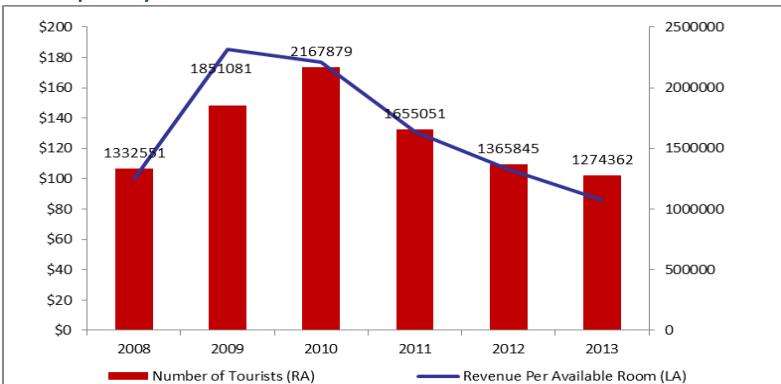


2013 Tourism in Lebanon Burdened by Local and Regional Instabilities



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Occupancy Rates and Number of Tourists



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Contact Information

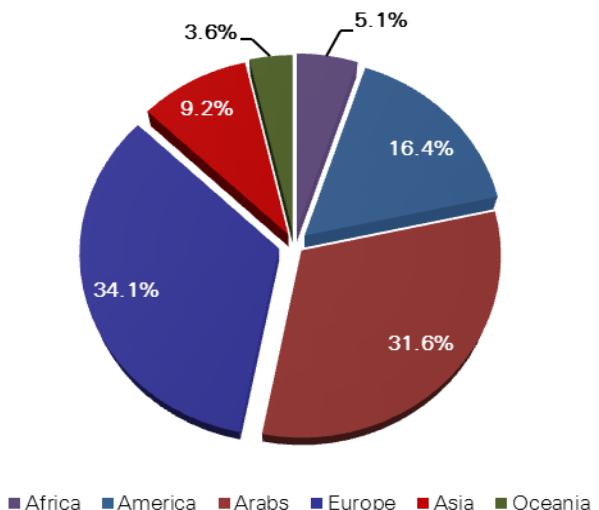
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Breakdown of Lebanon's Tourists Nationalities



■ Africa ■ America ■ Arabs ■ Europe ■ Asia ■ Oceania

Source: Ministry of Tourism, Ernst & Young Middle East Hotel Benchmark Survey Report

The combination of a worsening situation in Syria, an internal instability and a political deadlock had their toll on the performance of the Lebanese economy. The International Monetary Fund's (IMF) revised downward Lebanon's real GDP growth projection for 2013 to 1.5%, from a previous 2.0%, while the Purchasing Managers' Index (BLOM PMI) for Lebanon remained below the neutral level of 50 for the whole second half of the year indicating a contraction in private sector activity.

While tourism and real estate were the two main drivers of economic growth during the last few years, the share of GDP reached 27% at 2012. Construction represented a 4% share of the Gross Domestic Product (GDP) and real estate activities accounted for 14% of GDP. According to the World Travel and Tourism Council (WTTC), the direct contribution of Travel and Tourism (T&T) to the Gross Domestic Product (GDP) reached \$4.12B (or 9.3% of GDP) in 2012, while total contribution to GDP amounted for \$11.14B, the equivalent of 26.4% of total GDP. This compares highly with the World's average of total tourism contributions to GDP standing at 14.1%.

Given their high sensitivity to regional and domestic breakdowns, real estate and tourism industries witnessed severe deterioration in their performances over the year. The property sector

demand was severely hit since 2011, recording a 7.2% decline in the number of transactions to 69,198 in 2013, compared to 74,569 transactions in 2012. Total value of property sales transactions retreated by 2.6% y-o-y from \$8.94B in 2012 to reach \$8.71B by December 2013. The number of transactions also edged down, however at a faster pace than transactions' value sending the average value of a real estate transaction higher to \$122,841 by December 2013 compared to \$119,838 in the year 2012. Sales to foreigners registered a sharp decrease of 9.0% in the volume of sales following repeated warnings from GCC governments calling their citizens to avoid Lebanon due to the high degree of political uncertainty and security developments.

