

matt jones

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Lower purchase prices, celebrity trail blazers and slick road shows are enticing international property investors to look to Dubai and...

Spend it like Beckham

Matt Jones reports.

The venue: Old Trafford, Manchester, England. The date: 6th October 2001. The match: England versus Greece. The result: a 2-2 score line and 11 properties sold on The Palm, Jumeirah.

It is one of the Dubai property market's more quirky statistics – not to be found on PR fact sheets listing numbers of dredgers, barges and square kilometres of reclaimed land – that without David Beckham's 90th minute equaliser from a free kick in front of 66,009 adoring football fans in a decisive World Cup qualifier, England would not have gone to the 2002 FIFA World Cup Finals in Japan and South Korea, the players would not have visited Dubai to acclimatise on their way to the Far East and The Palm, Jumeirah would be short of 11 celebrity residents.

As fate would have it, however, Beckham bent it in from just outside the box and now he and fellow footballers Michael Owen, Gary Neville, Paul Scholes, Wes Brown, Nicky Butt, Wayne Bridge, Ashley Cole, Joe Cole, Kieron Dyer and David James can look forward to moving into the £1 million luxury villas they snapped up during a private visit to The Palm's Dubai sales office en route to the finals. Construction of their dream homes on the first of Dubai's two Palm projects will be complete by early 2006.

Baited with 11 of the most recognisable names in British sport, the England hook was dangled before the British media during a recent UK road show by the developers behind The Palm, Nakheel. Predictably, the press bit and today The Palm is enjoying favourable headlines and generating unprecedented awareness overseas as paradise, Beckham-style. That is proving positive not only for Nakheel, but for the Dubai property market as a whole.

“Gone are the days when people assumed Dubai was just a small oasis in the middle of a desert,” says Stephen Williamson, Client Manager Middle East for the UK-based Lynton Property Investment Consultants.

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“UK press coverage has increased dramatically in the last few weeks, especially in respect of the Jumeirah Palm project and the announcement of the world’s tallest building. And with the IMF meeting in September, Dubai will continue to be in the news for some time to come.”

“The Palm is not built as of today, but it is certainly a project that many people have a lot of faith in and so it makes a great calling card,” says Linda Mahoney, Managing Director of Dubai-based Better Homes LLC. “Not everybody can afford to be on The Palm, or in Emirates Hills or in Andalusia. They may come here to look at them, but then think, ‘I don’t know if I can really afford that.’ Then they’ll see other projects and think, ‘Wow I have choices. I wouldn’t mind investing in a small studio or I might want to invest in a small villa.’ There are different levels of income and investors have different reasons for buying. But the publicity The Palm has brought Dubai has been fabulous.”

Mahoney lays credit for the current buzz surrounding Dubai’s property opportunities to years of effective marketing by the Dubai government.

“When you see recent articles in the UK press highlighting The Palm, this is not just the result of a road show, but also of the marketing that was done long before The Palm was announced,” she says. “The air show, the Desert Classic, the World Cup, Burj Al Arab, the Victory Team, the ATP and Emirates Airline, to mention a few, have all made substantial contributions toward putting Dubai on the map. With this kind of positioning, when you introduce a project of consequence like The Palm people immediately relate. They no longer ask, ‘Where is Dubai?’ The Jumeirah Palm is an ‘Oh my gosh!’ project and is in itself a marketing tool for Dubai.”

Footballers or not, overseas property investors are looking to score in two areas. “When someone purchases property overseas they are normally doing so for two reasons,” says Williamson. “First, as an investment, in which case the prospective buyer will want to know about the local economy, property price trends and so on. And second, as a lifestyle change or holiday home, in which case local activities, the weather, beaches, restaurants, bars and so on become an important factor to the buyer.”

Nakheel’s UK road show in July sought to reassure potential investors on both counts, enticing those with the money to spend it like Beckham. Now the company is planning to take the road show to other markets.

