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# Approaches and Considerations for Launching Hotels in the Middle East



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# Presenter



## John M. Vernon

- **John Vernon has worked in international hospitality law for almost 30 years.**
- **He has taken hotel systems into established and developing markets around the world.**
- **His experience in international hospitality law makes him a highly sought speaker, columnist, negotiator, and deal-maker throughout the globe.**

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# Overview of the Gulf Region

- The Arabian Gulf is a powerhouse economy at the core of the Middle East and North Africa (MENA) region.
- Gulf countries are: Bahrain, Saudi Arabia, Iran, Iraq, Kuwait, Qatar, United Arab Emirates and Oman.
- Combined population of 1.4 billion people and combined GDP of \$1.9 trillion\*



# Arabian Gulf Case Studies

- Bahrain
- Saudi Arabia
- UAE/Dubai





# Bahrain

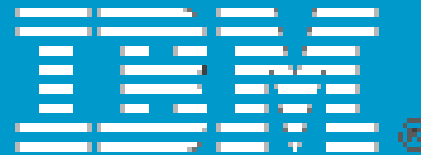


**Dual Towers of the Financial Harbour in Manama, Bahrain**





# Bahrain: Finance & Commerce Hub





# Bahrain: Favorable Taxes

- 1% Social Insurance Tax on salary for Bahraini nationals and residents living in the state
- No value-added tax, property tax, production tax or withholding tax
- Few indirect and excise taxes including: 7.5% on rents for furnished apartments and 10% on rents for unfurnished apartments





# Bahrain: Property Ownership

- 100% foreign ownership of companies and land.
  - Limited to Designated Areas
  - Other Areas Leased from the Government
- Very modernized Customs agency with robust web presence
- Still some ongoing Customs issues related to Israeli boycott
- Solid intellectual property protection
  - WIPO Member, 1995
  - TRIPS Signatory, 1995





# Saudi Arabia



**Montazah alsalam Recreation Park in Riyadh, Saudi Arabia**





# Saudi Arabia: Fostering Investment

- July 2007: Article 164 eliminated the minimum capital requirement (formerly \$125,000 for LLC)
- 2007: Electronic transfer of trade documents
- 2008: Reduced business start-up time by 2 days and lowered registration fees by 80%.
- 2008: Property and Business Registration online



# United Arab Emirates



Dubai skyline  
featuring  
Burj Dabai:  
the tallest man-made  
structure on earth  
(under construction)





# UAE/Dubai Overview

- Dubai is a rapidly growing city ripe with opportunities for investment in real estate and hospitality. Dubai's population is estimated to top 1.8 million by 2010, and the UAE's population at large broke 5 million in 2009.
- First GCC state to extend full ownership of businesses to foreign investors
- Busy port, Free-Zones, growing airport and regional HQ of multi-national companies



# Dubai: New Real Estate Law

- In 2009, “Law 26” will require licensing for real estate brokers and online registration of rental contracts in Dubai.
- Dubai's Real Estate Regulatory Authority (RERA) will use the data to compile the final rental index by 2010. The rental index will map out rent structures in Dubai.



# UAE Leases

- Typical leases of one-year executed on one-page documents. Education and effort may be necessary to negotiate a lengthier legal document & longer lease term.
- Abu Dhabi: 99-year peppercorn lease for foreign nationals
- Dubai: title easily transferable between foreigners if purchased in designated area



# Franchising in the Arabian Gulf

- Revenues generated by franchising are estimated at \$30 billion. Franchise industry is growing at 27% annually.
- Dubai, with over 120 nationalities and status as a regional commercial hub, is considered a prime test location for international franchisors.
- Franchising Middle East Exhibition 2009:
  - March 2-4 in Dubai, UAE





# Shari'a Law



Dubai Jumeirah Beach - Jumeirah Mosque

## Sources of Shari'a Law

- Holy Qu'ran (Islamic religious text)
- Sunna (teachings of Mohammed)
- Religious scholars' interpretation of the Qu'ran
- Al Majala (civil code of the Ottoman Empire based on Islamic law)



# Shari'a Law in U.S. Courts

- Numerous U.S. federal courts have interpreted Saudi law.
- The mere fact that a foreign law may apply is not dispositive of a motion to dismiss.
- In choosing to apply Saudi law, the Court of Appeals of Texas, El Paso, analyzed where the injury occurred.



# Islamic Banking

- Islamic banking has grown 400% in the last few years.
- In 2000, total assets were \$1.9 billion; by July 2006 they had reached \$10.3 billion.
- The market share of Islamic banks rose from 1.8% of total banking assets in 2000 to 6.2% in 2006.



# Prohibitions in Shari'a Finance

- **gharar** (uncertainty or excessive speculative risk)
- **maysir / mazer / maisir** (gambling)
- **riba** (interest or surcharge)
- **julah** (fixed payment)
- **bai' al-dayn** (sale of debt other than for face value)
- **haraam / haram** (illegitimate / unlawful activities)



# Challenges in Islamic Banking

- Some Shari'a scholars view interest as usury (prohibited) while others deem simple interest acceptable and only compounded interest to be prohibited.
- Accounting standards differ among jurisdictions.
- Contractual terms acceptable to one Shari'a scholar may be rejected by another.
- A Shari'a advisor or supervisory board should be appointed before offering any purported Shari'a compliant products.



# Islamic Financial Products

- **Murabaha**—A contract of sale between the bank and its client for the sale of goods at a price plus an agreed profit margin for the bank.
- **Ijara / Ijara wa-Iqtina**—A contract to purchase an item and lease it back to the client.
- **Mudaraba**—An investment wherein an Islamic bank contributes capital to a business venture and the client contributes its expertise. Similar in nature to a limited partnership.



# Islamic Financial Products (cont.)

- **Musharaka**—A profit sharing agreement with a requirement that any losses be proportionate to the amount invested.
- **Istisna'a / Istisna**—A contract for delayed delivery of custom made items.





# Conclusion

- Standards are being adopted in the Arabian Gulf leading to greater transparency in real estate transactions.
- Investment in the region must be undertaken with legal consultation and planning.
- Local partners can ease the transition.