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Beirut and Beyond

An Unparalleled Insight

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Beirut and Beyond – An Unparalleled Insight

The story of the Lebanese economy in 2009 was different from that of the main economies in the region and elsewhere. Helped by continued stability, real estate activity flourished, and the banking sector and tourism witnessed record figures. The number of tourist arrivals was almost 1.9 million (beating the record of 1.4 million set in 1974). The number of airport passenger movements in Beirut was almost 5 million. Existing hotels reaped the benefits and showed remarkable levels of performance as a consequence. Hotels still in the pipeline doubled their efforts to open for business, and opportunities for more hotels are being actively pursued. Yet, the picture may not be as rosy as it seems. Consumer spending dwindled in 2009 on the previous year, and ongoing political tension – albeit ‘cold’ – along the southern border of Lebanon continues to be a point of concern.

At the turn of an exciting new decade, investors, owners, developers, lenders and operators are coming together as never before, having an increased appetite for a slice of what 2010 (and ensuing years) has to offer; namely, still greater economic prosperity. As experts in hotel consulting for 30 years, we take a closer look at the Lebanese hotel market both now and in the future and investigate other sectors such as investment, real estate and lending that play a significant role in improving tourism to the country.

Our purpose is to lay the platform for an educational arena as investors, owners, developers, lenders and operators scramble for opportunities in Beirut and beyond.

Politics and Economics

The period that followed the Qatari-sponsored Doha Accord of May 2008 brought about political stability and a pick-up in economic activity that continued well into 2009. The long-awaited parliamentary elections were held in June 2009 and led to victory, by a narrow margin, for the Western-backed coalition led by MP Saad Hariri, who was appointed prime minister. After months of political bickering, a national unity government was finally formed. The new cabinet has vowed to pursue reform and stability; as a result, the economic sentiment for 2010 looks rather promising.

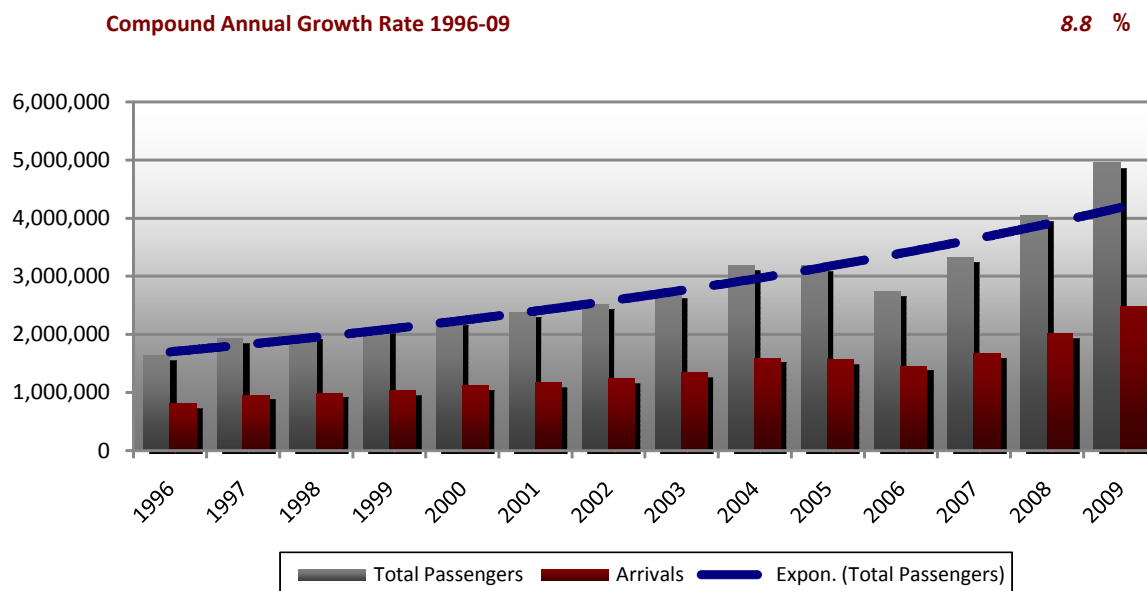
Furthermore, since the start of the presidency of General Michel Suleiman in 2008, the country has taken several steps in restoring its position abroad, in particular repairing relationships with regional powers, notably Syria. Similar steps have also been taken by Hariri since he took office in 2009. High-level moves such as his recent visit to Turkey are expected to further improve Lebanon’s political and economic prospects.

Economic activity in Lebanon cannot be directly correlated to the regional and global slowdown. If anything, the country benefited from the recession of 2009 through continued stability and improved economic sentiment. The Economist Intelligence Unit (EIU) notes that the increased influx of capital, especially that from Lebanese expatriates, shows that this source of capital is not easily deterred by political risk. The following points summarise some of the main economic indicators.

