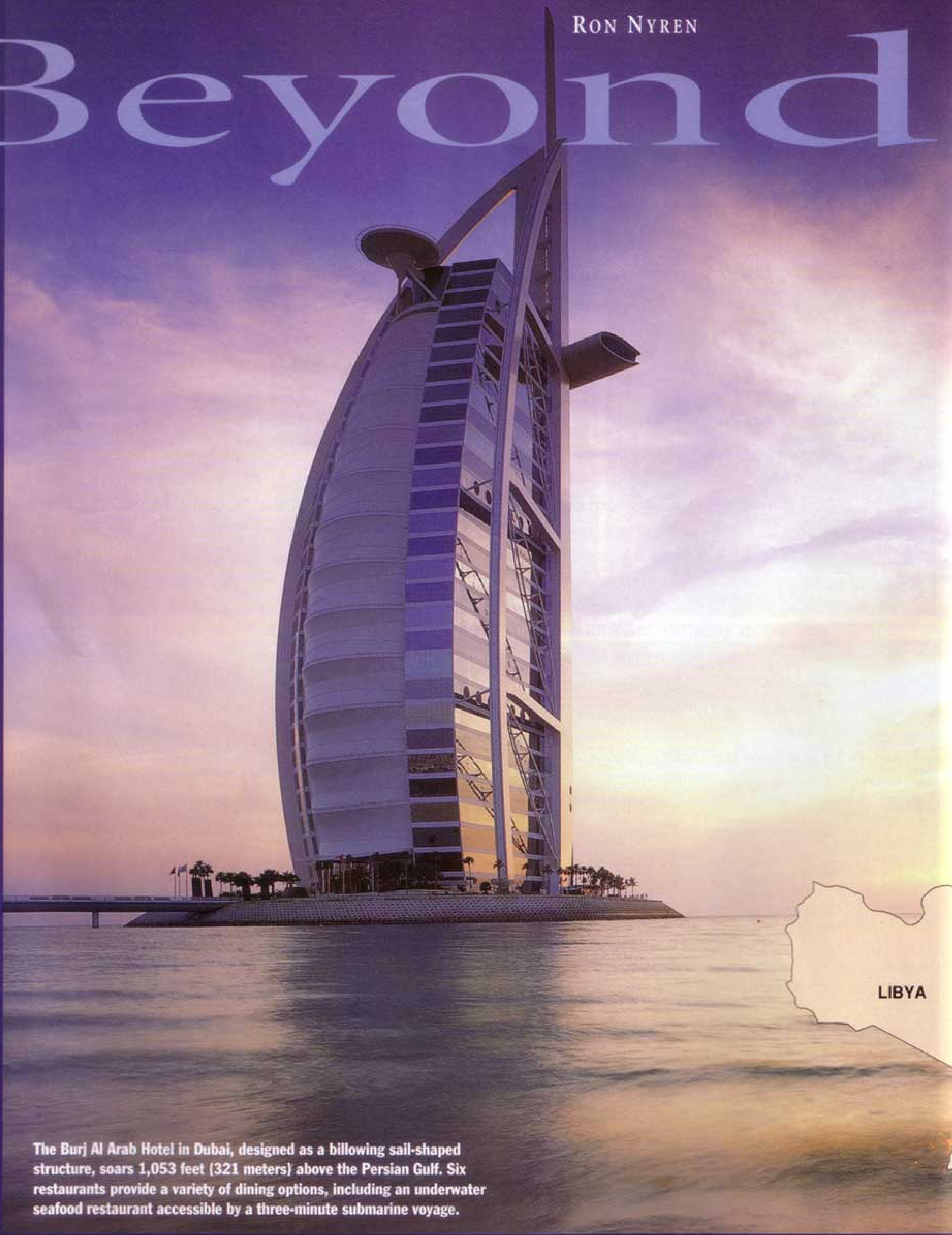
Ron Nyren

Beyond



BURJ AL ARAB

The Burj Al Arab Hotel in Dubai, designed as a billowing sail-shaped structure, soars 1,053 feet (321 meters) above the Persian Gulf. Six restaurants provide a variety of dining options, including an underwater seafood restaurant accessible by a three-minute submarine voyage.

Oil

Recent development in the Persian Gulf countries indicates a shift from a heavy reliance on oil to more economic diversity, reflecting the region's ambition to become a major tourist and financial center. The past four years in particular have seen strong income from high oil prices, which has given the private and public sectors more funds to invest in real estate. Also, the Iraq war has led Arabs to spend more of their leisure time within the region. While Iraq's future remains uncertain, a number of the country's neighbors—Dubai and the rest of the United Arab Emirates (U.A.E), Qatar, Bahrain, Kuwait, and Lebanon—are moving ahead with a number of large-scale tourism, commercial, and residential projects.

Development in the Arab world is centering on tourism as the area attempts to diversify.

Dubai has already had considerable development success, which is spurring competition from other Arab countries seeking to follow suit. However, individual countries still have their own aims. "I sense a different underlying strategy in each Gulf state, depending on its goals," says Lee Polisano, president of Kohn Pedersen Fox Associates, an international architecture and design firm with several projects in the Middle East. "Dubai has a much more international strategy, attracting people from other parts of the world as it focuses on building for tourism. Kuwait has huge aspirations that are regionally focused. Its affluent residents particularly enjoy social activities, retail, and leisure; it's a big part of what makes its new developments attractive."

The Burj Dubai master plan (above and left) envisions a mixed-use community designed to be a major urban node within Dubai. Part of a former military facility, the project occupies 416 acres of land near existing high-rise residential and office districts. The project includes a business center, high-rise residential towers, a major urban park with a 36-acre lake, as well as the Dubai Mall, projected to include more than 5.6 million square feet of retail space. The project's centerpiece is Burj Dubai Tower, slated to be the tallest building in the world. The master plan for the Dubai International Financial Centre (below), the most recent free-trade project, provides mixed uses; the project is currently under construction in Dubai's central business district.

Dubai

Dubai is currently the powerhouse in the Arab world in terms of development. One of seven emirates in the U.A.E.—the second-wealthiest Arab nation—it has grown from a fishing village in the 1950s to an international trading center. Perhaps because it does not have as much oil as its neighbors, Dubai is leading the transition to a more diversified economy by building on its long trading history. Much of the transformation has been motivated by Sheikh Mohammed bin Rashid Al Maktoum, the crown prince of Dubai and U.A.E. minister of defense, who came to power after his father, Sheikh Rashid, died in 1990. Maktoum's strategy is to make Dubai a regional center for tourism, leisure, and entertainment, as well as a rival of Hong Kong and New York City as a financial trading center.

