voor mijn familie en vrienden

Decaan: Prof. Dr. Herwig Reynaert
Rector: Prof. Dr. Anne De Paepe
The Urban Transformation of Beirut

An Investigation into the Movement of Capital

By Marieke Krijnen

Proefschrift voorgedragen tot het behalen van de graad van Doctor in de Politieke Wetenschappen

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Abstract

In this dissertation, I set out to answer two main questions: why does circulating capital become fixed in Beirut’s built environment, and how does this happen? Through conducting interviews with real estate developers, residents, architects, public officials, bankers and other relevant agents, through site surveys, the consultation of land and commercial registry records, real estate brochures and other primary material, I reconstruct the material and institutional components that explain the urban transformation of Beirut. I argue that this transformation constituted a “spatial fix”, where surplus capital was switched into the built environment to temporarily stave off a crisis of overaccumulation, in this case upper middle-class to high-end real estate, following a significant increase in capital flows to the country in 2008. The first part of the dissertation looks at the reasons for this spatial fix. I argue that the influx of excess liquidity can be explained by the Lebanese banking system escaping the financial crisis, consequently being able to offer higher interest rates than banks in countries that were affected by the crisis. Besides being constrained by conservative lending regulations, the banks had not engaged in risky financial products because they found a profitable outlet in lending to the government, who paid high interest rates, crowding out loans to the private sector. The banks were able to lend such large sums because of remittances and transfers from Lebanon’s large expatriate population, as well as funds from the Gulf following the steady rise in oil prices.

As public debt increasingly had to be rolled over, however, interest rates declined. When after the crisis a large amount of liquidity found its way to Lebanon’s banks, they found an outlet for their capital when the Central Bank provided incentives that encouraged mortgage lending, leading to a major boom in loans to the housing and construction sectors and massive profits for the banks. I argue that these profits should be situated within “networks of accumulation”, consisting of persons with overlapping interests in banking, real estate and politics, who direct these capital flows and influence the legal framework that decides the ways in which these can be used to exploit the built environment. These networks are not so much a result of corruption, but of the social relations of capitalism, where the constraints of the laws of competition incentivize agents to concentrate and centralize capital, resulting in a tendency to monopolize. Capitalism in Lebanon
was made through alliances and networks such as these, preventing the rise of a welfare or developmentalist state to temper these tendencies.

In the second part of the dissertation, I set out to explore the materialization of the spatial fix in Beirut’s built environment, more specifically in the neighborhoods of Mar Mikhael, Zokak el-Blat and Corniche en-Nahr. I show how the legal framework in place created conditions for a large “rent gap” to occur, i.e. the difference between actual ground rent and potential ground rent under a plot’s “highest and best use.” The existence of rent controls ensured a low actual return from buildings where this was the main form of tenancy. The legal framework related to construction allowed for a much higher exploitation of a plot of land, especially after changes to the Building Law in 2004. This, coupled with the absence of any heritage protection framework, provided a significant incentive for property owners to sell their buildings to developers, who would demolish them, usually merge the plot with some neighboring plots, and construct a high rise to fully profit from the exploitation of the plot as allowed in the Building Law.

The ways in which the rent gap was closed, however, varied greatly and were influenced by many factors, some of which have received little attention in the literature on gentrification (i.e. on the process whereby higher-income dwellers and uses displace lower-income ones). These include the presence of art-related activities and creative industries, the legacies of (sectarian) conflict and displacement, the related territorial stigma of an area, and an area’s location in terms of accessibility by car or proximity to upmarket shopping and entertainment districts. In Corniche en-Nahr, I show how the area’s industrial character was used to connect its redevelopment to the redevelopment of brownfields in the United States and Western Europe and became part of an imagined urban world of loft living, shared by investors who referred to their experiences as Lebanese traveling and living abroad, pointing to the ways in which space is always constituted by multiple translocal relations.

My findings contribute to theories on the rent gap, gentrification, urban political economy, the production of networks of accumulation, the structure, function and influence of diasporas, the historical development of secondary circuits of accumulation and neoliberalism, postcolonial/ Marxist debates, the geographies of the financial crisis and the financialization of housing and land. As a case from the “South”, they bring dimensions in that might open up relevant questions on the transformation of cities everywhere and the spatial fix underlying these transformations.
Samenvatting

Dit doctoraat beantwoordt twee hoofdvragen: waarom wordt circulerend kapitaal gefixeerd in de gebouwde omgeving van Beiroet, en hoe gebeurt dit? Via het afnemen van interviews met projectontwikkelaars, bewoners, architecten, ambtenaren, bankiers en andere actoren, het raadplegen van kadastrale en kamer van koophandel-documenten, onroerend goed-brochures en ander bronnenmateriaal, reconstrueer ik de materiële en institutionele componenten die Beiroet’s stedelijke transformatie verklaren. Ik beargumenteer dat deze transformatie een “spatial fix” vormde, waarbij surplus kapitaal naar de gebouwde omgeving “geswitched” werd om tijdelijk een crisis van overaccumulatie te voorkomen, in dit geval naar vastgoed voor de hogere (midden)klassen, nadat kapitaalstromen naar Libanon significant toenamen in 2008. Het eerste deel van het doctoraat onderzoekt de redenen voor deze “spatial fix”. Ik beargumenteer dat de instroom van surpluskapitaal verklaard kan worden doordat Libanese banken aan de financiële crisis ontsnapten, waardoor zij een hogere rente konden bieden dan banken in andere landen. Afgezien van het feit dat de banken beperkt werden door conservatieve regelgeving met betrekking tot lenen, hadden zij niet geïnvesteerd in riskante financiële producten omdat ze een winstgevende opening vonden in kredietverstrekking aan de regering, die hoge rentes betaalde waardoor leningen aan de private sector verdrongen werden. De banken konden zoveel krediet verstrekken vanwege de overschrijvingen van Libanon’s grote expatgemeenschap en fondsen uit de Golfstaten vanwege de gestaag stijgende olieprijzen.

De toenemende herfinanciering van de staatsschuld verlaagde de rente. Toen er na de crisis een grote hoeveelheid liquiditeit naar Libanon’s banken stroomde, vonden de banken een opening voor hun kapitaal toen de Centrale Bank stimulansen voor hypotheekleningen introduceerde. Dit leidde tot een grote bloei in dit soort leningen, en resulteerde in hoge winsten voor de banken. Ik beargumenteer dat dit gesitueerd moet worden in “netwerken van accumulatie”, die bestaan uit personen met overlappende belangen in het bankwezen, onroerend goed en de politiek, die deze kapitaalstromen dirigeren en het onderliggende wettelijk kader beïnvloeden dat bepaalt hoe deze gebruikt mogen worden om de gebouwde omgeving te exploiteren. Deze netwerken zijn niet zozeer het gevolg van corruptie, maar van de sociale relaties van het kapitalisme, waar de beperkingen opgelegd door concurrentiewetten agenten stimuleren om kapitaal te concentreren

In het tweede deel van dit doctoraat onderzoek ik de realisatie van de “spatial fix” in Beiroet’s gebouwde omgeving, om precies te zijn in de buurten Mar Mikhael, Zokak el-Blat en Corniche en-Nahr. Ik laat zien hoe het bestaande wettelijk kader de voorwaarden voor een grote “rent gap” schijp, d.w.z. het verschil tussen de actuele grondrente en de potentiële grondrente onder het “hoogste en beste gebruik” van een plot. Sociale huur leidde tot lage inkomsten; de bouwwet stond een veel hogere exploitatie van een perceel land toe, vooral nadat deze werd veranderd in 2004. Dit, samen met de afwezigheid van erfgoedbescherming, stimuleerde vastgoed eigenaren hun gebouwen te verkopen aan projectontwikkelaars, die ze vervolgens sloopten, het perceel samenvoegden met aangrenzende percelen, en hoogbouw neerzetten om volledig van de exploitatie van het land zoals toegestaan in de bouwwet te kunnen profiteren.

De manieren waarop de “rent gap” werd gedicht verschillen echter in grote mate en werden door vele factoren beïnvloed, waarvan sommigen onderbelicht zijn gebleven in de literatuur over “gentrification” (d.w.z. het proces waarbij woningen en activiteiten voor hogere inkomens die voor lagere inkomens verdringen). Deze omvatten de aanwezigheid van kunstgerelateerde en creatieve industrieën, de erfenis van (sektarisch) conflict, het gerelateerde stigma van een buurt, en de locatie in termen van toegankelijkheid per auto of nabijheid van duurdere winkel- en entertainmentdistricten. In Corniche en-Nahr werd duidelijk hoe het industriële karakter van het gebied gebruikt werd om zijn herontwikkeling te verbinden aan die van industriegebieden in de Verenigde Staten en West-Europa, en onderdeel werden van een ingebeelde wereld van stedelijk “loft living”, gedeeld door investeerders die naar hun ervaringen verwezen als Libanezen werkend of reizend in het buitenland. Dit wijst op de manieren waarop een plaats altijd bestaat uit verschillende relaties die voorbij de plaats zelf reiken

Mijn bevindingen dragen bij aan theorieën over de “rent gap”, “gentrification”, stedelijke politieke economie, de productie van netwerken van accumulatie, de structuur, functie en invloed van diaspora’s, de historische ontwikkeling van secundaire circuits van accumulatie en neoliberalisme, postkoloniale/Marxistische debatten, de geografieën van de financiële crisis en de financialisering van de huizenmarkt en grond. Als een casus uit het “Zuiden” brengen zij dimensies binnen die relevante vragen kunnen oproepen over de transformatie van steden overal en de “spatial fix” die hieraan ten grondslag ligt.
Acknowledgments

It only makes sense that I ended up here, retrospectively. My interest in the built environment is as old as I can remember. I used to design entire buildings to house the large collection of cats and guinea pigs I thought I would keep as an adult (the cat collection has stagnated at two, lovely Toot and Trio, adopted from Beirut’s streets). As a young woman, I became involved in the squatting movement, first occupying spaces in my hometown Apeldoorn, later moving to Amsterdam to join the lively movement there. While there was an activist component to these activities, related to the shortage of affordable housing in Dutch cities, I must admit that I was mostly fascinated by the state these buildings were in, their histories of ownership, how they were situated in the neighborhood, and why they had been left to decay. I was absolutely captivated by the logics behind development and abandonment. When I got a job at the Land Registry, I spent hours going through its database, researching sales, prices, developers, neighborhoods... As long as I can remember, I have bored people to death with endless collections of pictures of buildings. When traveling in Southeast Asia and China, I spent the vast majority of my time exploring its huge cities. In short, I have always stood in awe of capital’s imprint on the built environment. That said, it took another ten years before I realized what this meant in terms of what I was destined to do with my life. And I would not have realized this without the support of a huge group of people and institutions that I will hopefully manage to all thank here.

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to be creative in academic thinking, and how not to forget that. And thanks to both of you for working on our Beirut-paper together. It is great spending time with people who are wittier than oneself. This extends to Manuel and Ben. Besides thanking you for being in my jury and providing me with great comments, I would also like to thank you for making me laugh so much and being so generous. Manuel, thank you for inviting me to the REFCOM-seminars, for involving me and working with me. Thanks also to the rest of the REFCOM-group for the discussions, fun and feedback: Callum, Cesare, Gertjan, Ivana, Jannes, Mirjam, Rodrigo and Yunpeng, and a special mention for Annelore who carefully proofread Chapter 5 and provided fun company in Ghent. Although not part of REFCOM, I consider Tom to be working in the same tradition of doing critical geography, conducting serious research and being hilariously funny at the same time. I greatly respect your work. Thanks for believing in me, for agreeing to be on my jury, and for providing such great feedback.

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# List of abbreviations and acronyms

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<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>ABL</td>
<td>Association of Banks in Lebanon</td>
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<tr>
<td>ACDs</td>
<td>Arts, Crafts and Design industries</td>
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<td>APUR</td>
<td>Atelier Parisien d'Urbanisme</td>
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<td>BAC</td>
<td>Beirut Art Center</td>
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<td>BCC</td>
<td>Banking Control Commission</td>
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<td>BDL</td>
<td>Banque Du Liban</td>
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<td>BUA</td>
<td>Built-Up Area</td>
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<td>CAS</td>
<td>Central Administration for Statistics</td>
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<td>CDR</td>
<td>Council for Development and Reconstruction</td>
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<td>CMA</td>
<td>Capital Markets Authority</td>
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<td>DGUP</td>
<td>Directorate General of Urban Planning</td>
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<td>FDI</td>
<td>Foreign Direct Investment</td>
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<tr>
<td>FIRE</td>
<td>Fire Insurance and Real Estate sectors</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<tr>
<td>HCUP</td>
<td>Higher Council for Urban Planning</td>
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<tr>
<td>IAURIF</td>
<td>Institut d'Aménagement et d'Urbanisme de la Région d'Île de France</td>
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<tr>
<td>IDAL</td>
<td>Investment Development Authority Lebanon</td>
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<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
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<tr>
<td>IRFED</td>
<td>l'Institut international de Recherche et de formation Éducation et développement</td>
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<td>Acronym</td>
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<tr>
<td>LBP</td>
<td>Lebanese Pound</td>
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<td>LTA</td>
<td>Lebanese Transparency Association</td>
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<tr>
<td>MCC</td>
<td>Money and Credit Code</td>
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<td>MENA</td>
<td>Middle East and North Africa</td>
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<td>NRD</td>
<td>Non-Resident Deposits</td>
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<td>PCH</td>
<td>Public Corporation for Housing</td>
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<tr>
<td>PLO</td>
<td>Palestine Liberation Organization</td>
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<tr>
<td>SAPs</td>
<td>Structural Adjustment Programs</td>
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<tr>
<td>SBH</td>
<td>Save Beirut Heritage</td>
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<tr>
<td>SIC</td>
<td>Special Investigation Commission</td>
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<tr>
<td>SoHo</td>
<td>South of Houston</td>
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<tr>
<td>Solidere</td>
<td>Société Libanaise pour le Développement et la Reconstruction de Beyrouth</td>
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<tr>
<td>SSNP</td>
<td>Syrian Social Nationalist Party</td>
</tr>
<tr>
<td>UIC</td>
<td>United Industrial Corporation</td>
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<tr>
<td>UNDP</td>
<td>United Nations Development Programme</td>
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<tr>
<td>VAT</td>
<td>Value-Added Tax</td>
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<td>WB</td>
<td>World Bank</td>
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<td>WTO</td>
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Introduction

Beirut is the capital of the tiny, 10,452km² Eastern Mediterranean country of Lebanon, and home to roughly half its population. Besides its four million inhabitants, who belong to eighteen different religious sects, around two million refugees from Syria, Palestine, Iraq and Sudan have sought shelter there, and many tens of thousands of people from Africa and Asia are working in low-skilled jobs and domestic services. This vibrant and diverse city, known during the 1960s and -70s as the “Switzerland of the Middle East” where the rich came to play, and during the 1970s and -80s as the epitome of the horrors of civil war, is once again attracting attention. A growing amount of articles portrays Beirut as a somewhat extraordinary place, destroyed many times but, like a phoenix, rising from its ashes over and over again: ‘simply a city that won’t die’ (Quinn, 2014) ‘no matter how many attempts are made on its life’ (Abdelnour, 2009). It dazzles its visitors with its stylish, partying inhabitants: ‘cocktail-dress Beiruti women belly dance with their designer-jeans-clad partners supping cocktails’ (Levine, 2012), while reminders of the civil war and current sectarian tensions are found everywhere: ‘Beirut is the party capital of the Middle East, but even when clubbing at renowned nightspot BO18 reminders of a tumultuous recent past are not far away’ (Hume, 2012). ‘It’s often hard to tell which is a shelled building and which is a construction site’ (Henderson, 2012). Authors like to highlight what are perceived as its contradictions: ‘Groups of girls, some with headscarves, others without, some with crosses around their necks, others without (...) walk freely past each other’ (Nair, 2013, p. 11). The coexistence of tremendous wealth and decadence with miserable poverty, of cultural and religious extremes, of a thriving nightlife and a growing hospitality sector with a nearby war and occasional bomb attacks have led many to describe the city as an exceptional space, outside the norm, defying understanding (see also J. Nasr & Verdeil, 2008).

1 There is a distinction between the area of Beirut City proper and the Greater Beirut or Beirut Metropolitan Area. The latter counts the suburbs as part of the city, and is the scale from which the two million-estimate has been derived.

Many of these reports are full of gross generalizations, clichés and blatant factual inaccuracies. Lebanese have repeatedly protested them in various, often hilarious ways. The “worlding” that these articles perform unfortunately led to a lack of attention in the media to other issues that are perhaps more interesting.

For example, Bercah (2013) states that ‘no evidence of infrastructural development (highways, traffic lights, railways, subways, buses, power grids, wi-fi, or land line networks) appears to be in the offering or even under the present or imminent jurisdiction of any governing body’ (this is completely untrue). Other errors that were easy to fact-check include information on heritage surveys, the location of Beirut’s former train station (Boano & Chabarek, 2013), the year of the Israeli war on Lebanon (Karimi, 2013) and a picture of an informal settlement on the coast accompanying Henderson’s (2012) article on Beirut. He speaks of Beirut as becoming one of the most exciting cities on earth, but his article is accompanied by a picture of an informal settlement on the coast.

