



Why
Dubai
Is
Being

Downsized

As the global economy tightens its belt, the world's most dramatic real estate venture begins to trim some of its own fat.

By **SCOTT KAUFFMAN**

Desert mirages are supposed to be make-believe. That is, of course, unless you've ever been to Dubai, where the real and unreal seem to blend like the endless dunes that dominate this diamond of a destination. How else can one explain the miraculous metamorphosis of this tiny city-state that,



The Burj Al Arab resort is one of the most striking structures in Dubai. **THIS PAGE:** Entertain guests in a Club Suite or, top, meet up at Sahn Eddar for tea. **OPPOSITE PAGE:** The main lobby. **PREVIOUS PAGE:** Made to look like a billowing sail, the hotel stands 1,050 feet tall.



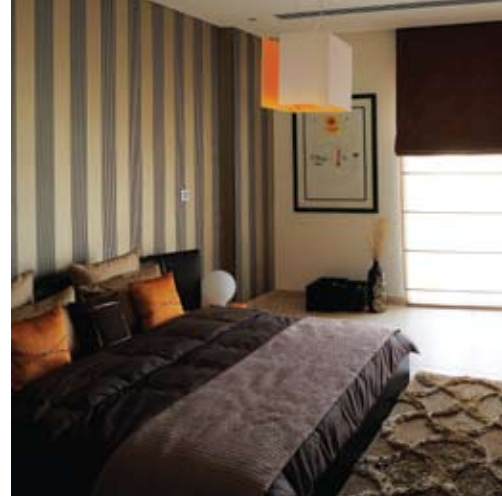
just 30 years ago, was an unassuming Persian Gulf trading outpost—a place where pearl divers would return home after a hard day's work to *barastis*, or palm-frond huts.

Instead of going back to modest residences, Dubai's modern-day traders retreat to some of the most luxurious and amazing places on the planet. It's certainly a vastly different desert picture than the one Sheikh Rashid bin Saeed Al Maktoum inherited in 1979, before he inspired his people toward a path of an explosive rise to greatness. Nobody, perhaps other than the great visionary himself, could fathom the changes Sheikh Rashid's four sons and a Western-friendly emirate would eventually bring to the Middle East—or the world for that matter.

Today, as the scorching sun rises after another Arabian Gulf night, a city skyline faintly comes into view over the desert dunes, leaving the mind to wonder: can this possibly be for real? Yet, past barren and brushy desert landscapes dotted with camels on miles of lonely highways, a diversified city does indeed unfold, evoking the metropolitan grandeur of Manhattan.

For instance, there's the world's largest hotel, Burj Al Arab, shaped like a billowing sail and seemingly floating amidst the clouds. Nearby is the towering Burj Dubai, the world's tallest skyscraper soaring more than 2,000 feet in the air, equal to the height of Chicago's Sears Tower and the John Hancock Center combined.

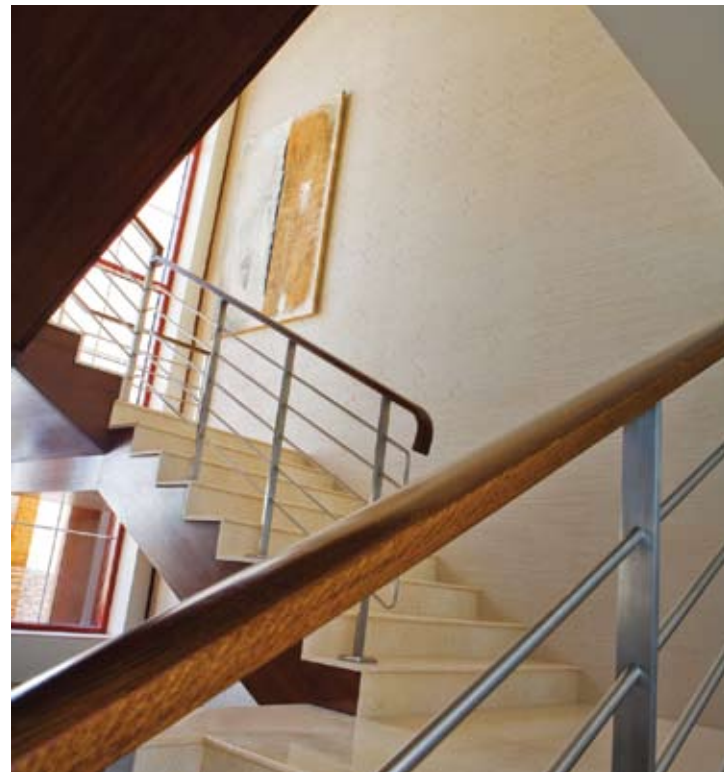




OPPOSITE PAGE: One of the casualties of the economic downturn affecting Dubai has been Trump International Hotel and Tower on Palm Jumeirah, whose construction has been put on hold. The drop-off area and lobby will offer views of the Golden Mile.