To attract foreign private investment, Dubai's government is creating free-trade zones that collect no corporate or individual taxes or customs duties, and provide advanced technological and business infrastructure. Dubai Internet City, opened in 2000, has drawn major technology corporations such as Microsoft, IBM, Oracle, and Cisco. Dubai Media City, opened in 2001, has attracted foreign media such as the Associated Press, CNN, Sony, and Reuters, as well as regional entities such as the Middle East Broadcasting Corporation. The most recent free-trade project is the Dubai International Financial Centre (DIFC), under construction in Dubai's central business district near the Emirates Towers and the World Trade Centre. To effectively double as a resort destination, the project has mixed-use districts that include a museum, an art gallery, restaurants, and a performing arts center. The government not only creates free-trade areas, but also plays a strong role in development: the two largest developers in Dubai are Emaar Properties, which is 32

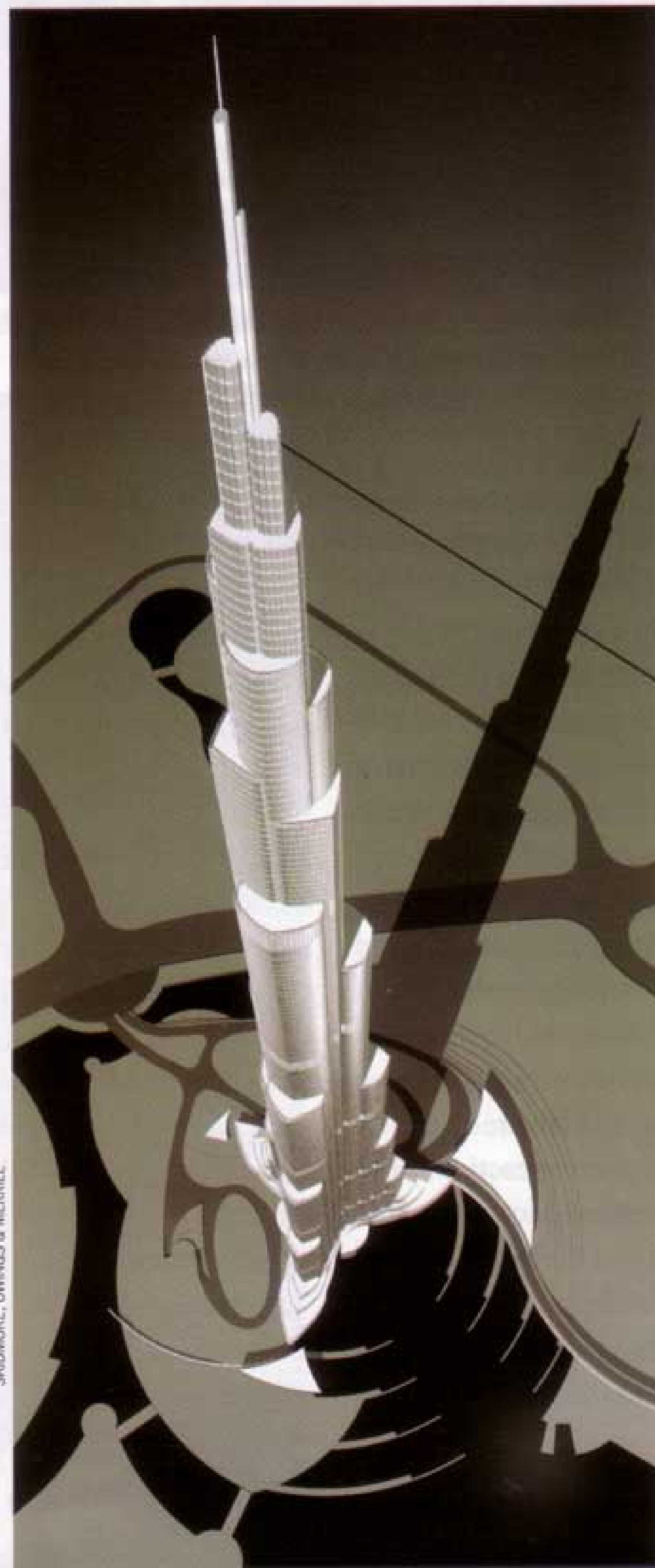
The Gate Building (right) acts as a focal point for the overall scheme of the Dubai International Financial Centre; the Emirates Towers are in the background. The Burj Dubai Tower (below) on completion is intended to be the tallest building in the world; the setbacks reference the onion-dome shapes of Dubai's traditional architecture.

percent government owned, and Nakheel, which is 100 percent government owned. Much of the development boom is spurred by the government's large land grants to real estate developers.

Hospitality and entertainment projects in the works include Dubailand, a $5 billion entertainment and leisure destination with more than 2 billion square feet of space—by itself almost doubling the developed acreage in Dubai. The first phase, intended for completion in 2007, will include theme parks, a 45 million-square-foot retail and entertainment center, an ecotourism attraction with safari trips through a preserved desert habitat, a 206 million-square-foot indoor and outdoor sports attraction, and what is billed as the largest mall in the world, the Mall of Arabia. Other projects include Hydropolis, a 220-room partially submerged hotel that will provide guests with underwater views when it opens in late 2006, and the Palm project, consisting of two islands constructed in the shape of palm trees, each covering more than 1,200 acres—large enough to be visible from outer space. Luxury villas, boutique hotels, and resorts will occupy the islands.

The new Burj Dubai is a master-planned, mixed-use community designed to be a major urban node within Dubai. Part of a former military facility, the project site occupies 416 acres near existing high-rise residential and office districts. The project, being developed by Emaar Properties, includes a business center, high-rise residential towers, and a major urban park with a 36-acre lake, as well as the Dubai Mall, projected to include more than 5.6 million square feet of retail space. The project's centerpiece is Burj Dubai Tower, slated to be the tallest building in the world when completed. An "old town" residential and retail center will be based more on Dubai's traditional building forms.

Architecturally, the major new buildings largely draw on international style and standards. "Dubai is attracting international businesses," says George Efstathiou, a partner at Skidmore, Owings & Merrill, designer of Burj Dubai Tower. "A lot of cities in the region don't have modern office buildings with an efficient planning module and reasonable floor depths and sizes, so they're focused on adapting to international standards to meet the needs of international business. When the motifs try to be Islamic, it doesn't work with modern buildings," he explains.



"Dubai is aiming to build landmark buildings and put itself on the architectural map," points out Chris Johnson, managing principal of Gensler's London office, which is responsible for the master planning and design of the DIFC. "They are looking outward to Western and other international models, since traditional indigenous architecture may not be able to accommodate the needs of today's users." While the focus has been on creating iconic buildings, recent projects such as the DIFC are taking a broader approach that incorporates urban design. "You can build the biggest building, but you have to look at the reasons behind that. If it's about creating the best financial district, creating a utopian city, then it's about designing a better urban fabric and lifestyle," notes Johnson.