- The estimate of real GDP growth by the end of 2009 was revised to 7.0%, and was estimated to be 5.5% in 2010 (up from earlier forecasts of 2.4% and 3.3%, respectively), according to the EIU. The World Bank has made a similar estimate for 2009, but the Institute of International Finance is currently forecasting a staggering 8.7%;
- Foreign reserves increased to US\$20.5 billion in 2009, according to the EIU. This figure is expected to reach almost US\$22 billion by 2011, according to the latest forecast, as investment in the country expands and remittances continue to flow in. This increase is attributable in part to increased confidence in the country's solid banking traditions, which have proven resilient in the face of debt markets in the region and worldwide;
- According to the World Travel & Tourism Council (WTTC), travel and tourism is expected to make up around 28% of GDP in 2009 (owing to record visitation figures and record levels of hotel performance); the figure was around 19% in 2008. However, this percentage is expected to decline to approximately 26% by 2019 as other sectors of the economy grow.

Visitation and Hotel Performance

Thanks to continued stability, the hotel and tourism industry had its best year ever. The number of airport passenger movements was just under 5 million by the end of 2009, and the number of airport passenger movements has grown at a compound annual rate of almost 9% over the last 14 years. The increase in the number of movements in January 2010 was more than 20% increase on the same month last year. The annual trend is depicted in the following table.

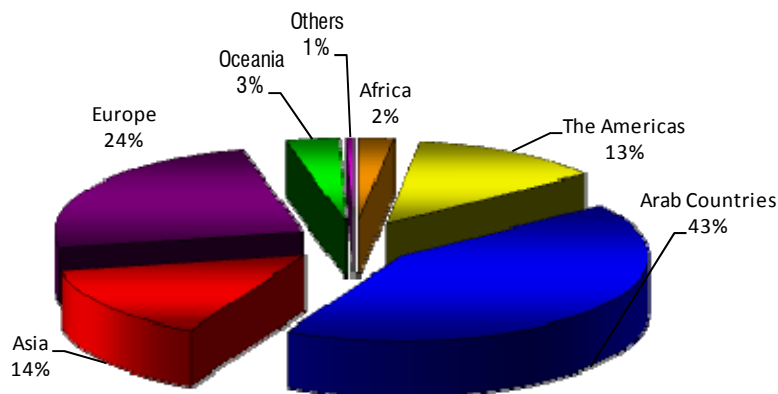
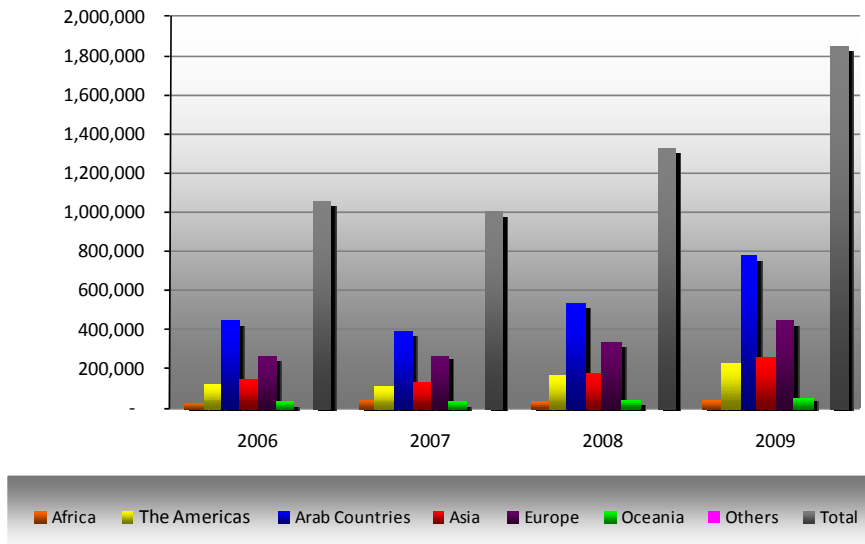
Table 1 Passenger Movements – Rafic Hariri International Airport, Beirut

As Beirut's international airport is reaching its full capacity of 6 million passengers a year, plans are already under way to expand the facilities. Home to the expanding fleet of the country's flagship carrier Middle East Airlines (MEA, or *Air Liban*), the airport is expected to handle up to 16 million passengers each year once the expansion is complete. In 2007, the USA finally lifted a ban on air travel (in force since the time of the civil war) to Lebanon. This paved the way for talks between MEA and American Airlines – in addition to similar moves – to resume direct flights to North America.

Whether by air, land or sea, total visitation peaked in 2009. The Ministry of Tourism recorded unprecedented foreign visitor numbers of around 1.9 million. However, this figure also includes Lebanese with dual citizenship using their foreign nationality, and excludes Syrian and Palestinian nationals. According to the Ministry of Tourism, more than 40% of the total visitation is thought to have used hotel or serviced apartment facilities around the country in 2009, an increase of more than 20% on 2008. Spending by guests on related lodging facilities in 2009 is thought to have risen by a healthy 135%, to approximately US\$203 million.

The following table shows total foreign visitation to Lebanon over the last four years (and breakdown by nationality in 2009), as reported by the Ministry of Tourism.

