Keeping positive about the future

Chadi Chidiac, managing partner of Protocol hospitality management and consultancy, takes a closer look at Lebanon's hospitality sector and its impact on the economy

The Lebanese national economy has always been service-oriented with sectors like tourism, banking and commerce constituting a strong leverage. Currently direct employment in the hospitality sector is around 129,500 jobs representing 9.5% of total employment. The hospitality and tourism sectors alone contribute up to 20% of the country's USD 41 billion GDP thus attracting foreign spending and safe haven currency. This has a positive impact on many services and businesses within the sector, from airline tickets to airline catering, taxi, retail, restaurants and hotels.

In 2012, tourism generated around USD 15.5 billion or 35.5% of overall economic activity including 461,000 jobs representing 33.8% of total employment, while the annual spending per capita by tourists was about USD 4,000. However, this is a sharp decrease from 2011. The number of tourists declined 15.8% in the first 10 months of 2012 compared to 2011 and by more than 36% compared to 2010.

Facts and figures

The double key performance metrics of Beirut hotels showed positive YOY (Year Over Year) figures for the first five months and the month of August 2012. Occupancy ratio performed well in early 2012 with 60% in January, 64% in February, 75% in March, 66% in April, 67% in May, 58% in June and 54% in July. The decline in occupancy rates aggravated by the growing 2011 unrest in Syria, slipped down the scales to hit bottom in August at 34%, and then re-plunge in October to 39% and in November to 35% when the General Brigadier Wissam El Hassan, head of security forces, was assassinated. On the other hand, the year 2011 scored 44% in January, 42% in February, 53% in March, 61% in April, 58% in May, 62% in June, 67% in July, 31% in August, 76% in September, 65% in October and 74% in November.

Figure 1.1 Occupancy % YOY

Figure 1.2 REVPAR YOY

Figure 1.3 REVPAR YOY - MENA

Source: Protocol

RevPar showed similar pattern with trend crossover starting in May to reach bottom at USD 61 in October 2012 and USD 54 in November of the same year, a correlation reflecting the capital's occupancy ratios. RevPar average went down by a YTD (Year To Date) rate of 17%, from USD 127 in 2011 to USD 106 in 2012, while the average MENA region increase was by 7% from USD 123 in 2011 to USD 132 in 2012.

Room inventory

Beirut is the number one attraction for tourists coming to Lebanon in terms of lodging and accommodation preference with 77% of them staying in the capital's 63 hotels of all tiers from 3 to 4 and 5 star segments. 21 establishments are rated 5 star offering 3,387 guest rooms, 30 establishments are rated 4 star offering 2,162 guest rooms and 11 establishments are rated 3 star offering 659 guest rooms.

The ADR of the 5 star hotels in Beirut is USD 226.59, for 4 stars hotels it is USD 134 and for 3 stars hotels it is USD 99.5. Around 55% of Beirut's room supply comes from 5 star hotels, around 35% are found in 4 star establishments and just less than 11% of the capital's room inventory exists in 3 star hotels.

Demand versus supply

The hotels of Beirut serve around 1,291,574 guest nights on average per year (16 years average) with 77% of tourists filling up the capital's establishments. The rooms inventory in Beirut in all tiers (3, 4 and 5 star) totals around 2,265,920 rooms creating an oversupply of 974,346 rooms per year.

Development Pipeline

Three hotels in the pipeline, the Kempinski Summerland (at the location of the original Summerland Hotel) with an expected opening date in 2013, the Grand Hyatt still under construction in BCD (Beirut Central District) and the Centro by Rotana to be opened in 2014 in Gemayzé.

Figure 1.5 Hotels Market Repartition / Rating

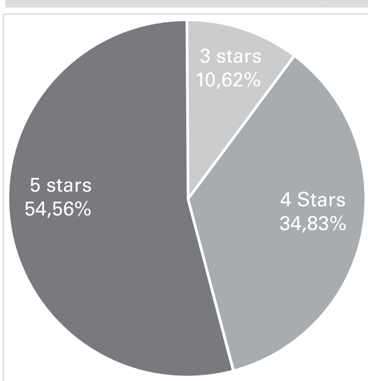
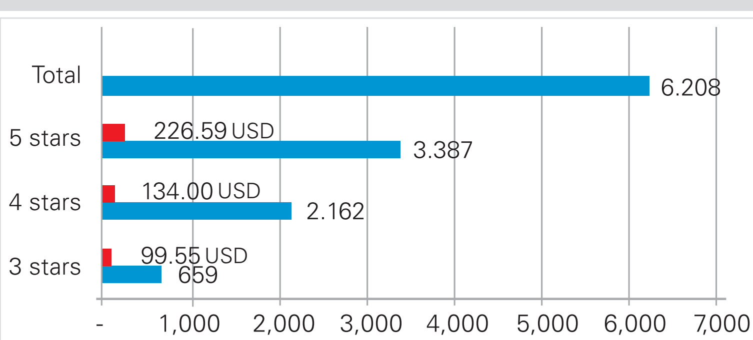