"One of the downsides of Dubai's success is rapid urban growth and the resulting traffic congestion," says Ian Mulcahey, senior associate at Gensler's London office. "They're now starting to shift from a car-oriented city to a public transit city. This demonstrates a maturity of thinking and is the only way they can keep expanding sustainably." A light-rail project, intended to begin operating in 2010, is currently in the design phase and will have the capacity to carry up to 50,000 passengers an hour. The Dubai International Airport completed a $540 million expansion program in 2000 and has already begun a $4.1 billion second expansion to be completed in 2006 to serve a projected 60 million passengers per year by 2010.

Qatar

Qatar, which leads Arab countries in wealth per capita, is making a bid to capture the international tourist market as well. Last May, the Qatar Tourism Authority announced an ambitious $15 billion master plan, funded largely by the government, to strengthen the country's infrastructure and invest in destination projects. The plan earmarks $5 billion for a new Doha International Airport to open in 2008. Also included are luxury housing, hotels, and resorts; cultural institutions such as a museum of Islamic arts, a national library, and a photography museum; and new and enhanced sports facilities designed to attract major sporting events. Qatar has already been named host of the 2006 Asian Games. The country's largest real estate project, the Pearl of the Gulf, is under construction; the $2.5 billion, 1.5-square-mile manmade island is set to include three luxury hotels, restaurant and retail space, and homes for up to 30,000 people. The project will be the first to allow foreigners to own property in Qatar.

KOHN PEDERSEN FOX

The new 39-story, 786,000-square-foot Abu Dhabi Investment Authority headquarters in Abu Dhabi will feature a glass facade inspired by the sails of traditional dhows; two wings will flank a central courtyard atrium that draws on the tradition of courtyards in Islamic architecture, a connection reinforced by "sky gardens." The north wing will follow the line of the city grid, while the wing to the south will open onto the sea.

Bahrain

Bahrain's economy is more open to foreign investment than any other in the Arab world: most sectors allow up to 100 percent ownership by foreigners. In competition with the DIFC, Bahrain is seeking to build on its longstanding role as the leading financial and banking center in the region with its Bahrain Financial Harbour, a $1.3 billion master-planned city. Located on prime seafront property in Manama, the project includes a financial center with two 53-story towers, an insurance center, a hotel, and an opera house. The building design reflects Bahrain's roots in trade and pearling: the building shapes curve in reference to the sails of dhows. The development includes 1.3 million square feet of residential development, 2.6 million square feet of offices, and more than 300,000 square feet of retail, restaurant, and leisure space.

Bahrain is also focusing on tourism and sports attractions. The $150 million Formula 1 Grand Prix racing facility in Manama opened this past April. Tourist and leisure destinations in the works include the $1 billion Amwaj Islands off the coast of Muharraq, the $1.3 billion Durrat al-Bahrain Islands, and a $530 million Lulu Tourism Company resort, all of which involve creating new islands.

Kuwait

Kuwait is focusing its efforts on housing its own citizens to keep up with the highest population growth rate among the Gulf countries—3.4 percent. The Kuwaiti government has revived plans to provide housing for 100,000 people in a new city in Subiya across the bay to the north of Kuwait City. The project has been a Kuwaiti dream since the late 1970s, but the Iran-Iraq War and subsequent conflicts left plans on the back burner until the fall of Saddam Hussein. The Ministry of Public Works' proposed 17-mile-long, $1.5 billion causeway will be the first step, connecting Kuwait City to Subiya. The government also is planning to create major tourism resorts on the Bubiyan and Failaka islands, located just off Subiya. To solicit private investors in these and other tourism and leisure projects, Kuwait has established the Executive Authority for the Development of Kuwaiti Islands, Divided Zones, and Major projects, an entity with its own budget. The authority has also awarded infrastructure contracts for the first-phase development of a new Al-Khiran township project near the Saudi border, planned ultimately to house 250,000 people.

Lebanon

Lebanon, in contrast, is working to revive its historical role as a leisure destination. Until the country's civil war began in the 1970s, the mountains of Lebanon attracted Arabs seeking a place with a cool climate to spend the summer. The country's more liberal attitude toward gambling, drinking, and entertainment are attractive to residents of countries with stricter mores and stronger Muslim fundamentalist influences. Beirut, the capital, also has the advantage of lying on the Mediterranean coast. Marina Towers, a 26-story building in the heart of the city, is one of a number of high-rise projects in the city center being built by Solidere, a self-described "government-empowered private development corporation" that the government has placed in charge of redeveloping the area. The 860,000-square-foot mixed-use project, currently under construc-

tion, will contain luxury residences and office space. It features a crescent-shaped tower that mimics the curve of the harbor and maximizes waterfront views from the apartments.

United Arab Emirates

In the U.A.E., the capital, Abu Dhabi, has the second-busiest construction market. Even though Abu Dhabi supplies 90 percent of the U.A.E.'s oil and has a significant natural gas reserve, it still is focusing on diversifying its economy and supporting its private sector. As in Dubai, government land grants to private developers provide stimulus—the case with the Marina Mall, developed by the Abu Dhabi National Investment Corporation. The mall, one of Abu Dhabi's largest, is located on the breakwater on a plot of land covering more than 1.3 million square feet, with about 740,000 square feet of leasable area.

Other major projects include the Fairmont Abu Dhabi Resort & Villas, a 265-room luxury hotel scheduled to open at the end of 2006 along the Abu Dhabi corniche. Also along the corniche, the Abu Dhabi Investment Authority, which manages the Abu Dhabi government's foreign investments, has a new headquarters under construction. The 39-story, 786,000-square-foot building features a wraparound glass facade inspired by the sails of traditional dhows; its two wings flank a central courtyard atrium that draws on the tradition of courtyards in Islamic architecture, a connection reinforced by "sky gardens"—planted terraces adorning the office floors.

The 26-story Marina Towers, is part of an 860,000-square-foot mixed-use project currently under construction in central Beirut, Lebanon. The project will contain luxury residences and office space. The crescent-shaped tower mimics the curve of the harbor and maximizes waterfront views from the apartments.

KOHN PEDERSEN FOX

The leaders of the United Arab Emirates, Bahrain, Saudi Arabia, Oman, Qatar, and Kuwait met in Abu Dhabi in 1981 to form the Gulf Cooperation Council, an organization aimed at strengthening coordination among the member states and developing similar economic, financial, and trade regulations. Abu Dhabi, scheduled to be the site of this year's annual meeting, is constructing the Conference Palace Hotel to house it; the building will include a 300-room luxury hotel, the Middle East's largest conference facilities, and a palace.