The tourism sector in Lebanon was hardly hit from 2011 onward after a booming period before the eruption of the Arab Spring. Total incomers reached 1.85M visitors in 2009 alone and 2.17M in 2010, a respective 38.9% and 17.1% yearly rises. Yet, Incomers to Lebanon were highly concerned about the beginning of the Syrian war by March 2011 and its repercussions on the neighboring countries. Two-digits' declines characterized 2011 and 2012's performances with the number of tourists dipping to 1.66M and 1.36M, respectively. Tourism declined further in 2013 directly hitting the total number of tourists that dropped 6.7% to reach 1,274,362 tourists, the lowest reported annual figure since 2008.

However, activity of Rafic Hariri International Airport (RHIA) improved in 2013 mainly on account of higher Syrian travelers and to a lesser extent of Lebanese citizens and expats. RHIA reported a 5.7% y-o-y growth in total passengers reaching 6.25M during 2013. This growth was brought by a higher figure of departures, which increased by 6.7% to 3.22M against a smaller rise in total arrivals by 4.6% to 3.03M. This was probably due to the increase in Syrian travelers through Lebanon during the last few years since the majority of airlines suspended their flights to Syria. Therefore, Syrians abroad found themselves obliged to use neighboring countries' airports such as RHIA as a transitory route to reach their home land. The result was a decline in "tourists to arrivals" ratio. The increase in total arrivals does not reveal a positive performance in the tourism industry. A "tourists to arrivals" ratio can provide insight into the evolution of tourism seekers' stake in total incomers over a defined period. In this context, the ratio showed a yearly decrease in the arrivals' number to Lebanon for tourism from respective 76.9%, 58.8% and 47.2% in 2010, 2011 and 2012 to 42.1% during 2013.

After the Arab Spring, Lebanon stopped being the Arab tourists' magnet in the Middle East. The fragile situation and the increasing travel warnings from GCC governments to avoid the country for potential security threats sent the number of Arab visitors down by 12.2% y-o-y to 402,080, after reaching 894,724 by the end of 2010.

Visitors from the GCC stepped away from Lebanon as notable incidents, mainly on the security level, took place. Emirati, Saudi and Kuwaiti tourists' number plummeted by yearly 62.2%, 43.6% and 26.2% to 6,709, 40,958 and 29,598, respectively. Jordanian tourists also witnessed a drop affected by rising complications in their own country partly related to their neighboring status to the war-ridden Syria. Egyptians posted a close figure to that of 2012 with a slight slip of 0.7% y-o-y to 63,578 tourists, while visitors from Iraq were the only nationality to post a yearly increase. Tourists from Iraq grew by 11.8% to 141,986 and accounted for 35.3% of total Arab Tourists. This increase can be explained by the flourishing trade and business activity between Lebanon and emerging cities in Iraq.

Incomers from Europe constituted the bulk of tourists this year grasping a share of 34.1%. Europeans were also intimidated by the turbulent regional environment as well as the local instabilities that materialized in bombings and skirmishes during the year. Accordingly, their number decreased by an annualized 2.4% to 433,990. French tourists represented 27.1% of total European tourists and showed a 5.5% yearly increase to 117,688 visitors. Italian, German and

British tourists also revealed respective increases of 6.4%, 7.7% and 5.5% to 24,980, 61,123 and 48,504, respectively. Yet, the overall number was pulled down by several declines in other European nationalities like Turkish and Swedish nationals that respectively decreased by 13.4% and 3.0% y-o-y to 23,833 and 22,011 tourists.

American visitors to Lebanon accounted for 16.4% of total arrivals by the end of 2013, slipping by a yearly 5.2% to 209,580 visitors. The Asian community also posted a decline of 7.5% y-o-y to 117,703 by 2013, as tourism from Asia is still linked to business travel rather than entertainment and leisure. The diminishing potential for business and the frail security environment discouraged Asian workers from heading to Lebanon.

African tourists were the only group to show an improvement in 2013, from a previous 61,263 in 2012 to reach 64,792 tourists.

The above tourists' figures exclude the traveling activity of Syrians in accordance with the simplification of border-crossing treaties between the countries. Estimates showed a jump from 265,000 by the end of 2012 to 930,000 refugees (22% of the country's population) in 2013. Given their deteriorated financial and health situation, refugees represent an additional social and economic cost for the Lebanese government, despite the international support and donations. However, some of the financially satisfied citizens fleeing the violence in Syria contributed into marginally compensating the diminishing revenues from tourism.

In an attempt to boost tourism, the Lebanese government started 2013 by advertising and marketing the sector's services to make up its lost receipts. Lebanon promoted campaigns such as the "50% for 50 Days" in addition to slashing airfares and hotel rates. Yet, the dismal state of the country naturally resulted in lower tourist spending, which fell by 9% compared to 2012. Particularly, the number of VAT refund transactions revealed a 10% decrease, subsequent to the 28%, 23% and 21% declines by Kuwaiti, Qatari and Saudi visitors, respectively. Refund transactions by Syrians and Jordanians also fell by respective 21% and 17%. In contrast, France and UAE nationals spent respectively 8% and 5% more in 2013.

