

LEBANON NEWS REPORT



Lebanon: Flying High

One of Lebanon's most important sectors - tourism - is enjoying its best year on record, thanks in no small part to the country's improved transport links, and in particular the record-breaking performance of Beirut's airport.

Tourism is already one of the driving forces of the Lebanese economy - contributing just under 10% to GDP - and is a sector that the country hopes will continue to provide further employment and revenue.

One of the key pieces in Lebanon's transport infrastructure network is Beirut Rafik Hariri International Airport (BRHIA), the country's main entry point for overseas tourists that is also becoming important as a cargo hub.

According to data released by airport authorities in August, BRHIA looks set for another record year, with nearly 2.7m passengers passing through its terminals in the first seven months of 2009, up by 28.9% compared to the same period last year. Meanwhile, the number of planes touching down and taking off also increased by 31.4%, with the airport handling 31,100 flights.

BRHIA also recorded an 11.3% increase in the volume of cargo handled in the first seven months of this year, with 41,000 tonnes shifted, a further reflection of the upward trend in the Lebanese economy.

Such is the growing importance of BRHIA as an international aviation hub that Air Arabia, the Middle East's largest low-cost carrier, is considering establishing its third operations centre at the airport. According

to Karim Hijazi, the managing director of aviation consultancy firm Air Synapsis, BRHIA has the inside track to become the Sharjah-headquartered airline's new base.

"We compared Egypt and Lebanon, and technically Beirut could be the best choice for Air Arabia for their third hub," Hijazi said in an interview with the *Khaleej Times* in mid-August.

Such praise for Beirut's airport and the rest of the country's transport infrastructure has not always been the norm. Over the years, Lebanon's transport facilities have come in for a good deal of criticism, as successive governments have suffered shortages of funds to improve the country's land, sea and air links, while at the same time meeting other demands on the budget.

Of course, along with the criticism has come some fairly rough treatment and years of often-enforced neglect. Lebanon's 16-year war, which ended in 1990, resulted in widespread damage to the transport grid. The long-running violence and political instability meant there was little opportunity to repair or upgrade infrastructure.

With a return to peace, efforts were made to restore and improve existing transport links and undertake new projects, though fiscal constraints meant that there was never enough funding to do all that was required. Despite those restrictions, Beirut's airport underwent a series of upgrades, with two new runways added and passenger-handling capacity increased to 6m annually through the expansion of its primary terminal.

However, some of this work was undone in the summer of 2006, when Israel struck at Lebanon. Though its operation targeted the Islamist Hezbollah movement, there were also widespread strikes against transport infrastructure across the country, including in regions not under Hezbollah control. This resulted in the damage or destruction of some 600 km of roads, 73 bridges and many of Lebanon's main transport facilities, in particular ports up and down the coast and the BRHIA, which

had all three of its runways put out of action.

Though the war damage to the airport was quickly repaired, it did take longer for confidence to return, with many international airlines wary of resuming flights into Beirut so soon after the conflict. Confidence was also shaken in May 2008, when protests led by Hezbollah closed the BRHIA for a week, though since that time the airport has operated undisturbed by internal or external disruptions.

However, there have been rumblings of late that this situation may not continue. In early August, Tel Aviv resurrected the spectre of Israeli military operations targeting the country amid speculation that Hezbollah would be included in the new Lebanese government. Israel has warned that if Hezbollah is involved in any future Lebanese government, strikes against Israeli targets linked to the group will be considered as an attack by the Lebanese state itself and as such would result in a response.

In early August, the Israeli defence minister, Ehud Barak, warned that Lebanon's infrastructure would be specifically targeted in any further military action, saying that operations in 2006 had actually spared many transport links and utilities at the request of Washington.

"What happened in the second Lebanon war will not happen again," Barak said on August 6. "At the time a message from the US indicated we must spare Lebanon's infrastructure."

This might come as something of a surprise to many Lebanese, given the level of destruction in 2006 and the high cost of trying to repair the damage.

