

Palm Spring collapse shakes investor confidence

The cancellation of Damac's Palm Springs has shaken confidence among some investors in the Gulf real estate market.

And it has also drawn attention to how tight the market is becoming in the region.

An incident in London last month highlighted the extent to which property investors are losing faith in the market.

Angry investors in Damac's axed Palm Springs project stormed the company's launch of Jumeirah Village South at the Carlton Hotel in Knightsbridge, circulating flyers to potential investors with negative publicity on the Palm Springs story.

An excerpt from the flyer obtained by *Construction Week* read: "We, the Palm Springs Investors Group, will be taking Damac to court in order so that Damac either reverses its decision and proceeds with constructing Palm Springs on Palm Jebel Ali, or it provides a like-for-like apartment at the same cost, terms and conditions on a new Damac devel-

opment on Palm Jebel Ali, or it provides financial compensation at current market rates for Dubai Waterfront/Palm Jebel Ali.

"We attended similar evenings to this launch and were duped into buying from Damac. We trusted and believed in Damac but strongly warn that you do not make the same mistake as us."

Damac has said it cannot build the project on the plot Nakheel reallocated on Palm Jebel Ali and has instead written it off as a 'force majeure'.

According to UK investor Robert Miller, who bought a unit in Palm Springs in 2003, investors could stand to lose an estimated US \$296,000 (AED1.09 million) because of the cancellation.

Last week, a letter from The Palm Springs Investors Group, which is made up of more than 50 members, was sent to Damac,

Damac has cancelled its Palm Springs project on Nakheel's Palm Jebel Ali, sending investors into an outrage. Conrad Egbert takes a look at the reasons given by the developer, what the investors are saying and the legalities of the situation.

demanding that the axed property be constructed on the reallocated plot or else the company would face legal action.

Nakheel has also been pulled into the drama with some investors suggesting that if the reallocated land is not good enough for the construction of Palm Springs, and the 'force majeure' clause is accepted, then Nakheel should arrange compensation for them.

But Nakheel has expressed surprise over Damac's stance, with

the company's Palm Jebel Ali managing director, Marwan Al Qamzi, saying:

"Our last interaction with Damac took place in February of this year and was one of positive engagement, which left us with the firm view that Damac was proceeding with the project. We are extremely disappointed to have heard the news of the cancellation through the media."

The 25-storey Palm Springs project had originally been planned for completion by late 2007.

Homebuyers were already believed to be angry over repeated delays, contractual issues and complaints of poor customer service by Damac.

"It's quite clear that this is just a business move by Damac," said Miller.

"They've realised that the land they sold us five years ago will now go for almost three times the price, and so they've decided to pay us back our money and resell it at a much higher rate.

"In other words, we just lent them our money for them to build a building for someone else. This is going to be very damaging for the Dubai property market and the strongest publicity is always by 'word of mouth'; they should realise that."

Miller added that in September 2006, Damac was offering 10% interest on money invested in an attempt to get investors to pull out of the project.

"So this hasn't just happened. It's been thought out and has been planned. And if there is planning involved, then how can it be a

'force majeure' under any circumstances?"

Niall McLoughlin, senior vice president - corporate communications, Damac, said:

"We understand that this is a serious and unfortunate situation, but one which is completely outside Damac Properties' control."

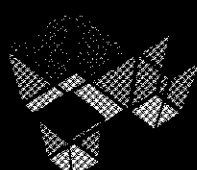
Dubai-based lawyer, Edward Sunna, head of construction and engineering, Al Tamimi and Company, who has been approached by the investors group to represent them, agreed that a 'force majeure' is mainly called for in the event of a natural disaster like an earthquake, hurricane or similar forces of nature.

"I'm not sure what Damac intends to do but calling for a 'force majeure' in this situation is a little strange. I don't see them getting very far with this," he said.

Damac declined to make any further comment on the story. ■

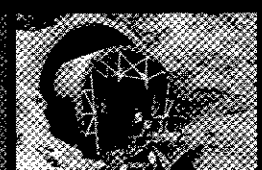


Shattered confidence: Investors could now shy away from property in Dubai.







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