See, for example, “Derailing Beirut” by Lebanese architect Bernard Khoury, an absurd rollercoaster ride along the stereotypes and fantasies about Beirut (www.bernardkhoury.com/projectDetails.aspx?ID=248&catid=77); the “Looks like Beirut”-certificates that Lebanese blogger Jad Aoun awards every time someone in the media compares an unfavorable situation to Beirut (www.jadaoun.com); and the work of Lebanese-Iraqi architect, blogger and satirist Karl Sharro, which often turns representations of Lebanon or the Middle East more generally on their heads by giving Western countries the same treatment (www.karlremarks.com/2014/03/unprecedented-images-of-western-people.html). Other responses include “Every single article ever written about being gay in Beirut in one convenient article” (www.huffingtonpost.com/raja-farah/every-single-article-ever-written-about-being-gay-in-beirut-in-one-convenient-article_b_4221387.html); “Foreign Journalists, Can You Stop The Cliché & Poorly Researched Articles About Lebanon?” (stateofmind13.com/2015/07/20/foreign-journalists-can-you-stop-the-cliche-poorly-researched-articles-about-lebanon); “BREAKING NEWS – OMG: Beirut Girls Love to Party!” (www.zahrahankir.com/%3Ep%3D466) and “Through western eyes, Beirut is perpetually partying or at war” (www.thenational.ae/thenationalconversation/comment/through-western-eyes-beirut-is-perpetually-partying-or-at-war).
As will become clear from this dissertation, Beirut is a very interesting city indeed, but this has less to do with any inherently exceptional or exotic qualities than the myriad and intricate factors that influence the ways in which capital is invested and moved around in its built environment. As I will show, while processes of capital motion and fixation in Beirut resemble processes elsewhere, the Lebanese case presents us with some dimensions that need to be taken into account in order to fully understand this process and that are not readily discussed in the urban studies literature.

I did not arrive at these insights from the start, but these grew gradually after I set out to investigate Beirut’s urban transformation since the end of the Lebanese civil war (1975–1991), more specifically the production of real estate for the upper middle classes and elite from 2008 to the present. I limit myself to this category because the majority of new projects in Beirut are aimed at this social class. Indeed, capital investment in the built environment has increasingly been observed to result in the production of upper middle class to high-end real estate (Smith, 2002). Beirut is no different. Real estate prices in the Lebanese capital currently average US$3,700 to US$4,700 per m² while the average price for an apartment was US$1 million in 2014 (Wehbe, 2014a).

These prices put housing within the municipal limits of the capital completely out of reach for all but the richest of Lebanon’s resident population and its expatriates. While reliable statistics are notoriously difficult to come by, some numbers from the limited amount of surveys available show that in 2007, fifty percent of households in Lebanon lived on less than US$6,500 a year, while the highest income group, which is just 3.31 percent of the population, earned between US$1,500 and US$13,000 a month (Traboulsi, 2014). It should be noted that these numbers exclude the incomes of the small number of people who constitute the

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5 The term “worlding” was originally coined by philosopher Heidegger and connotes our orientations towards the world that are always already ongoing and generative, unmediated by analytical distance. Here, I will use it in the way that postcolonial critic Spivak (1985) uses it, in an essay where she discusses literary works and their forms of worlding. She maintains that the literature of all European colonizing cultures performs a “worlding of the Third World” whereby the latter functions as a domesticated Other that exists to consolidate the European self. The “Third World” exists in function of the colonizer, in order to confirm the latter’s image of itself (i.e. the opposite of the other) and justify the domination of the former (for example when we look at the role of the Caribbean woman in Jane Eyre).

6 A survey of real estate projects currently under construction in Beirut easily confirms this assertion, see http://www.skyscrapercity.com/showthread.php?t=476196

richest class, which run into the millions per year (Traboulsi, 2014). Moreover, inequality has increased during the 1990s, with upper class incomes rising by 4.8 percent and middle and lower class incomes declining by 8.4 and 4.6 percent annually respectively, pushing increasing numbers of families into poverty in a country where the cost of living resembles that in Western Europe, at least in the capital\(^8\), while the minimum wage stands at US$450 a month.

While a number of lower-income people have managed to access housing in or near Beirut via rent-controlled apartments (prior to 1992, cf. Marot, 2014), informal settlements (Fawaz, 2008, 2009a, 2009b), or with the compensation received in the early 1990s as part of a resettlement program for Lebanese displaced by the civil war and/or Israeli invasions and occupations between 1975 and 2000 (Bou Akar, 2005), rent controls were abolished in 1992 and displacement compensations are no longer available to the large number of low-income people looking for housing. Moreover, informal settlements are becoming increasingly overcrowded. While for the lower-middle class segment, a large number of residential projects are currently being constructed in the Mount Lebanon area to the east and north of Beirut, this housing remains unaffordable to the majority of the population, and is only accessible to those who can access mortgage financing, which requires people to make more than two times the minimum wage. It is therefore safe to assume that the vast majority of the Lebanese population cannot be considered part of the upper middle classes and elite who this real estate is built for. Indeed, in Lebanon, the middle class has all but disappeared.

As the above has made clear, social inequality manifests itself spatially via, among others, the production of housing. The built environment is then one prism through which the division between classes can be clearly seen. Its uneven development is moreover closely related to the rhythms of capital investment, which produce it but are in turn shaped by it (Smith, 1984). In this way, economic processes and social and spatial inequalities are indistinguishable. Moreover, as we will see, the agents who are directing capital towards Beirut often combine the roles of politician, real estate developer and banker in one and the same person. Fully understanding these agents then requires an analytical lens that does not operate from the assumption that there are clear boundaries between economic and political spheres, or that such spheres in themselves exist as coherent entities (T. Mitchell, 2002). A political

\(^8\) Mercer’s cost of living ranking, which is based on living costs for expatriates so arguably not entirely applicable, still shows that Beirut rose almost twenty places, from place 63 to 44, on its 2015 annual ranking, ahead of Paris, while Brussels ranked 102 and Amsterdam 69.
economy perspective, where economic dimensions are situated in a social and political context that cannot be separated from them (cf. Aalbers & Christophers, 2014), is then an appropriate lens for understanding the forces that direct capital into Beirut’s built environment and, more broadly, the social relations of capitalism that these forces are a part of.

To understand the dialectic movements of capital in the built environment, I relied to a large extent on the Marxist-geographical tradition of political economy, including Harvey’s (1985) work on the urbanization of capital and Neil Smith’s (1984) uneven development thesis, and the related literature on gentrification and the rent gap (Lees, Slater, & Wyly, 2008; Smith, 1979, 1982, 1996). The main idea of these theories is that the urban process, and more widely the production of space, reflects and constitutes the relations and contradictions of the capitalist system (Harvey, 1978; Lefebvre, 1991; Smith, 1984); an idea that this dissertation follows in its two parts. The production of space is what made capitalism possible in the first place: in order to free up workers’ bodies for the production of commodities and hence surplus value, they had to be separated from their means of subsistence so they would be forced to sell their labor power in order to survive (Marx, 1867 [1992]). This was done through taking their land, by introducing private property laws, and other means of primitive accumulation such as colonialism (Blaut, 1993). Subsequently, the production of space took place within the capitalist system itself, because ‘in order to produce surplus value it is necessary that vast quantities of productive capital be spatially immobilized for relatively long periods in the form of factories, machinery, transport routes, warehouses and a host of other facilities’ (Smith, 1984, p. 88). This logically happened in cities, where a concentration of labor power was present and distance (thus time) constraints to capital accumulation could be overcome. The urban environment was also used to absorb capital surpluses and free them up again or engage in their creative destruction in times of crises and overaccumulation (Harvey, 1985). With the rising deindustrialization of many cities around the globe, the so-called secondary circuit of capital, i.e. the built environment, has increasingly become the recipient of capital surplus investment and a means of making profit or temporarily resolving crises of overaccumulation (Harvey, 2010, p. 85). This directing of capital towards the secondary circuit is termed a “spatial fix” (Harvey, 1978).

This dissertation investigates the temporality and specificities of that spatial fix in Beirut. I study the transformation of the city’s built environment from 2008 to the present, limiting myself to this period not only because surveying the entire 1991-
present period falls outside the research capacities of one thesis, but also because since 2008 the upper middle-class and high-end real estate and banking boom, which had been ongoing since the early 2000s, markedly intensified. The year 2008 moreover marks the beginning of the global financial crisis and, as we will see, this is directly connected to the boom. At the time, I was new to Beirut, having moved there in 2007 to follow a master in Middle East Studies. All around me, developers were demolishing low-rise buildings and replacing them with glitzy high rises. Their activities had a far-reaching impact on the quality of life of Beirut’s inhabitants, ranging from the destruction of architectural landmarks to pollution from the construction dust and generators, the appropriation of daylight and views, the depletion of groundwater due to private wells and, last but not least, the increasing unaffordability of housing due to the rising prices of land and real estate. Gradually, I started asking questions about these construction projects mushrooming all around me. Who was investing and with what money? What kind of legal and institutional framework was allowing these investors to demolish the existing urban fabric and construct high rises in its place? Who was buying these properties? Why did these investors choose real estate to invest in? What would be the consequences for Beirut’s inhabitants?

As we will see, the spatial fix that has transformed Beirut since 2008 was driven by “agents of capital” (financiers, real estate brokers, developers and policy elites, T. Slater, 2015), mediated by the Central Bank and a conducive legal and institutional framework, and situated in a political economy of public debt, diaspora transfers and remittances and, to a lesser extent, petrodollars. Lebanon’s banks ran into large amounts of excess liquidity when they escaped the financial crisis of 2008, through transfers by its sizeable diaspora who lived in countries whose financial systems were severely hit and, to a lesser extent, Gulf citizens. While ever since the end of the civil war in the early 1990s the banks had invested in lucrative government bonds, this public debt was increasingly being rolled over, decreasing the profits from such bonds. As a consequence, when the banks ran into large amounts of excess capital in 2008, they increasingly switched this into the built environment, either directly through setting up real estate development companies or indirectly by financing developers and buyers through loans and mortgages, facilitated by incentives legislated by the Central Bank. The agents of capital behind this switch form various overlapping social networks that constitute and control Lebanon’s political economy and manage to capture and direct excess capital towards the country’s banking and real estate sectors. By choosing to “study up”, I set out to reveal the power structures, wealth and networks of these elites (Nader,
who have the power to shape urban landscapes by controlling the capital and legal and institutional framework that go into their production. I identified them through patterns of overlapping share ownership in real estate companies and banks and political positions. I argue that these networks are not so much part of a tradition of corruption and crony capitalism in the Middle East, but that they can be expected under a capitalist system and its constituent social relations, although their shape is indeed informed by the specificities of the Lebanese context. The thesis therefore aims to go beyond divisions between “crony capitalism” and “healthy capitalism” that are sometimes posited as divisions between the West and the Middle East and instead look at what the forces of the spatial fix tells us about the social relations of capitalism itself. The first part of the thesis is dedicated to investigating this spatial fix.

The movement of capital in and out of the built environment that underlies the production of urban space can be explained by a spatial fix, the possibilities for which are in turn created by the larger relations of the capitalist system. However, the timing, direction, spatial outcomes, alliances and relationships between agents, capital and ideas underlying these movements are endlessly varied and complex to grasp. Besides analyzing the macro-level dynamics of the spatial fix therefore, to which the first part of this thesis is dedicated, I also looked at its outcomes on a micro-level, by studying three different neighborhoods in Beirut that experienced capital investment in their built environment, starting with the real estate boom in 2008. The second part of the thesis is dedicated to a detailed study of changes in each of these areas, which illuminated specific dimensions of this process. While their susceptibility to (re)investment could be explained by the presence of a sufficiently large rent gap (the difference between actual and potential ground rent under a highest and best use, see Smith, 1979), the ways in which their built environment and socioeconomic composition were transformed by renewed capital inflows varied widely. This process of transformation through renewed investment in the built environment, once a rent gap is sufficiently large, is called gentrification. It can be instigated through “pioneers” moving into an area and renovating its properties, an entire area being earmarked by state authorities as in need of “upgrading” or “revitalization”, or through other developments. What all these processes of transformation have in common, is that higher-income residential and commercial uses and residents replace lower-income ones (Lees et al., 2008).
Gentrification has received a large amount of scholarly attention since it is perceived to have “gone global” (Atkinson & Bridge, 2005; Lees, 2012; Smith, 2002). During my research on gentrification in Beirut, I have focused on what these accounts explain and what they miss, what they illuminate but also what they overlook. With theoretical tools built using case studies in Western Europe and the United States, gentrification theory and Marxist-geographical accounts of the rent gap and the urbanization of capital more broadly did not always account for the dimensions I found in Beirut. Indeed, the production of regimes of truth about cities located in the Global South, i.e. about what they are in planetary capitalism or postcolonial cores and peripheries, has come under increasing scholarly scrutiny (Roy, 2011a). As postcolonial urbanists have pointed out, the way in which cities of the South are portrayed is often symptomatic of a developmentalist bias (Robinson, 2006), where they are seen as lacking something, behind on a linear timeline of development, “not yet” there, deviating from a model that is often not explicit (McFarlane, 2010). Postcolonial urban critics argue that these are worldviews based on the experience of a limited number of cities located mostly in Western Europe en North America, whence the building blocks of urban theory were derived. These worldviews ignore the experiences of cities in the Global South, either misrepresenting them or simply not taking them into account (Robinson, 2002), and may make us blind to other dynamics that could be more important to understanding what is happening in the cities of the South.

Therefore, postcolonial urban theory proposes two things: first, we should enlarge the scope of urban studies with an increasing number of case studies from the Global South, and second, we should develop other ways of looking at cities that can make dynamics in Southern cities visible, by studying these cities on their own terms and consequently learning from them for the study of other cities, including those located in the West. As the reader will see, I have taken the first element of this critique to heart, while I am critical of the second. As Van Meeteren, Derudder and Bassens (2016) point out, the postcolonial urban critique has in some cases evolved into a misrepresentation of the theories it sought to criticize, a “straw man rhetoric” that is not taking into account the actual diversity and critical character of these theories. Therefore, I have not found it necessary to abandon so-called “Western” urban theory paradigms just because Beirut happens to be located in the Global South. I believe that it is possible to produce knowledge on cities that is aware of the risk of blind spots, developmentalist or other biases without giving up or “unlearning” (McFarlane, 2010) theories based on their geographical origin, as long as this knowledge is based on sufficient research and awareness of a case
study’s background and dynamics, produced with an open sense of space (by which I mean an openness to the multiple translocal relations and connections of which every place is constituted), and does not claim to represent the city as a whole. Placing certain cities outside of existing theory a priori reinforces the already existing biases towards these places as being essentially different and precludes an empirical investigation of the actual usefulness of a theory’s tools in understanding urban change and the making of cities around the globe.

In the case of the three areas I studied in Beirut, several factors turned out to be important for understanding the timing of renewed capital investment and the varied spatial and socioeconomic transformations resulting from it, some of which were discussed in the Marxist-geographical literature I employed, others of which were not. First, legal frameworks of ineffective heritage protection and a rent control law in limbo coupled with high exploitation ratios affected possibilities for change by encouraging owners to sell to developers, pointing towards the role of the state in creating the conditions for rent gaps to occur (T. Slater, 2015; Smith, 1979). Second, an area’s reputation, as either an artistic and/or industrial hub that is “neutral” in sectarian terms, or a poor area with squatters controlled by political parties, influenced investors’ decisions. This pointed towards the role that their legacies of war, conflict and population displacement played in their trajectories of urban change and more generally the role of territorial stigmatization (T. Slater, 2016) as either a justification tool for interventions to “upgrade” an area or a barrier to gentrification. Areas with similar rent gaps can hereby gentrify in different ways and areas where the rent gap is even larger can be bypassed for the time being. Third, areas’ locations, relative to highways or main cultural and commercial hubs, turned out to be important in a city with a dysfunctional public transportation system. This also harks back to the first point, because highways provide bypasses for residents who wish to cross the city while avoiding particular stigmatized neighborhoods. Fourth, Lebanon’s huge expatriate population played an important role as buyers and investors, influencing the way in which areas are marketed through a coming together of actors, ideas and capital that reached beyond the immediate boundaries of the city. These factors combined with the creative, contingent and speculative practices of developers and strongly influenced how, why and when investors chose to come to the areas and what kinds of projects they built.

The two parts of the thesis then combine detailed studies of processes of urban change on the ground with wider political economy issues that constitute the
capitalist system, connecting the circulation of capital in the built environment via its diaspora to capitalist dynamics of overaccumulation in Europe and the Gulf, Lebanon’s position in the global economy, the role of banking systems and trends of financialization, Issues of urban change are therefore always connected to dynamics, actors and ideas that reach beyond the immediate geographical limits of the changing area itself (Massey, 2005). Ultimately, these processes result in winners and losers, where those with more means and power in the capitalist system are able to dispossess and displace those with less means and power.