Table 2 Tourism Visitation to Lebanon 2006-09 and Breakdown by Nationality in 2009



Arabs still account for a large portion of foreign visitation; Jordan, Saudi Arabia and Kuwait lead the way. Increasing numbers of Iraqi travellers are also contributing to this surge in both leisure and business demand. For instance, it is thought that as Lebanese companies (active in various sectors) expand into Syria, Jordan and Iraq, many training sessions are being held in hotels in Beirut to train foreign staff.

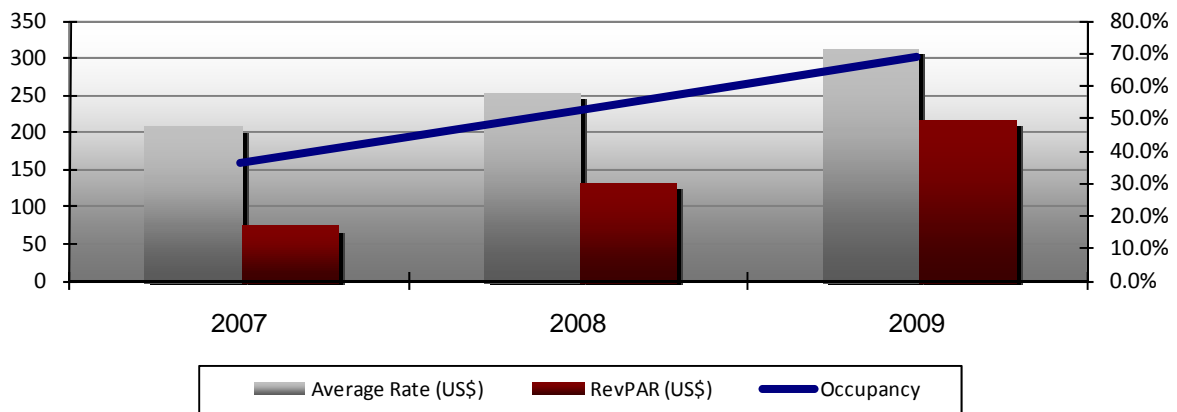
Much of the visitation from the Americas and Europe is made up of Lebanese who hold foreign passports, or citizens of those regions with Lebanese ancestry. Nonetheless, European and American visitation is on the rise and is expected to continue to grow as Lebanon’s image abroad improves. And as awareness of Lebanon’s liberal economy, lower cost of doing business, vibrant culture and favourable climate increases, so more and more companies are beginning to consider setting up their regional

base in Beirut. Recent and future hotel openings (discussed later) are also expected to generate additional demand.

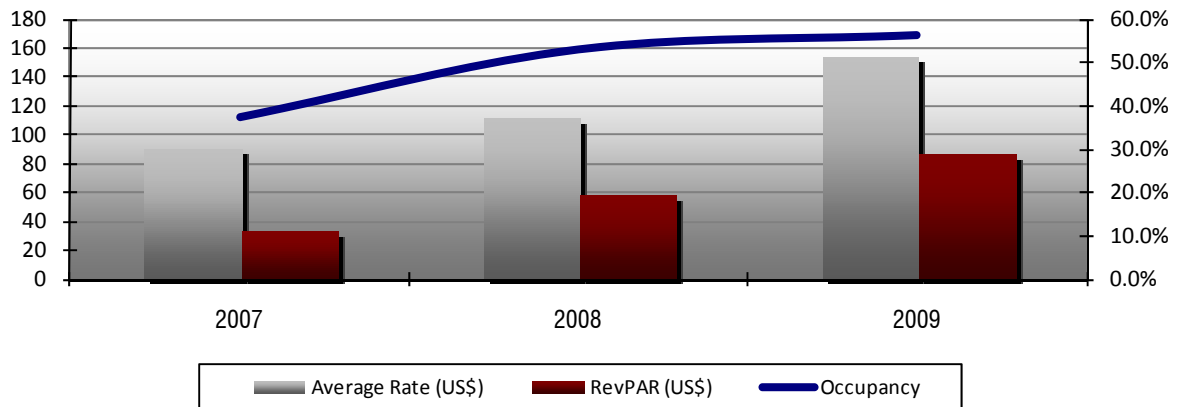
Therefore, how have hotels in Beirut handled the influx of visitation in 2009? Upscale and luxury hotels reached an occupancy of 70% in 2009, an increase of around 17% on 2008. However, much of the growth in visitation was reflected in these hotels' average rates, which exceeded US\$300 a room. This must mean that some leading luxury properties in Beirut achieved average rates of more than US\$400! Revenue per available room (RevPAR) grew by a staggering 60% on 2008, to almost US\$220.

Table 3 Hotel Performance: Occupancy, Average Rate and RevPAR (US\$) – Beirut

Upscale and Luxury Hotels



Mid-Market Hotels



Mid-market hotels (that is, most of the main three-star and four-star properties in Beirut) were able to increase their average rates to US\$155 in 2009, a rise of almost 40% on the previous year. This increase shows that mid-market hotels hiked their room rates at the expense of occupancy to boost bottom-line profits, since occupancy rose by only three percentage

points (to 56%) on 2008. Therefore, RevPAR growth in this sector was nearly 50%, to just under US\$90.

