

Lebanon's Hotel Industry: Suffering from Political Unrest but with High Growth Potential



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Lebanon's natural diverse landscape, history and its cosmopolitan aspect have made it one of the "must visit" countries in the world. In winter, tourists enjoy the ski season on the country's slopes. While in summer, beach resorts are dispersed all over the Lebanese coastline. International festivals bring together Lebanese and foreign artists to perform all year long. The archeological and historical sites and the majestic ruins stand as a testimony of the different civilizations that touched this small country. This has led Lebanon to be the home of world-class hotels and resorts.

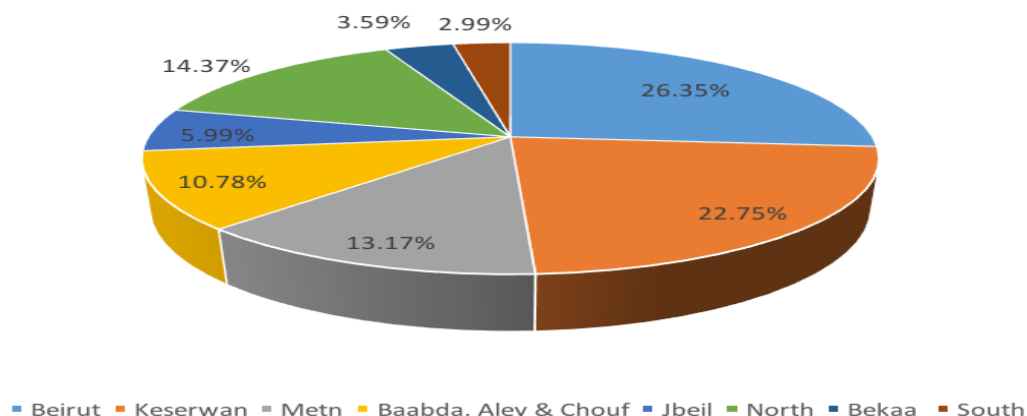
According to World Travel and Tourism Council's latest report, Travel and Tourism in Lebanon contributed to 22.1% of 2015's GDP or LP 14,865.8B (\$9.86B) and is expected to rise by 5.3% in 2016. This share is much higher than the global average of 9.8%, inducing Lebanon to rank 30th globally in 2015. Meanwhile, the forecasted percentage annual growth for the period 2016-2026, allowed Lebanon to rank 9 globally.

The hotel industry in Lebanon is far from being saturated. According to 2010 figures by the Syndicate of Hotels in Lebanon, there are 334 hotels. Most are 4 stars (28.7%) or 2 stars (27.5%), while only a minor share of 7.8% are 5 stars.

Geographical Distribution of Hotel Categories

Region	No. of 1 star hotels	No. of 2 stars hotels	No. of 3 stars hotels	No. of 4 stars hotels	No. of 5 stars hotels	No. of hotels by region
Beirut	0	10	19	41	18	88
Keserwan	5	21	22	26	2	76
Metn	1	18	12	9	4	44
Baabda. Aley & Chouf	4	10	12	10	0	36
Jbeil	5	4	10	1	0	20
North	11	21	10	6	0	48
Bekaa	2	5	2	1	2	12
South	3	3	2	2	0	10
Total	31	92	89	96	26	334
% of total	9.28%	27.54%	26.65%	28.74%	7.78%	