Iraq

With the Iraq war coming on the heels of years of economic sanctions, the country has been left far behind its neighbors. While formal sovereignty has been turned over to an interim Iraqi government and the U.S. Congress has appropriated $18.4 billion for rebuilding the country's infrastructure, reconstruction still faces many challenges. According to the Coalition Provisional Authority inspector general's Quarterly Congressional Report, as of June 30, $5.6 billion (31 percent of the appropriation) had been obligated to specific contracts, and only $400 million (2 percent) had been spent. The U.S. government has initiated a series of projects as part of its Accelerated Iraqi Reconstruction Program (AIRP), working on small tasks that can be visibly and quickly accomplished on an ad hoc basis; while this has helped individual areas, the main work still remains to be done.

The continuing unrest in the country and concerns about security complicate matters. Kidnappings and violence deter many subcontractors from pursuing work in Iraq, and those who do require high salaries and face high insurance premiums. In addition, prices for materials such as cement, gravel, and bricks have shot up as limited manufacturing capabilities struggle to keep up with the demand for materials to reinforce government buildings and hotels housing foreign reconstruction workers. Bureaucratic red tape has also slowed efforts. Unfortunately, the delay in long-promised rebuilding only further aggravates anti-American sentiment.

For companies seeking work in Iraq, it helps to have an existing connection to the country. Two U.S.-based architecture firms actively pursuing work there—Otak, Inc., and ARCADD—are led by Iraqi-born owners. Otak, a design and engineering firm based in Portland, Oregon, opened two offices in Iraq this year to train engineers, architects, and other specialists to assist in reconstruction. In addition to the new offices in Baghdad and the Kurdish city of Erbil in northern Iraq, the firm has recently opened one in Abu Dhabi. Mahmoud Uthman, the brother and partner of Iraqi-born Otak chief executive Nawzad Othman, will be the firm's lead contact there. "The need in

Iraq is horrendous," emphasizes Othman. "Roads and other infrastructure desperately need repair, and there's a high demand for housing. But Iraq is coming out of 30 years with a richness of resources; they're poised. There are opportunities on the recreation side—there are mountains, resort possibilities in northern Baghdad. It's going to happen," he maintains. "We're aimed for the long term." Othman is also establishing a firm named Iraq-Pacific Investments to connect investors from the Pacific Northwest with opportunities in Iraq.

Also born in Iraq was Hisham N. Ashkouri, president of Boston architectural firm ARCADD, who has already developed a master plan for Baghdad's central business district and a design for a million-dollar high-rise hotel, conference center, and movie theater complex in downtown Baghdad, for which he is seeking private investors (see feature box "Talking with Hisham Ashkouri," page 52). "There is no office space in Baghdad at this point," points out Ashkouri. "People rent out homes to use as offices. Baghdad has a desperate need for office space. There were five hotels built in the 1980s, by Sheraton and others. These were nationalized by the Iraqi regime, and they're currently used to host foreign press, contractors, those working with the government. There is hardly any room for private citizens to conduct business."

His concept for the master plan involves development on both sides of the Tigris River using unoccupied land formed by silt deposits over the years. The plan envisions long-term lease agreements between the state, which owns the land, and private investors. Ten percent of the profits would be set aside for development of the inner neighborhoods of surrounding districts, providing residents with seed money for downpayments on houses. The plan includes commercial, banking, medical, broadcast, and cultural centers, as well as housing. By placing development on reclaimed land, the plan avoids affecting the historic fabric of Baghdad. "People are worried about developers not caring about the historic quality of an area, demolishing old buildings, and losing Baghdad's cultural heritage," Ashkouri says. "The Ministry of the Defense building is one example, as well as the Saraay, part of a beautiful Ottoman complex. We're planning to develop green parks around those to preserve them. We need to provide open space for tourists and families to visit and enjoy." Ashkouri says he has already presented his plan to the federal government and will visit Iraq in September to present it to the new Iraqi government.

An awareness of diminishing opportunities for new oil discoveries has led these Arab countries to aim for greater diversification; developing the region's real estate for tourist, entertainment, and commercial projects plays a crucial role in those plans. Whether these countries are able to maintain the ambitious pace of development depends on regional stability and a continued opening to foreign investment, as well as the success of the massive projects underway. ■

Ron Nyren is a writing consultant based in the San Francisco Bay area.

Resort Development in the Persian Gulf

Unlikely as it may seem, the Persian Gulf is emerging as one of the most attractive investment opportunities for tourism and resort development. While the North American and European resort development markets enjoyed extensive development in the 1980s, fueled by extended economic growth—with a large influx of capital from mainly Asian investors—these markets now face oversaturation. Investors are turning toward the Persian Gulf as the next frontier for tourism and resort development opportunities.

Investment in this region is certainly not for the risk averse. Nevertheless, fund managers, investment banks, and global private equity groups seeking measured-risk/high-yield opportunities in offshore real estate will be including Persian Gulf tourism investments as part of a balanced portfolio.

To many tourists from the developed world, the Persian Gulf is perceived as a dry, isolated, and war-torn region. While this sentiment may have been true 20 years ago, the region today is turning into an international tourist destination. Tourism expenditures in 1999 accounted for more than $1.2 billion in Dubai, one of the United Arab Emirates (U.A.E.), and Iran alone, for an increase of almost 120 percent over 1995 figures. Though Iraq is still several years away from attracting any volume of tourists, indications are that a pro-Western government will continue to gain influence, which, down the road, will make the country more attractive for investment and tourism.

The Middle East remains an area of considerable risks—the most obvious being the political and cultural turmoil rolling throughout the region. However, there *are* savvy investors, to whom risk equals opportunity. If the risks are, in fact, short term and reasonably isolated—e.g., risks in Dubai as compared with risks in Iraq—investors can be well served by perceiving these risks as a strategy to "buy low." In time, the negative perception on the part of the public will be replaced by a neutral perception—and eventually a positive one. At that point, early investors can experience a disproportional boost in the valuation of their assets.

Croatia provides a recent example of changed perceptions. During the 1990s, Croatia—a part of the former Yugoslavia—was torn apart during a bloody civil war when Serbs, Croats, and Bosnians slaughtered each other on city streets and in remote forests. A decade later, Croatia is reclaiming its reputation as the "Pearl of the Adriatic." With thousands of islands and a natural coastline along the Adriatic Sea, the region is attracting tourists from around the world. Currently, 16 percent of Croatia's gross domestic product (GDP) is derived from tourism, and its government expects the number to increase significantly in the years to come. With the return of political stability, renewed investments in tourism-related infrastructure, such as airports and roads, and a measurable increase in direct foreign investment, Croatia, with its location on the Adriatic, could be on its way to challenging the Aegean Islands between Greece and Turkey in the Aegean Sea and even the Côte d'Azur on the Mediterranean coast of France as a prime tourist destination.

