Beirut, Lebanon

Against All Odds

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When Lebanese poet and artist Khalil Gibran wrote these words in the early 20th century, little did he know that they would continue to ring in the minds of every citizen of modern Lebanon today. In reality, he was longing for a better nation, a country that today faces the same challenges as those at the time of the Great Depression, that is, a worldwide economic disaster and an ongoing threat of regional turmoil.

Today Lebanon strives to reverse the effects of political bickering and a hovering economic catastrophe. Looking back at 2008 and at last years article, we sought to shed light on hotel developments, investment in tourism and the economic situation in the country as the level of uncertainty was at its highest. Yet, despite the fact that the Lebanese economy has never looked so promising as it does today, in this update and in our outlook for 2009, we highlight the opportunities and challenges.

As the people of Lebanon, both at home and abroad, held their breath to witness landmark events unfold, the two main pillars of the Lebanese economy, the banking and tourism sectors, exceeded expectations and performed rather well. As such, confidence was gradually restored.

However, certain questions remain, such as, ‘Would you invest in Lebanon today?’ and ‘How much time is there before the inevitable effects of the recession will be felt on Lebanon’s ‘main street’?’ When the New York Times declared Beirut to be the ‘Number One’ place to visit in 2009, many questioned whether it had been long overdue. However, it is worth asking how many people know the potential of investing in such an economy with a vast promise for peace and prosperity. A historic land with a lot to offer in terms of culture and lifestyle, Lebanon will one day reap the benefits as opportunities beckon.
The beginning of 2008 carried with it political uncertainty and an ensuing stalemate for Lebanon. Recovering from the war between Hezbollah and Israel in 2006, the military confrontation between the army and Palestinian militants in 2007 and a crippling debt level, the country remained without a head of state following the end of the controversial presidency of Emile Lahoud in November 2007. The power struggle between pro-government factions and the Hezbollah-led opposition ultimately led to an armed confrontation on the streets of Beirut and the surrounding mountain region in May 2008.

The events of May culminated in the signing of the Doha Accord that month. The Qatari-sponsored agreement was finally reached with the election of army commander General Michel Suleiman as president. It was accepted by all parties as the formation of a national unity government, the convening of national parliament and the restoration of a more representative electoral system – largely based on the 1960 law – in preparation for the parliamentary elections of 2009.

Therefore, public confidence was revived and 2008 witnessed one of the best years in the country’s history. Most economic indicators recorded positive figures. The global financial crisis and the resulting recession has only now started to be felt, with weak performances on the Beirut Stock Exchange (BSE) and news of Lebanese expatriates falling prey to the recession abroad. Nonetheless, its impact to date has been remarkably encouraging, but the limitations are discussed later in the article.

- Real GDP growth in 2008 is estimated to be approximately 4% according to the Economist Intelligence Unit (EIU). Some estimates have even placed the rate above 7%, Lebanon’s highest in over a decade, as reported by the Institute of International Finance (IIF);

- Net capital inflows rose by almost 50% in 2008. Mainly comprised of foreign direct investment (FDI) and remittances from Lebanese people living abroad, the figure reached approximately US$16 billion;

- The prelude to construction activity in 2008 showed immense growth as the number of permits grew by 19% by November compared to the entire year of 2007. The total was almost 10.8 million m²;

- As a result of the financial crisis worldwide, many Lebanese investors abroad moved their savings to Lebanon. Confidence in the country’s banking sector surged over the course of the year as customer deposits rose by US$10.5 billion. This is estimated to be almost 60% higher than the increase reported in 2007;
Simultaneously, currency conversions in 2008 to the Lebanese Pound recorded an unprecedented hike as the amount is believed to be approximately US$8 billion;

With airport passenger movements and tourism activity rising by 16% and 31% respectively, Lebanon seemed poised once more to exceed expectations. This comes at a time when regional instability poses a threat to the country’s delicate democracy, and a global economic recession wavers over its promising economy.

After the end of the Syrian occupation of Lebanon in 2005, investors flocked into the country to benefit from tourism projects and other developments. Beirut alone saw 11 new hotels lined up by 2006. However, the political situation left many investors guessing when these projects would break ground, and if they did, how long before they open and become operational.