Figure 1.4 Hotel Market Figures



	3 Stars	4 Stars	5 Stars	Total Keys
ARR	99.55 USD	134.00 USD	226.59 USD	
Keys	659	2.162	3.387	6.208

Source: Protocol

Figure 1.6 Demand vs Rooms Supply

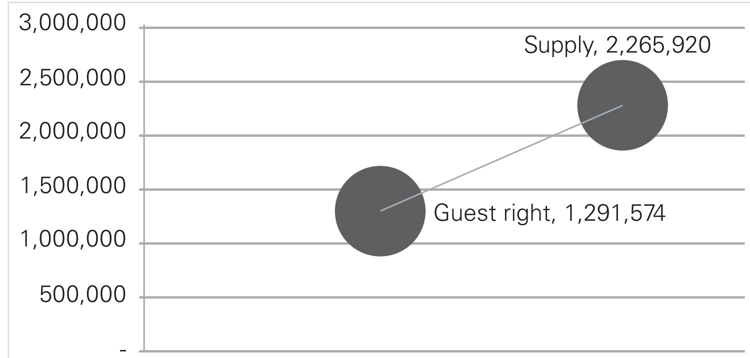
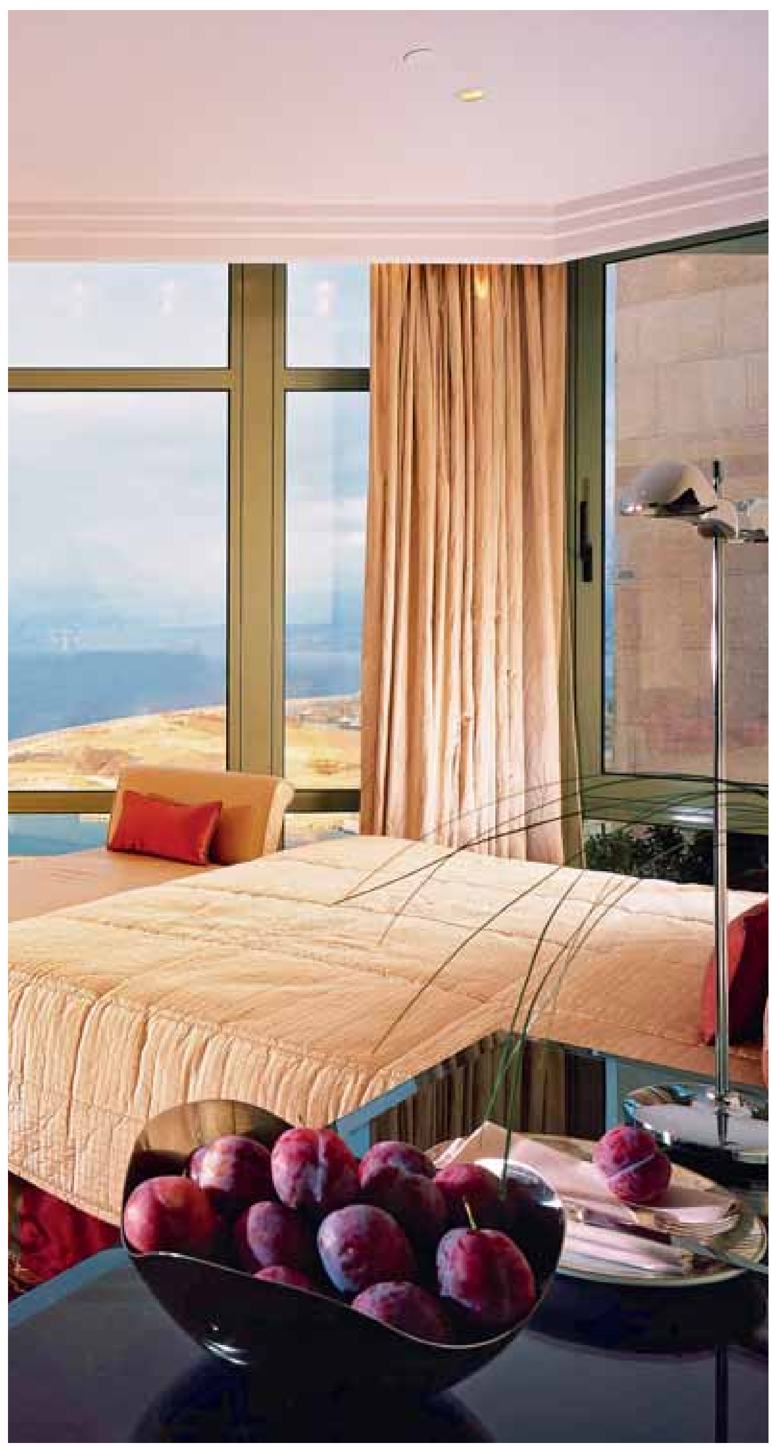