THIS PAGE: The gated, luxurious mansions on all of the Jumeirah Islands are marked by Mediterranean architecture with grand staircases, wide-open living areas, sumptuous master bedroom suites, and private balconies.



Meanwhile, off the coast of Dubai's prestigious Jumeirah district, Palm Jumeirah mesmerizes the world as the largest land reclamation of its kind, an archipelago of man-made islands designed in the shape of a date palm that will one day add some 320 miles of new Persian Gulf coastline. Featuring thousands of luxury residences and retail and leisure facilities across 1,383 acres, the iconic Palm Jumeirah launched in astonishing fashion seven years ago, selling all 4,000 first-phase construction properties in a 72-hour period. In November of 2008, the development marked another milestone when the 1,539-room Atlantis casino-resort hotel opened with a star-studded, fireworks-laden, \$20 million affair that featured Oprah Winfrey, Denzel Washington, and Robert De Niro.

Former Nakheel sales representative Todd Peterson, a 33-year-old luxury real estate specialist now based in San Diego, witnessed much of Dubai's transformation.

"It was an amazing experience working with some of the world's wealthiest clients and representing some of the most iconic projects ever developed," Peterson says. "It's not every day you get to sell man-made islands. But what I enjoyed most about living in Dubai was the diverse range of nationalities I had the opportunity to interact with." Peterson says that he knew people from 70 different countries and for him, that was what makes Dubai so extraordinary, especially as an American in the Middle East. "I was always seen as an individual, not as someone who personified my government's foreign policy. Regardless of the turmoil that takes place in the rest of the world, Dubai and all its residents are able to transcend the external conflicts. I tell people about it and it's like something out of a sci-fi movie. It's more impressive than what you see or hear."

To some extent, all of this must seem like one surreal mirage surfacing from the Dubai desert. In this case, though, it is real—or is it? In some respects, it's a combination of fantasy and reality, now that the global financial crisis is firmly entrenched in the United Arab Emirates, drastically cutting off many of Dubai's most ambitious projects and stifling the city-state's once high-flying economy.



As the late Sheikh Rashid's son and current Dubai ruler Sheikh Mohammed bin Rashid al Maktoum has learned, not even the oil-rich United Arab Emirates, which he helps run as the vice president and prime minister, is immune to the crippling whims of the global credit crisis. That explains why Nakheel, the state-run development arm, has all but called off every master-planned real estate project except Palm Jumeirah, an innovative development some call the eighth man-made wonder of the world.

One noted high-profile casualty on Palm Jumeirah is the proposed Trump International Hotel and Tower. Subsequently, numerous other high-profile, upscale real estate projects have been put on hold, including Tiger Woods' ballyhooed Tiger Woods Dubai golf course community. Scheduled to open this autumn, Woods confirmed in June his project that featured so-called palaces starting at more than \$30 million is indefinitely on hold and pushed back to 2010 or later.

Several months after the financial markets began to melt down in September of 2008 on Wall Street, Dubai started to feel the global

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THIS PAGE: The Els Club in Dubai Sports City. **OPPOSITE PAGE:** The 15th hole at the Els Club is one of the toughest, with double breaks on the green.



aftershocks, and its own real estate market was soon in jeopardy. For example, a four-bedroom villa on Palm Jumeirah dropped some 40 percent in value to \$2.7 million, or 10 million UAE dirhams, down from \$4 million, or 15 million dirhams, respectively. When the Palm Jumeirah initially sold these villas in 2002, purchased by the likes of soccer star David Beckham and F1 race car driver Michael Schumacher, some were bought for as much as \$7 million.

Indeed, like any mirage in a desert, the vision does eventually disappear. Simply put, this desert dreamland has awakened to a nightmarish economic hangover not unlike so many economies riding the real estate bubble around the world. Yes, even a region at one time awash in so much oil-driven liquidity that it was buying up brands such as NASDAQ, Cirque de Soleil, and the Atlantis resort chain is now broke. And Dubai has found itself in a state really no different than other over-fueled speculative real estate and financial markets from Miami to Phoenix to London that need massive bailouts.

Despite this general gloom and doom, however, not all of Dubai is dying. One place with some life is The World, another ambitious creation by Nakheel that features 254 man-made islands—175 of which have been sold already—shaped in the form of the globe. Specifically, one part of The World doing well is the island project called V...Greece on the World.

A 10-acre development by V Resorts Limited, V ... Greece on the World is the only project on the island of Greece and features 54 units overall, half of which have already been sold. Designed as a “village by the sea,” Belgian entrepreneur/developer Jean van Gysel strives to fulfill every need imaginable with the finest of facilities and amenities, including a Cinq Mondes Spa, fitness center, shops, restaurant, business center, private moorings, and a private ferry that shuttles residents to The World’s other ferry terminals.