Geographical Distribution of Hotels



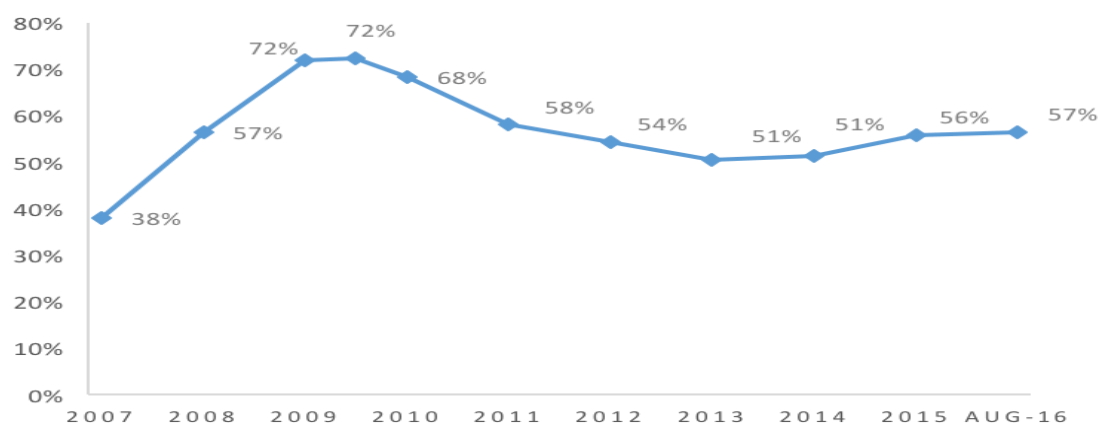
Source: Syndicate of Hotels in Lebanon

As for their geographical distribution, there is some concentration in the capital, especially for 5 star hotels. Beirut retains the highest share of 26.3%, followed by Keserwan (22.8%) and Metn (13.2%). It is worth mentioning that 69.2% of 5 star hotels and 42.7% of 4 star hotels are in Beirut. Byblos, Bekaa, and the South regions have the lowest number of hotels, with shares of 6%, 3.6%, and 3% respectively. Hence, significant investment opportunities exist there, especially that these cities preserve religious and cultural sites that make up the main touristic attractions.

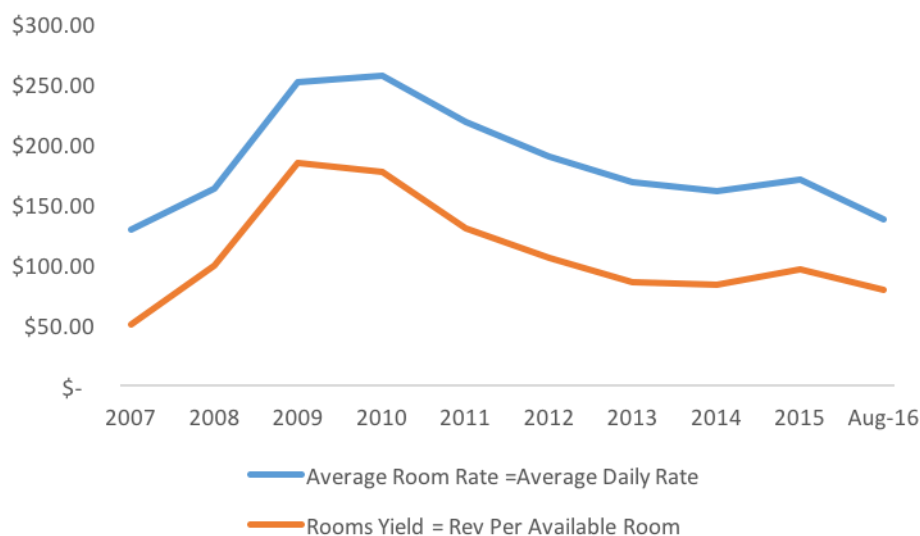
The performance of hotels in Lebanon is greatly correlated with the political and security situation. The occupancy rate in 4 and 5 star hotels followed an increasing trend starting 2007, after the war with Israel that during July-August 2006, to reach its highest level in 2009 and 2010, with an annual average occupancy rate of 72%. Due to regional upheavals and the war in Syria, hotel's occupancy rate experienced a downturn, reaching 51% in 2013 and 2014. The geopolitical situation in the region interrupted the circuit from Lebanon to Syria and Jordan that was usually undertaken by incomers. Due to the constant political unrest, hotels in Lebanon have been experiencing regional competition mostly from Egypt, Dubai and Turkey. The sector has also been hampered by the garbage crisis witnessed across the country over the past year.

However, in the past 2 years, signs of recovery surfaced, with the rate standing at 57% up to August 2016. This might be due to the security disturbances that occurred in Turkey, prompting tourists' return to Lebanon. Moreover, some of Arab countries lifted the travel bans from visiting Lebanon imposed on their citizens during previous years.

Average Hotel Occupancy Rate



Average Room Rate and Room Yield



Source: EY

Average Room Rate and Room Yield followed the same trend as occupancy rate except for 2016. Although occupancy rate increased by 1 percentage point to 57% in 2016, Average Room Rate and Room Yield dropped 18.9% and 17.6% to \$138.4 and \$79.3, respectively. This decline in the average daily rate might have also stimulated the improvement in the occupancy rate.