Figure 1.7 Hotels in the pipeline

Property	No. of Keys	Opening Year
Grand Hyatt	350	n/a
Centro Gemmayzé	170	2014
Kempinski Summerland	73	2013
Total	**593**	

Source: Protocol



"Lebanon is going to be a good decision. The Middle East has 15 of the group's 72 hotels at present. However, these

properties bring in 38% of the group's revenues. So the Middle East market is vitally important," says **David Sparrow**, the Geneva-based vice president of sales for the **Kempinski** brand.

The Rotana hotel group, which already has over 70 properties, has plans to expand the brand across the Middle East and North Africa over the next four years. "Centro Gemayzé is going to be one of the 25 properties

across the MENA Region by 2014, introducing a unique out-of-the-box solution for the mid-tier market," confirms **Selim El Zyr**, president and CEO of **Rotana**.

And, eleven previously announced Grand Hyatt hotels are under development around the world. "These are in Beirut, Chengdu, Dalian, Frankfurt, Kuala Lumpur, Moscow, Nanjing, Pune,

Rio de Janeiro, Sanya Haitang Bay and Shenyang," says **Mark Hoplamazian**, president and CEO of **Hyatt Hotels Corporation**.

Socio-political impact

In 2011 and 2012 Lebanon suffered from a sharp decrease in tourism due to the Arab Spring and the turmoil in Syria and Egypt. Those two destinations lost around 4.5 and 10.5 million tourists respectively, an opportunity to capture that Lebanon did not take advantage of.

Many tourists used to come to Lebanon overland, contributing 18% of total Arab tourists. This constitutes around 40% of the total inbound tourism after Iraqis and Saudis, with 23% and 20% respectively. Those travellers have cancelled their trips and switched to other destinations due to the Syrian conflict. Lebanon's tourism sector also saw a marked decline in 2012 after most GCC states issued travel warnings banning their citizens from visiting.

Other internal issues negatively affected the Lebanese tourism sector in 2012, issues such as the visual presence of armed groups, kidnap incidents, clashes in Tripoli, assassinations, the burning of tires on vital roads, as well as a number of protests and strikes had a bad impact on the country's image and dropped the occupancy ratio to 39% in October and 35% in November of 2012 versus a 69% occupancy ratio for hotels of the Middle East and 59% for North Africa.

Lebanon's hospitality sector has had to lay off employees following the sharp decline in business. "We are being forced

to reduce the number of staff in the sector. Some people were put on unpaid leave and vacancies are not being filled by new people," says **Pierre Achkar**, head of **Lebanon's Hotels Association**.

What to expect

Future prospects on the Lebanese hospitality sector are always positive. In early 2012, a delegation of French investors visited the ministry of tourism to hash out investment opportunities in Lebanon with Fady Abboud, minister of tourism, Lebanon.

The delegation had previously visited the prime minister and a number of other ministries to skim through the means to foster investments in the country, mainly at the level of tourism. We've seen many difficulties before but the sector has always showed the will and ability for growth and major hospitality brands are always looking toward Lebanon as a potential growth area especially in particular segments.

MICE (meetings, incentives, conferences and exhibitions) tourism is the trend to watch in the upcoming years in the region. And as more middle-class travellers are becoming extremely price-sensitive, developers and investors should be looking for maximum value in what they offer by focusing and not neglecting the market need for 3 and 4 star hotels rather than 5 star establishments that have been the stars of the last decade.

"Beirut is in need of 4 and 3 stars hotels targeting the local clientele ," says Abboud, "since the adopted promotion policy ought to touch people of different incomes in Lebanon."

Data compiled by PROTOCOL
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