Prices for V residences range from \$3.5 million to \$8 million for 60 days of annual freehold use. The remaining 10 months allow investors to rent their “hotel suites” and receive 50 percent of the gross sales per year.

Richard Steinberg, executive managing director for Warburg Realty Partner-

ship, acknowledges that there isn’t a single development in Dubai not affected by the global recession, but the V...Greece on the World project is holding its own due to its intimate, small-scale nature.

“We’re finding the boutique lifestyle is more resilient,” says Steinberg, whose firm oversees the sales and marketing. “Our project is very unique. The biggest concern my clients have who are purchasing units is being too extravagant. They don’t know if it’s appropriate right now [to be associated with such purchases] and ask that we please don’t advertise it. By the time it’s completed in two years, the world will be a different place and they’ll be more willing to talk about it.”

One person not shy when talking about Dubai and its global grandeur is Bala Balasubramaniam, CEO of Dubai Sports City. Another desert location where only spindly trees once sprouted, two lakes are now improbably nestled among 18 perfectly groomed, championship-caliber golf holes designed by star golfer Ernie Els. Opened last January, the Els Club, Els’ first project in the Middle East, is the first fully functioning part of the extraordinary Dubai Sports City, a city within a city that features world-class sporting facilities, cutting-edge stadiums, and a variety of world-renowned sports academies. As Balasubramaniam puts it, “It’s the world’s first and only integrated sports city.” Launched in 2004 as part of Dubailand and situated adjacent to the Dubai Autodrome, the new \$4 billion, master-planned, mixed-use Dubai Sports City development is taking shape as the eventual home to a community of 70,000 people living in 970 gated villas and more than 100 residential towers.

In most places, such expansive and expensive plans would be unthinkable. But this is Dubai, the go-go business hub of the United Arab Emirates. Sports is a multi-trillion dollar industry, and Dubai has recognized that it can profitably serve as the nexus between the Eastern and Western hemispheres, not to mention a safe and enjoyable beacon for 1.7 billion people living within a 4-hour flight of the UAE. That, in a nutshell, is the biggest gambit of the Sheikh’s aggressive expansion efforts on many fronts—to be the center of the world’s hemispheres for financial services, tourism, and sports and leisure.





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Balasubramaniam is pleased to report his \$13 million Els Club, a low-density, 1,250-acre community central to the Dubai Sports City development, is more than 30 percent sold, including 956 phase-one villas priced from \$1 million to \$3.5 million. Balasubramaniam is also quick to point out that 90 percent of Dubai Sports City’s first phase is sold, and 72 percent of the buyers are end users living there to actually enjoy the sports, leisure, and health and wellness elements, not speculators who have fueled so many other Dubai developments.

Meanwhile, the semi-private Els Club’s first release of memberships (150 in total) sold out in a matter of weeks, priced from \$35,000 for individuals and \$85,000 for corporate memberships. The second and final release of 100 memberships is scheduled for later in the year, with more than 100 names currently on the waiting list.

Managed by Troon Golf, the Els Club is the most successful membership launch ever in the UAE. The 7,563-yard layout is the jewel of the Victory Heights residential development, an exclusive golf course villa com-

munity where the “world of sport unites, and people with a passion for the game combine with only the very best in global facilities.”

By no means, Balasubramaniam will tell you, is the Dubai boom over.

“Nothing is over,” says Bala, as he likes to be called. “Nothing is over, I tell you. What Dubai went through was a colossal surge in realty prices. Today, if you’re a person with money, and there is value in the damn thing, you buy into that. And what happens tomorrow, inherently, you own a portion of the real estate somewhere where it’s going to become difficult for you to own anything in the future.”

So the 50 million-square-foot Dubai Sports City development moves on, featuring numerous world-class sporting facilities, including three state-of-the-art stadiums and a variety of renowned sports academies highlighted by soccer’s elite Manchester United organization. In addition to the sporting facilities, Dubai Sports City has plans for other major residential and commercial developments, including a mall and various retail hubs, international schools, medical facilities, hotels, community centers, and entertainment venues.

Among the initial sports partners besides Els, Dubai Sports City features the only Butch Harmon School of Golf outside of America, a 25,000-seat cricket stadium and partnership with the governing International Cricket Council, a 60,000-seat multi-purpose stadium, 10,000-seat indoor arena, David Lloyd Tennis Academy, Next Generation Health Club, and more.