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“We are looking at the GCC, we are definitely looking at Egypt and Beirut and we are looking at the rest of Europe,” says Wahid Attalla, Nakheel’s Director of Operations. “There are markets in Europe which are as big as the UK, like the German-speaking markets, Switzerland. Italy is another market, which actually we discovered recently. We have the Japanese and Australian markets, which I believe now, with the increase of flights by Emirates, are going to be markets that will see a lot of potential in everything, not just in property but in business, regular tourists or shopper and family holidays.”

In taking The Palm to the world, Attalla places Nakheel alongside Emirates, Dubai Duty Free, Jumeirah International and Emaar, as marketers of Dubai as a whole.

“We are promoting a city and a destination,” he says. “We are promoting it to attract capital from outside, we are promoting it to attract people who will come for one reason and then find out that there are many more opportunities available than just the beach, the sand and the nice house on an iconic project. We’re part of a well-orchestrated chain of all those involved in running and managing Dubai. It is a harmony which is working very well.”

Real estate commentators point to a more urgent need to look overseas for buyers, however: due to a finite pool of local investors and the frenzy buying that followed the government’s May 2002 decision to lift restrictions on foreigners’ purchase of freehold properties, the local market is as dry as a wadi in high summer.

“Selling Dubai is a significant component in the selling process. As the local market becomes saturated and developers have to look abroad for buyers of their property, they become marketers of Dubai and its lifestyle,” says Better Homes’ Mahoney.

Commenting on the approaches his company receives to market Dubai properties overseas, Paul Turner, General Manager of Asteco Property Management LLC, says, “The market here in Dubai has been drained of investors and end users.”

At Lynton, Williamson says he is, “Being asked by individuals or developers on a weekly basis to assist them in marketing and selling their properties in the UK on their behalf. A lot of people here realise that there is a lot of competition locally to sell their developments so they are increasingly focusing on overseas markets to increase their market share.”

According to Attalla, around 35 to 40 per cent of buyers on The Palm, Jumeirah are from overseas or non-UAE, non-GCC nationals. “When the project was first launched there was this whole thing about foreigners buying property,” he says.

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“It was an unknown thing. Then people were assured and started buying. Then overseas people started buying. At a certain stage there was doubt, ‘Are these people for real?’ ‘Can they really make it?’ But today, when they see the satellite pictures and the tractors going in and out, people have started realising that this thing is happening, and it is happening faster than anyone could have imagined.”

Nevertheless, there are issues that need to be addressed if the managers of Dubai’s property boom are to sign up the more cautious big players in the global game. Topping the list are concerns about legal issues to do with title. As the recent half yearly Dubai Economic Report, published by the National Bank of Dubai, highlighted, “There is no question that from the point of view of the Dubai government the titles of buyers are secure. But the law of the UAE says that foreigners may not own property and the Dubai courts are obliged to uphold this law. At some point this question will have to be settled, probably by negotiation between the authorities. Officials near the top of the Dubai government have spoken of a ‘one country two systems’ formula, such as governs the status of Hong Kong within China.”

Williamson, for one, would welcome such a formula. “When China assumed control of Hong Kong from the British, there were many problems regarding the alignment of the two legal systems,” he explains. “In order to overcome this situation, they came up with the ‘one country two systems’ model. This allows Hong Kong to largely retain its legal system without clashing with Chinese laws which may not be in agreement. If the Hong Kong model were adopted, then it could be arranged so that the law prohibiting foreigners from owning property would remain in force throughout the UAE, whilst permitting Dubai to ‘opt out’ of this law.”

Mahoney is confident that it is only a matter of time before the wrinkles are ironed out. “All over the world in developed areas there are legal systems in place,” she says. “This is coming here and we expect that it is going to happen soon, but everything is not in place and everyone knows that. But people have a lot of confidence that it is simply a matter of time and patience. Otherwise we would not see all the building that is evident on the horizon. Dubai has a golden opportunity to look at other areas and take the best from a number of countries with legal systems, working and established property laws and copyright laws. But you can’t do it overnight. As a buyer I know that right now the laws are not totally in place, but I have confidence that they will be.”