Investment and Hotel Supply

The state of the Lebanese economy has allowed increased investment to be made; several measures have been implemented over the years to increase foreign direct investment, which increased by 20% in 2009, according to the Ministry of the Economy. Investments in real estate benefit from one of the lowest levels of taxation in the world, and hotels in particular can profit from exemptions on customs duties on imported hotel equipment provided they meet certain conditions. The unprecedented rise in construction activity across all sectors has stimulated additional demand for a wide range of associated services.

IDAL, the Investment Development Authority of Lebanon, has taken further steps to promote investment. Established in 1994 and reinforced in 2001, IDAL has been empowered by a government's initiative to offer competitive incentives to projects that meet certain criteria. The package of incentives and exemptions applying to specific terms and conditions is known as the Package Deal Contract. The main benefits and criteria of this contract are shown in the following table.

Table 4 The Package Deal Contract – IDAL

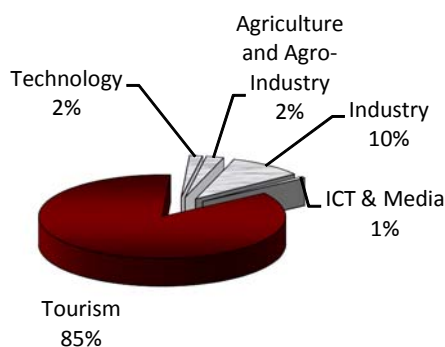
Incentives	Criteria
* Income tax exemptions for 10 years	* Minimum Investment of US\$15 million
* 50% fee reduction on permits for foreign labour	* Minimum creation of 200 jobs
* Up to 50% fee reduction on construction permits	* All employees to be registered with the National Social Security Fund (NSSF)
* Work permits for all categories	* Minimum employment of two Lebanese per foreign employee
* Full fee exemption on land registration, annexation, subdivision, mortgages and lease registration	* Other criteria include factors such as economic and environmental impacts, preservation of natural resources, transfer of technology, and government priorities and development policies

Source: IDAL

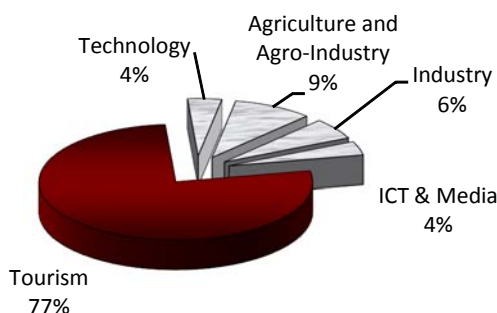
The following table shows the breakdown, by sector, of investments that had qualified for the Package Deal Contract through IDAL by October 2009.

Table 5 Breakdown of Total Investments Through IDAL by Sector – Beirut and Beyond

Sector	Total Investment (US\$)
Agriculture and Agro-Industry	26,468,000
Industry	112,858,000
ICT & Media	8,123,610
Tourism	992,675,366
Technology	19,729,995
Total	1,159,854,971



Sector	Total Employment
Agriculture and Agro-Industry	442
Industry	277
ICT & Media	181
Tourism	3,612
Technology	189
Total	4,701



Source: IDAL

Between 2003 and the end of 2009, tourism investment, comprising hotel projects primarily, was almost US\$1 billion, or 85% of all investments made through IDAL and the Package Deal Contract. These projects have created approximately 3,600 jobs in the tourism industry.

Table 6 lists all of the leading hotel and tourism projects that have qualified for the Package Deal Contract. These investments have managed to reduce the projects' development and operating costs under the auspices of IDAL's generous incentives. A more comprehensive list of new and upcoming hotel supply is given later.

Table 6 Hotel Projects and the Package Deal Contract Since 2003

Hotel and Tourism Investment Projects (IDAL)

Hilton

Metropolitan City Centre (*opened*)Four Seasons (*recently opened*)

Metropolitan Park - Habtoorland

Royal Hotels & Resorts

The Landmark

Jiyeh Marina Resort

Le Gray (*recently opened*)

Beirut Waterfront Development

Kempinski Summerland

Raouche Arjaan by Rotana (*recently opened*)

Source: IDAL

It is important to note that the Beirut Waterfront Development is currently being developed by Solidere. It is part of an area of reclaimed land that will host a quayside of waterside cafés, restaurants, bars, nightclubs, shops, a yacht club and residential space. Solidere, the company spearheading the redevelopment of Beirut after the civil war, has made impressive progress and is now working on the second phase of a project that is rebuilding a world-class city.

As appetite for investment grows and hotel deals are signed, so more projects are expected to be announced. No doubt many of our readers and clients will be amazed to see the significant difference in terms of new hotel supply for Beirut and the rest of the country between this article and last year's publication. We show in the following table and chart a list of the main, branded hotel developments across Lebanon from 2008 to 2013. This list, however, excludes projects still under negotiation or contracts that are still bound by confidentiality at the time of our writing this article.

