



In 2014, Lebanon continued to suffer from the spillovers of the raging Syrian war. The fragile security situation has been weighing on the tourism and hospitality sectors for the past four years.

The number of tourist arrivals increased by a yearly 6% to 1.35M In 2014, the first upturn since 2011. The number of Arab tourists, represented the largest share of 34% in the total, and increased by 15% y-o-y to 460,822. This increase mainly stemmed from the 33% upturn in the number of incoming Iraqis to 189,156. However, Iraqi visitors regard Lebanon as a refuge from hostilities in their country rather than a leisure destination. The number of incoming Egyptians also increased by a yearly 9% to reach 69,179 in 2014. The number of Saudi tourists, representing 10% of total Arab tourists, increased by 12% to 45,788.

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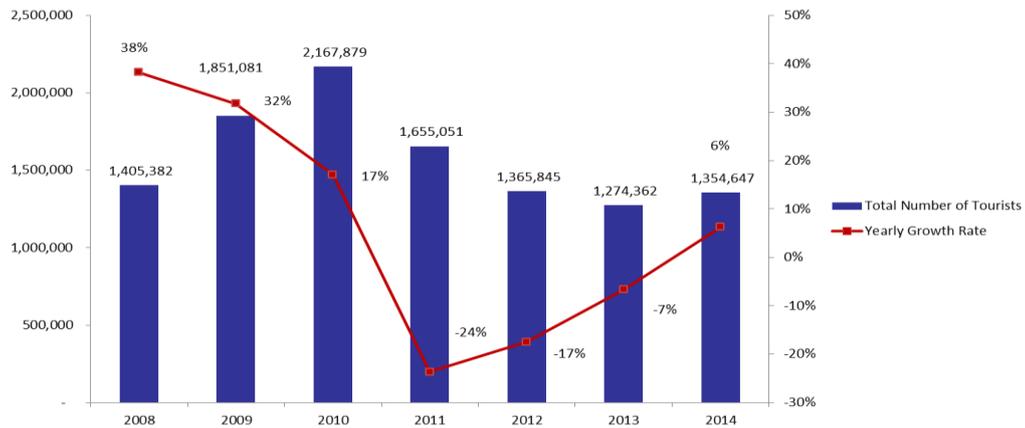
## How Tourist Activity in Lebanon Evolved during 2014

### Cumulative Number of Tourists in 2014



Source: Ministry of Tourism

Yearly Number of Tourists 2008-2014



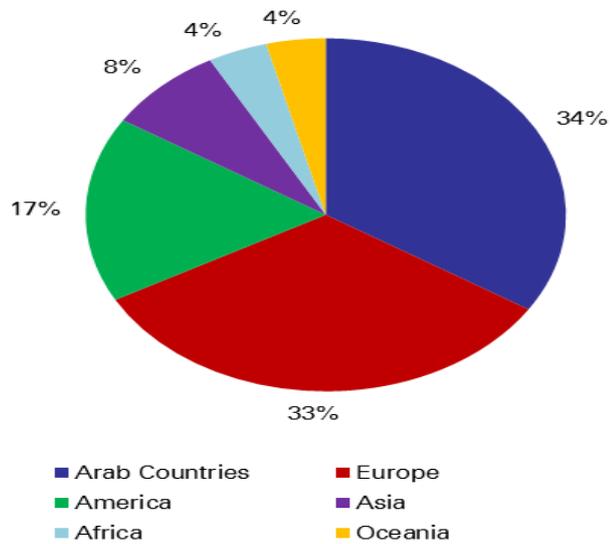
Source: Ministry of Tourism

Residual effects from the tumultuous second half of 2013 weighed negatively on tourist arrivals in the first two months of 2014. At the beginning of 2014, the Lebanese security scene was still deemed a “shaky one” due to the ripples of numerous security incidents which took place in the second half of 2013: a bombing in the southern suburb of Beirut, another in the northern city of Tripoli, Twin bombings near the Iranian embassy and the assassination of former minister Mohammad Chatah. In January, the number of tourist arrivals recorded a 9% year-on-year decline to 74,109 and by February this decline had been amplified to 13% with the number of tourists reaching 145,891.

As 2014 witnessed its own set of security events, the declining trend in the number of tourist arrivals extended its reach all the way towards July. In March, gunmen clashes rattled the city of Tripoli and sent the number of tourist arrivals down by 17% by the first quarter of 2014. In May, the presidential term ended with no successor in sight and June was marked by one bombing in Dahr el Baydar and another in Tayyouneh. By July, the number of tourists visiting Lebanon had reached 746,456, still below 2013 levels.

It’s only in the period August to December 2014 that the cumulative number of tourists’ arrivals started posting limited upturns. This can be explained by the fact that during this period, the frequency of security incidents had receded as the only major development taking place was the clash between militants in Aarsal and the Lebanese Army.