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As well as the Hong Kong model, the upcoming Dubai International Finance Centre (DIFC), a financial services free zone with its own laws and regulations, will be closely watched as a potential model for commercial, civil property and company legislation not only in the UAE, but the wider Gulf and Middle East region.

Also on the list of investor concerns is the resale value of their properties. Commentators agree that luxury properties in Dubai are not as expensive and offer better value than comparable properties in Europe or North America. The low purchase prices and strong, vibrant market are appealing to investors. But it is nonetheless a market without a history and predicting what it will do in the short and long term relies more on informed guesswork than analysis. Questions on the subject are invariably met with more questions.

“If you have huge amounts of the same product – with a beautiful view of a marina from every apartment – is it going to hold its value?” asks Mahoney. “We’ll have to wait and see.”

“With property construction set to continue at a great pace for some years to come I would be concerned that supply and demand would dictate that an investor will not see any significant capital uplift in the value of their investment,” says Williamson. “Will rental yields continue to remain high when there are so many properties on the market? I think that the pace of construction is so high that it will outstrip demand for at least the next five years and prices will remain flat as a whole.”

“All markets work on supply and demand,” says Asteco’s Turner. “The reason The Palm has been so successful is because of supply, or restricted supply. There is only one Palm. The only property that has increased in value has been The Palm.”

“There will be those who will lose money, and there will be those who will make money, but it is my belief that people who are in it for the long term will do well,” says Mahoney. “What is going to happen? We will only be able to answer that question when we see the second hand market evolving. This is key and only happens when there are people occupying a large portion of the properties that are being built now.”

A further concern – though more for responsible developers and realtors than unsuspecting investors – are the questionable sales strategies that may be employed in new overseas markets.

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“By going to London, for instance, you’re tapping into a market which doesn’t necessarily realise the amount of choice available in this region,” says Williamson. “If a developer is trying to sell properties to unassuming buyers in London and is not providing them with all the facts, it might do harm to the reputation of other developers here.” Londoners may not know what people on the ground in Dubai know: that there are hundreds of identical properties in the same area, for example. Knowingly withholding such information is, says Williamson, “An underhand tactic” which could “Leave the reputation of developers here tarnished.”

That such issues should surface at all, however, can be viewed as a healthy sign that Dubai is steadily evolving from a business and leisure destination to a home venue for celebrities and other members of the global jet set whose previous visits have been limited to World Cup week, one-off concerts on the creek or, indeed, preparations for the football World Cup.

Commenting on The Palm’s appeal to the rich and famous, Attalla says: “There are people from the world of fashion and sport, actors and singers and so on, who are genuinely interested in the project not for PR but really for peace and tranquillity.”

Apart from the England footballers, he is reluctant to name names. When offered to comment on rumours that movie legend Jack Nicholson is among the buyers, he says, “There are confidentiality agreements.”

Attalla points to Dubai’s promise of security, safety and a degree of anonymity as plus points, but says the overriding attractions are the, “Hospitality, the weather, the phenomenal developments of very young city, certainly the beaches, the sun, the whole thing.

“With the number of flights from the UK mostly and Europe in general, and with the distance, a six hour flight, a lot of people have started looking at Dubai as a replacement for Spain or Portugal, where things have become too commercial or too expensive,” he says.

“Dubai is very well positioned and if you look in the calendar of events for a 12 month period, maybe with the exception of very little time like the month of Ramadan and July and August, there is always something exciting and big happening in Dubai.”

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Given the media furore that has surrounded David Beckham's movements of late – from Manchester to Madrid and his subsequent tour with Real to the Far East – not to mention his ubiquitous presence in fashion magazines and on advertising billboards around the world, his decision with pop star wife Victoria to buy a home in Dubai is good news for all involved in the property market here. Where celebrities go, the public invariably follows. What they endorse, the public buys.

“It is definitely a plus point not just for the Palm, but also for Dubai,” says Attalla. “When you have names like the names which are in The Palm as residents, it adds to the charm of the place. We are all human beings and people like to be around celebrities. At least if they are not around them, they can say, ‘I live where Beckham is living.’”

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