hadn't given Damac suitable land on which to build.

'Out of the Blue'

Damac promised to return investors' money, plus 6% interest, or give discounts on another Damac property. The Palm Springs apartments were sold for about \$220 a square foot, according to investors. Current market prices in the same area are as much as \$890 a square foot.

"It came out of the blue," said Colin Murray, who lives southwest of London and bought two Palm Springs apartments.

Mr. Murray helped band together 80 investors in the United Kingdom. They filed a formal complaint with Dubai's Real Estate Regulatory Agency. Nakheel denied it had caused the project cancellation, and regulatory officials launched talks between Nakheel and Damac. Damac then told investors that the project was back on.

The agency's Mr. bin Ghalita said Dubai law gives Damac six months to start construction. He said he "would be keeping my eye" on the situation.

The controversy over Palm Springs was just the most prominent in a series of property-investor complaints. The local English-language press has reported stories of middle-class families being bilked by unlicensed brokers or unscrupulous developers who have taken large deposits and failed to deliver. And then there are delays in finishing construction. Damac has completed only 18% of its \$30 billion real-estate portfolio.

Financiers in Tussle

It isn't only small investors getting ensnared. U.S. private-equity firm Capital Partners, a real-estate-development arm of McKinley Reserve, of Wisconsin, is in a \$1 billion legal dispute with Tecom Investments, a subsidiary of **Dubai Holding**, which is owned by Dubai's ruler, Sheik Mohammed bin Rashid Al Maktoum.

In 2005, Capital Partners and Tecom signed a contract allowing the Americans to develop a 15-hectare site called Riverwalk. Months later, however, the deal had turned sour. Capital Partners accused Tecom of selling it land that it didn't own, specifically, almost a hectare that was a designated archaeological site.

With \$10 million already sunk into the project, Capital Partners refused to make a scheduled second payment to Tecom until the ownership issues had been worked out. Tecom said that missed payment was grounds to terminate the contract. The case is before the Dubai International Arbitration Center, an independent tribunal.

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