This work was guided by two main research questions that follow the set-up of the thesis and in turn lead to many sub-questions:

1. Why did circulating capital become spatially fixed in Beirut’s built environment?
   a. Where did this capital come from? Who did it belong to?
   b. Why was it directed towards Beirut’s built environment at this time? Why was there a large amount of surplus capital that needed to be “fixed” after 2008? What was the role of the global financial crisis herein?
   c. How was this capital directed towards Beirut’s built environment? Which channels were available? Which legal and institutional frameworks created the possibilities for this spatial fix to occur? What was the role of state and financial intermediaries in this process? And the Lebanese diaspora?
   d. Who profited from this set-up? Which alliances and networks between concrete agents owning and directing capital can be discerned? What do these tell us about the social relations of capitalism in Lebanon and in general?

2. How did circulating capital become fixed in Beirut’s built environment?
   a. What were the rhythms and geographies of its movement? How and why did some areas see investment while others did not? At which point and why did an area become susceptible to reinvestment?
   b. What was the influence of the legal framework related to construction and zoning on the rhythms and geographies of capital investment in Beirut’s built environment? And the role of public authorities?
   c. How were real estate projects made attractive for buyers? What did investors need to do in order to create a sought-after area?
   d. Who was investing in these projects, as buyers and/or developers?
e. For all of the above sub-questions: Were there any dimensions to this process in Beirut that theories on urban change and gentrification did not sufficiently take into account?

Throughout the thesis, a third research question is answered:
3. What were the effects of this spatial fix on Beirut’s urban landscape and its residents?

These research questions will be answered through the following set-up. First, in Chapter 1, I present the theoretical background that has come to inform the way I analyzed and interpreted my findings. I outline how the urbanization of capital and its movements in the built environment have been theorized, including the crucial role of the state in creating the conditions for profitable investment in the built environment and the credit system as a “nerve center” mediating capital flows. I show that during the current neoliberal era, capital switching into the built environment has become a strategy of economic growth: a neoliberal spatial fix. The way in which the production of urban space has been theorized has come under scrutiny from the emerging literature on postcolonial urbanism, that criticized some of these theories for being too focused on Western experiences, ignoring cities of the South or blindly applying concepts without taking into account dynamics that can offer a better theorization of that city’s dynamics. I follow the postcolonial critics’ call for a more cosmopolitan selection of case studies and attention to dimensions relevant for understanding urban change that are not readily discussed in the literature, but caution against “throwing away the baby with the bathwater” i.e. discarding theories just because they originated in Western contexts, which is a position some, but not all, postcolonial critics seem to defend. The third and final section of the first chapter outlines my methodological approach, discussing the case study method and triangulation strategy, reflecting on my positionality as a Western researcher and more personal aspects that have influenced the research process in various ways. I then discuss the actual methods and sources I used and which issues I encountered while trying to obtain these data.

After this theoretical and methodological introduction, Part 1 of the thesis looks at the reasons for the spatial fix. Chapter 2 provides a background of Lebanon’s political economy, in order to situate and understand the findings of the thesis in their context. I explain the historical primacy of Beirut and its real estate sector as destinations for investment by referring to the city’s past as a semi-colonial center of trade and Lebanon’s laissez-faire ideology that ruled its political economy from
Independence in 1943. Beirut became a regional financial center that successfully attracted large amounts of oil capital to be recycled via its banking sector, to the detriment of the development of the rest of the country and its industrial and agricultural sectors. Many people were forced to migrate, either to Beirut or abroad, in search of employment. During the civil war (1975-1991), the diaspora swelled, especially in the Gulf region, and their large volume of remittances, together with the rise of Lebanese banks and large-scale government borrowing, set the stage for the current political-economic set-up. The section on the postwar period then discusses how Lebanon’s public debt rose exponentially following a reconstruction model premised on borrowing from domestic banks, and how the country’s elite, consisting of warlords and returned diaspora Lebanese, participated in the expropriation and redevelopment of Downtown Beirut, and enlarged the possibilities of exploitation of the built environment for profit corresponding to a neoliberal model.

Chapter 3 then focuses on the post-2008 period and explains the timing of capital availability and the ways in which it was channeled into the built environment via, among others, several legal changes. I discuss the regulations and conservative banking policies that led to the Lebanese banks escaping the financial crisis in 2008. Following the subsequent influx of deposits, and the decreasing attraction of government paper, a spatial fix was achieved by switching this surplus capital into the built environment via several incentives provided by the Central Bank, including the provision of subsidized interest rates for mortgage lending and other changes. The Lebanese diaspora played an important role in this process as investors in the banking and real estate sectors.

The spatial fix and accompanying mortgage industry resulted in massive profits. Chapter 4 looks more closely at who benefited from these profitable investment opportunities by discussing the overlapping interests between bankers, real estate developers and politicians. I show that the existing settlement serves several “networks of accumulation” that enrich themselves at the expense of the Lebanese population at large. I reconstruct some of these networks using shareholder records, interviews and existing literature, and argue that the way in which these networks dispossess the Lebanese population is not a consequence of corruption as such, but fits well into the way in which the social relations of capitalism, including competition, lead to monopolistic and oligopolistic tendencies that are not unique to Lebanon, although its existing tradition of very little state interference in the population’s welfare has made the resulting socioeconomic inequalities especially glaring.
Part 2 looks at how the spatial fix actually materialized by discussing several case studies. Chapter 5 discusses and compares two case studies of gentrification in Beirut, namely the areas of Mar Mikhael and Zokak el-Blat. Both were susceptible to reinvestment due to a large rent gap, in which the recently changed construction and zoning law played a role, but also rent controls and the framework surrounding heritage preservation. While the conditions creating a rent gap were equal, other characteristics of the areas ensured that they gentrified in differing ways. In Mar Mikhael, the area’s perceived authenticity and image as a creative and nightlife hub, together with the area’s reputation as a diverse, non-sectarian space, had a large impact on its desirability as an investment destination and on the ways in which its transformation materialized, with a large role for commercial spaces on the ground floors of old buildings. Zokak el-Blat was mainly considered attractive because of its location next to redeveloped Downtown Beirut and other shopping districts as well as large traffic arteries, but the presence of displaced squatters as well as low-income dwellers protected by political parties deterred investment in its inner areas, prevented the valorization of old buildings as commercial spaces and led to a concentration of new projects on its edges, skipping most of the center. The cases demonstrate the importance of taking into account the role of the state in creating conditions that allow for a rent gap to occur and to be exploited, as well as the importance of differences between areas that subsequently decide if and how gentrification occurs.

Chapter 6 employs the case study of the construction of an entirely new quarter in the Corniche en-Nahr area, located at Beirut’s eastern edge. I point towards the interconnectedness and multiple translocal relations that came together in the initiative to create “Soho Beirut”, a cluster of residential real estate projects. I show how the idea of “Soho” and its related loft living-style has found “friction” within that particular area of Beirut, whose rent gap allowed for this profitable reinvestment to occur. Developers used the area’s industrial character and the presence of several art-related institutions to construct the Soho-image. However, the area’s reputation and dark history needed to be carefully glossed over. Developers achieved this by repeatedly referring to Corniche en-Nahr as a tabula rasa, a “virgin” frontier onto which they had a freedom to inscribe their projects not found elsewhere in densely built-up Beirut. The successful conjuring of this new landscape of urban living, and all the successful marketing creativity this entailed on the side of the developers and architects, are part of the way in which a sound capital investment in an area where the rent gap had become sufficiently large was connected to the redevelopment of brownfields in the United States and Western
Europe and became part of an imagined urban world of loft living, shared by investors who referred to their experiences as Lebanese traveling and living abroad.

Finally, Chapter 7 forms the conclusion, where I summarize my findings, outline their contribution to urban theory and reflect on the larger questions and future avenues of research that they point to. What we learn from Beirut is the importance of looking beyond North America and Western Europe when trying to understand the consequences of the financial crisis and the functioning of the capitalist economy as a whole. It teaches us to look at the impact a large, highly educated diaspora and surplus Gulf capital can have on a country’s banking and real estate sectors, and how a differing political-economic context, with no history of a welfare or developmentalist state model, has been restructured during the neoliberal era. It also teaches us about the many specific dimensions that come into play when areas are gentrifying as a result of renewed capital investment, such as the role of conflict, a rent control and heritage protection framework in limbo, and a state and legal framework that allow almost unlimited exploitation. Notwithstanding these specificities, it is pointless to reify differences between Northern and Southern cities because the circulation of capital is a universal process. This process takes place in endlessly intricate, varied and complex ways that open up many fascinating research questions for cities all around the globe, that can help us understand the connections between the context of changing global financial and economic dynamics, between burgeoning cities and networks of profit and ultimately, and this is why this research is important, between these dynamics and the increasingly glaring socioeconomic inequality.
1 The urbanization of capital under conditions of globalized capitalism

Capital represents itself in the form of a physical landscape created in its own image (Harvey, 1978, p. 124)

The opening quote of this chapter poetically captures the process that I research in this dissertation: the fixing of capital in the built environment of Beirut. Capital is not a thing; it is value in motion, a process of circulation (Marx, 1867). This value can be fixed in the built environment. Within the capitalist system, one of the functions of fixing capital in the built environment is to avert a crisis of overaccumulation, which occurs when there are not enough productive investment opportunities for the amount of capital that circulates. Surplus value can be spatially “fixed”, but this spatial fix comes with its own contradictions that eventually lead to the devaluation of the remaining surplus value invested in the built environment. As a result of its inherent contradictions, capitalism goes through frequent periods of crisis. The most recent crisis of capitalism has resulted in a “neoliberal” spatial fix where states not only made the built environment more responsive and flexible to the needs of capital, but started to depend on it for its income (Weber, 2002) and in some cases act as entrepreneurial market agents for its production (Harvey, 1989; Smith, 2002). This has consequences for how capital investment in the built environment is mediated, with states stepping in to provide incentives to investors in sectors such as real estate, finance and tourism. Of course the way in and extent to which this happens varies greatly from place to place as cities across the world have vastly different traditions of government, political-economic possibilities and positionalities in the world economy. Some scholars even argue that theories of neoliberal urbanism and Marxist-geographical explanations of the urbanization of capital more broadly are too Eurocentric to be useful for cities in other parts of the world. I discuss these criticisms in the second part of the chapter, where I also show how the emerging “school” of postcolonial urbanism has sought to redress these perceived Western biases. While the postcolonial critique has brought to light real problems and is therefore certainly justified in many respects, I identify some of its potential traps that I seek to avoid throughout the
dissertation, including a tendency to essentialize and reify places and concepts. In the third and final part of this chapter, I reflect on my methods, discussing my position as a Western researcher in a Southern city, the way in which I collected data and dealt with the often-encountered lack of reliability and accessibility. Together, the different parts of this chapter will inform the reader of the theoretical and methodological building blocks that came to guide my dissertation project as it progressed. They embody the ambition to do justice to the geography of contemporary capitalism in Beirut.

1.1 The urbanization of capital and the spatial fix

Cities are crucial to capitalism. According to Harvey (1985), without urban environments and their assets for the accumulation of capital and labor power surpluses, capitalism would not have come into existence. Once it was established, capitalism created surpluses within the circulation of capital itself, and needed the built environment as a form of “fixed capital” or “consumption fund” (and most often both at the same time). Smith (1982, p. 147) distinguishes between fixed capital invested in the direct production process or capital invested to provide the means of reproduction – housing, schools – or the means of circulation – banks, offices, retail. The built environment is then a physical landscape consisting of immobilized capital for production, circulation, exchange and consumption: the secondary circuit of capital (the primary circuit being the production of goods and services) (Harvey, 1985). This circuit can also provide a temporary spatial fix to overaccumulation: a consequence of the contradictions inherent in the capitalist system. The spatial fix consists of switching surplus capital that cannot be profitably reinvested in the primary circuit, i.e. overaccumulated capital, into the

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9 One should note that urban environments are a necessary, but not sufficient condition for the genesis of capitalism. Other factors, such as colonialism and other forms of primitive accumulation, have been crucial as well (Blaut, 1993; Marx, 1867 [1992]).

10 Fixed capital is capital that is used as an aid to the production process, enclosed within it or a physical framework for production (the built environment for production such as a factory hall) (Harvey, 1978).

11 The consumption fund consists of commodities that are an aid to the consumption process, either enclosed within it or as a physical framework (the built environment for consumption, such as housing) (Harvey, 1978).
secondary circuit of the built environment where the profit rate is comparatively higher.\textsuperscript{12} An example of such a spatial fix was the massive suburbanization of the United States, carried out as a strategy to create growth, where the automobile, consumer durables, military industries and state subsidies played a crucial role (Harvey, 1978). Other spatial fixes exist as well, including geographical switching (moving capital to other markets in different regions). Massive capital investment in the built environment often precedes capitalist crises, as their trigger, not their cause (which is overaccumulation). Christophers (2011) has found evidence of massive capital switching into the built environment preceding the 2008 financial crisis in the United Kingdom and elsewhere in Western-Europe and North-America, pointing towards the probability that overaccumulation became problematic prior to the devaluation that occurred during the crisis. Therefore, the spatial fix is only temporary. Moreover, the built environment, whether used as a spatial fix or as an aid to the production or consumption process, provides capitalists with its own contradiction and at some point becomes an obstacle to further accumulation (Harvey, 1978; Smith, 1984). The multiple meanings of the term “fix” thereby come to light: first, it refers to the immobilization of capital in the built environment; second, it denotes the temporary solution to the problem of overaccumulation (Harvey, 2001, p. 24); third, it indicates the new contradiction that is created.

\textbf{1.1.1 The contradiction inherent in the built environment}

The built environment presents capitalists with a central contradiction: capital invested in it (whether as aide to the production or consumption process or a spatial fix) needs to be recouped by keeping the physical use value fully employed \textsuperscript{12} A high profit rate is sought because the capitalist system is inherently and forcibly competitive. Each individual capitalist seeks to extract surplus value at a higher rate than others in order to make a profit (Smith, 1979) by ‘adopting a superior production technique to the social average’ (Harvey, 1978, p. 104) when increasing the exploitation of labor (e.g. lowering wages, extending hours...) is no longer an option. If they do not, another capitalist will take their market share with cheaper goods (because of improved production techniques) and drive them out of or acquire their business. However, the way in which each individual capitalist acts is contrary to the interests of the capitalist class as a whole. The rate of profit falls as more machinery (capital) is used for production relative to labor power, from which surplus value is extracted. The concentration and centralization of capital help counteract the falling rate of profit, but also leads to overaccumulation. Overaccumulation means that 'too much capital is produced in aggregate relative to the opportunities to employ that capital' (Harvey, 1978, p. 106). Consequently, if overaccumulation is not fixed temporarily by capital switching (into the built environment for example), fixed capital is devalued after which accumulation can start anew because the rate of profit has risen once again. World War II is an extreme example of massive devaluation of capital, after which room for fresh accumulation opened up.
over its lifetime (what Harvey, 1978, p. 123 calls its “amortization time”). The invested capital returns its value as the investor receives returns on the investment by keeping the physical structure in use (Smith, 1982). But this use value cannot easily be altered, so the “productivity” of the building\(^\text{13}\) freezes at a certain level, as new and more productive fixed capital comes into being before the amortization of the old (and a similar structure can be built with less capital as the productivity of labor advances). The exchange value tied up in the building devalues while it also presents a barrier to further accumulation, as the capital “trapped” in the building completes its economic lifetime. When they run out of other profitable sectors with shorter turnover times to invest in, capitalists are forced by the laws of competition to destroy what is left of the capital in the built environment in order to invest it in more advanced production methods, so as not to fall behind their competitors (Smith, 1979). As a result of this contradiction, capitalists have to walk a thin line, a 'knife-edge path between preserving the exchange values of past capital investments in the built environment and destroying the value of these investments in order to open up fresh room for accumulation' (Harvey, 1978, p. 124). The built landscape we see is thus a reflection of capitalism’s past, created to overcome spatial or temporal limits and functioning as an aide to the production or consumption process, but at the same time presenting barriers to further accumulation. This means that capital creates geographies, and these geographies change over time, following the cycle of capital accumulation as well as the investment, amortization and devaluation of capital in the built environment. Indeed, Harvey (1978) discusses a cyclical model of this dynamic that corresponds to building cycles every fifteen to twenty-five years (“Kuznets cycles”). These cyclical movements are highly uneven at the urban scale, however.

