Dubai's Edifice Complex Is Falling on Hard Times: William Pesek

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Commentary by William Pesek

Feb. 6 (Bloomberg) -- As construction cranes littering Dubai's skyline go idle, it's time to revisit that ever intriguing economic indicator: the Skyscraper Curse.

As this columnist has pointed out periodically, there's an uncanny, if unscientific, correlation between financial crises and efforts to build the world's tallest building. Look no further than **Kuala Lumpur** in 1997, Chicago in 1974, New York in 1930 and in biblical times with the Tower of Babel.

The human propensity for architectural overreach has been a surprisingly reliable omen. It's not a stretch to think of such projects as visual punctuation marks. A giant billboard made of steel, glass, concrete and money. A common thread between skyscrapers and economic disasters has to be easy credit, which fuels irrational growth, valuations, and hubris.

The gleaming Burj Dubai, as fate would have it, recently overtook Taipei 101 as the tallest building at 818 meters (2,684 feet). Right on cue, Dubai's economy is looking unthinkably shaky.

A year ago, with oil prices heading toward $200 a barrel, few dared question property prices in the United Arab Emirates. Now, there is evidence they "fell off a cliff" as banks reduced lending and speculators withdrew amid the worsening global crisis, **Mai Attia**, a Morgan Stanley analyst based in the sheikdom, said in a Jan. 30 report.

Falling Off Cliffs

Strong language, and yet it's a reminder of how far and wide a credit crisis that began in the U.S. is traveling. China, that other supposed juggernaut, is looking shaky, too. Japan is back in recession, while Singapore seems to have fallen off the same cliff as the U.A.E.'s **asset markets**.

Thanks to deteriorating economic conditions, job cuts and the unavailability of mortgages, Dubai property prices are down 25 percent from the market peak in September, Morgan Stanley said.

The implications of that will travel the globe. Take the **Philippines**, where money sent home from overseas workers in booming economies such as Dubai's are taking a hit. Remittances make up about 10 percent of the Philippine economy, fueling purchases of homes and cars in a nation where private consumption accounts for about two-thirds of gross domestic product. That support is now questionable.

Last Days of Rome

It's easy now to look back and say we should have seen this coming. Some did, of course. After a Dubai visit in late 2006, **Claudia Zeisberger**, program director of the Asia Pacific Institute of Finance at Insead in Singapore told me: "All the building going on made me feel like I was experiencing the last days of ancient Rome."

The point here isn't to pick on Dubai. This is a global crisis and no economy -- large, small or resource-rich -- will avoid its fallout. If only more attention had been paid to the Skyscraper Curse, more investors could have been prepared as markets slide.

Not that what **Brad Pitt** does matters, but his deal with Dubai's Zabeel Properties should have rung alarm bells. It's wonderful that the star of "Fight Club" and "Ocean's 11" professes a passion for architecture. It's quite another for Pitt to be tapped last June as a design consultant for an 800-room hotel and resort.

Architectural Monstrosities

Again, the economic utility of skyscraper-watching is questionable. What's intriguing, though, is how architectural one-upmanship can say as much about wealth, ambition and financial imbalances as technology. Let's face it, cocksureness has long pulsated through the streets of nations now erecting the world's architectural monstrosities.

Few seriously doubt Dubai is a development miracle. Yet it's fair to wonder if it's the epicenter of an Arabian asset bubble tied largely to surging energy prices. With crude oil now around $35, fortunes are shifting. Construction booms should have been a harbinger of trouble.

Where else should we be looking? Well, China. Of the 10 tallest high-rise buildings listed by Darmstadt, Germany-based **Emporis Buildings**, five are in the third-biggest economy and one is in its special administrative region, Hong Kong. Of the 20 tallest, nine are in mainland China or Hong Kong.

Hong Kong is already in recession and China may be heading that way. For a nation at China's level of development, growth below 6 percent is arguably a recession and anything below 5 percent is crisis territory.

China Next?

What skyscrapers say about China is investor overreach. The conventional wisdom was that China could grow 10 percent indefinitely. That view meant the numerous mini-Manhattans popping up around the nation were a logical extension of its potential. Or was it merely a textbook case of an easy-credit- driven boom going bust?

Russia may avoid a meltdown, meanwhile, thanks to billionaire **Chalva Tchigirinski**. In November, Tchigirinski halted construction on the Russia Tower, which would have been Europe's tallest. Ditto for the U.S., where **Donald Trump** reined in his ambitions to erect America's tallest building. His Trump International Hotel is the world's 11th-tallest high rise.

The Skyscraper Curse may be nothing more than a whimsical exercise to entertain, not inform. Then again, it's proving to have some pretty solid foundations as an economic barometer.

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