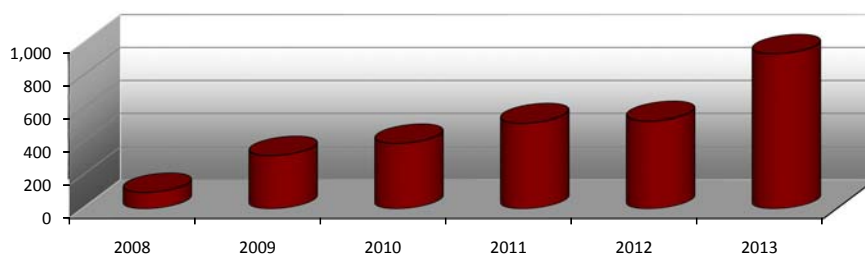
Table 7 New Branded Hotels, Confirmed Supply – Beirut and Beyond 2008-13

Hotel Name	Number of Rooms	Opening Year	Location	Development Stage	Management Company
Ramada Downtown	99	2008	Beirut Central District	Opened	Wyndham Hotels & Resorts
Golden Tulip Serenada	65	2009	Hamra, Beirut	Opened	Golden Tulip Hospitality Group
Raouche Arjaan by Rotana	170	2009	Raouche, Beirut	Opened	Rotana Hotels
Le Gray	88	2009	Beirut Central District	Opened	Campbell Gray Hotels
Four Seasons	230	2010	Beirut Central District	Opened	Four Seasons Hotels & Resorts
Hilton	167	2010	Beirut Central District	On Hold	Hilton Worldwide
Grand Hyatt	354	2011	Beirut Central District	Under Construction	Hyatt Hotels & Resorts
Jiyeh Marina Resort	165	2011	Jiyeh, South Lebanon	Under Construction	n/a
Kempinski Al Abadiyah Hills	75	2012	Bhamdoun, Mount Lebanon	Under Construction	Kempinski
Grand Theatre Boutique Hotel	*	2012	Beirut Central District	Due Diligence Period	n/a
Boutique Hotel Mina el Hosn	*	2012	Beirut Central District	Due Diligence Period	n/a
Serviced Apartments (Solidere)	*	2012	Beirut Central District	Due Diligence Period	n/a
Royal Hotels & Resorts	*	2012	Beirut Central District	Under Construction	Royal Hotels & Resorts
Staybridge Suites	121	2012	Verdun, Beirut	Under Construction	InterContinental Hotels Group
Le Vendome	**	2012	Ain el Mreisseh, Beirut	Construction to Begin	InterContinental Hotels Group
Albergo	**	2012	Achrafieh, Beirut	Construction to Begin	Independent - <i>Affiliated with Relais & Chateaux</i>
Kempinski Summerland	150	2013	Jnah, Beirut	Under Construction	Kempinski
Solidere Rotana Suites	250	2013	Beirut Central District	Construction to Begin	Rotana Hotels
NAAS Wellness Resort	*	2013	Bikfaya, Mount Lebanon	Due Diligence Period	n/a
Rotana	*	2013	Beirut	Due Diligence Period	Rotana Hotels
The Landmark	288	2013	Beirut Central District	Construction to Begin	n/a
TOTAL	2,808				

* Approximate number of rooms

** Addition to existing room supply

Source: HVS Market Intelligence



According to Table 7, more than 2,000 rooms of confirmed, branded supply are to open from 2010 onwards. The biggest amount of room supply will come in 2013. It should be noted that although these projects are confirmed, some of them will still be negotiating with various operators and so no brand will have been designated at this point.

Beirut's Central District (BCD) will be home to even more hotels, as many will be located in what Solidere has designated 'the Hotel District'. This district, along with other parts of the downtown area earmarked for hotel development, accounts for more than 4% of the total built-up area of 4.69 million m² under Solidere's control. The remainder of the area will comprise residential space primarily, as well as offices, commercial space, cultural facilities and government offices.

As operators show increased keenness to develop hotels in Lebanon, and particularly in Beirut, investors and developers should be aware that a wide array of brands is being considered for the market. International hotel companies with a presence in Beirut are as much keen on expanding their position in Lebanon as chains that are yet to announce their first development. Some companies are even considering delivering their entire portfolio of budget, mid-market, upscale and luxury brands to the country.

It should be noted that companies typically establish a base in the market with their core brand before considering other brands and different locations around the country. Nonetheless, owing to the appeal of the Lebanese market, operators are being flexible. And the terms of management agreements that operators sign with owners can vary according to location, brand, type of project and the company's keenness to establish a presence.

As residential real estate showed much growth and success in 2009 with great prospects (although more toned down) for 2010, hotel companies are tapping into this type of property too. The residential real estate sector in Lebanon can be described with all modesty as a resilient haven amid an ocean of turmoil. Hotel companies, primarily luxury brands, are therefore considering including residences that will be sold freehold in their developments. The following table shows that both Kempinski projects in Beirut and Bhamdoun are expected to have freehold residences, making them the only confirmed branded residential supply in the country at this point. Branded residences are usually maintained by the hotel company running the hotel, and residents generally benefit from luxury living, an exclusive secondary home and access to the hotel's facilities.