The Persian Gulf region has a complex history—spanning back seven centuries—and the past 50 years have been especially turbulent. Though Iran, one of the largest and wealthiest countries in the region, encompasses 635,932

square miles of land and is slightly larger than Alaska, its population of more than 68 million is more than twice that of Canada.

In 1979, a virtually spontaneous religious movement formed to resist the increasingly reviled policies of the ruling Shah. For the next two decades, a parliament dominated by religious leaders ruled. The people of Iran, however, are stubbornly westernized, highly educated, and two-thirds of them are under the age of 35. The ruling *mullahs* understand that a hard-line religious stance will most likely result in another revolution, so they are softening their orthodox positions on all fronts. Reformists and moderates have made great strides over the past several years, not merely in instituting social reforms but, perhaps more important, in encouraging and protecting foreign investment capital.

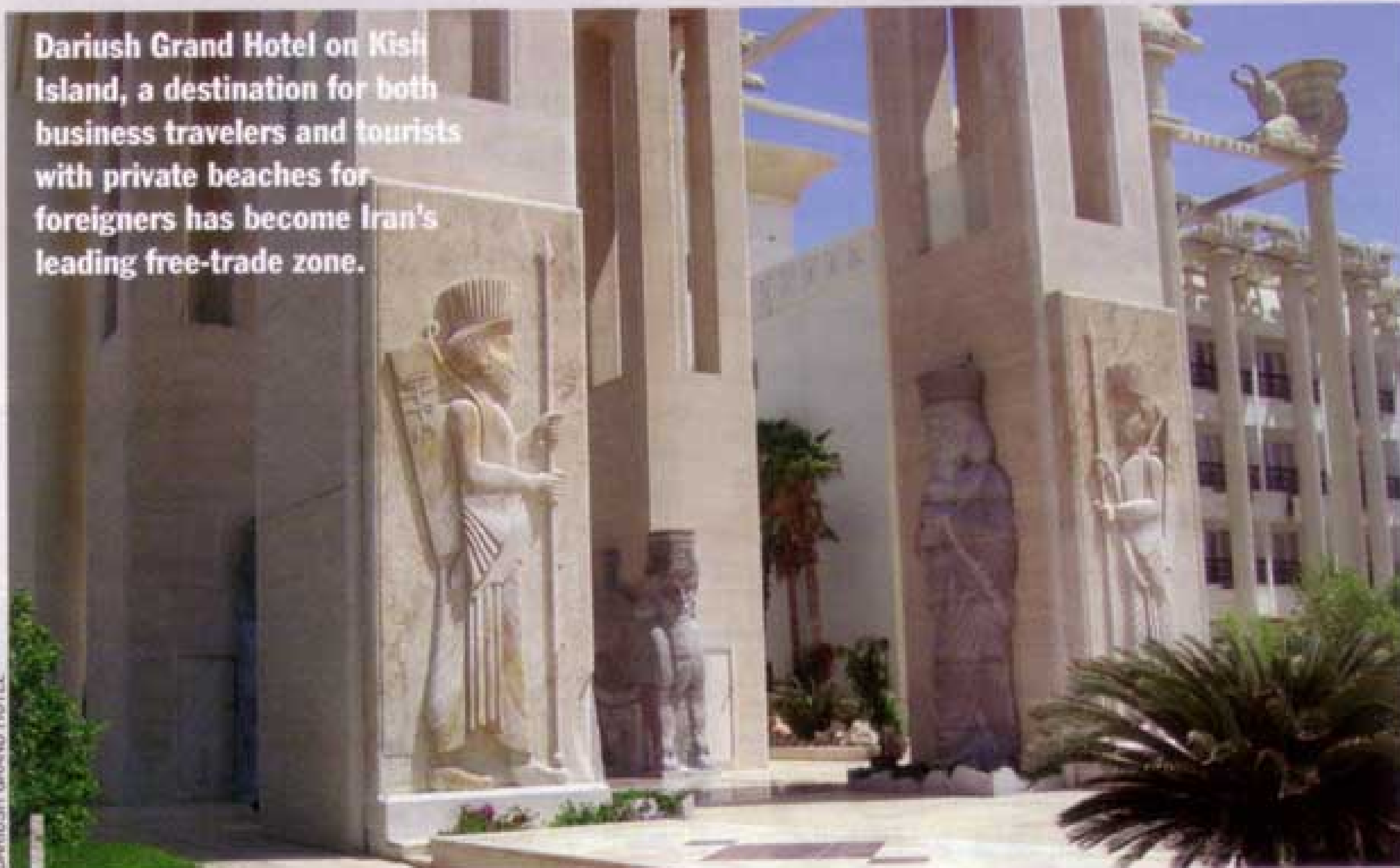
During the past two years, Iran's parliament has enacted powerful privatization and foreign investment protection laws such as the Foreign Investment Promotion and Protection Act (FIPPA)—a clear sign that the tides have changed. The most recent revision of the FIPPA, in 2002, protects any foreign investment in Iran from the risk of nationalization and defines international arbitration rights, eliminating many of the risks associated with cross-border investing. Even before this act was passed, Europeans had experienced many joint ventures and investment agreements with Iran.

Since these laws were enacted, officials report that they have seen foreign investment in Iran increase more than 350 percent within the last year alone. Government officials report that from 1993 to late 2002, approved foreign direct investment in Iran has grown from $1.3 billion to $2.3 billion, and that agriculture, mining, and tourism are the sectors in most need of investment.

The tourism sector in Iran has been in desperate need of investment for quite some time. The late Shah of Iran recognized Iran's assets, from the Alborz Mountains to the handful of islands that dot the turquoise waters of the Persian Gulf. The Shah was prepared to spend hundreds of millions of dollars on tourism projects before he was deposed in 1979. Recent investment protection laws passed in Iran have made it increasingly opportune for investors to continue the kind of development the Shah had envisioned.

For example, Kish Island has become Iran's leading free-trade zone and a destination for both business travelers and tourists with private beaches for foreigners and the recent development of the Dariush Grand Hotel. The owners of the Dariush Grand Hotel—named as a tribute to the Persian dynasty and Achaemenian kings who once ruled the region—are also building an aquarium modeled after Sea World in Orlando, Florida.