The type of tourists and their duration of stay also changed, which should trigger different policies by authorities. Previously, most hotel visitors were the big spenders from the Gulf, with an average stay of 10-20 days. Now, hotel clients are mostly Syrians, Jordanians, Iraqis, Egyptians, Europeans, and Lebanese staying for 3-5 days. This also explains why occupancy rate improved while room rates declined. In addition, tickets to Lebanon are high and visa entry for some nationalities such as Russians Indians and Chinese is hard, which makes incomers think twice before visiting Lebanon. Authorities are encouraged to consider reducing ticket prices from these destinations and simplifying visa procedures.

According to Pierre Achkar, President of the Lebanese Syndicate of Hotels and owner of Printania and Monroe hotels, occupancy rate in hotels in Great Beirut decreased from 75-80% in 2009-2010 to 45% this year. This rate declines to around 30% in hotels outside Beirut. However, Mona Monzer, Sales and Marketing Manager at Byblos Sur Mer, stated that during 2016, the hotel's occupancy rate improved to stand at 70% due to the work being done by the municipality of Byblos to promote the city as a touristic hub, and the hotel's good service and location facing the beach.

Mr. Achkar stated that room rates range from \$40 in 1-star hotels and reach 10 times higher, at \$400 in 5-star hotels. On average, room rates have decreased by around 30% since 2010. The decrease in occupancy rate and room rates led profits to decline by around 70%.

Declining room rates triggered fierce competition between hotels of different categories. Mr. Achkar said that in the peak period of 2009-2010, rates in 5+ stars ranged between \$350-\$450, in 5 stars \$250-\$350 and \$150-\$250 in 4 stars. Due to the crisis, rates decreased to the point where the 5+ stars hotels charged \$250-\$350 and 5 stars hotels \$150-\$250. Therefore, clients who used to go to 4-star hotels preferred 5-star hotels and 5-star clients favored 5+stars. 4-star hotels grasped the share of 1,2, and 3-stars. Therefore, the main hotels that saw declining occupancy rates are those of 1,2, and 3 stars.

Demand for hotels is highly seasonal and depends on geographical location. Hotels in Byblos are highly demanded in summer, due to the city's beaches and the international festivals occurring there. Keserwan's high season is during winter, as clients target ski resorts. Hotels in Beirut and Metn, such as Phoenicia, Four Seasons, Hilton, and Le Royal experience a more or less stable demand all year long since most of their clients are corporate clients.

Lack of an innovative infrastructure in Lebanon, with no water and electricity, causes hotels in Lebanon to bear higher costs. As the main part of a hotel's cost, maintenance and staff expenses will endure cuts when the economic situation deteriorates. Hence, to compensate for low occupancy rates and to decrease costs, a hotel would apply crisis management strategies such as decreasing employment and maintenance. Moreover, it can put unneeded floors out of service and reduce energy consumption. Due to seasonal demand, hotels hire seasonal employees.

Many of hotels in Lebanon experienced cancellations, mostly in the month of March 2016. According to Peter Edholm, Cluster Director of Sales and Marketing at InterContinental Phoenicia, this was due to the travel bans imposed by Gulf countries on Lebanon. However, the situation improved quickly after the bans were removed. Manal Salem, Quality Assurance Manager at Le Royal Hotel, ascertains that cancellations have increased this year due to political unrest, however, Le Royal was less affected due to its location further away from the capital.

In addition to renting rooms, an important source of revenue for hotel's is F&B, which mostly depends on the country's residents. Events such as cocktails, proms and weddings contribute to the hotel's income and have a much more stable demand than room rentals, but increases operating costs. According to Mr. Edholm, an equal share of 45% of the hotel's revenues come from each of room rentals and F&B. The minor share of 10% is due to other facilities at the hotel, such as spa, pool, and gym.

Many hotels offer packages and deals to encourage visitors to stay at their premises. For instance, Airfrance members get discounts on gyms and restaurants at InterContinental Phoenecia. Byblos Sur Mer offers lower rates on summer weekdays and in winter, while Hilton hotel provides free bus shuttles to their clients to downtown and Zaytouna Bay.

According to the president of the Syndicate, the only solution for the hotel industry's improvement is the stability of the political and security situation. A new president for the republic would recreate trust in Lebanon in foreigners' minds, allowing them to come back.

Lebanon's attractiveness as a popular touristic destination lies in its mix and variety of activities offered to tourists ranging between business, religious, adventurous and leisure. Growth potential exists in both city-centered attractions as well as in mountains, ski resorts, beaches, and wild life. Lebanon has been cited by CNN and the New York Times as the number 1 country in the world for its unique beaches and resorts, and the vibrant nightlife. Hence, the government in general, and the ministry of tourism in specific, should undertake reforms to keep Lebanon alluring to tourists.

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