1.1.2 The see-sawing movement of capital and the rent-gap

The late geographer Neil Smith, Harvey’s former student, has specified how the logic of investment, amortization and devaluation operates at the urban scale (all the while cautioning that scales themselves are produced by capitalism as absolute

\(^{13}\) Harvey (1978) uses the term productivity rather than profitability as a more suitable term to describe investment returns in the secondary circuit. A productive investment is one ‘which directly or indirectly expands the basis for the production of surplus value’ (Harvey, 1978, p. 110), and investments in the secondary circuit have the potential of doing just this.
spaces of production and should therefore not be reified, see Smith, 1984, p. 147). The urban scale is where capital is most mobile (as compared to the national or global scale where moving capital encounters regulatory and spatial limitations) and hence where it has a chance to stay ahead of the falling rate of profit by “see-sawing” from one devalued area to the next. This see-sawing movement creates the urban landscapes we see. It is driven by the contradiction explained above: capital has to be immobilized as fixed capital where it can produce the highest rate of profit (and fixed capital is increasingly crucial because of technological innovations that are needed to stay ahead of competitors), but capital also needs to be circulated as value because it has to be able to move around geographically to where the profit rate is highest (differentiation).

Circulation then becomes a means of geographical differentiation. This differentiation of urban space is mediated by ground rent, which turns the use value of land (which does not require upkeep) into exchange value recouped as ground rent by the owner (with or without improvements such as buildings on it) (Smith, 1979): again this is a form of equalization, but this itself leads to differentiation within urban space. The unevenness of development is therefore determined most by ‘the equalization and differentiation of ground rent levels between different places in the metropolitan region’ (Smith, 1982, p. 145) and these ground rent levels are determined by other forces such as class and race:

Ground rent is a claim made by landowners on users of their land; it represents a reduction from the surplus value created over and above cost-price by producers on the site. *Capitalized ground rent is the actual quantity of ground rent* that is appropriated by the landowner, *given the present land use*. In the case of rental housing where the landlord produces a service on land he or she owns, the production and ownership functions are combined and ground rent becomes even more of an intangible category though nevertheless a real presence; the landlord’s capitalized ground rent returns mainly in the form of house rent paid by the tenants. In the case of owner occupancy, ground rent is capitalized when the building is sold and therefore appears as part of the sale price. (...) Under its present land use, a site or neighborhood is able to capitalize a certain quantity of ground rent. For reasons of location, usually, such an area may be able to capitalize higher quantities of ground rent under a different land use. *Potential ground rent is the amount that could be capitalized under the land’s “highest and best use.”* This concept is particularly important in explaining gentrification (N. Smith, 1979, p. 543, my emphasis).
At any point in time, therefore, there may exist a difference between capitalized and potential ground rent. The “highest and best use” changes over time, due to new production techniques and urban growth that leads to changes in the building’s surroundings, increasing the potential value of its ground rent and discouraging the owner from investing in its maintenance, lowering actual ground rent further (Clark, 1995). The difference between actual and potential ground rent leads to Smith’s famous rent-gap thesis, where at a certain point ‘the devaluation of capital depletes the ground rent level sufficiently that the ‘rent gap’ between actual capitalized ground rent and the potential ground rent (given a ‘higher’ use) becomes sufficiently large that redevelopment and gentrification become possible’ (Smith, 1984, p. 150). Exactly when and where the rent gap becomes sufficiently large depends on which geographical pattern was created in the previous economic boom (in the United States, this pattern consisted of suburban development and inner-city underdevelopment, see Smith, 1982).

Urban development is therefore always uneven, at any time reflecting this logic of investment and disinvestment: ‘capital attempts to see-saw from a developed to an underdeveloped area, then at a later point back to the first area which is by now underdeveloped, and so forth’ (Smith, 1984, p. 149). If capital manages to ‘jump’ these landscapes effectively, it can stay ahead of the falling rate of profit. During this process, we see some areas receiving renewed investment, which leads to far-reaching changes in their built environment, socioeconomic and demographic structures as higher income commercial and residential uses replace lower income ones. This process has been termed “gentrification” (Glass, 1964; Smith, 1979), and forms the focus of the second part of this dissertation.

Of course, capital is not an agent in itself, but a process of value in motion. The ways in which this process plays out in urban environments are highly constrained by the legal and institutional framework in place that determines how intensively land can be exploited and to what extent landlords can increase rents or evict tenants. Moreover, the differences in actual and potential ground rent that create rent gaps are actively produced. Agents such as landlords and financial institutions make investment and disinvestment decisions based on possibilities and constraints determined by the social relations and power struggles (Clark, 1995) that constitute society and shape public policy. These have a huge impact on how exactly the see-sawing movement of capital is allowed to play out in a certain urban space. I discuss their role in the next section.
1.1.3 Agents of capital, the state and the social relations of capitalism

Individual capitalists usually do not invest in the built environment without further support. They would find it difficult to engage in capital switching into the built environment because of the amount of capital needed, the long turnover time of the investment, the difficulty of pricing and the fact that a large part of the built environment is open to collective use by other capitalists, who would profit from it without having had to invest (Harvey, 1978, p. 107). Therefore, investment in the built environment usually requires special incentives and conditions that can be provided by financial intermediaries and/or a state willing to finance and guarantee these kinds of investments in several direct and indirect ways. Without these incentives and conditions, profitable investment of capital in the built environment could not happen.

The state has an active role in creating conditions in which profitability can occur (López-Morales, 2015; T. Slater, 2015; Smith, 1979; Zukin, 1982). Through its capacity to determine and change the legal framework related to property rights, zoning, plot merging and division, exploitation factors, rent controls, heritage protection, mortgages, and banking, it creates conditions that contribute to the opening and closing of rent gaps. Changes in these frameworks can have far-reaching effects. López-Morales (2011) has shown for example that owner-occupiers in Santiago de Chile received a low ground rent when their properties were bought by developers, but that these same developers then waited until the state changed the regulatory conditions to allow for more intensive investment. The role of the state in creating conditions for profitable investment in the built environment is then crucial. Depending on the political system in place at the time, state regulation can steer capital into certain sectors and influence to which extent it freely seesaws across space.

Financial institutions play another important role. Investment in the built environment requires mobile money capital, which needs to be invested before actual production and consumption take place. The credit and money supply system create this “fictional capital” (Harvey, 1978) and is therefore often relied on by property developers and buyers who do not have sufficient cash to acquire a plot of land or a property. It thereby plays an important role in (dis)investment patterns in the built environment, because only those companies and individuals who are deemed creditworthy will get a loan. Also, entire areas can be excluded from loans,
as financial institutions engage in “redlining” certain districts where the actual ground rent is low, leading to further disinvestment (Smith, 1979).

Recently, the financial sector has come to dominate the production of urban space more intensively, as the global economy has become increasingly financialized. In a financialized economy, profit is made through financial channels instead of through trade and commodity production (Epstein, 2005; Krippner, 2005). “Fictitious capital”, consisting of claims to property and finance that cannot be realized over time, such as interests, dividends and claims to future yields of production (Hudson, 2010), increasingly replaces “real” capital based on the production of surplus value. The process of financialization, ‘the increasing dominance of financial actors, markets, practices, measurements and narratives, at various scales, resulting in a structural transformation of economies, firms (including financial institutions), states and households’ (Aalbers, 2016a), has also increasingly commodified urban space as a financial asset. This became visible in the expansion of (secondary) mortgage markets that connected property markets to the vicissitudes of financial markets (Aalbers, 2008; Christophers, 2011; Gotham, 2009), and the various structured products based on fictitious claims that ultimately led to the financial crisis of 2008 in the West.

Finally, “agents of capital” such as real estate brokers and property developers also produce the conditions under which rent gaps and, more broadly, capital switching into the built environment can occur. They play important roles in deciding which areas will become disinvested and reinvested, for example through “blockbusting”, whereby they acquire properties at a cheap price by playing on xenophobic sentiments, and then sell them to a minority group desperate to access housing, prompting other owners with xenophobic sentiments to move out as well; or by speculating on future increasing ground rent levels, thereby raising actual levels (Clark, 1995; T. Slater, 2015; Smith, 1979).

State agents, financial institutions and agents of capital come together to determine the intensity with which capital is invested in the built environment and the conditions under which profitable investment is possible. They produce and exploit rent gaps. Financial and state institutions that control the flow of capital into the built environment can be seen as ‘the nerve center governing and mediating the relations between the primary and secondary circuits of capital’ (Harvey, 1978, p. 107). The logic of capital is not abstract; there are agents producing the rent gap. These agents are often connected in networks with overlapping interests. Far from a sign of corruption or crony capitalism, often associated with the Middle East (Leenders, 2012) to be replaced with capitalism’s “healthy” version of free
competition, I would argue that these patterns follow from the laws of competition that encourage the concentration of capital. The role of the state and financial institutions herein has become increasingly important during the current neoliberal era, as the capitalist system has become more unstable (Harvey, 1985).

1.1.4 The neoliberal spatial fix

While the role of the state in creating conditions for profitability has always been crucial, in the neoliberal era, there is increasing state intervention in processes of gentrification (Hackworth & Smith, 2001). Policies that were previously designed to keep the excesses of land and real estate ground rent extraction and speculation in check have changed in favor of investors (Lees et al., 2008). This is not only because developers are venturing into areas where they cannot bear the risk alone, but mostly because a shift has occurred whereby in the West as well as the Global South, states have moved away from a focus on regulating the excesses of capitalism and redistributing profits across a national territory, pulling out from affordable housing schemes and local government subsidies (Hackworth & Smith, 2001). These policy responses followed a global economic crisis and the increasing globalization of capital that began in the 1970s. It led to the adoption of a so-called neoliberal model of governance in large parts of the world.

The neoliberal model replaced earlier economic development policies that sought to balance production and consumption while achieving economic growth, avoiding overaccumulation. In most of the West, post World-War II policies followed a Keynesian logic, focusing on economic growth and redistribution across an assumed homogeneous territory: the nation-state (Brenner, 2004; Harvey, 2005). Across this territory, the maintenance of effective demand was central, because the collective ability to consume more commodities would assist economic growth, which was based on industrial production. This ability was protected via a social minimum in terms of housing, health care and employment, the maintenance of spending power and security of employment. These government expenditures were seen to create a so-called ‘multiplier effect’, i.e. generate economic value greater than the original investment as long as capital circulated and people saved part of their income (Hackworth, 2007). Private sector economic activities were regulated by public policy responses, such as a central bank and fiscal measures, to maintain competition and prevent monopolies. Domestic industrial production was protected from foreign competition via import tariffs. State measures directed investment in
the built environment towards public goods such as transportation, social housing and other infrastructure, and firms were paying for ‘externalities’, i.e. costs of production not featured in the commodity price such as pollution, via taxation. In the Global South, the colonized part of which generally gained independence after World War II, national development models often consisted of import substitution by subsidizing domestic industries and applying high tariffs on imported goods in an attempt to emancipate national economies from foreign imports, a model often termed developmentalism (Park, 2013). In order to finance these programs, many governments resorted to borrowing large amounts of foreign currency from Western banks, which were awash with cash from the oil-producing countries and looking to recycle these deposits as loans.

In the 1970s, a number of political events, combined with structural economic-conjunctural issues, led to a global economic recession that set off far-reaching political-economic reforms across the globe. Increasing inflation and economic stagnation (so-called “stagflation”), the abolition of the gold standard after the failure of the Bretton Woods exchange rate system, the resulting explosion of global capital flows and the increase in oil prices (Harvey, 2005) led to a severe recession in the West. Responses to this crisis consisted of chaotic policy experiments out of which a new orthodoxy emerged that has been termed “the Washington Consensus” (Harvey, 2005). This model pointed towards Keynesian economic models in the West as being partly to blame for the crisis: too much state intervention would presumably hamper the free functioning of markets and competition that could create new growth. However, the threat of a socialist alternative that was gaining strength at the time was perhaps just as convincing for political and economic elites eager to avoid this (Harvey, 2005).

In the Global South, many countries increasingly failed to meet their debt payments due to increasing interest rates and the deterioration of the US dollar

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14 The distinction between “the West” and “most of the world” has been framed as Global North versus Global South, West versus East or the First versus the Third World. Clarke (2012) explains that the term “Global South” originates in the Brandt Report of 1980 that used indicators of development to make a geographical distinction between North and South. While he maintains that some of these indicators are problematic because they are based on a very Western idea of what a good life is, and because North and South are plural themselves, he argues that the terms Global South and Global North are still preferable over First, Second and Third World or developing versus underdeveloped, because they do not imply hierarchy but geography, and are used by policymakers in both regions. McFarlane (2010, p. 728) argues moreover that simply discarding these terms does not undo their ongoing performative effects and in fact deprives us of the means of pointing out Western biases. Throughout this dissertation therefore, I will use the term “Global South”, “the South” or “Southern cities” to refer to places that are located outside of the United States, Canada, Europe and Australia/New Zealand; and the “Global North”, “North” or “the West” to refer to the latter locations.
exchange rate (in which loans were made). When governments were no longer able to service their debts, a crisis ensued in the 1980s. Institutions such as the International Monetary Fund (IMF) and the World Bank (WB) stepped in with emergency loans in response to the debt crisis, often partnering with authoritarian governments to carry out structural adjustment programs (SAPs) where Southern countries were to dismantle their developmentalist policies, including capitalist import-replacement industrialization, and Soviet-inspired state-centered command economies. These models were deemed responsible for creating inefficient industries and artificially blocking the entrance of cheaper goods from other countries and hence competitors, thus stagnating development (Connell & Dados, 2014). Free market capitalism was facilitated and public spending cuts enforced as a condition for help with repaying the debts (Harvey, 2005).

Hence, the economic crises of the 1970s set off far-reaching regulatory and institutional changes aimed at dismantling state regulation of economies, shifting from a focus on market failures to a focus on government failures (Hackworth, 2007). This system of free market rule-and policies implemented to ensure this rule is generally characterized as neoliberalism. Harvey (2005, p. 2) defines neoliberalism as ‘in the first instance a theory of political economic practices that proposes that human well-being can best be advanced by liberating individual entrepreneurial freedoms and skills characterized by strong private property rights, free markets, and free trade.’ The neoliberal ideology (which, it should be emphasized, is contradictory with its practices) maintains that open, competitive, and unregulated markets, liberated from all forms of state interference, represent the optimal mechanism for economic development because competition supposedly increases effectiveness (Brenner & Theodore, 2002a). Where economies were heavily regulated, neoliberalism entailed loosening controls on capital mobility, workers’ exploitation and commodification (Brenner & Theodore, 2002b; Gane, 2013; Harvey, 2005, 2007; Jessop, 2002; Larner, 2000) and a delegation of social services to market actors, making individual subjects responsible for their own well-being (or lack thereof) (Brenner & Theodore, 2002a; Dikeç, 2006).

While a roll-back of the state took place in the public welfare sector in some countries, state intervention to protect the neoliberal institutional framework of free trade was strong and happened in several ways, dependent on the inherited traditions of governance in a given country (Brenner & Theodore, 2002a, 2002b; Dikeç, 2006; Peck & Tickell, 2002). In all cases, there was ‘an active construction-and not only laissez-faire- of the conditions in which such a political rationality
[neoliberalism] can be disseminated, including markets, but also various institutional structures and practices that privilege competition, efficiency and economic success’ (Dikeç, 2006, p. 64). Indeed, to characterize neoliberalism as deregulation is highly misleading as it is characterized by high levels of regulation (Aalbers, 2016b). A new politico-institutional infrastructure was rolled out (Brenner, Peck, & Theodore, 2010a; Peck & Tickell, 2002), empowering supranational and regional decision-making bodies that shared their powers with private actors (Brenner, 2004; Jessop, 2002; Peck, 2001) and hence increased the influence of the latter on public policy and planning in contexts where these domains were previously dominated by the state (Brenner & Theodore, 2002b; Hackworth, 2007; Harvey, 1989; Ladeur, 2004; Larner, 2000; Weber, 2002).

The increasing globalization of the economy, which was spurred on by trade liberalization, revolutions in telecommunications, the deregulation of cross-border financial flows and the expansion of international production chains that have made transnational capital investment and flow the standard, has been co-constitutive of neoliberalization processes (Cerny, 2014). Under globalization, finance, insurance and real estate (often abbreviated as “FIRE”) became the sectors that were expected to create economic growth in many places across the globe (Dikeç, 2006; Hackworth, 2007; Harvey, 2005; Peck & Tickell, 2002; Weber, 2002). Capital investment was often directed away from the declining industries (who were increasingly moving production to a select number of low-wage countries in the Global South) towards these rent-extracting FIRE-sectors via incentives provided by the state and financial intermediaries.