More recently, a group of foreign investors have announced plans for a $2 billion tourism project on the island of Kish, named the "Flower of the East"—the largest investment in Iran's tourism sector since 1979. The project will include a seven-star hotel to rival Dubai's seven-star Burj al-Arab, a marina, a 27-hole golf course, a sports clubs, shopping malls, and 4,700 luxury apartments. Scheduled to be completed by 2009, this project is aimed largely at Iranian expatriates seeking a holiday home in their native land.


Dariush Grand Hotel on Kish Island, a destination for both business travelers and tourists with private beaches for foreigners has become Iran's leading free-trade zone.

DARIUSH GRAND HOTEL

A telling example of the changes taking place in the Persian Gulf can be seen in Dubai—one of seven emirates that constitute the U.A.E. federation. Dubai's current leadership has a singular vision: to transform a dry, nonarable spit of land into a hub of international commerce and tourism. Tourism has grown exponentially in Dubai, with 2.8 million tourists visiting in 2000; the government plans to increase that number to 10 million by 2010. Dubai also is drawing members of the jet set, with international sporting events attracting the likes of tennis player Roger Federer and golfer Tiger Woods. In addition, British soccer players David Beckham and Michael Owen recently purchased property in Dubai's Palm Island development.

Off the shoreline of Dubai, the two Palm Islands will be the first manmade islands in the Persian Gulf. In the shape of a palm tree, each island is being built from 2.8 billion cubic feet (79 million cubic meters) of rock and sand. Each will offer 50 luxury hotels, 2,500 residential beachside villas, up to 2,400 shoreline apartments, water theme parks, restaurants, shopping malls, sports facilities, health spas, and cinemas.

Dubai is home to the world's tallest hotel: at 1,060 feet (321 meters), sitting on its own manmade island, the 202-suite Burj al-Arab, or Tower of the Arabs, rises out of the waters of the Persian Gulf. Costing more than $2 billion to construct, the hotel offers rooms with rates running from $900 to over $15,000 a night for the Royal Suite. Occupancy at Burj al-Arab—the world's only seven-star hotel—exceeds 80 percent. Other luxury hotels in Dubai, such as Le Meridien, are reporting occupancy rates of more than 95 percent.

Last year, a group of developers announced plans for a project called The World, which will consist of a series of 200 islands located 3.1 miles off the coast of Dubai in the Persian Gulf, strategically positioned to form the shape of the world map. Designed to be the most exclusive water retreat in the region, the islands will have themes to celebrate specific countries. The project will be approximately five miles by three miles, and cover 60 million square feet, including 10 million square feet of private beach.

Governments in the Persian Gulf region recognize the importance of foreign direct investment to

the overall growth of their economies. In Dubai, and places like it, the pro-Western government and society, heavily influenced by the British, allow investors to form companies or corporate entities as they do in the West, and to be entitled to the same protections found under a British LLC or U.S. incorporating laws. In addition, and perhaps most important to offshore investors, is the fact that Dubai is a tax-free environment for foreign capital; Dubai's population is 80 percent expatriate.

Some risks always are associated with investing in foreign real estate, especially in the Middle East. Nevertheless, the prevailing wisdom is that the risks associated with this region are diminishing each day. The governments, no matter how religious or secular, all maintain that they are in favor of boosting their economies, and are taking the necessary steps to ensure the infrastructure is in place to support new development.

Dubai's Internet City offers evidence of the government's support of business. With the largest information technology (IT) infrastructure in the Middle East, built inside a free-trade zone, Internet City hosts the biggest commercial Internet Protocol telephony system in the world. Dubai Internet City was established as a world-class business environment in which information and communications technology (ICT) companies can thrive and grow. Dubai's location makes it a prime gateway for businesses targeting markets extending from the Middle East to India and from the Commonwealth of Independent States (CIS) to South Africa, encompassing 1.6 billion people with a GDP of $1.1 trillion.

Iran also has been involved in laying the groundwork necessary to support businesses and investment. The government has begun installing some 11,495 miles (18,500 kilometers) of fiber-optic cable to upgrade the country's telecommunication infrastructure. More recently, it awarded several contracts to Germany's Siemens and Sweden's Ericsson to provide the country with 1.2 million new mobile phone lines. Industry pundits predict that it will not be long before Iraq will follow suit.

European and Asian tourists have recognized the potential the Persian Gulf region holds as a tourist destination. With modern hotels and ample facilities, and locations only a four- to five-hour flight from almost anywhere in Europe, places like Dubai can draw more than 30 percent of their tourists—as Dubai did recently—from Europe, while 35 percent may come from neighboring countries.

Neighboring countries are also intensifying their efforts to attract more tourists. Kuwait, in conjunction with the World Tourism Organization and the United Nations Development Program, recently announced a 20-year tourism master plan that will include major developments in the country's hotels and resorts; its leisure, recreational, and scientific facilities; and its ecological and technological exhibits. The country of Bahrain, in the Persian Gulf, has been experiencing significant tourism growth. Recently, hotels such as Le Royal Meridien Bahrain have reported impressive revenue figures—up 30 percent over the past few years.

The U.A.E. represents a combined population of approximately 125 million people with a large amount of per-capita disposable income. While most of the affluence can be traced to oil, an increasing amount can be attributed to commerce. As residents of the region pay increasing attention to recreational and family time, the tourist industry has experienced growth. Last year, more than 500,000 Iranians visited Turkey alone; in exchange, Turkey

THE PALM

THE PALM

The Palm, Dubai's iconic island development being developed by Nakheel, is situated on the world's two largest manmade islands. When completed, the project will feature 10,000 villas and apartments, more than 60 waterfront and boutique resort hotels, as well as theme parks, shopping malls, cinemas, marinas, canals, and other facilities.

took in more than $400 million from Iranian tourists. Wealthy Iranians also are joining the ranks of other expatriates who are looking to tourist havens like Dubai to purchase vacation homes.

Dubai has been recognized by Jones Lang LaSalle as one of the world's three top performing cities in urban real estate. Its real estate market has been expanding exponentially in all sectors. For instance, last year, more than 10,000 people signed a waiting list to buy one of the 2,400 apartments on Palm Island that had gone on the market. In Dubai, residential property provides a basic yield of 10 percent on a 6.5 percent local mortgage rate; in places like London, 3 to 4 percent would be considered a good yield. With a GDP growth rate of around 8 percent, Dubai is continuing to attract people from all over the world, and the demand for real estate is expected to continue to rise.

Tourism most likely will continue to increase in the region as well—as evidenced by the growth of the airline industry. Emirates Airlines—a Dubai-based airline that has consistently been rated by groups such as Skytrax as one of the best in the world—is helping single-handedly to keep airline manufacturers in business. U.S. and European airlines are struggling for survival and many have canceled most, if not all, airplane manufacturing orders to expand their fleets, a critical indicator of health in the airline industry. Yet, last year, during the deepest trough in the air travel slump, Emirates Airlines announced the largest airline deal in history—a combined order for 58 Boeing and Airbus aircraft valued at over $15 billion. Other neighboring country airlines such as Qatar Airways and Gulf Air also are increasing their fleets.

