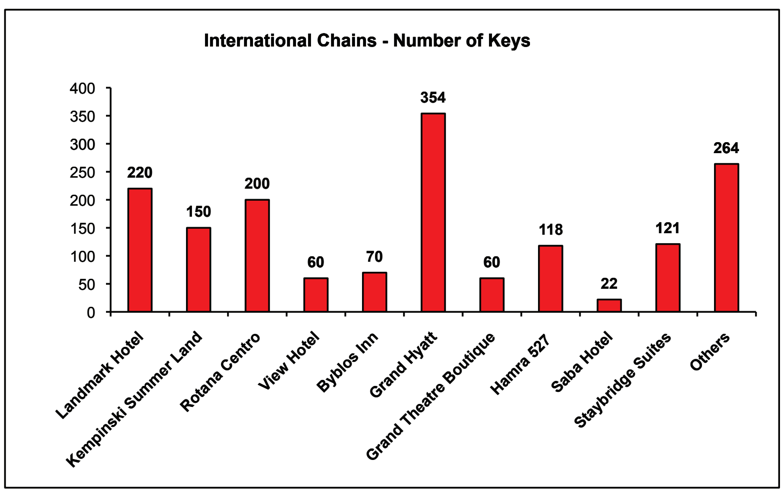
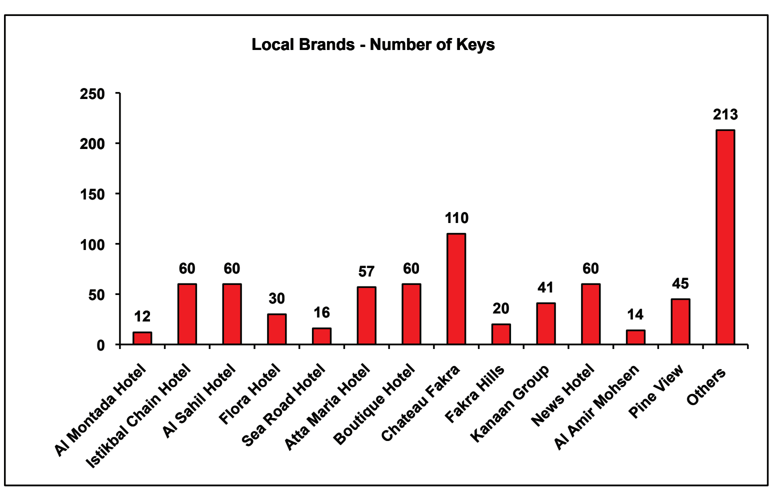
Prospects in the Lebanese pipeline

Hospitality management and consulting company Protocol's managing partner, **Chadi Chidiac**, takes a closer look at hotel investment in Lebanon

Within the last three years investments in the country's hotel industry have gone bullish, with over 60 hotels applications for license acquisition. As the majority of the projects are being planned far in advance, they face two major obstacles. The first is the economical crisis and its rippling effects on all economical sectors and the second is the tense political situation. While a hotel business is a real estate investment as mush as it is a sector of services, and since real estate prices have been hiking since 2007, enforcing trust is essential to keep projects from being labeled as pending.

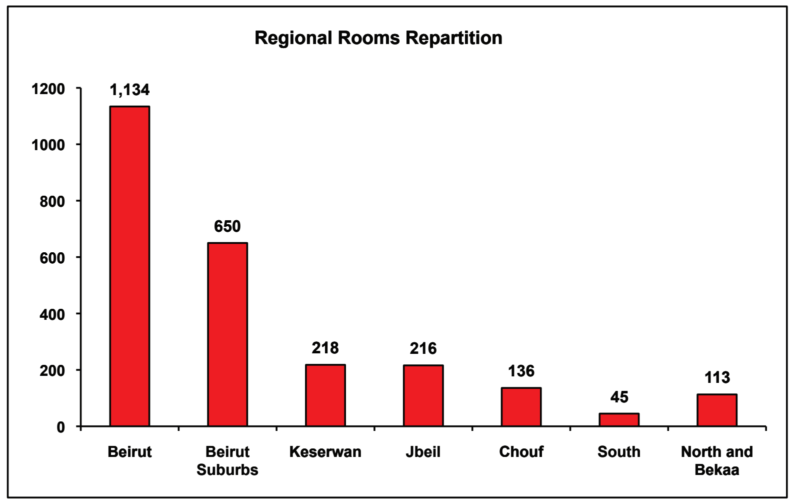


The Lebanese capital is targeted by upper-tier ultra-luxurious 5 star projects, the Four Seasons and the Grand Hyatt (expected to open in 2012) fall into this category. Middle-tier and lower-tier properties are certainly a less viable business model due to the phenomenal land prices making any ROI feasibility very difficult if not impossible. This is why even category (A) properties have to achieve a very challenging occupancy percentage, which certainly has to exceed the 65 percent while sustaining a respectable ADR throughout the year.



While property value and ranking are positively correlated, some projects are targeting areas outside the city center for lower target markets or even in rural areas with resorts and eco-concepts with a lot more affordable lands but with lower rates as well.

Increased capacity and availability triggers demand, so, there is no market saturation and oversupply has not been reached yet as the capital's occupancy is at around 75 percent. Especially branded hotel rooms will see an expected increase in this segment of 2,000 keys before 2014. Branded operators are aggressive international marketers and have more competitive edge using all kinds of sales and marketing practices as well as push/pull strategies from GRS to opaque distribution and loyalty programs. Not to mention the brand saliency of such properties. By marketing themselves they also market the country and Beirut as a destination and help to regain the capital's image as the region's luxury hub.



The middle class market is still neglected with a serious market gap in this segment with more need for the middle-tier descent services with affordable prices. This can be achieved beyond Beirut especially because of the relatively reasonable land prices outside the capital peripheries and the prime locations where sky rocketing prices make such properties less feasible with lower chances of viability.

The average price per room for this kind of operations known by the 3 to 4 star hotel should not exceed 150 to 160 USD compared to an average room rate for the high end five star properties of 257 USD. One of the newest projects which managed to spring up in central locations is the 35 Rooms the newly opened boutique hotel in Hamra, an affordable luxury with extremely competitive prices charging around 90 USD per room in low season with 130 USD in high season.

Branded hotels seem to target the niche by developing 3 star hotels, a more affordable version of their high-end establishments. One of the players who noticed the market gap and now capturing a share of this market is Rotana hotel with its new 200 keys budget hotel brand Centro located in Gemmayzeh to open in 2013.

Other emerging trends in this sector include condos, mixed-use projects, as well long-stay resorts which are looking for out-of-town locations to build their massive getaway heavens. Heading north is Natour Development, Malia group's brainchild, an impressive project located in Anfeh including a 5 star hotel, villas and apartments, retails and shopping outlets as well as food and beverage operations, entertainment and outdoor facilities extended through 450 square meters of shoreline and 810,000 square meters of land.

Beirut will have its share of resorts projects as well but surely on a smaller scale like the 26,000 square meters Kempinski Summerland, which will include a 5 star hotel, furnished apartments and a marina with an expected opening date in 2013.

More rooms and more beds are required to fill the country's gap in demand of all market segments by diverging into high, middle and low-tier properties. And since the country is operating at an encouraging occupancy, percentage saturation has not yet been reached.

protocol@protocollb.com