



Beirut Market Snapshot

Elie Milky, Consultant and Valuation Analyst
Hala Matar Choufany, Director

HVS - Dubai Office

Dubai Silicon Oasis Headquarter Building, 4th Floor
PO Box 341041, Dubai, UAE
+971 4501 5586
+971 4501 5777 (Fax)
Email: hchoufany@hvs.com

April 2008



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Economics and Politics

In many ways, Lebanon, once the jewel of the Middle East crown, ended 2007 much as it entered the year: caught up in heightened economic instability and a high, unwavering debt level. While reeling from the effects of the July 2006 military action between Hezbollah and Israel, as well as enduring a long confrontation between the army and Islamic militants in a Palestinian refugee camp near the northern city of Tripoli, the country faced a power struggle between pro-government factions and the Hezbollah-led opposition. The end of the term of outgoing President Emile Lahoud in November 2007 has left the presidential post vacant as attempts failed to elect a successor.

Rather remarkably, despite the political turmoil, some elements of the economy functioned well during the year. The finance ministry announced in January 2008 that the state deficit had been reduced from 37% to 31% in the first 11 months of 2007. In the same period, the country recorded a primary budgetary surplus of US\$643 million, a 372% improvement on 2006. Furthermore, the banking sector saw a growth in deposits, with a year-on-year increase of 8.6%.

However, following a 6.4% contraction in 2006, real GDP growth is expected to be around a mere 2% for 2007 and to remain around the same level for the next few years as a result of the adverse political/economic conditions.

The tourism and hospitality sectors have also been harmed by the ongoing political crisis.

Developments and Initiatives

Prior to the 2006 war and the ensuing political tension, investors were lining up to initiate major tourism developments. There were plans to build no fewer than 11 new hotels in Beirut's central business district (CBD) and the surrounding area. At least US\$700 million was pumped into the projects. However, due to the unstable situation, most of the planned hotels in Beirut's CBD are currently on hold, and their opening dates have been delayed indefinitely.



In addition, in 2006 the number of Arab visitors (who represent 40% of all inbound tourists) fell to just 90,000 from the 234,000 registered the previous year. Before the war with Israel in 2006, Lebanon was predicting that it would earn around US\$4 billion from tourism alone in 2006 and in subsequent years.

Although almost none of the country's hospitality infrastructure or main tourist sites were directly hit, Lebanon's challenge is now to try to restore confidence among potential visitors from around the world, and it has increased its marketing budget accordingly as it also tries to ease the political tension in the country.

Visitation and the Hotel Market

The hotel and tourism industry in the country is being harmed by the continuing instability. According to our research, hotels in Lebanon (and Beirut specifically) have recorded the lowest marketwide occupancy of all the markets in this study for the period 1996 to 2007, with 55%.

Looking back at 2006, the first half of the year indicated that a new record for tourist arrivals would be set. The number of tourists had increased by 44% from 367,000 to 528,000 in comparison with the same period in 2005, according to the Ministry of Tourism. Nonetheless, the events that followed in mid July resulted in a 7% drop in annual tourism arrivals.

In 2007, Lebanon attracted only 1 million foreign visitors, according to the Ministry of Tourism. Even though this was an improvement on 2006, this figure has the potential to improve immensely once the political situation in the country recovers.

Beirut hotels saw occupancy decrease by ten percentage points to 39% in 2007. In 2007, Marketwide average rate declined by a somewhat significant 8%, from US\$84 in 2006 to US\$78 in 2007. The resultant RevPAR dropped by a staggering 29% to US\$43 in 2007, an all-time low.

Despite the gloomy picture, there are several hotel projects in Lebanon totalling approximately 2,000 rooms, specifically in Beirut, that involve companies such as InterContinental Hotels Group, easyHotel, Starwood and Marriott, as well as some non-branded developments. However, only a number of these projects have been confirmed. Table 1 looks at this proposed branded new supply in Beirut.



Table 1 Proposed Hotels – Beirut

Hotel Name	Number of Rooms	Opening Date
Raouche Rotana Suites	170	2008
Hilton Beirut	167	2009
Four Seasons Hotel Beirut	235	2009
Grand Hyatt Beirut	354	2010
Campbell Gray Hotel	100	2010
Solidere Rotana Suites	250	2010

Source: HVS Research

Outlook and Opportunities

The continuing political instability in Lebanon will hamper any early rebound for the tourism sector. The political stalemate and the power vacuum that began in 2007 are expected to continue into 2008. If the situation does not improve in the short term, many hotels and tourism services may face bankruptcy.

Historically, tourism in Lebanon rebounded quickly from any upheaval. The country will continue to attract GCC visitors in the summer season and the solid banking sector is a good base for renewed investment in tourism (which normally accounts for 10-11% of Lebanon's GDP). Beirut is seen as a sleeping giant by those investors and hotel chains who hope to be part of the boom once the political and economic situation in the country and the region improves.

No investment decision should be made based on the information in this survey. For further advice please contact the authors.



About our Team

HVS has a team of Middle East experts that conducts our operations in the Middle East and Egypt. The team benefits from international and local cultural 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 100 hotels or projects in the region for hotel owners, lenders, investors and operators. HVS has advised on more than US\$10 billion worth of hotel real estate in the region.

About the Authors



Elie Milky is a Consultant and Valuation Analyst with the HVS London office, specialising in hotel valuation and consultancy. He joined HVS in 2007 after completing an MBA from IMHI (ESSEC Business School), Paris, France, 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 mainly in the Middle East.



Hala Matar Choufany is a Director with HVS and is responsible for the firm's valuation and consulting work in the Middle East and Egypt. She initially joined HVS London in 2005, before moving to HVS Shanghai in September 2006 where she helped grow the HVS Shanghai office and business in the Asia region. She relocated to Dubai in September 2007 and now looks after HVS's interests in the Middle East. Previously, Hala had four years of operational and managerial experience in the hotel industry. She lectured at Notre Dame University in Lebanon on International Travel and Tourism and 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.

For further information, please contact one of the authors.

Elie Milky – Consultant and Valuation Analyst, London

Email: emilky@hvs.com

Direct Line: +44 (0) 20 7878 7758

Hala Matar Choufany – Director, Dubai

Email: hchoufany@hvs.com

Direct Line: +971 50 4597930

Or visit our website at www.hvs.com