In short, reliable logistical resources and an artificially suppressed market valuation are helping to make the Persian Gulf one of the most compelling real estate markets of this decade.

Namjoo Hashemi, *president of Alborz Development, Inc., a North American-based firm that specializes in international real estate and resort development opportunities*

Morocco Bound

This past July, the U.S. Congress passed a free-trade agreement between the United States and Morocco to "remove tariff barriers and open markets to industries, farmers, and consumers in both countries"—only the second such agreement the United States has reached with an Arab country, the first being with Jordan in 2001. U.S. Trade Representative Robert B. Zoellick at that time noted the agreement "sends a powerful signal the United States is committed to supporting tolerant, open, and more prosperous Muslim societies."

Morocco has strategic importance to the United States, according to Mary A. Trace, deputy chair of the U.S. National Foreign Trade Council (NFTC), because the American business community wants to be more competitive in European countries already linked to Morocco by a free-trade agreement, and because the United States wants to initiate a trade partnership with Morocco that will serve as a model for the region and for other developing countries. Trace's comments echo those of U.S. deputy secretary of commerce Samuel Bodman, who told members of the American Chamber of Commerce in Casablanca that at his previous stops in Egypt, Tunisia, and Algeria, he had encouraged officials to emulate Morocco in opening their economies and instituting commercial reforms and investment incentives. He also pointed out that U.S. trade with Jordan has "seen extraordinary growth of 100 to 200 percent" in just the first year of the free-trade accord, which bodes well for the more than 100 U.S. companies already represented in Morocco.

The Moroccan government, represented by the minister of economy, finance, tourism, and privatization, has entered into a new impetus, titled "Tourism: A Vision, a Challenge, a Determination," with the Federation of Moroccan Enterprise, representing private sector businesses. Its goal is for Morocco to be considered among the world's primary tourist destinations and to increase the number of annual visitors from 2.5 million to 10 million by 2010.

To implement this vision, private sector construction of 80,000 hotel rooms through the investment of $3 billion will be required, in addition to an $8 billion investment by the Moroccan government. The government contribution—in the form of upgrades to air, sea, and land transportation infrastructure; land assembly; price subsidies; and off-site improvements for six new seaside resort destinations—will come from revenues generated by privatization, such as the sale of a share in Maroc Telecom in 2000, which netted $2.3 billion. Morocco, with 2,100 miles of Atlantic and Mediterranean coastline, and separated from Europe by a strait only eight miles wide, is considered well positioned to cater to the 57 percent of global tourists who seek seaside destinations.

Planning for this initiative began during the reign of King Hassan II in the early 1990s with a strategic study, funded by the World Bank, to identify new resort sites with the highest tourist potential. Six sites, five on the Atlantic and one on the Mediterranean and ranging in size from 600 to 1,400 acres, were selected with an eye to accessibility to airports, proximity to a variety of attractions such as archaeological

MOROCCAN TOURISM AGENCY

Morocco, with 2,100 miles of Atlantic and Mediterranean coastline, is considered well positioned to cater to the 57 percent of global tourists who seek seaside destinations.

and cultural areas, and potential for land assembly (see "Proposed Seaside Resorts," page 48). Drawing on the experience of Moroccan private sector development of the Tangier Free Zone planned industrial area and the creation in Egypt of the Sharm El Sheikh and Hurghada resorts on the Red Sea, the government is selecting private developers to implement each site's master plan. This contrasts sharply with Morocco's tourist investment strategy in the 1970s and 1980s, which was largely implemented by state-owned development agencies. The role of government in the current initiative is to provide the off-site infrastructure such as roads and utilities, convey the sites at preferential prices, and ensure that implementation of each master plan is managed to achieve long-term sustainable, profitable development. In 2000, international planning teams were selected to prepare the master plans. Fort Lauderdale, Florida–based EDSA and Coral Gables, Florida–based OBM were members of two of the teams, which reflected the nationalities of major investors in the Moroccan tourism sector.

The master plans are market based and provide for a multitude of property types, including resort luxury hotels, small and medium-sized hotels, villas, and second-home individual ownership and time-interval shared ownership concepts. Facility amenities will include equestrian, golf, spa, health, and conference centers. The master plans are detailed to the parcel, with specifications for the number of beds, allowable densities, open space, and building heights. Complete pro formas have been prepared for each site specifying required private investment by phases, land acquisition prices, and management and marketing expenses for a typical ten-year development program that assumes a 30 percent investment and 70 percent financing at an interest rate of 9 percent. A team from merchant bank CFG (Casablanca Financial Group) is serving as manager/adviser for the process of recruiting, qualifying, selecting, and contracting with the private developers. The initiative was announced at the March 2002 annual meeting of the International Tourism Exchange of Berlin, and in July the first developer contract was signed by the Saudi Dahlan Baraka group for the Taghazout site near the southern coastal city of Agadir. A total of 22 bids was received for the remaining five sites.

This July, Kerzner announced that with its local partners Societe Maroc Emirates Arabs Unis de Developpement (SOED) and Caisse de Depot et de Gestion (CDG), it will develop a $230 million destination resort casino near El Jadida, consisting of a 600-room hotel, an 18-hole golf course, convention space, restaurants, and a casino.

An approach parallel to new seaside resort site development is to augment the capacity and elevate the quality of offerings in existing tourist destinations—seaside as well as cultural. To this end, between 1999 and 2001 more than 25 agreements of $20 million or more have been entered into for new or expanded hotels, conference centers, and golf courses, adding 40,000 beds. Most of this $1.5 billion investment will be in the four- and five-star, and luxury categories. The list of investors, managers, and operators is led by France, Britain, Spain, Germany, Italy, India, Saudi Arabia, and the United Arab Emirates—a list similar to that of the countries accounting for most of Morocco's tourists (see Figure 1). An additional $800 million of investment was signed in 49 agreements in the first half of 2002, including tourism, housing, highway, agriculture, and modern technology projects.

In Marrakesh alone, Morocco's main tourist city and home to UNESCO's cultural heritage site the Djemma Fna (See "Cultural Crossroads," page 42, August 2001), the government is spending $576 million to develop 36 new hotels with 7,000 rooms and villas on two new sites totaling 1,200 acres. Development plans are also in place for Fez, another UNESCO world heritage site, and the cities of Tangier, Ouarzazate, and Casablanca.

