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TRIPOLI, LIBYA

A THREE PART TALE: BEFORE, DURING AND AFTER

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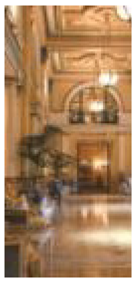

Introduction

Libya was a focus for hospitality investment during the global recession in 2009/10, before its political stability came to a halt. However, once again, it seems to be being monitored by opportunistic investors. Leading up to the ABCIB Libya Conference organised by the Arab Banking Corporation, at the Corinthia Hotel in London on 18 February 2013, where the 12 months post conflict and the outlook for business and the economy in Libya will be the focus of discussions, this article provides an overview of the Tripoli hotel market. It focuses on hotel supply and development and tourism trends before, during and after the civil war that took place in 2011.

A Prosperous Prospect

In 2010, at a time when many hotel markets were finding themselves oversupplied following the global economic crisis and the slowdown in global tourism, Libya's hotel market was undersupplied, particularly in the capital Tripoli and to a certain extent in the country's second most important city, Benghazi.

Existing internationally branded hotel supply in Tripoli consisted of the 299-room Corinthia Tripoli, the 351-room Radisson Blu Tripoli, the 120-room Rixos Al Nasr Tripoli and the 90-room Al Waddan Hotel, which was managed by InterContinental Hotels Group (IHG) until mid 2012.

Owing to improving relations between Libya and both the USA and the EU, commercial demand picked up, triggering strong GDP growth. The oil and gas sectors, and their associated industries, drove hotel demand. A number of other industries began to emerge, such as banking and the construction sector, the latter even more so considering the increasing infrastructure work the city was undertaking. As a result, the hotel market was characterised by high mid-week occupancies and lower weekend occupancies. Prior to the civil war, hotel occupancies often reached 75%, with an impressive average rate of between €225 and €260.

Given the evergrowing gap between demand for transient accommodation and the lack of suitable hotel rooms, numerous hotel projects were announced, primarily in Tripoli and to a certain extent in Benghazi. The number of internationally branded hotel rooms in the country was on track to treble by the end of 2011, with many of the hotel developments being part of wider mixed-use projects. Noteworthy projects under construction at this time include a large mixed-use development at the marina including two hotels (the Four Points by Sheraton Tripoli and the Sheraton Tripoli), residential apartments and retail units. The 370-room JW Marriott Tripoli was also under construction, with an opening date of early 2011.

In addition to an increase in business travellers, Libya became an interesting destination for tourists, with a growth in arrivals to the country for leisure purposes. Tourism arrivals were mainly special interest, and included visits to the World Heritage sites Leptis Magna and Sabratha. Other popular tourism sites include the Citadel of Tripoli, the Church of St John of the Pilgrims Mount and the Great Mosque. Business tourism continued to grow as the country continued it's process of opening up to the world for international business. Travellers from Egypt and Tunisia dominated arrivals, unsurprisingly, considering their close proximity, although many of these arrivals were from those seeking work or travelling for business rather than tourism. In terms of tourism arrivals, the main source countries were France, Italy and the UK. More international airlines were flying to the country and opening up new routes, for example Etihad Airways operated 21 flights per week from the Middle East to Tripoli International Airport.

Despite this positive growth, further increases in travellers to the country were put on hold during the outbreak of a civil war, which took place as part of the Arab Spring, between February and October 2011.

A Time of Conflict

In early 2011, a number of peaceful political protests against Libya's leader Colonel Gaddafi took a violent turn, leading to the onset of a full-scale civil war between Colonel Gaddafi's forces and rebel forces, bringing more than five years of consecutive growth in the country to an end.

The conflict stretched over nine months and had a dramatic impact on tourism and the hotel industry. A no-fly zone was imposed over Libya, resulting in Tripoli International Airport remaining closed from March to October 2011. The airport was undergoing expansion, which was scheduled to be completed by mid 2011, but the start of the civil war meant that this was put on hold.

Many hotel developments were scheduled to open in 2011 and 2012. The changing circumstances in the country brought these projects to a sudden halt.