With the political decision to let go of the previous Keynesian or developmentalism-oriented fixes discussed above, that were based on the idea of developing a territory on the nation-scale through industrialization and redistribution, and the focus on investment in the sectors of finance, insurance and real estate, cities and the built environment were increasingly seen as a means of making profit and achieving national growth and not as mere capital sinks or aids to the production process. In this way, attracting surplus value to urban space became part of a ‘neoliberal spatial fix’ (Hackworth, 2007, p. 79). Uneven development within and between cities was accelerated through competition for increasingly global capital flows (Brenner, 2004) and real estate investment became a vehicle of economic development, ‘the leading edge of neoliberal urbanization at the local scale’ (Hackworth, 2007, p. 77). Many city administrators, losing government subsidies or other forms of income during the crises and restructuring of the 1970s, turned to “urban
entrepreneurialism” (Harvey, 1989; Jessop & Sum, 2000), often policed into such action by finance capital via bond-rating agencies or the IMF and WB (Hackworth, 2007). Strategies included investing in tourist and cultural attractions, urban flagship projects, business facilities, attracting command and control functions in high finance and government and/or attracting redistribution from higher levels of government. Authorities often provided public subsidies, in the form of offering public land, tax breaks or infrastructure to investors, who also benefited from selective deregulation and regulatory undercutting (Brenner & Theodore, 2002a; see also Hackworth, 2007; Jessop, 2002; Jones & Ward, 2002; Peck & Tickell, 2002; Sassen, 1991; Swyngedouw, Moularet, & Rodriguez, 2002). Cities experienced widespread gentrification (discussed in more detail in Chapter 5), a process whereby lower-income uses of space (in housing or retail) were replaced by higher income uses, displacing and excluding lower-income city residents, either directly because their house or shop was appropriated for a higher income use, or indirectly because they could not afford to live or shop where they used to.

More recently, many cities have sought to attract “creative entrepreneurs”, members of the “creative class” that are seen as a source of economic growth (Florida, 2005). This class includes people working in “creative industries” such as advertising, graphic design, music and the arts. By encouraging the development of “hip”, gay-friendly areas, cycling infrastructure and a lively arts scene, interventions that supposedly make this class “tick” (Peck, 2005), a city can become a creative hub generating economic growth (although the empirical foundations for this claim continue to be questioned by critical geographers).

In short, the neoliberal era has intensified the exploitation of the built environment with state support. The ways in which this happens are of course strongly dependent on the local context and national tradition of public governance (Brenner & Theodore, 2002a; Dikeç, 2006; Hackworth, 2007; Harvey, 1989, 2005; Jessop, 2002; Ladeur, 2004; Peck & Tickell, 2002; Swyngedouw et al., 2002; Weber, 2002). Indeed, the extension of market rule is ‘constitutively uneven, spatially heterogeneous and temporally discontinuous’ (Brenner, Peck, & Theodore, 2010b, p. 188). It systematically produces differentiation. Therefore, it is appropriate to speak of processes of neoliberalization that are always mutating (Brenner et al., 2010b; Peck & Tickell, 2002), interacting with ‘inherited institutional frameworks, policy regimes, regulatory practices, and political struggles’ (Brenner & Theodore, 2002a, p. 349), producing new forms of differentiation and not convergence (Brenner et al., 2010a, 2010b). There is nowhere a complete transition to a purely neoliberal regime,
but everywhere it is a searching process full of contradictions (Brenner & Theodore, 2002a; Peck & Tickell, 2002). Uneven development and ad hoc experimentation are therefore not necessarily signs of the limits of neoliberalism, nor are incomplete, stalled, discontinuous or differentiated projects of market rule (Brenner et al., 2010a).

In the context of the Arab world, neoliberal reforms were implemented in all countries (Guazzzone & Pioppi, 2009). Many Arab models of government were based on developmentalism, with various forms of welfare guarantees, for example through public sector employment, and economic protectionism. Neoliberalization processes entailed the roll-back of existing welfare and redistribution policies and the increasing repression of the poor, for example in Morocco, Jordan and Egypt (Bogaert, 2011c; T. Mitchell, 1999; Parker & Debruyne, 2011; Zemni & Bogaert, 2009). Meanwhile, foreign capital was attracted through economic reforms such as the lifting of restrictions on capital mobility. These reforms happened in complex and contradictory ways, but they all facilitated and subsidized a domestic and international elite of investors while leaving public services and industry to the mercy of the market (T. Mitchell, 1999; Parker, 2009; Summer, 2005). As we will see in the next chapter, Lebanon has a somewhat different historical trajectory from other countries in the Arab world, as it never followed developmentalist models of government. While several institutional and legal reforms were passed that facilitated market investors, these were enacted in an inherited tradition of governance where the state already did not play a large role in welfare provision and had always facilitated these investors, and focused on providing the capital, Beirut, with infrastructure and resources, instead of assuming a nationwide scale of development and redistribution.

So far, I have discussed how capital creates urban geographies and how the roles of the state and agents of capital are crucial herein. I also showed that during the neoliberal era, the state allows for a more intensive exploitation of the built environment as a vehicle of profit, with an increasing role for fictional capital.

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15 Denoting the area that is understood to refer to “the Middle East”, the “Arab World” or “the Middle East and North Africa” (MENA) region is never devoid of colonial legacies. As Alsayyad and Roy (2004, p. 2) have said: Middle of what and East of where? Generally, the Middle East is understood to comprise Turkey and Iran as well (i.e. non-Arabic speaking countries) but exclude the North African Arabic-speaking countries except Egypt (en.wikipedia.org/wiki/Middle_East, accessed November 13, 2015), whereas “the Arab world” would refer to all the Arabic-speaking countries of the Arab League (en.wikipedia.org/wiki/Arab_world, accessed November 13, 2015) and MENA usually combines those two (en.wikipedia.org/wiki/MENA, accessed November 13, 2015). Throughout this dissertation, when I refer to the region using one of these terms, I will generally follow these definitions.
However, the universal applicability of these theories has come under scrutiny from postcolonial critics: scholars who point to the fact that most of these theories and models have been produced by Western scholars in Western contexts. Their “Eurocentrism” and “provincial” origins (Chakrabarty, 2000) would make these theories less useful for understanding contexts in the Global South. The postcolonial urbanism literature, which focuses specifically on the theorization of contemporary urban developments in the Global South, has burgeoned over the past few years. In the next section, I will discuss the main criticisms that postcolonial urbanism has leveled at Western theory making and look specifically at what these scholars have proposed regarding the theorization of developments in cities of the Global South.

1.2 Accounting for difference: the postcolonial critique on urban theory

One aspect of power is the capacity to impose and maintain a particular structuring of some domain or other - a particular way of dividing it into parts, of keeping the parts demarcated from each other, and a particular ordering of those parts in terms of hierarchical relations of domination and subordination (Fairclough, 1989, p. 13).

Postcolonial theory consists of a vast body of work that originated in literature studies (e.g. Said, 1978; Spivak, 1988, 1985) but spread to other disciplines such as history (Chakrabarty, 2000), sociology (Connell, 2007) and more recently urban studies. It criticizes what it calls the universalist/Eurocentric and developmentalist/historicist tendencies of Western theory making about and/or representation of the Global South that find their roots in colonialism (Connell, 2007; King, 2000). These include the propensity to universalize theories, concepts and values that originated in the Global North and assume that these are valid across the world, and “stagist thinking”, i.e. imagining that civilizations go through several stages in their development, the last of which is the stage that the Western world is at now. Both approaches to understanding, evaluating and governing the world should be understood in the context of the large imperial-colonial expansion
of the nineteenth century, when the industrial revolution, nation-state building and scientific breakthroughs led to a desire to dominate, map, categorize and explain the world. Other cultures conquered during colonial expeditions were perceived as living in earlier stages of history, as particularistic (Tsing, 2005), and the task of Western civilization with its universal reason was to guide these people to the next stage. In this way, the actual practices of imperialism and colonialism were displaced from knowledge and replaced by a science of difference (Connell, 2007, p. 16).

The legacies of this “science of difference” are alive in the social sciences and humanities today, as several scholars have pointed out. Of course one of the most classic studies is Said’s *Orientalism* (1978, p. 3), where he showed that Western scholarship about “the East” (the Middle East and North Africa as well as Asia) was inextricably tied to imperial domination and politics and less to a commitment to true understanding: ‘Orientalism can be discussed and analyzed as the corporate institution for dealing with the Orient—dealing with it by making statements about it, authorizing views of it, describing it, by teaching it, settling it, ruling over it: in short, Orientalism as a Western style for dominating, restructuring, and having authority over the Orient.’ Other classic work includes Spivak’s (1988, p. 271) *Can the subaltern speak?*, where she argues that ‘Western intellectual production is, in many ways, complicit with Western international economic interests.’ More recently, Chakrabarty (2000, pp. 6, 12), in * Provincializing Europe*, accused Marxist and liberal ‘intellectuals of the West’ of historicism: ‘the idea that to understand anything it has to be seen both as a unity and in its historical development’, i.e. at a certain stage towards progress. He names the thesis of uneven development as an example (2000, p. 239; 261 note 37), where according to him certain elements in other cultures are argued to be anachronistic and evidence of the incompleteness of capitalist transformation. In this way, other explanations are overlooked and coevalness is denied. Instead, he urges scholars to recognize the parochial origins of so-called universal concepts. In Southern Theory, Connell (2007) claims that theories from the Global North are assumed to be universally valid while those emanating from the South are seen as particular. Both point out that universal knowledge claims are often made from a position of privilege reflecting earlier colonial domination.

Hence, the postcolonial critique has pointed towards the pervasiveness of power in the academy and its role shaping the production of knowledge in the interests of hegemony. Because Beirut and Lebanon are located outside the West and have been shaped to a large extent by colonial forces (as I will explain in the next chapter), it is
important to reflect on the potential pitfalls of using theories that originate mostly in the West to explain my findings. More specifically, since the focus of my research has been urban, I will zoom in on how theory making on cities of the Global South has recently come under scrutiny in a diverse collection of scholarship that is often referred to as “postcolonial urbanism.”

### 1.2.1 Postcolonial urbanism

Recently, the postcolonial critique has been expanded to scholarship on cities in the Global South. While scholars have critically examined Western theory production on urban space in the South earlier on (Abu-Lughod, 1975; D. Slater, 1992), it was not until the publication of Robinson’s *Ordinary Cities* (2006) that a discernable literature called “postcolonial urbanism” or “postcolonial urban studies” has emerged. This literature criticized urban theory for overlooking the realities of most of the urban world and generalizing or universalizing concepts whose origins are in fact parochial or “provincial” (Fortuna, 2012; King, 2000; McFarlane, 2008; Robinson, 2002, 2005, 2006). Urban theory has been informed by ‘a relatively small group of highly visible theorists [who] tend, perfectly reasonably, to write about their own backyards’ (Parnell & Robinson, 2012, p. 595), prioritizing ideas relevant to cities forged by the industrial revolution. Indeed, sometimes an urban theorist such as Harvey (1982, p. xii) can be caught writing as if the Western experience represents a universal experience: ‘In a world in which large cities have lost many of their traditional manufacturing functions but in which the imperialism of shifting tastes and fashions appears ever more important, it may well be that this traditional role of large cities can become part of a vital strategy for urban survival.’ This applies only to cities where a traditional manufacturing base was present; many large cities in the world have a different traditional base (such as Beirut) or are becoming manufacturing centers right now.

As a potential consequence of this tendency to universalize, explanations based on the experience of a few cities travel and are applied to Southern cities without attention to their specific contexts and parochial origins (Roy, 2011a). Claims produced by Western theory ‘slip from the experience of a clutch of Western cities to claims about the city more generally’ (McFarlane, 2010, p. 729) that are then taught in universities across the world. Southern cities are merely sources of empirical data to confirm the theory, and not sources of theory-making themselves (Connell, 2007; Fortuna, 2012; Parnell & Robinson, 2012; Roy, 2011c); or they are
seen through a developmentalist and stagist lens, as sites lagging behind and needing intervention to fix problems such as poverty, pollution, megacities, slums, weak states, the absence of public infrastructure, environmental degradation, lawlessness and disease (Robinson & Parnell, 2011; Robinson, 2002, 2006; Roy, 2011a, 2011b; Simone, 2010). Western cities are seen as the cradle of modernity, where an urban life full of innovation and culture is possible; Southern cities have problems that should be dealt with via policy interventions aimed at fixing them. This leaves understandings of other aspects of city life to rest with experiences in a select group of mostly western cities, instead of most of the world (Chatterjee, quoted in Robinson and Parnell, 2011). All cities occupy the same historical time (Robinson, 2006, p. 39) and are coeval (see also Massey, 2005), but on the time ladder of development, the modern here and now of Western cities is pitted against the traditional there and then of cities of the South (Robinson, 2006, p. 7). Hence, cities of the South are viewed ‘through the trope of copy/unique’ (McFarlane, 2008, p. 344): either as failed versions of Western cities or as being too different to be seen as a city as such.

Postcolonial urban scholars argue that in order to do justice to Southern cities’ experiences, we need to expose the structures of power that shape the production and circulation of knowledge and expand the geographical scope from which case studies that inform urban theory are derived, beyond the ‘usual suspects’ (McFarlane, 2010, p. 728) to “most of the world” (Grant & Nijman, 2002; McFarlane, 2008; Rao, 2006; Robinson & Parnell, 2011; Roy, 2009b, 2011c; Simone, 2010). This will allow processes that are critical to urban life in many places around the world, such as the increasingly important role of informal practices (Rao, 2006; Roy, 2009b, 2011b; Watson, 2009), to be solid building blocks of urban theory (Simone, 2010) instead of being dismissed as peripheral or developmental issues. For example, the world cities literature is said to focus on a very small segment of the urban economy, ignoring other (economic) processes (King, 2000; McFarlane, 2008; Robinson, 2006), and also disregarding most cities in the South, as they fall “off the map” (Robinson, 2002). Focusing on high finance or poor infrastructure risks missing out on the ‘economic activities, popular culture, innovations in urban governance and the creative production of various forms of urbanism’ in these places (Robinson, 2006, p. 123) and on features that are part of globalization as well but that have been overlooked (Fortuna, 2012; King, 2000; Simone, 2010). These flaws have potentially damaging outcomes as policy makers, influenced by for example the world city paradigm, try to improve their ranking on the world city list
at the expense of the actual needs of their constituencies (King, 2000; Robinson, 2005) (for a response to these critiques, see van Meeteren et al., 2016). In order to avoid overlooking crucial dimensions therefore, all cities should in the first place be looked at as ordinary (Robinson, 2006). ‘What lags behind is attention paid to the continued small and medium-level developments of residential and commercial districts that have occupied specific territories within cities for a long time’ (Simone, 2010, p. 48).

Findings from cities in the South can then also be used to “ask questions back” to the North, i.e. they can lead to research questions for cities in the North that would not otherwise have surfaced (Fortuna, 2012; Simone, 2010; D. Slater, 1992) or offer expertise on phenomena that are increasingly occurring in the Global North as well (Yiftachel, 2009, p. 96). One strand of the postcolonial urban critique proposes to make urban studies more inclusive and just to Southern cities by explicitly, instead of implicitly, comparing cities, paying attention to policy mobilities, networks and relationships (Jacobs, 2012; McFarlane, 2010, 2011; Robinson, 2006, 2011a, 2011b). Scholars from Western cities can learn about their own objects of study by thinking along with scholars from other cities, by tracking experiences across poorer and wealthier contexts. ‘[C]ities that have been kept apart by urban theory need to be brought within the same field of critical inquiry’ (Robinson, 2006, p. 5). Indeed, this dissertation explicitly aims to bring Beirut into the same field of critical inquiry as London and New York and contribute to urban theory making by highlighting dimensions that remain understudied. My field of inquiry is however solidly grounded in Marxist-geographical theory.

The postcolonial urban critique forces us to take seriously the experiences of Southern cities as places occupying the same historical time as Western cities (Massey, 2005; Robinson, 2006) and as places full of potential for theory making. They can no longer be treated only as places that lag behind, in need of developmental fixes. I wholeheartedly agree with this call because, as we have seen in the introduction, Beirut is too often described in just such terms, as an exceptional city, full of problems and abnormalities, and not as a place that could inform urban theory or produce more general knowledge about how cities work. However, the extent to which “Western” theory has failed Southern cities is subject to disagreement among urban scholars.
1.2.2 Throwing away the baby with the bathwater? A note of caution

Rather than consistently reifying the distinctive otherness of cities beyond ‘the West’, we can de-provincialize them by identifying how multiple connections with other places help construct ideas of place (Edensor & Jayne, 2012, p. 8).

The call for more research from Southern cities to inform urban theory has not gone unheeded and in recent years, the number of case studies on cities of the Global South that engage with “Western” urban theory has rapidly increased (edited volumes include Edensor & Jayne, 2012; Gugler, 2004; Lees, Shin, & López-Morales, 2015). A growing body of literature is also responding to the call to learn from Southern cities’ experiences, investigating informal practices in cities of the West, such as street vending in New York City (Devlin, 2011), or showing how imagined places of postcoloniality and aberrance have always been present within Europe as well (Dines, 2012, 2013).