The importance of tourism to Morocco's future economic success was further highlighted by the appointment of Adil Douiri, joint head of CFG, as minister of tourism. Douiri is widely considered to be one of the leaders for change in the newly formed government led by Prime Minister Driss Jettou. An Islamic constitutional monarchy, Morocco is known for its peaceful approach to a gradually liberalizing political society.

Moroccans are attuned to world commerce through sophisticated telecommunications: Morocco leads the Arab world in Internet subscribers and available bandwidth per Internet account. Major investments have been announced in solar energy production by a Moroccan/European/Kuwaiti joint venture, which will export the energy to Europe as well as use it in seawater desalination projects.

Jeweler Tiffany & Co. has entered the Morocco market, its first in North Africa and fourth in the Arab world after Lebanon, Saudi Arabia, and the United Arab Emirates. Other recently announced expansions of existing Moroccan operations include Kentucky Fried Chicken's plans to invest $28.6 million to add 30 stores and UPS's plans to enlarge its network in Morocco, having opened a new office in Rabat in November 2001. CDP Capital, Canada's leading fund manager with more than $125 billion in assets, announced in January 2002 its formation of AccÈs Capital Atlantique SA (ACASA), a $30 million fund that will invest in Morocco's telecommunications, infor-

FIGURE 1: MOROCCO'S MAIN TOURIST MARKET

Country	Number of Tourists	Percentage	Number of Bed Nights	Percentage
France	811,805	35	3,984,904	37
Spain	255,333	11	561,572	5
Germany	228,620	9	2,144,683	19
Great Britain	134,635	5	452,320	4
Italy	126,477	5	755,619	7
Belgium	88,443	4	518,059	5
Netherlands	82,122	4	160,181	2
Others	623,460	27	2,268,440	21
Total	**2,350,895**	**100%**	**10,845,778**	**100%**

mation technology, agribusiness, fishing, and tourism sectors.

In addition to the United States and the European Union, the Netherlands and Great Britain are showing increased interest in foreign investment in and trade with Morocco. Speaking recently to the Reuters news service, British ambassador to Morocco Anthony Layden noted, "The British government has adopted Morocco as a target market, one of 14 such markets worldwide, for a three-year campaign of events and trade missions." Trade between the two countries has tripled in the past ten years to around $1.3 billion in 2001. By comparison, U.S.-Morocco bilateral trade started in 2002 and now stands at just under $1 billion annually. The Netherlands has decided to create three investment desks to promote commercial relations with Morocco.

With a population of 30 million, half under age 25, Morocco has an annual gross domestic product (GDP) estimated at $31.5 billion (365 billion dirhams). Tourism, with annual revenues of more than $2 billion—about 7 percent of GDP—is the country's top foreign currency earner. The goal by 2010 is to increase tourism to 20 percent of GDP and add 600,000 jobs, doubling current employment in the sector. With the Mediterranean region alone capturing one-quarter of the projected 1 billion-tourist market worldwide, Morocco—with its geographical position, varied cultural heritage that includes imperial cities and casbahs, and wide range of popular arts, architecture, cuisine, and costumes—is regarded as well positioned to achieve these goals.

In addition, interest is growing in rural and ecotourism areas outside the centers of cultural and seaside tourism. Anchored by a landmark casbah or ecosystem—such as Casbah Tizergane and the Souss Massa National Park and bird sanctuary near Agadir—these properties are usually controlled by local families or associations seeking outside capital investment, management expertise, or both.

The U.S. Agency for International Development (USAID) has targeted this sector with a project aimed at upgrading facilities and providing training. UNESCO's investment in restoring the Ait Ben Haddou Casbah near Ouarzazate—used for the filming of *Lawrence of Arabia* and *Jesus of Nazareth*—has encouraged a return of residents who had departed to seek work in the cities.

Offshore investment financial centers have been set up in New York City, Montreal, London, Zurich, Jeddah, Paris, and Madrid, and there are no restrictions on repatriation of profits from foreign exchange investments.

The mountainous areas of Morocco, particularly the High Atlas with 12 peaks of more than 13,000 feet and another 400 exceeding 10,000 feet, are popular destinations for travelers seeking trekking combined with exploration of the culture and lifestyle of the mountainous Berber people. The Ait Bougmez Valley, near Azilal in the High Atlas, has been the site of a Franco-Moroccan project integrating mountain tourism, indigenous handicrafts, and agriculture.

In 1995, Morocco established a new charter to reduce the tax burden on imported goods and investment land, provide five-year corporate tax exemptions, and reduce the tax rate on income and profits, including preferential treatment for 19 prefectures and provinces scattered around the country. These tax benefits are available for both small and large projects. Offshore investment financial centers have been set up in New York City, Montreal, London, Zurich, Jeddah, Paris, and Madrid, and there are no restrictions on repatriation of profits from foreign exchange investments. New opportunities to expand air carrier access are occurring with the signing of "open skies" agreements and the projected expansion of Mohammed V Airport in Casablanca to better accommodate jumbo jet-class aircraft.

Additionally, tax-free export zones, such as the Tangier Free Zone, have been created. The 800-acre industrial park, begun in 1996 by a consortium of Moroccan institutional investors, provides access to the airport and port of Tangier, proximity to rail transport and highways, an international freight transport facility with capacity for 900 trucks, plus a 100-room Ibis hotel. Companies locating in the park qualify for all the available tax benefits plus the advantages of operating in a custom-free zone. In July 2000, King Mohammed VI laid the cornerstone of the first major industrial plant, for Yazaki—a Japanese company specializing in automobile cabling for companies like Volkswagen—which is investing $40 million and creating 3,100 jobs. By 2002, investment by firms in the industrial park totaled $170 million, with 139 companies employ-ing 17,000 people. The park represents a modern-day incarnation of Morocco's historical international, multicultural role. The competitive climate also has been improved through the streamlining of administrative processes with the creation of "one-stop shops" as an incentive to investment and means of devolution to regional centers. These centers report directly to seven newly appointed governors, or walis, all drawn from state-run businesses with records of accomplishment.

King Mohammed VI—who visited the United States in April 2002 when the Bush Administration first announced its intention to enact a free-trade agreement with Morocco, a culmination of work begun in 1995 with the signing of a bilateral Trade and Investment Framework Agreement (TIFA)—is positioning Morocco's institutions for investment and educating its leaders in promoting economic development.—

Marilee McClintock, *a writer on business and development issues from her homes in Paris and Morocco (For further information regarding investment in Morocco, contact MinistÈre du Tourisme, E-mail: jziyat@tourisme. gov.ma or mmaz@ tourisme.gov.ma; or Foreign Investment Ministry of Economy and Finance, Director, M. Hassan Bernoussi, E-mail: die@mfie.gov.ma.)*