However, the Arab visitors remained the main spenders in Lebanon headed by Saudi Arabians at 15% of total refund transactions, and followed by Emiratis and Kuwaitis at 14% and 7%, respectively. Egypt and Syria posted a 6% stake each. As for categories breakdown, spending improved in Souvenirs & Gifts and Electronics & Household appliances, while Fashion & Clothing, which accounts for 71% of total spending slipped by a yearly 11% despite the ongoing trials of retailers to improve their drowning sales through discounts and promotions mirroring the results of the BLOM PMI that was indicating a large slowdown in the retail sector .

As for point of sale distribution, Beirut preserved its leading rank as the biggest tourist spending location capturing 81% of total spending and followed by shares of 13% and 3% for the areas of Metn and Baabda, respectively. Tourist spending in Baabda surged by a yearly 175% partly on the inauguration of Majid Al Futtaim first mall in the Levant, Beirut City Center in the Hazmieh area. Spending in Kesserwan and Mount Lebanon dropped 17% while that of Beirut showed an 11% yearly decline.

The hospitality market also recorded a sluggish performance during 2013, following Lebanon's economic downturn and struggling tourism industry. The unstable security situation in the country coupled with the spillovers of the ongoing 3-year Syrian war continued to weigh negatively on the Lebanese scene, pushing several countries to renew travel warnings to their citizens traveling to Lebanon. As a result, the occupancy rate in Beirut fell by 3 percentage points (p.p) in 2013 to reach 51%, ranking among the bottom three countries in the MENA region, and

faring only better than Cairo and Manama. This has forced some hotels to close their doors, while others dismissed some of their employees in order to reduce their operational costs and maintain their revenues.

Yet, revenue per available room (RevPAR) in Beirut, which is a key measure of hotels performance, tumbled by a yearly 20.8% to \$87, in line with the deteriorating tourism activity. Moreover, regular celebrations and festivities couldn't attenuate the cruel year's repercussions on the market that previously enjoyed by December 2009 a \$185 RevPAR, more than the double of 2013's figure. As for the Average Daily Rate (ADR), it decreased by 15.7% y-o-y to reach \$169. Lowering the ADR especially that of luxurious hotels reveals hotels desperate trials to boost reservations by adopting aggressive marketing strategies to attract more tourists, rise occupancy rate and preserve RevPAR.

On a positive note and despite the violent uprisings that deteriorated the sector's performance in 2013, Beirut managed to rank 20th among the world's best cities and 1st in the Middle East by the Condé Nast Traveler's 2013 Readers' Choice. The city of Byblos was also chosen in April 2013 by the United Nations World Tourism Organization (UNWTO) as the best Arab Touristic city. In addition, Lebanon ranked 69th amongst 140 countries in the Travel and Tourism Competitiveness report for 2013 , grasping the first place in terms of Affinity for Travel and Tourism.

Tourism and hospitality in Lebanon can easily recover from political and security uprisings despite their high sensitivity. This could be supported by several examples such as the Israeli war in 2006, the recurring assassinations and local skirmishes in 2007. However, a speedy recovery took place in 2008 following the Doha agreement confirming the sector's steadiness and attractiveness to Arab and Foreign tourists. Correspondingly, tourist inflows to Lebanon surged by an annualized 31.0% to reach 1,332,551 incomers, while occupancy rates surged 19 percentage points to hit an average of 58% by the end of 2008.

Medical tourism in Lebanon constitutes one of the top reasons for foreign travelers to visit the country, besides business and leisure purposes. Figures showed that international patients account approximately for 20% of the total number of patients in the Lebanese private hospitals. In this context, Lebanon maintained its position as a healthcare regional leader providing skill and expertise in the fields of oncology, cardiac and brain surgeries. Travelers seeking medication and treatment in Lebanon are less affected by the security developments that occur in the country, which is marginally offsetting the deterioration of other categories of tourism services.

Finally, 2014 is expected to fare better as it is starting from a low base. 2013 witnessed the lowest number of tourists in 6 years. However, getting back to 2010's level will require extra efforts from public and private sectors, better political and security schemes as well as the resolution of the Syrian conflict. Pressures on tourism and hotels' revenues are still expected to persist into 2014.

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