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Colony Capital Persists in Betting on the Middle East Jonathan Alcorn/Bloomberg News Thomas J. Barrack Jr. of Colony Capital said regime change can yield favorable returns. By JULIE CRESWELL When it comes to investing in the Middle East, Thomas J. Barrack Jr. takes the long view. Very long. Instability is nothing new in the region, he said. It's been that way for 5,000 years. "The Middle East is printing money and it's used to operating in chaos," said Mr. Barrack, who runs Colony Capital, which controls \$36 billion in private equity and real estate investments around the globe, including more than \$200 million in the Arab world. "In fact, it tends to do better in times of chaos than it does in times of peace. Regime changes are just a fact of life." While other private equity investors back away from the area, Mr. Barrack said he was "looking hard" at adding to his holdings there, which include hotels in Cairo and Bahrain, and grocery stores in Syria. "Even though the West is thinking that this is a once-in-a-civilization kind of event, these events have taken place many times," he said. "The time to buy is when everybody else is running for the hills." Indeed, executives at the private equity giant Carlyle Group, which is partly owned by the Abu Dhabi investment firm Mubadala Development and raised a \$500 million fund to make Middle East investments in 2009, said they were suspending some of their investment plans in Egypt. A Carlyle co-founder, David Rubenstein, warned in a speech last month that while his firm was not rushing for the exits, "today isn't the day to do an investment in Egypt." He added that "what's going on in the Middle East isn't going to end anytime soon." In an e-mailed statement on Tuesday, Mr. Rubenstein added, "The events taking place in the Middle East are significant and will take time to resolve themselves, but we are optimistic about the region's long-term prospects." Until recently, the Middle East was a hot area for private equity firms, which raised billions of dollars to invest in the region only to discover that their visions of quick profits were a mirage. Some players, meanwhile, are concerned that with the current unrest stretching from North African nations like Libya, Tunisia and Egypt to Bahrain in the Persian Gulf as well as Yemen and Syria, people will seek opportunities elsewhere. "Over the last three years or so, we had big investors in the U.S. and Europe starting to get interested in private equity investments in the region," said Ahmed Youssef, a partner in the Dubai office of the consulting firm Booz & Company. "Now my worry is when will this interest come back or whether it will come back at all if people are scared," he said. Mr. Barrack, however, has a long history of challenging the conventional wisdom. The grandson of Lebanese immigrants who owned a grocery store in the suburbs of Los Angeles, Mr. Barrack became a billionaire by buying out-of-favor assets. Those contrarian bets include buying bad loans during the savings and loan crisis as well as betting on Asian assets after the Asian currency crisis of the late 1990s, both of which turned out to be hugely successful investments. The Colony funds that were raised from 1998 to 2003 posted annual returns of more than 20 percent, according to one investor. Now 63, with a gleaming shaved head and trim figure - his hobbies include polo and surfing - Mr. Barrack, who speaks Arabic, has moved comfortably within the worlds of Middle East royalty and powerful leaders for four decades. When he's not traveling, he splits his time between a ranch in Santa Barbara with four polo fields, where he raises horses and makes four wines (Wine Spectator rated his 2005 Piocho a 92), and a 6,000-acre oceanfront resort in Sardinia, called Costa Smeralda. Mr. Barrack landed in Saudi Arabia in the early 1970s, just after finishing law school, when a partner at his law firm learned of his family's roots. Soon after arriving to work on a deal for a gas liquefaction plant, one of the Saudi operating executives there asked Mr. Barrack if he knew

how to play squash, because someone needed a partner. "So I started playing squash with a local Saudi," he recalled. "I had no idea who it was, and he asked if I could play the next day for a couple of hours. Turns out this guy was one of the sons of the king. So my first break had nothing to do with gray matter in my head or intellect or knowledge of deals. It was because I was the one person within 1,000 miles who could play squash." His connections came in handy again in 1974, when Mr. Barrack was the legal counsel for an agreement involving Lonnie Dunn, a Texan who bought land in Haiti with the goal of building a refinery, the Haitian dictator Jean-Claude Duvalier, and two Saudi princes, for the rights for Saudi oil to be sold to Haiti at a discount. More recently, in 2007, he nearly struck a deal with Libyan authorities to buy a 65 percent stake in Tamco, a local refiner. The deal fell apart over price, timing and the complexity of the transaction, Mr. Barrack said. When asked whether he had any qualms about doing business with unsavory regimes, Mr. Barrack said he consulted officials at the State Department and the Commerce Department on all deals in emerging markets. He adds that the Haitian transaction, for instance, was supported by the United States commercial attaché in Haiti at the time. For Mr. Barrack, the key to the Middle East's appeal is what first drew foreign investors to the region a century ago: oil. "There are 22 countries producing oil and they have been the beneficiary of a tremendous windfall," he said. "For every \$1 increase in the price of oil, there is a \$9 billion per year windfall profit to the region." Even with the unrest, that money is flowing into local economies, as well as to private equity firms like Colony. In July, Mr. Barrack worked with the Qatar government's sovereign wealth fund and others to acquire Miramax Films and its 700-plus film library from the Walt Disney Company for about \$660 million. In addition, he teamed up with Prince Walid bin Talal of Saudi Arabia in 2006 to buy the Fairmont and Raffles hotel chains, including properties in Mecca, Dubai and Cairo. At Accor, a French hotel chain with locations in Bahrain, Egypt and Yemen, Mr. Barrack holds a 16.5 percent stake, as well as a seat on the board. Then there's Carrefour, a French company that has hypermarkets (combined grocery and department stores) sprinkled throughout the Middle East, including in Syria, Egypt and Saudi Arabia. Together with Bernard Arnault, the French billionaire who runs LVMH Moët Hennessy Louis Vuitton, Colony is the largest shareholder in Carrefour. For all of Mr. Barrack's confidence, recent returns have been a far cry from the double-digit gains of the boom years. Like other private equity firms that raised billions from 2005 to 2007, paid high prices for assets, and then leveraged them to the hilt with borrowed money, some of Colony's more recently created funds are showing losses of as much as 50 percent, but "we are fighting our way back," said Mr. Barrack. Mr. Barrack concedes his toughest deals occurred in 2007 and 2008, citing a combination of bad timing and too much debt, particularly in the \$8.8 billion buyout of Las Vegas-based Station Casino in 2007. Station filed for bankruptcy in 2009. Not that Mr. Barrack is suffering from any self-doubt. "The jungle is a safer place with professionals than amateurs," he said. "When you are going through hell, just keep on going."

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