In addition to a promising hotel supply in the pipeline (which will be discussed later), several major real estate projects have been announced. Some have broken ground while others are nearing completion. The following table is a list of the major developments which, until the end of 2008, were still planned to go ahead.

<table>
<thead>
<tr>
<th>Project</th>
<th>Type</th>
<th>Developer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beirut Gate</td>
<td>Commercial and Residential</td>
<td>Abu Dhabi Investment House</td>
</tr>
<tr>
<td>Phoenician Village</td>
<td>Mixed Use</td>
<td>Kuwait Al Dhow Investment and Solidere</td>
</tr>
<tr>
<td>Salfi Village II</td>
<td>Residential</td>
<td>UAE Deyaar and Solidere</td>
</tr>
<tr>
<td>La Résidence by Ivana Trump</td>
<td>Residential</td>
<td>Damac Properties and Ivana Trump</td>
</tr>
<tr>
<td>Marina Towers</td>
<td>Residential</td>
<td>Solidere</td>
</tr>
<tr>
<td>The Platinum Tower</td>
<td>Residential</td>
<td>Hourie Development and Solidere</td>
</tr>
</tbody>
</table>

Source: HVS Research

As seen in Table 1, much of Beirut’s redevelopment today involves Solidere in one way or another. Solidere (The Lebanese Company for the Development and Reconstruction of Beirut) is a private joint-stock real estate company responsible for the revival and development of Beirut’s Central District (BCD). Founded by former Prime Minister Rafic Hariri, it was launched in 1994 to rebuild Beirut after the devastation caused by the civil war.

Today, Solidere has transformed the central district into an attractive venue for investment and tourism. Solidere’s activities span
infrastructure developments, urban landscaping, renovation of historic structures and new construction. The entire Solidere development is split into two phases.

**Phase 1 (1994-2004):** The first phase of the development focused on the infrastructure of the BCD and the restoration of its historic core, including the renovation of the banking district and government buildings. Plans also involved the Beirut souks, the UN House, the embassy district, Saifi Village and other commercial and residential developments. Works still in progress include the residential sites of Saifi Village II and Wadi Abou Jamil, Hadiqat As-Samah garden and hotel towers that face Beirut Marina.

**Phase 2 (2005-2024):** In the second phase of the rebuilding of Beirut, works are expected to be completed on the redevelopment of the traditional part of the city. This will include completing the souk development, finalising the residential developments and establishing key new clusters. Specific proposed projects involve the Landmark, a luxury residential and hotel structure; Beirut Gate, a 120,000 m² residential development; and the Beirut Trade Centre, which will involve the renovation of an existing tower that was built in 1975 but was never completed because of the outbreak of the civil war. The Phoenician Village and the waterfront district are also among the developments planned for the next few years.

**Cedar Island**

A project that has started gaining momentum is the artificial island development off the coast of Damour, south of Beirut. Known as Cedar Island, the cedar-shaped isle is expected to comprise residential, commercial, touristic and recreational components. Noor International Holding, the developer behind the project, made the announcement in 2008 and is currently in the process of obtaining government consent.

It is important to note however that Cedar Island has been the cause of a lot of controversy since it was announced. Enthusiasts believe that as well as creating an additional demand generator for the tourism industry, the scheme will create up to 50,000 jobs and bring more opportunities of luxury and lifestyle on an isle that will take the form of the historic cedar tree – the emblem of the Lebanese state.

However, sceptics argue that such a development will not only have a negative impact on the environment, but will also take attention away from Lebanon’s rich and existing natural resources. They believe that such a project, that so far may have proved successful in some of the Arab countries of the Gulf, will not necessarily fit the Lebanese tourism model, and therefore may undermine the country’s coastline and other natural wealth that many Lebanese take pride in.
The hotel and tourism industry witnessed an impressive year in 2008 owing to the relatively stable political situation in the country. According to the Ministry of Tourism, the number of tourists visiting Lebanon exceeded 1.3 million with over 600,000 using hotels and furnished apartments. This was an increase of 31% and 43.9%, respectively, compared to 2007.

Airport passenger movements also soared in 2008. The following chart shows the trend in passenger arrivals over the last 12 years.