Composition of Tourist Arrivals to Lebanon in 2014

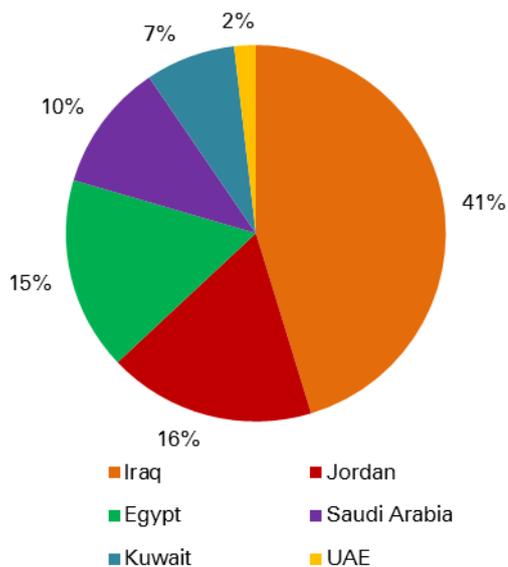


Source: Ministry of Tourism

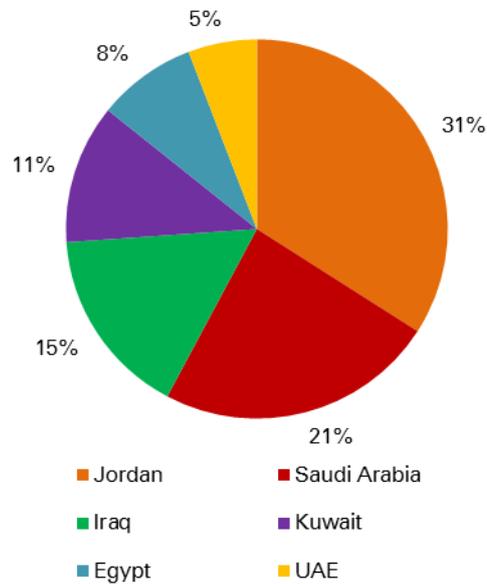
Big Spenders Out of the Picture

According to Global Blue’s Tourist spending report 2014, the largest spending emanated from Saudis, UAE nationals and Kuwaitis, with respective shares of 34%, 14% and 13%, respectively. However, these big spenders are no longer the main tourists coming to Lebanon.

Composition of Arab Tourists in 2014



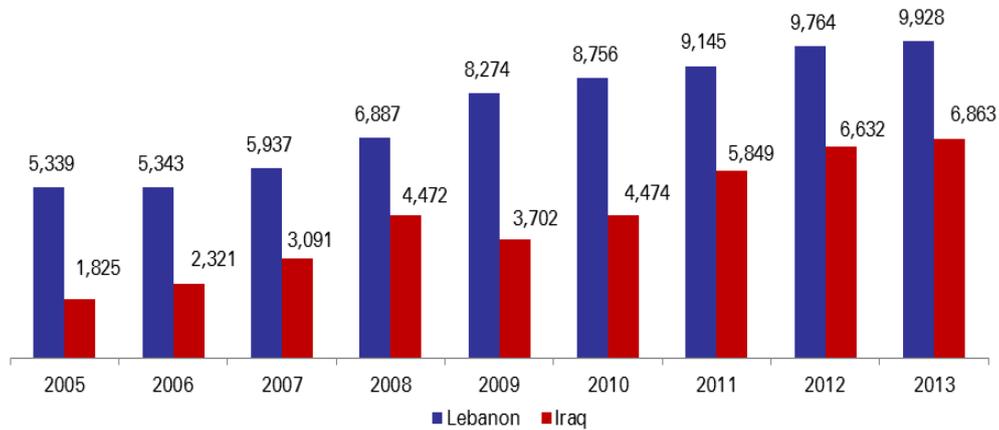
Compositon of Arab Tourists in 2010



- Share of big spenders such as Saudi Arabians dropped from 21% in 2010 to 10% in 2014
- Share of big spenders such as Kuwaitis fell from 11% in 2010 to 7% in 2014
- Share of big spenders such as UAE nationals fell from 5% in 2010 to 2% in 2014
- Share of Iraqis, having lower GDP per capita than Lebanon, surged from 15% in 2010 to 41% in 2014

In addition to seeking Lebanon for refuge rather than leisure, the Iraqi visitors have a lower GDP per capita". This substantiates the fact that whatever increase tourist arrivals posted in December 2014 does not necessarily reflect a revival for the tourism industry.