The JW Marriott Hotel Tripoli and the Four Points by Sheraton Tripoli opened just before war broke out. The JW Marriott announced its official opening on 15 February 2011 before suspending operations indefinitely on 25 February 2011. The hotel evacuated all employees and remaining guests and left security in place to protect the asset. The Four Points by Sheraton briefly opened in January 2011 but similarly closed following the uprising.

Only two hotels remained open throughout the war: the Corinthia Tripoli and the Radisson Blu Tripoli. Although it is understood the Radisson Blu was operated by its owners rather than Rezidor at the peak of the war. The hotels were secured by a mixture of private security companies, the armed forces and hotel employees. The majority of guests in these hotels were understood to have been from the media. The Rixos Al Nasr Tripoli also remained open for the majority but was under the control of armed Gaddafi loyalists; by August 2011, the hotel was deserted as fighting broke out around the building and staff and guests fled.

"Currently the main concern in Tripoli is safety and security, which the Government are finding difficult to overcome."

Kosta Kourotsidis, General Manager, Radisson Blu Tripoli (December 2011-September 2012)

The Aftermath

Following the revolution and the country's successful struggle against Colonel Gaddafi, Libya became a great symbol of hope. Despite this, more than a year after the war, Libya remains somewhat unstable with safety and security factors still a major concern. The most recent tragedy confirms this, with the US Ambassador for Libya being killed in Benghazi in September 2012.

Radisson Blu Tripoli

The war has destroyed a lot of the country's infrastructure which will require extensive rebuilding and investment. Libya's instability and the high costs of rebuilding damaged infrastructure might put investors off in the short term, suggesting it will take years before Libya bounces back.

Elections for the national congress were held in July 2012. The National Forces Alliance won 39 of the 80 seats reserved for political parties. In September 2012, Mustafa Abu Shagurv was elected as prime minister, following a narrow victory against Mahmoud Jibril, the leader of the National Forces Alliance who served as interim prime minister following the uprising. Mustafa has since been dismissed, after failing for a second time to win parliamentary approval for a new cabinet. A week after it dismissed Mustafa Abu Shagur from the post of prime minister-elect, the General National Congress elected Ali Zeidan as Libya's new prime minister on October 14. Now the country has a clearly established administrative body, it can take steps to move forward.

The long-term outlook for the country is less bleak as it benefits from large oil, gold and natural gas reserves, meaning it offers the most economic growth potential of all the Arab Spring countries. BP have now resumed operations in Libya as safety fears subside, while Shell has exited its oil blocks amid concerns over security and harsh contracts.

The tourism industry potential remains strong. Libya has a good climate, a Mediterranean coastline and is in close proximity to Europe. The hotel market is undersupplied, and a number of operators have hotels in the pipeline, or have expressed interest in the country.

Corinthia Tripoli

Tripoli International Airport reopened in October 2011 and so far 17 airlines have returned to service, including Libyan Airways, British Airways and Lufthansa. Etihad Airways has launched a new service to Abu Dhabi, and Emirates will resume flights to Dubai at the end of October 2012, bringing the total number of airlines serving the airport to 19. In 2007, the Libyan Government announced plans to upgrade and expand the airport with the addition of two new terminals. This project was scheduled to be finished by mid 2011; however, the civil war put this on hold and as a result the completion date remains uncertain.

So what happened to the hotels?

This section of the report aims to give an update on the operating status of each of the hotels that were either forced to close because of the ongoing violence experienced, or did not get the chance to open as planned. As noted, the Corinthia Tripoli and Radisson Blu Al Mahary were the only internationally branded hotels to remain open during the civil war.

Prior to the war, a refurbishment was planned for the **Corinthia Tripoli,** as it had only undergone minor refurbishments and upgrades since it opened in 2003. A soft refurbishment of all rooms was scheduled to take place in 2011, but this was put on hold. The refurbishment took place in 2012 and is now close to completion. This will leave the hotel in a highly competitive position when supply and demand start increasing again.

"Corinthia firmly believes in the future of Libya and remains committed to expanding further its investment objectives in the country"

Joseph Fenech, Managing Director, Corinthia Group

As previously mentioned, the **Radisson Blu Al Mahary** remained operational throughout the civil war, although for some part of the conflict it was operated by its owners rather than Rezidor. The hotel is now open and fully operational.