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Passengers</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>1,645,479</td>
<td>—</td>
</tr>
<tr>
<td>1997</td>
<td>1,940,274</td>
<td>17.9 %</td>
</tr>
<tr>
<td>1998</td>
<td>1,995,911</td>
<td>2.9 %</td>
</tr>
<tr>
<td>1999</td>
<td>2,110,656</td>
<td>5.7 %</td>
</tr>
<tr>
<td>2000</td>
<td>2,244,788</td>
<td>6.4 %</td>
</tr>
<tr>
<td>2001</td>
<td>2,373,856</td>
<td>5.7 %</td>
</tr>
<tr>
<td>2002</td>
<td>2,513,432</td>
<td>5.9 %</td>
</tr>
<tr>
<td>2003</td>
<td>2,717,684</td>
<td>8.1 %</td>
</tr>
<tr>
<td>2004</td>
<td>3,199,952</td>
<td>17.7 %</td>
</tr>
<tr>
<td>2005</td>
<td>3,179,753</td>
<td>-0.6 %</td>
</tr>
<tr>
<td>2006</td>
<td>2,739,606</td>
<td>-13.8 %</td>
</tr>
<tr>
<td>2007</td>
<td>3,326,433</td>
<td>21.4 %</td>
</tr>
</tbody>
</table>

Nov YTD 2007: 2,996,609
Nov YTD 2008: 3,623,069

Compound Annual Growth Rate 1996-08: 6.6 %

Source: ACI Worldwide Airport Traffic Report; Banque du Liban
According to our research, hotels in Lebanon, particularly in Beirut, recorded low marketwide occupancy of 57% in 2008. Nonetheless, this is still seen as a remarkable increase from 2007, where occupancy stood at a mere 39% owing to the political stalemate. It is worth noting however, that in the first six months of 2008, hotels were running at occupancy levels close to 30%. But after the Doha Accord, most Beirut hotels achieved occupancies close to 90%, which demonstrated the restored confidence in the city. Average rate, which stood at US$148, also recorded an impressive 38% growth over 2007. The resulting RevPAR thus doubled to US$84.

After a gloomy picture in 2006, a cautious recovery in 2007 and an outstanding performance in 2008, it is believed that there is more potential for the existing hotel projects to move forward. As mentioned in our last update, these are expected to be a total of approximately 2,000 rooms, specifically in Beirut, and involve companies such as InterContinental Hotels Group, Starwood, Kempinski and Marriott, as well as some non-branded developments, even outside Beirut. For instance in 2010, Kempinski plans to open a 91-room resort in addition to luxury apartments in the mountain region overlooking Beirut, as well as a 150-room property due to open in the capital in 2012.

Some of these hotel groups are already present in Beirut, along with the Mövenpick, Wyndham, Accor, Rotana and other independent operators. However, there has been a long-lived appetite for further investment. Projects like the Landmark Hotel (mentioned earlier) are still at a speculative stage and at the time of writing this article no operator has been confirmed. Therefore, Table 3 outlines the status of the confirmed supply of new hotels in Beirut.

**Table 3 Proposed Hotels – Beirut**

<table>
<thead>
<tr>
<th>Hotel Name</th>
<th>Number of Rooms</th>
<th>Opening Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raouche Rotana Suites</td>
<td>170</td>
<td>Mid 2009</td>
</tr>
<tr>
<td>Campbell Gray Hotel</td>
<td>88</td>
<td>Mid 2009</td>
</tr>
<tr>
<td>Four Seasons Hotel Beirut</td>
<td>235</td>
<td>Mid 2009</td>
</tr>
<tr>
<td>Hilton Beirut</td>
<td>167</td>
<td>End 2009</td>
</tr>
<tr>
<td>Solidere Rotana Suites</td>
<td>250</td>
<td>Mid 2010</td>
</tr>
<tr>
<td>Grand Hyatt Beirut</td>
<td>354</td>
<td>Mid 2011</td>
</tr>
<tr>
<td>Kempinski</td>
<td>150</td>
<td>Early 2012</td>
</tr>
</tbody>
</table>

Source: HVS Research

**The Banking Sector**

In light of the economic crisis, we could not ignore the country’s achievements in the banking sector so far. During the global real estate boom building up to the recession, central bank governor Riad Salameh
came under increasing pressure to lower banking restrictions and start investing in risky, high yield securities. He consistently refused.