There is however a tendency in some postcolonial urban scholarship to emphasize the “unlearning” of dominant conceptual frameworks (Clarke, 2012; McFarlane, 2010) in order to allow ourselves ‘to gain knowledge of others who occupy spaces most closed to our privileged view’ (McFarlane, 2010, p. 736). I find this a problematic approach because it assumes a priori that existing theory is not capable of representing the experiences of Southern cities properly (see also López-Morales, 2015). This case is often made using essentialist or simplified representations of these “Western” theories and the Southern cities alike. For example, Ong (2011a, p. 2) snubs at ‘magisterial views of how cities, their functions, and publics will change according to some master law of European experience. Today, Asian cities are fertile sites, not for following an established pathway or master blueprint, but for a plethora of situated experiments that reinvent what urban norms count as “global”’ (Ong, 2011b, p. 2). She states that the universal principles of globalization, namely capitalism and postcolonialism, ‘are each associated with a unified set of economic effects or political outcomes for shaping global spaces’ which cause analysts to ‘lose sight of complex urban situations as particular engagements with the global. We should account for the complexity of these engagements rather than subject them to economistic or political reductionism’ (idem). She hereby reduces complex theories on global cities and urban neoliberalism to blueprints with a unified set of economic effects or political
outcomes. Similarly, Parnell and Robinson (2012, p. 600) conclude that theories that work well for the West, including gentrification and neoliberalism, might be less important or insufficient to explain Southern contexts because these are characterized by other dynamics that are more important: ‘Our suggestion is that, despite its widespread use and excellent contribution to understanding contemporary urban processes, existing theories and critiques of urban neoliberalism are ill-equipped for the task of illuminating the conditions of poorer cities, especially those that have weak (local) states or those where the link between urban political elites and capitalist elites are not formalized in the conventional (democratic) electoral and quasi-corporatist politics of the local state.’

As long as it remains an empirical question whether a theory is valid, I am not sure it is so easy to overlook these other dynamics. Theorists such as Harvey (1985) and Smith (1984) have, I believe convincingly, shown that capital produces difference, is uneven, unstable and contradictory. Capitalism does not preclude diversity; capital does not only strive to homogenize but actually uses difference to its own advantage. Cultures and political systems might vary greatly between the Global South and the Global North, but these differences are not necessarily an impediment to capital. Indeed, the Global South has been a crucial component to the formation of capitalism: colonies were crucial to capitalist expansion (Rheinhardt, 2011). Unlike Chakrabarty (2000) therefore, I do not see the uneven development thesis as a product of historicist thinking that predicts how and when capitalism will unfold over the globe, but as something that explains the movement of capital in any context where capitalism has become the main mode of production, regardless of whether this is located in the North or the South. The geographies emanating from these dynamics are by no means always predictable. The examples above however reduce a complex theory that, as we have seen above, painstakingly pays attention to variegation, unevenness, complexity and informal alliances (Brenner et al., 2010b; Jones & Ward, 2002; Swyngedouw et al., 2002) to a simplified version of itself, and in the process perhaps inadvertently portray Southern cities as spaces that are so different that they are in need of their own theories.

As Burawoy (2015) argues, and as I tend to agree with him, when writing about the Global North or Global South, we encounter the issue of hegemony and not essential difference. It is not possible to on the one hand argue that Southern cities should be brought into the same field of inquiry as Northern ones (a proposition I fully agree with), and at the same time argue that they should have their own
theories and concepts (which some, but certainly not all, postcolonial urban scholars do, as I showed above). Difference-finding and deconstruction risk forgetting about urban-theoretical renewal and reconstruction (Peck, 2015). As I will show in this dissertation, the urbanization of capital in Beirut is characterized by some dimensions that are not readily discussed in existing urban theory, such as the legacy of civil conflict and a banking system shielded from global capitalist dynamics, but an openness to the complexity and diversity of this urban experience has only contributed to a better understanding of how capital shaped Beirut’s built environment, extending the theory instead of discarding it. Focusing on the questions that both theoretical frameworks allowed me to ask, instead of focusing merely on their answers (Lund, 2014), which are of course applicable or not in a different context, provides an escape from having to choose between the two as if it is a competition. Western-based theory, that claims to understand globalization, could and should benefit from theory formation based on cases from the Global South, but we should not throw away the baby with the bathwater.

Of course, conceptual traveling, when an idea is applied to a new case, or conceptual “stretching", when a concept does not fit the new cases, have their limits. However, these should not be imposed too early on, either by abandoning the concept for explaining the case or by inappropriately modifying it (Collier & Mahon Jr., 1993). Moreover, a theory such as gentrification has a long history of incorporating new cases and consequently being “stretched", as its definition evolved from the upgrading of terrace houses in London by middle class owners to include large-scale state-led urban renewal projects (Lees et al., 2008). As long as misplaced universalism, developmentalism and categorization are avoided, and we do not ‘read gentrification in the Global South as simply the recreation of the periphery (the urban South) in the image of the supposed centre (London or New York)” (Lees, 2012, p. 158) but instead discern a clear similar process (in this case, of renewed capital investment, the creation of a rent gap, the replacement of lower-income with higher-income uses), gentrification remains a useful concept, as I will demonstrate in this work too.

One way in which I applied receptivity to the complexity of a case was by keeping in mind that places are always constituted of several connections that extend beyond the place itself (Massey, 2005). Looking at how cities are always already connected to other places can prevent the reification of a supposed distinctive otherness of non-Western cities (Mbare & Nuttall, 2004, p. 351). All cities are shaped by connections and travels that reach far beyond their location proper: ‘social
relations (trading connections, the unequal links of colonialism, thoughts of home), which are not only internal to that locale but which link them to elsewhere. Their local ‘uniqueness’ is always already a product of wider contacts; the local is always already a product in part of ‘global’ forces, where global in this contexts refers not necessarily to the planetary scale, but to the geographical beyond, the world beyond the place itself’ (Massey, 1995, p. 183). Capital, ideas and actors do not circulate freely and detached, out there in some unspecified, global third space (K. Mitchell, 1997), but always come from and have to find friction within specific places (Tsing, 2005). And these places and contexts have themselves been shaped through connections to other places, interaction with people and practices from elsewhere (Robinson, 2006, p. 101). Any distinctions Western and Southern cities as being fundamentally different can be critically scrutinized by looking at the relationships that shape these places beyond their location. In this dissertation, I will show how the urbanization of capital in Beirut is shaped by just such translocal connections and relationships, taking into account specificities, complexities and agency. What are these translocal interconnections producing? How do they mediate the capital flows into Beirut’s built environment? What are the material and institutional components that actually construct sites? I will shed some light on exactly these questions.

To sum up the chapter so far, I have discussed two main theoretical frameworks in which I seek to situate my findings: first, the Marxist-geographical theories on the urbanization of capital, showing how capitalism shapes the built environment according to a certain rhythm of accumulation and crisis and mediated by state and financial institutions, who play an important role in creating the conditions for capital movements and their geographies. In cities, the see-sawing movement of capital creates a pattern of investment and disinvestment that explains why one area is developing and another one is not. I have also explained how the current neoliberalism spatial fix consisted of altering legal and institutional frameworks to facilitate capital investment in the built environment as part of a wider process of prioritizing the logic of the market as an organizing principle of society. Second, I outlined the postcolonial critique, which pointed to the parochial origins of many urban theories and the role of power in academic knowledge production, rooted in the “science of difference” of the colonial past. As a result, the experiences of cities of the South have often been ignored in theory-making, and instead these places have been viewed through a developmentalist lens as having problems needing intervention or lagging behind on a timeline of development towards convergence.
with the West. As a result, urban theories are presented as universally applicable while they are in fact not always valid and have the potential to mute other explanations that might be more valid for a Southern city. Postcolonial urban theorists have therefore called for an urban studies where every city is viewed as ordinary, away from a focus on developmental issues only, and allowing every city’s experience to inform urban theory making.

I then discussed how Marxist geographers and postcolonial urban scholars are not necessarily operating from mutually exclusive frameworks, where the former would miss certain dimensions that are salient to Southern cities. Paying careful attention to context-specific dimensions does not preclude a focus on capitalist urbanization, but to the contrary will improve research findings, as long as researchers agree on which common processes they are looking at. The next section will discuss how I actually went about my research: which methods I employed, how I collected my data, and which obstacles I encountered during this process.

1.3 Reflections on a methodology

A still often-heard prerogative for anyone doing research is that they have to be “objective” i.e. ensuring that their findings are not influenced by their “subjective” opinions, blind spots and biases. Knowledge should not be influenced by the people who make it and their partialities and self-interests, but represent the world as it really is (Porter, 1995). As is recognized by everyone except the staunchest defenders of objectivity in science, attempting to reconstruct reality “as it really is” and thereby stepping outside of one’s own frame of reference and preferences and opinions (or even Heideggerian being-in-the-world that is always already accompanied by a “mood” of understanding the world before we even attempt to analyze it) is a rather impossible endeavor. Instead, it is more useful to be open about one’s presuppositions, definition of concepts and frameworks of reference from the beginning, as these inevitably dictate where one starts to look and what kinds of questions one will ask (Beauregard, 2012; Lund, 2014). At the same time, recognizing this subjectivity can then clarify how it influences the questions asked, and if this is combined with an open mind towards data or findings that contradict or change initial presuppositions or hypotheses, a researcher has the best chance at appreciating a phenomenon in its full complexity.
My own trajectory during this dissertation should be proof that not attempting to hide the baggage, questions and hypotheses with which one arrives “in the field” does not mean that a thorough search regarding the validity of these frameworks is impossible. My initial engagement with the postcolonial urban critique derived from exactly such an impulse, after encountering the contradictions, messiness and path dependencies of neoliberal urban change in Beirut. However, while this critique helped me see some dynamics in Beirut I would otherwise have missed (related to the role of the state for example), it did not steer me away from the role of capital in urban change, but instead made me realize that the reification or essentialization of any particular city, scale or location is perhaps the biggest problem.

Of course, the topics one chooses are, as I mentioned above, already indicative of one’s preferences, opinions and worldviews. My choice to study capital investment in real estate in Beirut as a master’s student and later a PhD-candidate emanated from a longer-standing practice of engaging with higher-class appropriation of space and place making as an activist and researcher involved in the squatting movement in Amsterdam. It is there where the value of “studying up” (Nader, 1972) became clear without at that point having any academic reference. Indeed, studying elites and their impact on city making is a crucial component of understanding how and why lower-income residents and uses are excluded. And that is ultimately whence I derive its importance and why it is impossible to state that I am neutral or objective, in the narrow sense of objectivity meaning not having an opinion. I have an opinion about what is happening to Beirut and its residents and it is driving my research in the sense that it dictates which processes I want to look at, without therefore having preconceived ideas and conclusions about how these happen. Committed to critical theory, I have sought to dig beyond official representations of what is happening to look at the actual interests behind and effects of these capital flows. Which conditions and agencies made these facts on the ground possible? This entails writing about these developments not in a matter-of-fact, but a matter-of-concern way, ‘to detect how many participants are gathered in a thing to make it exist and to maintain its existence’ (Latour, 2004, p. 246).
1.3.1 Positionality as a Western-European female researcher

Besides one’s theoretical and political frameworks, one’s national identity, gender, color and personal capabilities constitute another way in which the research process is influenced by subjectivity. In terms of national identity, gender and color, being a white Western-European/Dutch female has probably contributed to a willingness to speak to me and help me out, from what I have heard from other researchers. Kerr (2009), although a Western-European male, relates how politicians were very willing to speak to foreign researchers in Lebanon. Indeed, Lebanese researchers (but also male white researchers) have spoken to me of the inaccessibility of certain institutions or persons that I did manage to get access to. When something was not available, for example, employees usually went to great lengths to try and come up with a solution, providing personal contact details or letting me in through the backdoor when the office was closed. That said, when a certain interviewee or employee had decided not to share information, it was most certainly not possible to obtain it, no matter my color or nationality. And in that case, it would sometimes have helped to be another person, as the example of a Lebanese researcher demonstrates, who managed to obtain a building permit, a document normally not shared, after the employee found out she was from the same village as him. Also, there is the example of a friend from a well-known and respected family in her community who could take pictures in an area where I was repeatedly stopped and questioned by representatives of political parties active there. She was stopped as well, but allowed to continue as soon as her identity was discovered. The strategy of using researchers from the same religious background as the people one intends to interview is reported by Abdulrahim et al. (2012) as being relatively successful in obtaining data. Bou Akar (2005, 2012) reports the same kind of difficulties: being from the “wrong” sect when attempting to interview residents and being obstructed from collecting information by political parties. Thus, the info one manages to obtain is certainly constrained or facilitated by nationality, last name, color, and also gender.

Moreover, in terms of capabilities, managing a reasonable level of conversation in Lebanese Arabic has usually led to smiles and opened doors, and access especially to residents and shop tenants who did not speak English or French, something that a foreign researcher who does not speak any Arabic would have had more difficulty with. Also, being able to read French sources is a huge advantage when researching a country where French was for a long time the second biggest spoken language.
However, the advantage of my language skills should not be overstated, because due to the strained and complex relationship many Lebanese have with the Arabic language (a product that is the result of a mix of colonialism, identity and elite politics and other dynamics, some of which will be elaborated in Chapter 2), many interviewees actually preferred speaking English, even if I initially started in Arabic. Moreover, while I can read and write modern standard Arabic, my ability to understand it fluently is limited, which is problematic because I have probably missed out on a wealth of news and discussions in Lebanese (social) media. This was partly compensated for by the fact that Lebanon has several non-Arabic dailies and that much information on the country and discussions on social media by Lebanese are conducted in English and French, but the fact that a researcher such as myself can write a doctoral thesis on a country without being fluent in its language is something to be very critical about. By taking additional Arabic courses and painstakingly translating all official records that I obtained during my research I improved my vocabulary, especially regarding real estate and finance, which did significantly speed up my reading on and understanding of these topics. However, the inability of many Western researchers to speak Arabic properly is indicative of the problems of hegemonic power in knowledge production on the Global South that I have discussed in this chapter.

Added to the discomfort of not properly understanding Arabic has been the experience of moving away from Beirut before starting the research. Not living there but returning for short periods of time (lasting from two to five weeks, see Appendix 1:) in order to collect data left me feeling somewhat uneasy, seeing the city suddenly as a data resource instead of my home. Especially towards the end of my research, when I knew much better what I was looking for, I had a hard time not assessing everything I encountered for its potential as data. Before I started my research, I was simply living my life in the city with a research project (my master’s thesis) or a job (my work as a project officer for an urban research institution) on the side, to which I would dedicate a certain amount of time and then “switch off” for the rest of the day.16 While I certainly did not work as intensely as during my last field visits before completing this dissertation, I did have a chance to closely follow and document the transformation of the city, discuss the news with friends, discover new streets and generally experience to a certain extent daily life in Beirut.

16 Then again, the inability to “switch off” is a consequence of the rite of passage that every beginning academic seems to go through, i.e. realizing the creeping inability to enjoy leisure time and finding a way of dealing with this.
(from a very comfortable and privileged position of course, and with a group of people that consisted for a considerable part of other foreigners). By looking for a place to live (I moved six times), finding out how to pay bills, get a generator subscription, taking public transportation and other mundane daily activities, I picked up new vocabulary and felt connected to the city. Moving away from Beirut and returning there about twice a year with the express purpose of doing intensive research during a limited time frame was a new way of working that took me a couple of years to get the hang of. While it was difficult to track the city’s urban change as closely and to keep up my level of Arabic, this way of working ultimately presented its own advantages in that it forced me to prepare my research properly since I knew time would be limited (a lesson learned after two especially unproductive trips during my first year). Moreover, because I could not do fieldwork while in Ghent, I inevitably spent more time reflecting on my data and growing my theoretical knowledge. However, the postcolonial criticism that maintains that Southern cities are being mainly used to supply empirics for Western theories gets uncomfortably close in such a set-up.

1.3.2 Case studies and triangulation; a mostly qualitative affair

My methodological strategy has rested on studying capital investment in real estate in three areas in Beirut and explaining the broader political-economic dynamics that facilitated and mediated this capital investment. The nature of my research, studying processes that are not easily captured in numbers and graphs (capital investment, social networks, circulating ideas, geographies of urban transformation), and the lack of reliable quantitative data in Lebanon meant that my research relied to a large extent on qualitative methods: an ethnographic approach with extended fieldwork that included many interviews (Brockington & Sullivan, 2003; Bulmer & Warwick, 1993). For the first part of this strategy I relied to a large extent on case studies, i.e. the three neighborhoods that are investigated in this dissertation, and the processes I observed there led to the questions that underlay the second part of the strategy. My exploration of the field and the processes I observed therefore guided my findings and led to new questions (i.e. I started to wonder about the role of the banks when I discovered their involvement in the real estate projects I studied via media articles, mortgages on their cadastral records or their name on construction site billboards). Ultimately, the case study
method leads to a deeper understanding of a broader phenomenon, and in my case led me to the underlying political-economic structure mediating capital flows into the built environment (the political economy of public debt, diaspora remittances and mortgages). Of course, no research project departs from neatly defined research questions that remain unchanged over time, due to the ‘generous surprises’ data (and the people helping us obtain them) present us with (Lund, 2014, p. 224), and my dissertation is no exception. Each case presented its own particularities, its own way in which capital could be invested, in which the area was transformed, in which different coalitions of actors employed ideas that allowed such capital flows to find friction in these areas, and in this way produced new knowledge about how these processes happen.