Table 8 Confirmed Supply of Branded Residences – Beirut and Beyond

Branded Residences	Number of Units	Opening Year	Location	Development Stage	Management Company
Kempinski Al Abadiyah Hills <i>Private 'Village' Residences</i>	<i>n/a</i>	2012	<i>Bhamdoun, Mount Lebanon</i>	<i>Under Construction</i>	<i>Kempinski</i>
Kempinski Summerland <i>Private 'Village' Apartments</i>	46	2013	<i>Jnah, Beirut</i>	<i>Under Construction</i>	<i>Kempinski</i>

Source: HVS Market Intelligence

Lending and Hotel Real Estate

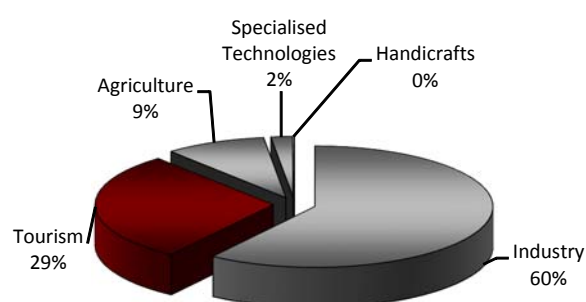
As the Central Bank of Lebanon (Banque du Liban) has begun to provide debt facilities over the last few years across different sectors of the economy loan applications have grown and real estate activity has expanded enormously. Facilities such as housing loans, as well as subsidised and incentive loans, are expected to stimulate lending even further and, consequently, lead to a further increase in real estate prices in 2010 on an already strong 2009.

Subsidised and Incentive Loans

Interest-subsidised lending was introduced in 1997 and paved the way for both investors and lending entities to benefit from terms more attractive than those on offer from conventional lenders in the industry. By mid 2009, interest-subsidised loans reached almost L£3.85 billion, as the following table shows.

Table 9 Total Interest-Subsidised Lending in Lebanon 1997-Q2 2009 (L£ millions)

Sector	Accumulated Amount (1997-Q2 2009)
Industry	2,296.9
Tourism	1,121.5
Agriculture	353.3
Specialised Technologies	75.3
Handicrafts	1.8
Total Interest-Subsidised Loans	3,848.8



Source: Banque du Liban

Interest-subsidised loans in the tourism sector (which includes hotels, restaurants and other related activities) accounted for almost 30% of the total amount of subsidised debt by June 2009. In addition to major banks around the country, entities such as Kafalat, the European Investment Bank (EIB), various leasing companies and the International Finance Company (IFC) have also been involved in providing this type of loan facility for the crucial tourism sector of the Lebanese economy.

An additional facility that has only recently been launched by the Central Bank is the Incentive Loan mechanism. Introduced in May 2009, it is thought to have started attracting interest on account of its appealing provisions. However, at the time of our writing this article, no sufficient data were publicly available to quantify and analyse the impact of the Incentive Loan on the market.

The following table shows the basic terms of both subsidised and incentive loans and how they apply to hotel real estate investments; interest estimates are those as at January 2010.

Table 10 Terms of Subsidised and Incentive Loans – Hotel Real Estate

	Subsidised Loans	Incentive Loans
Term	5-7 years	Up to 7 years + 6 months' to 3 years' grace
Minimum Amount	£50 million, or the equivalent in US dollars or euro	None
Maximum Amount	£15 billion, or the equivalent in US dollars or euro	60% LTV on real estate
Interest Rate		
<i>on L£</i>	2-year treasury bill + 1%	40% of 1-year treasury bill + 3%
<i>on US\$</i>	3-month Libor + 7%	Cost of funds + 2%
<i>on Euro</i>	Euribor + 7%	None
Banque Du Liban Subsidy (Av.)	7% on first £5 billion, 5% on the remainder	None
Remarks	Loan excludes land value, transport, working capital, shares/stocks	Loan excludes land purchase/value

Sources: Banque du Liban; HVS Market Intelligence

The various steps taken to introduce attractive lending conditions to stimulate economic activity were in response to rising liquidity in the Lebanese pound. Therefore, who benefits from these loan schemes, and how?

From the preceding table, it is apparent that, in the case of subsidised debt, investors – as end beneficiaries – benefit from paying much lower interest than that charged, since lending entities cover a considerable portion of that interest rate. For instance, the end beneficiary will ultimately pay interest of a mere 0.5-1.0% after subsidy. Banks in this instance gain from freeing up an equivalent amount of their legal reserves for investment purposes.

Incentive loans, however, cover all sectors of the economy (subsidised loans apply only to tourism and a number of other sectors) and offer the luxury of a longer term. An investor or developer applying for a hotel loan in Lebanese pounds will pay interest of around 5.0-5.5%. Bank spreads (that make up part of the final interest rate and which average around 3.0%) can vary from one bank to another and depend on the relationship between the lender and the borrower. In addition to an attractive lending rate enjoyed by the end beneficiary, lenders benefit from a 60% exemption on legal reserves in Lebanese pounds, and 30% in US dollars. Therefore, this is expected to stimulate lending in the local currency and encourage investment as more funds are pumped into the Lebanese economy.