While it is to be hoped that Tel Aviv's threats come to nothing, the beating of drums do sound a warning that the progress made by the Lebanese transport network over the past few years is constantly under a cloud, one that could

direct a strike at tourism confidence and the economy.

*Source.: Oxford Business Group
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Lebanon: Real Progress

Lebanon's real estate sector appears to be bucking the regional trend of boom and bust, with only modest declines in sales and value levels.

Though there has been a recent slowing in the sector, with sales dipping 10.6% year-on-year in June, pulling down the property sales transactions in the first half to 3.3% lower than for the same six months in 2008, overall the market has shown remarkable strength over an extended period of time.

The average annual rate of growth for real estate sale values over the past five years has been 17.6%, while the number of construction permits issued over the same period has risen by an average of 12.6% each year.

As has been the case in other key sectors of the country's economy such as banking and tourism, the Lebanese real estate industry appears to have avoided the worst of the global financial crisis and even profited from it.

While property prices and transactions have tumbled across the region, Lebanon has avoided any dramatic collapse of its real estate sector. What decline there has been is mainly due to a slowing in the growth of foreign activity in the market, though even that is relative. In 2008 there was an 18.5% increase in the number of property sales by overseas buyers, a rate of growth that has eased to 9.6% in the first half of this year.

Commenting on the figures, a report by Bank Audi said that when looking at the wider regional picture in the real estate sector, the drop was hardly significant. "Such a decline is trivial when compared to the plummet in real estate prices witnessed across the region. But still, the mere fact that foreigners are still purchasing property in Lebanon, in spite

of the crisis, is an indicator of the attractiveness of the Lebanese real estate sector to Arabs and foreigners," the bank said in its statement.

According to Raya Mamarbachi, the director of Lebanon-based property portal Simplyzigzag.com, the solid growth in the domestic property sector is being driven by a number of factors, including greater activity in the tourism industry and a rise in the numbers of Lebanese returning home, in part due to the financial crisis in other countries.

These factors have made the Lebanese market especially appealing to investors from the UAE, Mamarbachi said in an interview with the Gulf Daily News on August 22.

"UAE developers are going into Lebanon for various reasons. First of all, Lebanon real estate is booming," she said. "Over the past year, the increase has been over 30% per sq metre, and there is a lot of demand for small apartments and luxurious ones, as well as new styles such as lofts."

There could be even better times ahead for the real estate sector, with the Central Bank upgrading its predictions for growth. In early September, the bank governor, Riad Salameh, said GDP would increase by 6% this year, 2% higher than the rate forecast by the IMF in August.

According to figures released by the Association of Engineers of Beirut and Tripoli in early August, there was a sharp rise in the number of building permits issued in the first half of 2009. In total, permits for developments covering 6.3m sq metres were approved in the January to June period, 23% up on the 2008 first-half figure, while in June alone the increase was 94% year-on-year, with permits issued for work on 2.02m sq metres of projects.

The Lebanese real estate sector also seems to have been remarkably indifferent to the political turmoil that beset Lebanon between 2005 and 2008, a period that encompassed the assassination of former

Prime Minister Rafik Hariri, Israel's military strike in 2006, the stand off between Hizbullah and the March 14 alliance, and the prolonged failure to install a new president.

While having ridden out all these storms, that is not to say that Lebanon's property market would not have fared far better without having to operate in a climate of near-continuous crisis.

The latest bout of rough weather that could rock real estate's boat is the failure of the prime minister designate, Saad Hariri, to form a cabinet three months after national elections.

According to Nabil Itani, the head of the Investment Development Authority of Lebanon, the uncertainty over the new government could deter investors and reduce the flow of direct foreign capital into the economy.

"You can't expect investors to come to Lebanon if there is no government. They want a government that passes laws, carries out reforms and facilitates the work of investors," Itani said in an interview with the Daily Star on September 3.

That said, the real estate sector has overcome the problems of the past, is continuing to build in the present and should offer good investment potential for the future.

**Source.: Oxford Business Group
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