Today, he stands proud. Known to play it extremely safe, Salameh never trusted, among other things, mortgage-backed securities – the source of the financial crisis – and therefore banned all Lebanese banks from investing in them. This was the inheritance of a solid Lebanese and eastern tradition that continued well into the post-war years of the 1990’s, and calls for knowing who you’re lending to, and who’s going to pay you back.

In 2006, Salameh won the World’s Central Bank Governor Award at the annual meeting of the IMF and the World Bank in Singapore. He was also awarded the Euromoney prize for three consecutive years for his management of the crisis during the war between Hezbollah and Israel as he kept the country’s financial markets intact. A recent accomplishment was The Banker magazine award for the best central bank governor in the Middle East.

Critics may argue that banking conditions and regulations had been imposed by Salameh as a precautionary measure owing to the regional political situation. However, Lebanon’s strong banking sector dates back to the 1960’s and 1970’s, prior to the civil war. Often referred to as ‘the Switzerland of the Middle East’, the coined name for Lebanon was not a mere coincidence.

Nonetheless, in spite of the accomplishments of the banking sector and the established pride of the Lebanese business community, vigilance is required. Today many could be living in denial believing in the resilience of the Lebanese economy as it faces the onslaught of the world’s shivering markets. Therefore, we must highlight that a free market such as that of Lebanon will be affected by the crisis, albeit on a smaller scale than that of most major economies.

With a potential economic catastrophe on the doorstep of the entire region, it is essential to point out that Lebanon’s primary threat is regional geo-political factors, followed by the worst recession since the Depression. As we draw close to the second quarter of 2009, one should take note of the challenges as well as the opportunities that lie ahead.

**Challenges**

- Political stability remains the paramount pillar of economic growth. Developments on the Israeli-Palestinian front will have an inevitable impact on the stability of Lebanon. Furthermore, the build up to the forthcoming parliamentary elections in June 2009 have raised much concern for security
whatever the outcome of the polls. Consequently, these factors will define how foreign meddling in the country shapes consumer confidence and investor sentiment. Additionally, the Doha Accord was a temporary solution to the deep-rooted divisions between the factions. It is essential that a government of national unity is formed since Lebanon is built on consensus and confessional representation;

- Regional economies have begun to feel the strain of the global recession and some are showing increasing signs of fragility. As Arab nationals account for a considerable portion of tourism visitation to Lebanon, there is a likelihood that their number will diminish and ripple into the economy. This will also apply to Lebanese people living abroad as well as other nationalities visiting Lebanon, who may cut down their holiday trips owing to the less favourable economic conditions;

- Since remittances make up 25% of Lebanon’s GDP, or approximately $5 billion a year, it is unavoidable that this will affect economic sentiment in the country. Lebanese expatriates working abroad have started feeling the effects of the meltdown, with some losing their jobs and contemplating returning home. The ones that do survive the turmoil may have to send less money home or even curtail their expenses altogether;

- The Beirut Stock Exchange was the first fragment of the economy to witness the effects of the financial markets. By December 2008, BSE stocks diminished by more than 22%, and by March of this year stocks were still reporting contradictory behaviour. A solid indicator of financial endurance, the BSE will determine the course the Lebanese economy will take in the coming months.

**Opportunities**

- Authorities have been taking steps to increase foreign direct investment (FDI) in Lebanon. During a recent visit to Oman, President Suleiman made it clear that, since political stability has been reflected positively on the economy, the Lebanese cabinet will soon approve new finance and economic laws to facilitate the flow of investment into the country;

- In comparison to other cities in the region, Beirut remains a more affordable place to set up a business, establish a regional office or promote investments of various kinds;
• As mentioned earlier in this article, the banking sector stands to contribute a lot to this success. Today, its policies, track record and governing body are on the path to restoring Lebanon’s position as the financial hub of the region once more;

• With cultural tourism including history, religion, recreational activities, a moderate climate and natural resources, Lebanon sets itself apart by offering an unparalleled product for the visitor and a distinct potential investment opportunity for the investor;

• It is important to note that the pipeline of new hotel supply is necessary because of a potential shortage that could occur should demand continue to recover. However, as a lot of the supply is in the upscale category, it should be noted that there will eventually be a need for branded budget and mid-scale hotels to cater for this profitable niche;

• Often, Lebanese people speak sombrely of how much of the country’s resources and local expertise are being exported to foreign countries. Therefore, a potential investment that could range from tourism developments to financial institutions and other services could benefit from a local talent that would excel in Lebanon as much as (or even more than) it would abroad; thus contributing to a rich economy and a steadfast nation that will be the envy of the whole region.