Demand in the hotels that remain open is positive with a growth in occupancy witnessed between January and September 2012. The majority of this demand is from corporate business travellers, namely ambassadors and those on embassy-related business. Leisure demand is currently non-existent. A growth in occupancy has been recorded in 2012; figures started at around 30% in January and increased to between 40% and 50% from August onwards, with average rate sitting around the €200 mark. Slight growth is expected in 2013 but it will be a long time before hotel performance reaches pre-civil war levels.

The **JW Marriott Hotel Tripoli** was forced to close after just two weeks of operation, as the war materialised. At present, there is no sign the hotel will reopen with Marriott providing the following statement, "The JW Marriott Hotel Tripoli operation remains suspended until further notice. While we recognise that there is a need for accommodation and hotel facilities to support the ongoing infrastructure improvements in Libya, it is essential that we work with the owners of our hotel to bring the hotel back to operational standard. We take a long-term view of our business and the underlying fundamentals which drove the initial construction and subsequent opening of our hotel in Libya continue to remain in place. At present the likely reopening date of our hotel is still a work in progress".

"Whilst local investors are actively seeking partnerships and acquiring franchises all indicators show that the leisure and hospitality sector will witness a surge of local demand in addition to overseas demand"

Ghassan Atiga, Manager, Arab Banking Corporation

IHG managed the **Al Waddan Hotel** and it has recently walked away from this property amid security concerns. The group also has a hotel under development in Libya but it is currently in reflection mode, waiting until the market recovers before deciding when this development or any others will go ahead. IHG has relationships in place, and the interest is there, but they are just waiting for the right time to develop.

As discussed previously, Starwood opened the **Four Points by Sheraton Tripoli** in January 2011 but soon closed it as the war started. we understand that the hotel is currently being renovating and a management team is being hired with a view to opening in the first quarter of 2013. This hotel is part of a wider mixed-use development including the hotel, residential apartments, retail units and a marina. Also part of this mixed-use development is the **Sheraton Tripoli,** which was under development before the war broke out and is now scheduled to open in 2014. Both hotels are owned by the Libyan Government.

> "Tripoli presents many opportunities for investment across all sectors, although it will be a long time before demand returns to levels seen before the civil war"
>
> Peer-Christian Fritz, General Manager, Four Points by Sheraton Tripoli

Outlook

In the short to medium term, Tripoli has lots of work to do in order to fully recover from the civil war. Assuming conditions in the country remain stable and do not significantly worsen, the outlook is positive. The city will see opportunities for international investments across all sectors including service providers, construction, telecommunications, oil and gas. Additionally consumer demand, along with business travel, is expected to increase significantly.

According to the Economist Intelligence Unit, real GDP growth declined by 27.9% in 2011, which is unsurprising. The outlook remains positive with GDP forecast to grow by 34.4% in 2012, more than offsetting the fall in 2011. From 2012 to 2016, real GDP is forecast to grow by an average of 14.8% per annum.

In terms of hotel development and investment, Joseph Fenech, Managing Director, Corinthia Group, provides the following outlook. "Although business sentiment in Libya is only growing gradually, Corinthia firmly believes in the future of Libya and remains committed to expanding further its investment objectives in the country. So much so, that it is rolling over its next development, the Medina Towers mixed-use development in the heart of Tripoli's commercial district. Corinthia also intends to develop a second hotel in Benghazi and a residential hotel, next to Palm City Residences".

Regarding investments, Ghassan Atiga from Arab Banking Corporation provides the following insights, "obviously the biggest risk in Libya today is the political risk. The country is in transition towards building a modern democratic state and the challenges are numerous compared to the neighbouring countries. However, Libya is privileged with a very strong fiscal stand compared to its neighbours. The latest report from the Central Bank of Libya confirms that the country's foreign currency reserve exceeded US$120 billion to date for this nation with a population of six million. Moreover, supportive industries related to the hospitality and leisure sectors are another underinvested area that investors may find lucrative opportunities to tackle".

About HVS

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