### GDP per capita of Lebanon versus Iraq (In \$)

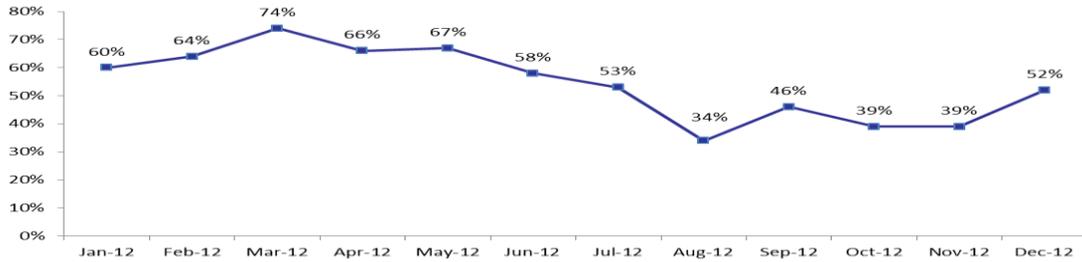


Source: World Bank

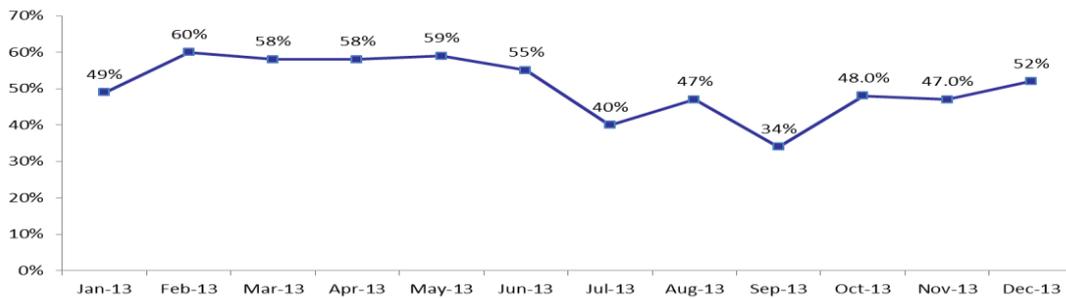
European tourists represent the second largest bulk of tourists to Lebanon with a share of 33% in the total. The number of European tourists visiting Lebanon in 2014 rose by a yearly 3% to reach 447,668. In detail, the number of French tourists increased by a yearly 3% to 120,710 and the number of German tourists rose by a yearly 11% to 67,988. However, due to tensions at the Turkish-Syrian border, the number of incoming Turks to Lebanon tumbled by a yearly 32% to 16,126. The number of American tourists, representing 17% of the total, also posted a 7% upturn to reach 224,621 in 2014.

Beirut's Hospitality Sector Bares the Consequences of Fewer Tourists

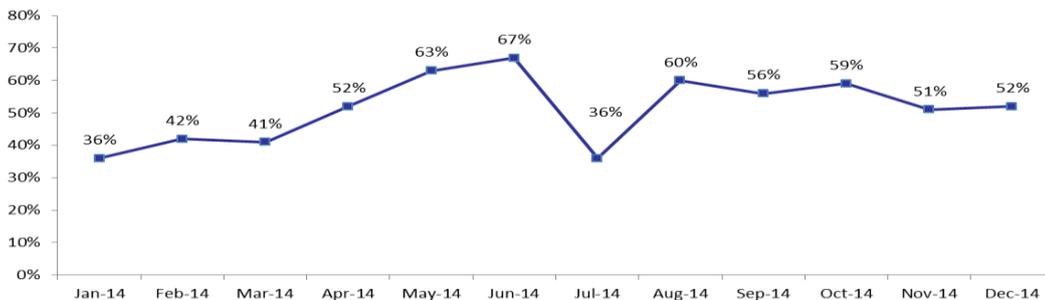
Occupancy Rates at Beirut Hotels in 2012