In order to understand my observations and verify my findings, I employed triangulation (Lund, 2014; Rothbauer, 2008), which is a way of consolidating hypotheses by looking for confirmation via more than one research method and more than one data source. This is iterated until a certain degree of saturation is reached and an observation can be said to occur more generally. For example, when a developer told me that he consulted with the municipality about renaming an area, I would go and interview someone at the municipality and check with other developers and public officials, as well as conduct a media search online in the local press and discuss with befriended researchers. Only then was saturation reached. Besides using case studies and triangulation, I combined several other, mostly qualitative, research methods that served to highlight different aspects of real estate investment and the spatial fix in Beirut. The most important of these was interviews, on which I reflect below. Where possible and useful, however, I did try to obtain quantitative data, for example on the influx of bank deposits or the construction sector. The data collection process with all its frustrations (my experience with that starting back in 2008 even prior to this dissertation) taught me a large deal about how things work in Lebanon and was hence a tool for learning in and by itself. Below I will explain how I gathered the primary and secondary data that inform this thesis and what this taught me.

1.3.2.1 Main primary sources (1): interviews

The first and largest sources of primary data were my interviews. I conducted a total of ninety-nine interviews for the duration of my dissertation (sometimes with more than one respondent at a time), and relied on a total number of 132 interviews, which includes the ones conducted during my master’s thesis (see Appendix 1: Interviewees were selected for their relevance per case study, as will
become clear throughout this work. I started by for example looking at which developers had real estate projects in a certain area, which banks were involved, which existing residents were affected, or which mechanisms I wanted to know more about (i.e. mortgage financing incentives made me contact the Central Bank, the way a certain project was marketed sent me to the developer’s advertising agency, exploring the role of state actors took me to several ministries and the municipality, and so on). Many of these interviewees were contacted directly by either calling them if I could find a number or passing by their offices and asking for an appointment. Residents and shop tenants were contacted by walking up to them and asking them some questions, after explaining what I was looking for and why.

More often than not, interviewees referred me to other people I should speak to about the topic: developers sent me to their bankers, sales representatives to the engineers in charge of the project, experts to their contacts inside public institutions, shop tenants to residents living in buildings threatened by gentrification... Therefore, besides cold calling, snowballing was the other way in which I was brought into contact with interviewees. I hereby also benefited from my pre-existing network in Beirut, due to having lived there the years before and the work done on my master’s thesis with Prof. Mona Fawaz, who referred me to some experts at the time. Of course snowballing has a disadvantage, because it potentially leads to a confirmation bias. However, because I also cold-called a number of interviewees without being referred to them, this bias was hopefully somewhat ameliorated. While it was not always easy to get an appointment with the people I wanted to speak to, calling back relentlessly and showing up in person at the office proved to be the most successful strategy of getting the interviews I wanted. Interviews were conducted mostly in English, but sometimes I used Arabic or a bit of French when necessary. I did not record my interviews nor do I use the real names of people interviewed throughout this dissertation, even if they would agree to it (which I am fairly certain they would not; without even my suggesting it, many respondents told me that they did not want to be recorded nor cited with their real names). Not recording them but typing along as they were speaking, when possible, meant that I could gather almost every word literally. Guaranteeing anonymity and not recording led to a higher quality of information because people felt free to speak and, as I tend to agree with Amour (2012), this is more important than insisting on recordings. However, this also meant that I was not one hundred percent present during the interviews and could not capture every single word that was said.
1.3.2.2 Main primary sources (2): official and public records
(that are not-so-official and public)

The second biggest sources of primary data were official records of all kinds related to the political economy of real estate. These included Land Registry records containing information on the owners of plots, mortgages, and dates of acquisition. Accessing these was relatively straightforward: a written request and payment of a stamp fee for every basic record. At some point, when the amount of records that I needed became financially infeasible to obtain, I put in an official request to have them for free on the grounds that I would use them for research purposes only. After meeting with the director of the information department, he kindly provided me with all I had asked for at no charge. Another important set of data was taken from company shareholder records, available at the Commercial Registry. I had to submit a written request with a list of companies and finally had to go and speak to the Minister of Justice in person in order to get permission to obtain copies of these records (the Commercial Registry is an institution within the Ministry of Justice). Later, I discovered that the Commercial Registry has an online portal where the same information can be requested, something no one at the actual registry seemed aware of or at least thought of telling me, which I have extensively used since then.

Furthermore, obtaining official information from banks on capital flows was usually impossible. Banking secrecy does not allow for a thorough understanding of the origins of bank deposits in Lebanon (Finger & Hesse, 2009). Interviews with bankers and at the Central Bank helped provide me with a general idea, triangulated by existing research. However, the wide-ranging suspicions of shadow banking with drugs and war money remain just that: suspicions. Illegitimate capital flows are hard to track anywhere, after all.

The records I obtained at the Land and Commercial Registries had one problem in common: besides often being quite limited in the amount of information listed, they could not be trusted to be complete and up-to-date. First, it is not obligatory to register one’s property or company right away. When one acquires a property, a buyer can opt not to register the apartment for a period of up to ten years.\footnote{A “surveyed purchase contract” is a ten-year contract between developers and buyers that allows people to stay in their apartments for ten years without registering it at the Land Registry. If they do not register after ten years, the developer can retrieve the apartment and sell it to a third party. This measure allows people to postpone registration, which is prohibitively expensive for many, also because they have to pay all municipal fees they might owe at the time of registration (Bou Akar, 2005), even though many investors are for example exempted (Krijnen, 2010). Moreover, many banks do not accept this paper for a mortgage even though legally they should.} And if
an apartment or a company is not registered within this time period, fines are often waived on a yearly basis to encourage registration. Of course, sales and other contracts are always made, but these are registered at a notary public and not accessible to the public. In this way, not only can the registration fee be avoided, but also many transactions can be hidden from the public because they were never publicly consultable.

Moreover, even at institutions where records are in principle available to the public, not everything is readily provided. When I went to request sales contracts at the Land Registry for example, which are more sensitive in terms of information than basic records because they contain the price of sale and the names of representatives of the selling and buying parties, I received them for some parcels but not for others. No explanation was given. Also, records such as building permits are almost always off-limits to the public. Often, even when shown an official letter from university explaining the purpose of the research, many public officials were not willing to cooperate because they viewed these data as private. Therefore, it was again essential to triangulate any findings (for example: comparing a land price

Figure 2-Examples of records I obtained at the Land Registry: a record with information on the plot (left) and the first page of a sales contract (right).
cited by a developer to land prices in the area cited by real estate consultants to the price paid according to the record of sale if I was lucky enough to get access to an up-to-date record, to the prices cited for that area or project in real estate magazines, and so on).

Another issue regarding the consultation of records in public institutions was the way they were kept. While real estate developers’ and architects’ offices were often sleek, spacious, comfortable and provided with the latest telecommunications equipment, public institutions in Lebanon were often housed in dilapidated buildings, with dimly lit rooms where one stumbled over piles of suitcases filled with documents. Registration was often not computerized but happened via handwritten ledgers. The only reason I was lucky enough to obtain a considerable amount of data from the Land Registry and the Commercial Registry is because these were digitized to a large extent through a program funded by the World Bank. Most ministries and municipal institutions, as far as I have seen, are paper-based, and reasons for this might be related to how much these institutions and the politicians who steer them are actually willing to share. A manager of the Lebanese Transparency Association (LTA) put it thus18: ‘there is a draft law about public access to information. This is playing with words; it’s very wide and elastic, because first of all in case I don’t give you the information, what happens? If I’m not punished, I don’t give a damn about giving you something that gives me the privilege to control key issues in any distribution of information. Information is the most important thing you can have (…). The politicians will pass it [the law], but applying it is the problem. (...) They’re not organized and don’t want to be.’ This state of “the public” compared to “the private” in Lebanon is indicative of how the country’s political system is set up, but I will get to that in the next chapter.

18 Interview December 13, 2013
1.3.2.3 Additional primary sources: brochures and mapping

Other sources of primary data I used consisted of brochures, booklets and other information handed out to me by real estate developers, experts and public officials during interviews, which besides providing information on projects, procedures or research projects helped me form an idea of the discursive practices developers employed to market their projects. Moreover, I conducted neighborhood surveys where I noted changes in the built environment or building uses that helped me track urban transformation. Being a foreign researcher walking around taking pictures and taking notes on a map more often than not solicited the suspicion of public and private security, for example when a member of State Security stopped me in the Corniche en-Nahr-area while I was taking photos, because an army base was nearby. These suspicions are probably also related to Lebanon’s history and continuing problem of civil conflict (Kerr, 2009): surveying areas in such a way speaks to the remnants of distrust that inevitably inhabit a city with a legacy of such severe civil strife and current political tensions can easily impede data.
collection in certain areas (Abdulrahim et al., 2012). However, in my own case, after an identity check and an explanation I was usually sent on my way, although not always able to keep on mapping. These kinds of experiences meant that I could not always obtain the exact picture I wanted but generally did not hamper me greatly.

1.3.2.4 Secondary data: the problem of unreliable statistics

I consulted secondary data sources such as statistics on Lebanon’s political economy or reports on the real estate and banking sectors. Unfortunately, there is a considerable lack of reliable statistical, demographic and secondary data in Lebanon (Abdulrahim et al., 2012; Amour, 2012; Bou Akar, 2005; Fawaz & Peillen, 2003; Finger & Hesse, 2009; Ross & Jamil, 2011; Verdeil, Faour, Haddad, & Velut, 2005). The country ranked 103rd out of 143 countries listed by the World Bank in terms of statistical capacity (Berthélemy, Dessus, & Nahas, 2007). The last population census took place in 1932.19 The Central Administration for Statistics (CAS) collects some data, as do NGOs and international organizations such as the World Bank (WB) and the United Nations Development Programme (UNDP), but these are often lumped together on a citywide basis. Requests for geographic data distribution maps were consistently denied.20 Population registries exist, but most people register in their village of origin, in which they may have never lived, instead of in their neighborhood in Beirut. This makes these data rather useless for studying demographic trends in Beirut (see also Abdulrahim et al., 2012).

Also, obtaining background data on the Lebanese diaspora, which significantly impacts the country’s political economy, has been quite challenging: there are no reliable numbers or statistics regarding the precise number of Lebanese migrants in countries, their activities abroad, their place of origin in Lebanon or their contribution to the country via developmental projects. “The Ministry of Finance estimated the amount of remittances at the equivalent of US$939 million in 1996, but this figure is quite unreliable. Errors and omissions in the Ministry of Finance data amounted to over US$4 billion in their reconciliation of the balance of payments” (Peters, Raad, & Sinkey, 2004, p. 282). Neither the Ministry of Foreign Affairs nor the Directorate of Migrants collect data related to the Lebanese diaspora. These kinds of numbers are usually estimated by putting several sources together

19 A new census is considered too politically sensitive, because political office is divided according to sect.

20 According to one employee of the Central Administration of Statistics, who wishes to remain anonymous, work on a map is currently underway but will take at least two more years to complete and he could not guarantee that it will be accessible to the public.
and conducting surveys (G. Hourani, 2007, 2009, 2010; Labaki, 2006; MPC Team, 2013). The absence of precise numbers can be explained not just by inaccurate administrative practices but also by the political sensitivity of such numbers (Brand, 2007, note 22), since power-sharing is based on a contentious confessional quota system. This lack of information hampered the understanding of larger trends of urban change within Beirut. If we were to look at socioeconomic changes in a neighborhood in Amsterdam, for example, we would be able to pull demographic data of the last ten years from the municipal website within minutes, providing us with indicators of socioeconomic transformation such as changes in average age, income, household size, and so on. In Lebanon, these kinds of data do not exist.

Besides attempting to obtain reliable numbers on political, economic and demographic trends in Lebanon that could help me situate my findings, I also relied to a large extent on newspaper articles and of course a large amount of academic literature on Lebanon and Beirut. Press articles were taken from local newspapers and business sources such as Le Commerce du Levant, Lebanon Opportunities and The Executive. These data informed me about the kinds of projects real estate developers are trying to sell; their clients and the lifestyle that they are attracted to, and how this differs per neighborhood. Newspaper articles provided detailed information about real estate projects, government policies, protest movements, and so on. The academic literature helped me triangulate my findings and filled in some gaps, especially related to banking data.

To conclude, my methods have remained fairly consistent throughout the years, relying for the most part on qualitative data gathering through interviews, surveys and records, but the theoretical framework informing these methods’ directionality has undergone some development that led to the cautious evaluation of the postcolonial critique and a specific approach to the urban transformation of Beirut, that I chose to ground solidly in a Marxist-geographical perspective. The next chapters will focus on explaining why capital was spatially fixed in Beirut’s built environment, how it was directed there and who benefited from this. Chapter 2 provides a historical background of Lebanon’s political economy and legal and institutional framework, while Chapter 3 will focus on the post-2008 period, when the large amount of capital available led to a real estate and banking boom significantly transforming the city. Chapter 4 concludes Part 1 by looking at the networks of agents who benefited from this set-up.
Part 1: Explaining the spatial fix
Map 2-Lebanon © Vicken Ashkarian
2 Lebanon’s political economy

This chapter offers a background to my case studies and sets the stage for understanding the post-2008 spatial fix, which is discussed in the next chapter. First, it provides an overview of Lebanon’s political-economic history from the late nineteenth century, when it was part of the Ottoman Empire, via the post-World War I French Mandate and Independence in 1943, to the end of the Civil War in 1990, with a focus on the city of Beirut. It pays attention to how the state regulated the economy from the ideology of laissez-faire and how this led to but at the same time was caused by the historical primacy of Beirut and its real estate and banking sector. I show how during the civil war (1975-1991), diaspora migration intensified, especially to the Gulf but also to other high-income countries, and a large volume of remittances, together with the rise of Lebanese banks and large-scale government borrowing, set the stage for the current spatial fix. It also set the stage for the geographies of conflict that continue to influence the way in which the spatial fix materializes. The second section of this chapter discusses the postwar era, in which my case studies are situated. I show how the legal and institutional framework related to profitable investment in the built environment was changed to allow for a more intensive exploitation. These reforms were in line with neoliberalization processes elsewhere, and led to the increasing commodification and marketization of life. Of course, as everywhere, this process was made through particular constellations of actors and through the inherited traditions of governance, and did not just descend from “out there” to a “local” context. Specifically, diaspora remittances allowed for a political economy of reconstruction based on huge amounts of public debt, which set the stage for the spatial fix in 2008 by providing banks with a source of income that made investment in other sectors unprofitable.

Together, the sections in this chapter will form a background sketch that will help the reader understand the agents and flows of capital in Beirut and the way in which these have been directed through state policies and financial intermediaries. The sections pay attention to the larger macro-economic dimensions needed to understand the reasons for the spatial fix, but also to the legal framework surrounding the production of space that highlights the role of the state in the development of Beirut. It should become clear that Lebanon never had a Fordist-Keynesian system as described for the West, nor developmentalist strategies such as
import-replacement-industrialization or a command economy as described for many other countries of the Global South (see Brenner & Theodore, 2002b, p. 344). Instead, it has always assisted investors and provided a legal and institutional framework conducive to business interests, where real estate and finance were always important economic sectors. However, the role of the banks and public debt, together with the influence of neoliberalism, allowed for a more active channeling of capital into the built environment. These are necessary elements to understand the post-2008 spatial fix, in which banks played such an important role. Moreover, this chapter emphasizes the connections and multiple relationships with elsewhere that have shaped what constitutes the Lebanese territory today, whose local ‘uniqueness’ is already a product in part of ‘global’ forces i.e. contacts beyond the place itself (Massey, 1995, p. 183). It also pays attention to how the state dealt with the legacies of displacement and conflict, which influenced the way in which the spatial fix materialized, as discussed in Part 2 of the dissertation.

2.1 Commercial and colonial connections: Lebanon’s political economy from the late Ottoman Empire until 1990

The area that makes up Lebanon’s territory today has been dominated by an economic elite since trading operations with European merchants increased significantly in the nineteenth century (Chaaban & Gebara, 2007). The earliest product of international trade was silk, produced mostly in Mount Lebanon for export to France. Trade and financial services related to this booming industry led to significant growth of Beirut, as silk was exported through its port (Gates, 1998). In this growing city, outward-looking economic agents, consisting of an elite of

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21 Lebanon as a country, including Beirut in the West, Tripoli in the North, Sidon and Tyre in the South and the Bekaa valley in the East, did not exist until 1920, when France created the State of Greater Lebanon during its post-World War I-mandate in the Levant.