Furthermore, from our discussions in the market, we understand that banks are inclined to finance around 40-55% of the cost of a hotel development, but this can vary according to the appeal of the project and the loan covenant. Debt coverage service ratios (DCR/DSR) can range between 1.3 and 1.5 depending on such factors as risk, location and type of hotel, as well as the bank's lending policies in regard to hotel assets. It

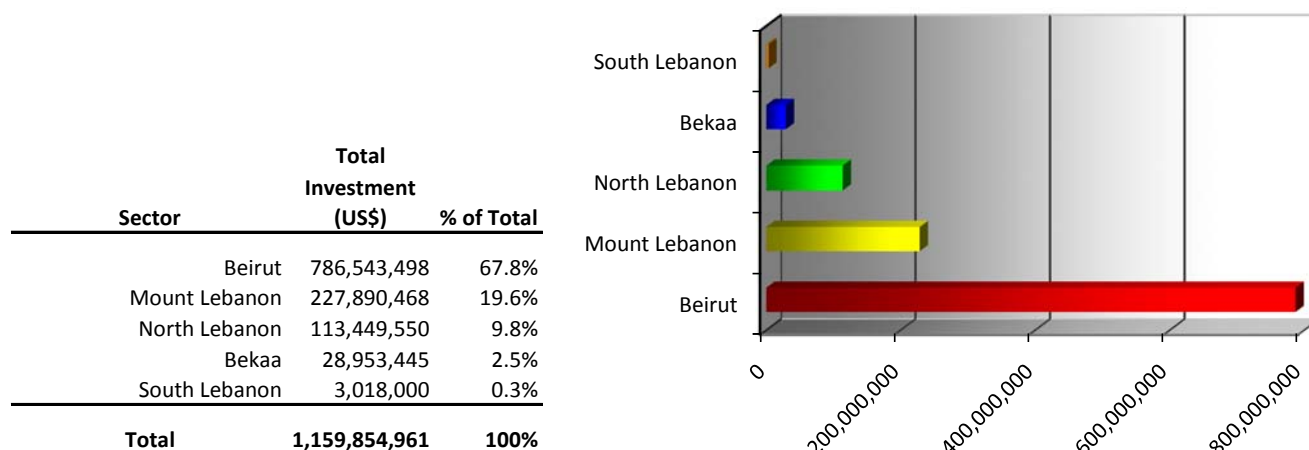
should be noted that a number of lending entities in Lebanon still see hotels as a relatively risky asset category when compared to office, residential and other commercial property.

A recent example of a loan transaction made public is the US\$130 million debt facility secured for the Landmark mixed-use development (which will include a 288-room luxury hotel) in Beirut’s Central District. The deal was announced in September 2009 between BLOM Bank and the Landmark Company, and the entire development is expected to cost close to US\$300 million. Therefore, as interest for hotel projects in the market increases, so investors, owners and developers are expected to make use of these appealing credit facilities, thus increasing lending activity in the country.

Beyond Beirut

According to IDAL (see the following table), all projects that qualified for the Package Deal Contract in Beirut made up close to 70% of the total investment in Lebanon. The remaining projects are spread primarily across Mount Lebanon and the north. This has led to 60% of the jobs being created in Beirut, 24% in Mount Lebanon, and the rest elsewhere in the country. Examples of tourism developments in the Mount Lebanon region include the Metropolitan City Centre (Metropolitan Palace and Habtoor Grand Hotels) overlooking Beirut, and Habtoorland farther up the mountain.

Table 11 Investments Through IDAL – Beirut and Beyond



Source: IDAL

A consensus view of Beirut today is that once hotels in Beirut are fully booked in the peak seasons, demand overflows into the greater Beirut area, the mountain region and elsewhere. This is seen to be true when one looks at the performance of some of the hotels in Beirut’s affluent suburbs. Hotels there tend to command a lower average rate than similar properties in the city centre, which is an economic norm. However, there is thought to be more hotels in Mount Lebanon and the adjacent Mediterranean coast (such

as Jounieh) than in Beirut. Some sources have placed this figure at approximately 12,000 rooms, as against 8,000 rooms in the greater Beirut area. This shows that, historically, Lebanon has had much more to offer than the capital in terms of summer, ski and cultural activities. The natural wonder of Jeita Grotto in Mount Lebanon, the Roman ruins of Baalbeck in the Bekaa, the earlier capital of Mount Lebanon in Beiteddine and the ancient coastal city of Byblos (Jbeil) are the most visited attractions in the country and visitor numbers in all locations almost doubled in 2009. The Bekaa Valley and some parts of Mount Lebanon are also home to a thriving viniculture that has become world renowned.