Conclusion

Provided that security continues to reign, we believe that this is a good time to move in.

Lebanon is a nation that holds an enormous amount of promise and yet an equally massive burden of political and economic threats. Political stability remains the cornerstone of the Lebanese tourism industry and national economy. If calm remains, growth for 2009 is expected to be around a decent 4%. Moderate inflation of around 4% is forecast (as opposed to over 11% in 2007) owing to declining commodity prices and the decreasing price of oil. The ministry of tourism expects visitation numbers to reach two million by the end of the year.

How will the economy perform in 2009, then? Two schools of thought exist in Lebanon today; one speaks of the resilience of the local economy in the face of the global recession, while the other warns that the country is not immune to the crisis and that it will ripple into the economy. Whichever side is proven to be correct, we would like to emphasise the need for caution. Lebanon has benefited from increasing bank assets and the return of confidence in the local currency, and we may still continue to see some benefits. However, given the country’s influential diaspora
abroad, the remnants of redundancies and bankruptcies are as much a factor as the return of confidence in the banking sector, potentially affecting tourism developments in Beirut and its surroundings. The effects may not be as devastating as seen in some markets, but the tremor would be felt.

With the francophone games taking place in Lebanon this year, the country has a lot to promote. A nation of beaches and ski resorts, religious tourism and a lively nightlife, its population takes pride in what it has to offer; a national airline, a thriving 2,000-year-old wine industry and a diaspora that brings Lebanese culture to every doorstep. With a worldwide lobby pushing for the inclusion of the Cedars of Lebanon and Jeita Grotto in the new Seven Wonders of the World, Beirut seeks to be at the forefront of this potential.

Lebanon has long struggled to build an image of itself that it deserves. Caught between one of war and instability, and freedom and a flourishing culture, it faces similar challenges this year as Khalil Gibran faced in the early 20th century. A Mediterranean country whose diverse population, both at home and abroad, lives under Western influences and is entrenched in traditions of the Orient, has stood the test of time. It is hoped that it will once again defy politics and economics, against all odds.

For feasibility studies, valuations, strategic positioning and further advice please contact the authors.
About our Team

HVS has a team of experts that conducts our operations in the Middle East and North Africa. The team benefits from international and local backgrounds, diverse academic and hotel-related experience, in-depth expertise in the hotel markets in the Middle East and a broad exposure to international hotel markets. Over the last three years, the team has advised on more than 150 projects in the region for hotel owners, developers, lenders, investors and operators. HVS has advised on more than US$25 billion worth of hotel real estate in the region.

About the Authors

Elie Milky is an Associate with the HVS Dubai office, specialising in hotel valuation and consultancy. He joined the London office of HVS in 2007 after completing an MBA from IMHI (ESSEC Business School), Paris, France, as well as three years of experience in hotel operations in Lebanon and the UAE, and a BA in Hospitality Management from Notre Dame University, Lebanon. Since then he has conducted a number of valuations, feasibility studies and consultancy assignments across Europe, Africa and the Middle East before relocating to Dubai early 2009.

Hala Matar Choufany is the Managing Director of HVS Dubai and is responsible for the firm's valuation and consulting work in the Middle East and North Africa. She initially joined HVS London in 2005 and moved to HVS Shanghai in September 2006 where she helped grow the Shanghai office and business in the Asia region. She relocated to Dubai in September 2007 and looks after HVS interests in the Middle East. Before joining HVS, Hala had four years of operational and managerial hotel industry experience. She lectured at Notre Dame University in Lebanon on International Travel and Tourism. Hala holds an MPhil from Leeds University, UK, an MBA from IMHI (Essec-Cornell) University, Paris, France, and a BA in Hospitality Management from Notre Dame University, Lebanon. Hala has worked on several mid and large scale mixed use developments and conducted numerous valuations, feasibility studies, operator search, return on investment and market studies in Europe, Middle East and Asia.

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