Turning the emirate into a sports and leisure destination has been a goal for quite some time. Major sporting events are not new to Dubai. The Dubai Tennis Championship, which made its debut in 1993, attracts many of the top players in the world, and the Dubai Desert Classic, a stop on the PGA European Tour, started in 1989. Horse racing has also enjoyed an international stage, with Dubai hosting the world’s richest race. And now, with the Dubai Sports City underway, the stakes are being raised, and all of this high-profile exposure could be the key to Dubai becoming the first Arab city to host the Summer Olympics.

This March, Sheikh Mohammad confirmed that he is considering bidding for

the right to host the games. If selected, the earliest opportunity is 2020. In the end, though, will Dubai just become a cityscape of half-finished buildings? Or a mirage that does indeed see the light of day?

The modern-day visionary behind all of Dubai’s dominance of the region’s profile is Sheikh Mohammed. Due to oil supplies dwindling, Sheikh Mohammed had a strong desire to transform his emirate and create a new level of prosperity for his people. So Dubai diversified its economy into real estate and tourism, financial services, and other interests, in the boldest and biggest of ways, building the tallest skyscraper in the world, the largest indoor ski resort, the largest mall, and more. At one time it was believed that Dubai had more skyscrapers planted on its sand than the world had collectively. In the process, Nakheel’s Palm Jumeirah, Emaar Properties’ Burj Dubai, and Jumeirah Group’s Burj al Arab, arguably became three of the most iconic images of the recent global real estate boom.

What many people probably don’t realize is that Dubai is actually one of seven emirates that compose the United Arab Emirates, with neighboring Abu Dhabi being the oil-rich capital, comprising more than 85 percent of the UAE’s land mass. The seven emirates are bound together in a longstanding and relatively stable federation dating to 1971. Abu Dhabi, one of the world’s largest oil producers, provides the majority of the federation’s spending. On the other hand, Dubai doesn’t have and really never had much oil to bolster its finances, thus the move by Sheikh Mohammed to diversify and create its own revenue-generating identity. The emirates govern independently, but the ruling families are hereditary monarchs with sometimes competing business, political, and diplomatic interests.



Like many of the Middle East governments, Dubai was on a deal-making development binge over the past couple years. Companies owned or backed by the government signed agreements or made investments for billions of dollars in assets, including stakes in American and European stock exchanges, a Las Vegas casino operator, and Sony Corp. But much of Dubai’s deal-making was financed by international borrowing, and a large chunk of that debt came due in the past year.

Meanwhile, other Dubai entities embarked on massive expansions inside and outside the emirate fueled by public borrowing. Government-controlled Nakheel, the world’s largest privately held real estate company, was a prime example when it placed \$750 million in bonds in December 2007 to finance its plans.

In the past few months, though, Dubai’s rapid rate of development, accompanied by

THIS PAGE: The Dubai Marina is planned as a small city and when finished will be the world’s largest marina. **OPPOSITE PAGE:** The Jumeirah Islands consist of 50 small islands with 16 luxury villas each with its own swimming pool and garden.



DUBAI DOWNSIZED



cont. from page 73 increased levels of leverage, finally came back to haunt many of the country's leading developers, evident by the massive layoffs experienced at Nakheel earlier this year and the shutdown of most projects. By contrast, Dubai's neighbors and some of the region's biggest investors like Qatar, Kuwait, and Abu Dhabi, have huge hydrocarbon reserves to back up their deals and cushion their economic crashes.

While Dubai works through its financial strains and pains, many experts believed and expected that its much wealthier cousin, Abu Dhabi, would be there to lend necessary support. And that's precisely what happened in February, when the UAE government announced it would spend \$10 billion to bail out the once-high-flying emirate, whose huge construction and financial sector expansion plans became a symbol for the region's boom, and now of a worldwide recession.

The cash infusion from its neighbors comes as Dubai's once-soaring real estate market comes crashing down, much like it has in the US and other global markets. Falling prices, some down by 50 percent or more, have burned speculators who never intended to hold onto the property in the first place. Consequently, sales have plummeted, tightening cash flow for development firms, which are now shedding employees and canceling or postponing billions of dollars for projects and scrambling to extend debt payments.

Robert Lee, managing director of investment projects for Nakheel, says the rise and fall of Dubai's real estate fortunes is merely a function of what truly is a capitalist city-state.

"You know there's always a market that says a part of it will go up and a part of it will go down," Lee says. "It's the old classic bull and bear contrasts, and it's a good thing, because that's the pure sense of capitalist theory—real estate is about cycles. At the same time, I can tell you the old adage: real estate is one industry that might get sick, but it never dies."

When asked how to describe the future of the bubbling Dubai real estate market, Balasubramaniam was optimistic. "Government is all about governance," he says. "Governance is all about leadership. Leadership is all about creating opportunity. Opportunity is all about entrepreneurship. Entrepreneurship is all about taking advantage of the opportunity. That, in gist, is what Dubai is about."

It's a description that can be used for much of the world right now. Or is it really all just one big mirage?