But the regions outside Beirut lack some critical factors. Some of the resorts' seasonality – they are, primarily, summer or winter destinations – the modest joint marketing efforts made to attract visitation as well as investment, and the lack of branded supply have all contributed to the relative underdevelopment of the hotel industry and tourism infrastructure there. There are thought to be only four international chains outside the greater Beirut area. These are located in the northern city of Tripoli, the winter/ski mountain resort of Faraya and the summer mountain destination of Bhamdoun. Other tourist hotspots with existing hotel supply, such as Jounieh and Broummana, still lack branded developments. But we were happy to see that as we entered 2010, hotel operators were also showing an interest in – and pursuing opportunities for – a number of their brands in some of these areas.

We are also encouraged by the Ministry of Tourism's recent efforts to promote tourism beyond Beirut. It is thought that Beirut accounts for around 80% of tourist activity and that other parts of the country are not being efficiently exploited. In addition to winter activities, summer events, and cultural attractions, the government considers that there is a need to promote the country's unique gambling facilities. There are hopes too that Lebanon can be transformed into an international skiing destination and that the country's image as a regional destination for medical tourism can be extended. Therefore, effort is being expended on maintaining visitation across the four seasons of the year, thus reducing seasonality of demand even further.

Observations on the Hotel and Tourism Industry

Many eyes are on Lebanon today as investors flock into the country. And in an effort to address opportunities and challenges for the Lebanese hotel market, we discuss in this section a small number of observations that are fundamental to the hotel and tourism industry in Beirut and beyond.

- The government has not in the past made the tourism industry a priority; the industry ought to be. Hence, the tourism ministry lacked the necessary backing. But with the recent formation of a national unity cabinet promising economic prosperity, and after the industry generated a record US\$7 billion in 2009, it is hoped that reforms will be undertaken, the ministry will be modernised and a joint, efficient marketing effort will be launched to give a boost to visitation and improve the country's image abroad;

- The greater Beirut area currently has just over 3,000 branded hotel rooms. And, despite the recent opening of luxury hotels such as Le Gray and the Four Seasons, it is considered that Lebanon still lacks branded supply across this segment, as well as in the commercial five-star, midscale and budget markets. For instance, proposed hotel products can be diverse across the upscale and mid-market segments. Many lifestyle and fashion hotel brands see a potential in opening in Beirut to benefit from a trendy local market and enjoy the city's position as a fashion and cultural capital;
- It is thought that internationally branded budget (economy) hotels (which are undersupplied in the country) are expected to cater for a forgotten market that does not expect valet and bellboy services or additional room amenities, and which is unwilling to pay an average rate of more than US\$100 a night. Such hotels maintain a standardised product to meet basic needs and benefit from lower development costs and higher profit margins. Many players, including lenders, are starting to understand the lower risk involved in such investments;
- Beirut is increasingly becoming a market with high barriers to entry. Prime land is becoming scarce, which explains the rush to develop strategic properties. And many developers and lenders investing in hotel projects have, until very recently, been inactive in such a market. Furthermore, as construction activity in the country increases, development costs are expected to witness a modest hike in 2010;
- The country's infrastructure as it is today cannot cope with growing tourism numbers, as the airport is reaching its maximum capacity and the road network is feeling the strain. This is particularly noticeable in the peak summer season and year-end holidays. Therefore, significant improvements need to be implemented across various aspects of the infrastructure: airport expansion, road improvements, tourism attractions and business facilities.

Conclusion

Recent events in neighbouring countries suggest that the delayed effects of the recession may have just arrived. What was Europe's and North America's 2009 may be the Middle East's 2010. And in this context, should we also assume that this would apply particularly to Lebanon? The argument may be that Lebanon's lending activities are not as exposed as other cities' were. In fact, on the contrary, Lebanon has, so far, benefited from the recession on account of its solid banking culture, and because the country was still on the rebound after years of interrupted stability. When regional performance levels for hotels were released for 2009, Beirut was the only market that reflected not just good performance, but staggering growth. Should political stability continue, 2010 will witness hotel investment activity never before seen in Beirut or beyond. Solidere has made considerable progress in developing Beirut's Central District, has improved the city's infrastructure, has developed many cultural attractions and has opened the Beirut Souks to much acclaim. Therefore, as the conditions for investment ripen further, more hotel opportunities will be actively sought from the budget category to the luxury product. Loans will

therefore be sealed, hotel management agreements will be signed, and tourism-related developments will be announced.

For feasibility and market studies, valuations, strategic positioning, operator search, contract negotiation, asset management and further advice please contact the authors.

About the Authors



Elie Milky is an Associate working 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. Elie has three years' experience in hotel operations in Lebanon and the UAE, and also holds a BA in Hospitality Management from Notre Dame University (NDU), Lebanon. He is currently doing an MSc in Property Investment (RICS) via distance learning with the College of Estate Management, Reading, UK. He has conducted a number of valuations, market studies, feasibility studies, return on investment, operator search and consultancy assignments across Europe, Africa and the Middle East. Elie relocated to Dubai in 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 (NDU) in Lebanon on International Travel and Tourism. Hala holds an MPhil from Leeds University, U.K., an MBA from IMHI (Essec-Cornell) University, Paris, France and a BA in Hospitality Management from NDU, 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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