Occupancy Rate at Beirut Hotels 2013



Occupancy Rates at Beirut Hotels 2014



Source: E&Y Hotel Benchmark Survey

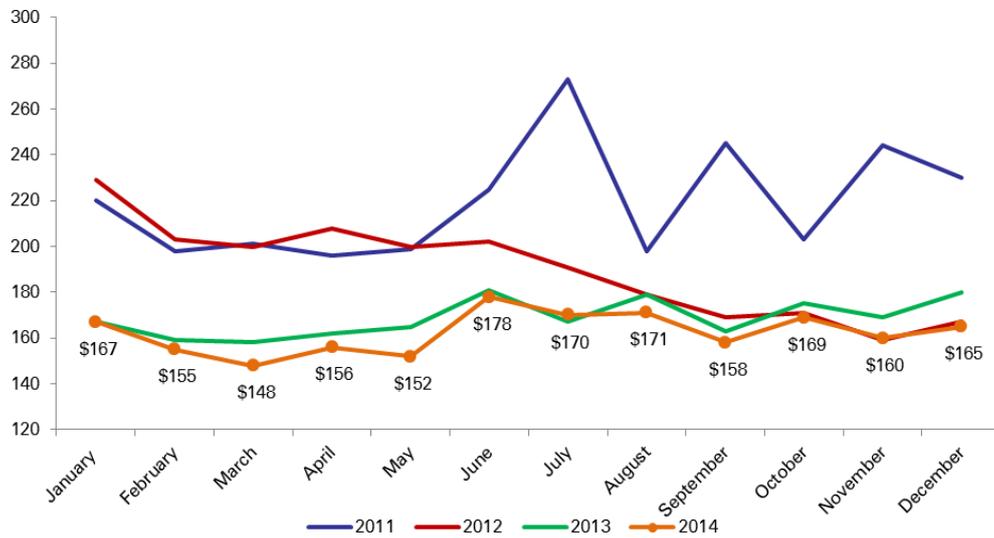
As we mentioned above, the first four months of 2014 witnessed pronounced yearly decreases in the number of tourist arrivals, decreases which were mirrored by the occupancy rate of Beirut's hotels. In each of the first four months of 2014, occupancy rates, as reported by Ernst and Young's Hotel Benchmark Survey, were the lowest since 2012. From this low base, May and June saw occupancy rates recover to 63% in May and 67% in June due to a temporary lift of the KSA travel ban.

The recovery in occupancy rates during May and June was short-lived, as the occupancy rate dropped to 36% in July, its lowest level of the year partly due to the holy month of Ramadan being celebrated during July.

The minor upturns in the number of tourist arrivals during the period August-December allowed Beirut hotels to get some breathing space. Due to the relative security stability in the last five months of 2014, occupancy rates drifted from the low of 36% reached in July to end the year at 52%. Although this figure is rather satisfactory when compared to the year 2014, which saw occupancy rates as low as 36%, 42% and 41%, it is a hard plummet from the 75% recorded in December 2009, the 65% recorded in December 2010 and the 64% recorded in December 2011.

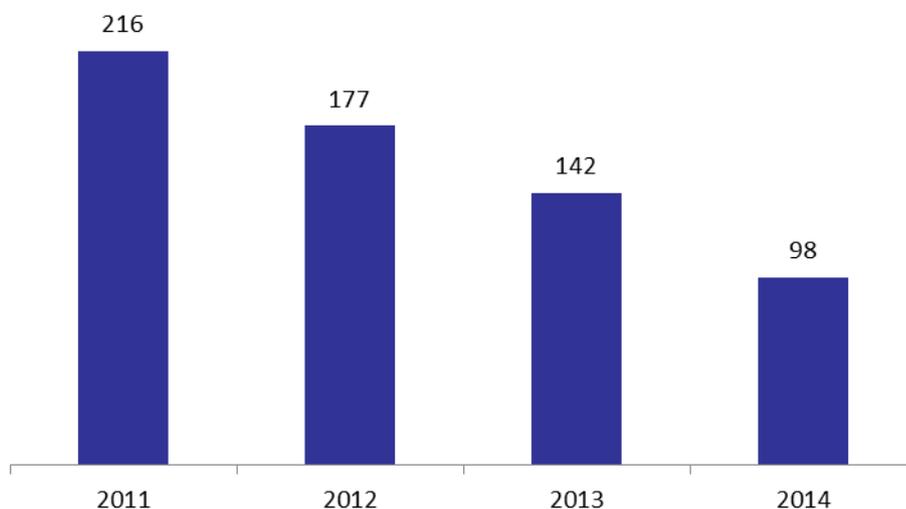
In the face of slow tourist activity, hotels were compelled to resort to coping strategies. First, hotels relied on group business in the absence of leisure travelers. Second, they launched promotions throughout the year to attract more individual business, targeting 2, 3 and 4 night stayers. Third, they reduced their room rates: Average room rates or average daily rates at Beirut hotels slumped in December 2014 to \$165, down from \$180 in 2013, \$167\$ in 2012 and \$230 in 2011.

Average Room Rates in Beirut Hotels



Source: E&Y Hotel Benchmark Survey

Number of Kafalat Guarantees Granted to the Tourism Sector



Source: Kafalat

In the face of muted tourist activity, it comes as no surprise that the number of Kafalat guarantees granted for the tourism sector have slumped to their lowest level since 2011. The number of Kafalat guarantees for to the tourism sector has consistently dropped since 2011 to eventually reach a low of 98 in 2014.

Finally, the revival of tourism activity is all about restoring confidence in Lebanon and that can only be achieved by the stabilization of the security situation. Despite the tough operating environment, hope for a future potential in the sector remains. In its newly released 2013 report, The Investment Development Authority of Lebanon (IDAL), notes that it has approved the "Park Hill" project: A \$131.98M venture in the central Ashrafieh comprised of a hotel, its affiliated branded residences and private residential apartments. This project is expected to create much needed, 202 jobs in Lebanon.

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