22 “Mount Lebanon”, the mountainous region outside Beirut (traditionally a refuge for religious minorities), has existed as a concept for centuries but was part of the province of Syria during the Ottoman Empire, as was the rest of present-day Lebanon. Its economy began to be integrated with Beirut’s during the silk trade.
merchants, financiers, lawyers, landlords and traditional clan leaders (zu'ama), allied themselves with powerful foreign economic actors and gradually transformed Beirut into a center of international trade, finance and services (Fawaz, 1983; Gaspard, 2004; Gates, 1989, 1998; Hanssen, 2005a; Kassir, 2010), setting the stage for the continuing primacy of these sectors and the multiple translocal relations that shaped the city, its population movements and investment flows. The making of the Lebanese territory was part of the expansion of a capitalist system that intensified during the late nineteenth century. This section traces the rise of Beirut and the Lebanese territory’s political economy, from the increasing European intervention during the late Ottoman Empire and the establishment of powerful foreign and local economic elites in Beirut, to the French Mandate and Lebanon’s Independence in 1943.

2.1.1 The Lebanese territory during the late Ottoman Empire and the rise of Beirut

"Thus, the imperatives of expanding international capitalism articulated with the interests of the Lebanese mercantile-financial bourgeoisie produced an international division of labor and specialization in which Lebanon became a market for European manufactures, a producer of primary and semi-finished products and, in the 20th century, a distributor of European goods and services in the Middle East" (Gates, 1989, p. 8).

The Lebanese region became part of the Ottoman Empire in 1516 after the Ottomans defeated the Mamluk Sultanate. International connections have been part and parcel of Beirut’s history as a Levantine seaport for many centuries before that. During the Crusades, John of Ibelin, governor of Beirut, encouraged trade with Venetians, Genoans, and Pisa. These merchants settled in the city during the seventeenth century (Fawaz, 1983). Until the nineteenth century, however, overland trade routes were much more important than sea routes, because of the immense domestic market of the Ottoman Empire. In the face of overland commerce, Beirut remained insignificant in comparison to Damascus or Aleppo. However, Mount Lebanon attracted foreign attention due to its large population of Christians, which were used as a political tool to install foreign economic domination. This began as early as 1517, when an alliance between Sultan Süleyman the Magnificent and François I of France against the Holy Roman Emperor Charles V
granted commercial concessions and recognition of France’s status as protector of the Maronite Catholics in the Ottoman Empire (Kassir, 2010). The Ottoman Capitulations, of which more followed in 1740, were treaties that provided European states (especially France) with commercial and judicial privileges, which later became rights, for their trading companies (Fawaz, 1983). France benefited most from these treaties, as it was the first to sign the Capitulations, and it integrated Mount Lebanon’s silk industry into its own. Hence, the seeds of foreign (especially French) economic domination, based on military superiority that forced the Ottoman Empire to concessions, were sown during this time.

In the mid-nineteenth century, Western economic domination increased when, in 1838, the Ottoman Empire signed the Anglo-Ottoman Free Trade Agreement, followed by trade agreements with Löbeck, Bremen, Hamburg, Sardinia, Sweden, Norway, Spain, Holland, Belgium, Prussia, Denmark and Toscana. This coincided with the European Industrial Revolution. The Middle East became a provider of increasingly in-demand raw materials (such as cotton, silk and tobacco) and a market for European goods, which were accumulating as the capitalist system expanded. Beirut was the entry point for these goods and an export node for the raw materials. In this way, it was crucial to the capitalist expansion of these nations at the time. The main reason Beirut became successful and not its neighbors was that the enlargement of the port coincided with the arrival of the first steamship in 1836 (Atakul, 2012; Fawaz, 1983; Kihtir Öztürk, 2006). Hence, foreign trade, which had always been part of the Empire, started to dominate its economy upon its integration into the world economy (Atakul, 2012); a domination that was made possible by Europe’s military superiority and hegemonic political position at the time. The Ottoman Bank, which was a state bank, was entirely owned by British and French capital (Kihtir Öztürk, 2006) and by 1910, two-thirds of all trade from Beirut was conducted with Europe, of which ninety percent with France (Kassir, 2010). The city’s port received steamships from Britain, France, Italy, Greece, Belgium, Denmark, Spain, Sweden, Norway and Egypt (Kassir, 2010). A Syrian desert Bedouin in the mid-nineteenth century would typically wear a shirt from Lancashire and drink coffee from Brazil (Kassir, 2010, p. 82). Because of the unequal terms of trade, French silk manufacturers soon controlled silkworm cultivation, with 67 factories in Beirut under French control in 1867 (Fawaz, 1983). A tight network of military, educational and political links between mainly French government and private agencies and Beirut was maintained. The British in turn had most influence in economic affairs (Fawaz, 1983), involved in the water supply system, banking and import-export trade.
The Ottomans responded to the increasing foreign economic domination with the so-called Tanzimat-reforms, established to ward off foreign intervention and prevent the falling-apart of the Empire. These comprised three major moments of reform, beginning in 1839, which were heavily influenced by the Napoleonic code and French Law. They included the establishment of a system of private property, significantly influencing the way in which investment in the built environment could proceed, and a secular and more centralized system of government. However, many of these modernization reforms were undercut by Europeans, who negotiated the re-establishment of privileges for non-Muslims during the second round of reforms in 1856, because they needed local Christians as intermediaries for their trade (Atakul, 2012; Kassir, 2010). The Capitulations, which should have been abolished by the Tanzimat, were maintained at the insistence of France and Britain. This demonstrates the way in which the political-economic interests of Western powers, who acquiesced to certain forms of political emancipation back home (due to social struggle, leading to the beginnings of the welfare state), led them to thwart emancipatory reforms in the Middle East.

All these developments were not without effect on the city itself: Beirut grew enormously during the nineteenth century. Its number of inhabitants increased from 4-6,000 people in the beginning of the century to 100,000 at the end, its size increased fifteen times in twenty-five years. Rich local and foreign merchants built their mansions on the hills surrounding the old city, and many infrastructural projects, hotels, banks, universities, hospitals, learned societies, newspapers and political parties were established (Kassir, 2010). The city attracted European migrants who brought Christian missions and French freemasons’ lodges with them (Dumont, 1989; Kassir, 2010). In this way, Beirut became the leading commercial, financial and communications intermediary between Europe and the Middle East. Its regional position and commercial links with the East diminished, while its role and status as trading partner of the West increased (Gates, 1989). European powers actively invested in its trade infrastructure: ‘European capitalism commodified space and ‘conquered’ distance through infrastructural investment in transport, communication, and ‘public services’. Of an estimated 205 million francs of major European investment in Syria between 1860 and 1914, over 72 million went into the city of Beirut’ (Hanssen, 2005a, pp. 9–10).

An increasing number of European merchants hired local Christian intermediaries in exchange for consular protection. This led to the rise of a new class in Beirut, as non-Muslims gained very prominent positions and used their
advantage to expand their own businesses, gaining power at the expense of established notables (Atakul, 2012; Kassir, 2010; Khtir Öztürk, 2006). By 1910, 73 major exporters were established in Beirut, the largest among whom were local merchants who operated internationally as well (Kassir, 2010). The Sursock family is one of them and legendary in Beirut up until this day. They were involved in finance, trade and real estate (Fawaz, 1983). These local and international merchants came together in advocating railway and road construction to facilitate the circulation of goods and capital, and lobbied for making Beirut a provincial capital, which was granted by the Ottomans in 1888 (Fawaz, 1983; Gates, 1989; Hanssen, 2005a). Hence the development of Beirut was shaped to a large extent by foreign economic powers and the tactics of its leading local and foreign merchants (Hanssen, 2005a), who enjoyed European consular protection.

At the same time, migration from the Lebanese territory became a regularly recurring trend, extending the city’s translocal connections even further (although the state of telecommunications at the time did not always allow for intensive interaction with places of origin). In the 17th century, many merchants, who were mostly Christian, set up trade networks in Egypt and Europe, fleeing bleak economic prospects and conflict (Cohen, 2008, p. 91). When Lebanon’s silk industry collapsed at the end of the nineteenth century because European traders bought cheaper Chinese goods, a large group of people left the area in search for a higher standard of living, most of them in the Americas and West-Africa (Senegal, Sierra Leone) (Ahmed, Zgheib, Kowatly, & Rhetts, 2012; Gberie, 2002, p. 10). Up until 1914, a quarter of the population of the Syrian province left, from all sects, mainly from the region that is Lebanon today (Cohen, 2008, p. 92). During World War I, migration continued unabated, spurred on by war and famine, and by 1914, 15-20,000 people a year left (Humphrey, 2004, p. 35), leading to a total number of 350,000 at the end of World War I (MPC Team, 2013, p. 2). Many descendants of Lebanese emigrants in the United States trace their roots back to this period.

In this decade leading up to World War I, France, which, as mentioned above, benefited most from the trade with the Levant, made sure its political and economic claims on the area were consolidated and recognized internationally in the face of competition from other colonial powers’ aspirations, such as Britain, Germany and Italy (Attié, 2004). The French government consolidated its political claims through subsidizing missionary works and seeking political influence among disgruntled locals by lobbying with the Ottoman authorities for reforms and promising them more autonomy. Its economic claims were consolidated through large capital investments: France held two-thirds of Ottoman public debt and managed to wrest
economic concessions from the Ottomans in exchange for the loans. They held contracts for (rail)road and port construction and were involved in land and mortgage companies all over the Levant (Shorrock, 1970). Hence, the political and economic influence of France in the region at the eve of World War I was unrivaled.

2.1.2 The French Mandate

At the end of World War I, in 1918, the Allied Powers, consisting of France and the United Kingdom, defeated the Ottoman Empire. The victors divided up the remnants of the Empire’s provinces. France was given the mandate over the former Ottoman province of Syria, which included present-day Lebanon and over which it had already consolidated its political and economic claims, as explained above. The League of Nations gave France the mandate provided that it lead to self-rule and allowed free trade access to all members of the League. Instead, however, Mandate authorities favored French economic interests in conjunction with a Maronite Christian business elite who was lobbying for the creation of their own state (Attié, 2004). Subsidized French concessionary companies secured monopolies on many infrastructural projects. The mandate was given its own colonial currency tied to the French franc and controlled by the French treasury, and trade between the colony and metropolis was monopolized by French companies and their allies (Owen & Pamuk, 1998). France also borrowed money from their Mandates in order to finance their war efforts elsewhere and exercised complete control over their finances (Chaitani, 2007).

France’s political and economic alliance with the Maronite business elite was consolidated when, after intense lobbying, it created the state of Greater Lebanon in 1920. The idea for a Greater Lebanon can be traced back to “the Young Phoenicians”, a movement consisting of a Maronite elite of bankers, lawyers and property owners (Salibi, 1987), who argued for a shared Phoenician heritage that set the Lebanese apart from the Arab world and naturalized their trade- and services-based economy as a national trait. They referred to Switzerland as their model-state and in 1921 founded a party (the Parti Progressiste) whose motto was “Pour le Liban avec la France” (Buheiry, 1987). When France created the state of Greater Lebanon however, the new borders included many cities that used to have closer ties to other places: Damascus for the Bekaa region, the cities of the Orontes basin in central Syria for Tripoli, Haifa for the cities in the South... (J. Nasr & Verdeil, 2008). Indeed, prominent figures of the Maronite elite clashed over the shape of Greater
Lebanon, with some arguing that it should only encompass Mount Lebanon (Attié, 2004). France’s colonial-economic interests however dictated that isolating the trading port of Beirut from land routes in Syria was a necessary concession to the ideal of a part of the Lebanese mercantile-financial bourgeoisie. A cultural-economic nationalist project in this way dovetailed with the French colonial project. At the same time, a sectarian system began to be put in place, as charity organizations based on religious affiliation were encouraged to provide for their constituencies, in line with a long tradition of sect-based welfare in the Ottoman Empire (Cammett & Issar, 2010).

Beirut was the privileged site of French infrastructural investments and in 1924, major construction was undertaken in the center, cutting wide boulevards through the old city that facilitated the rapid deployment of military troops if corporate interests were threatened (Hibri, 2009; Kihtir Öztürk, 2006). Its population swelled when Armenian and Syriac refugees, fleeing massacres and deportations in what would become modern Turkey, established their camps near the city in the 1920s (Fawaz & Peillen, 2003). Outside of the city center, Beirut developed without a master plan, even though several were drafted (the Danger-plan in 1932, Ecochard in 1944). However, these remained general schemes that were never approved nor implemented (Khalaf, 1993; J. Tabet, 1993), contrary to similar schemes in Morocco for example, due to real estate speculation, the interests of private French corporations, the protests of Beiruti property owners and the financial weakness of public institutions (J. Nasr & Verdeil, 2008; Verdeil, 2002).

Other infrastructural investments included the Beirut airport, opened in 1939 and the expansion of the port’s capacity, after which traffic almost quadrupled between 1920 and 1939 (Gates, 1998). In this way, the centralization of Beirut within the Lebanese territory was accelerated and continued by French planning policies (Hibri, 2009), for whom Beirut was part of a global network of colonial trade. The colonial dimension of France’s economic interests in its mandate became clearly visible during this time. Meanwhile, industry and agriculture declined and emigration from Lebanon continued, with increasing numbers of people, especially from the newly integrated areas of Greater Lebanon who had been cut off from their hinterlands (Chaaban & Gebara, 2007), migrating to West-Africa (Bourgi, 2005; Gberie, 2002, p. 10). In 1932, the last population census in French Mandate Lebanon put the number of resident citizens at 793,396 and emigrants at 254,987 (Brand, 2007, p. 7). It counted fourteen different religious groups: Sunni, Shi’a, Druze, Maronite, Greek Catholic, Greek Orthodox, Protestant, Armenian Orthodox, Armenian Catholic, Syriac Orthodox, Syriac Catholic, Jews, Chaldean Orthodox,
Chaldean Catholic (Maktabi, 1999). This census, which remains the last one conducted, formed the basis of Lebanon’s confessional democratic power-sharing system and included the diaspora residents, the majority of which was Maronite Christian at the time (Humphrey, 1993, p. 5). This helped them gain the majority of parliamentary seats when Lebanon became independent in 1943.

Lebanon’s independence became an increasingly strong demand by disgruntled groups such as Sunni merchants from Beirut, who resented the coalition between France and their mostly Maronite allies. These groups were deprived of the economic advantages the coalition brought (Attié, 2004). Demands for full independence from France became stronger and independence was finally granted during World War II, in 1943, with the support of the British, who saw it as a chance to maintain their influence in the Levant. A National Pact was made between the Lebanese pro- and anti-French blocs, where the first agreed to break off relations with France and the latter recognized the state of Greater Lebanon, which was, after all, a French creation. The Maronite elite wanted a stable source of public finance for the new republic, which was obtained via custom duties on foreign imports that were actively controlled by Sunni trading houses. The National Pact of 1943 aligned their interests (Kubursi, 1993, p. 169). President El-Khoury and Prime Minister El-Solh formulated a pact in which a political system, based on confessional power sharing (i.e. power sharing between religious sects) and a minimalist state, was tacitly accepted as Lebanon’s default. It was verbally agreed that Lebanon’s President should always be a Maronite Christian, its Prime Minister a Sunni Muslim, and its Speaker of Parliament a Shia, representing the largest religious groups. At this time, there were eighteen recognized sects in Lebanon: Sunni, Shi’a, Alawite, Ismaili, Maronites, Greek Orthodox, Greek Catholics, Armenian Orthodox, Armenian Catholics, Syriac Orthodox, Syriac Catholics, Assyrians, Chaldeans, Copts, Protestants, Druze, Roman Catholics and Jews. With independence, Lebanon’s elite of mostly Maronite intellectuals and bankers had a chance to implement their vision of the state of Lebanon (Attié, 2004), with a central role for Beirut.
2.1.3 Post-Independence Lebanon and the political economy of “laissez-faire”

‘There is nothing magical or miraculous about the sources of economic growth in Lebanon. Actually, most of the sources and causes of this growth can be explained by conventional economic factors.’
(Kubursi, 1993, p. 168)

Lebanon’s economic system was explicitly proclaimed as laissez-faire in the so-called Merchant Republic of the post-Independence 1950s. Laissez-faire is an ideology that proposes a political economy resting on the pillars of private property and free exchange, with market forces operating as freely as possible. A group of merchants, economists and bankers who called themselves the “New Phoenicians” promoted laissez-faire in Lebanon via their association SLEP (Société libanaise déconomie politique) (Gates, 1998). One of their most prominent members, intellectual and successful banker Michel Chiha\(^23\), argued that confessional harmony would be best maintained in a state that limits political interference in confessional affairs, guaranteeing liberty and tolerance (Attié, 2004; Chaaban & Gebara, 2007; Gaspard, 2004). Chiha also saw laissez-faire as the economic embodiment of this philosophy, describing it as the essence of the country (Firro, 2003).

The laissez-faire system allowed state actors to assume little responsibility for the development of industry and agriculture and focus instead on attracting private domestic and foreign capital. Thus, they employed economic policies that favored mercantile financial and banking interests and limited state intervention in the economy to facilitating the tourism and services industries, to the neglect of industrial development, healthcare, education and job creation (Attié, 2004; Gaspard, 2004; Gates, 1989; Shwayri, 2008; Traboulsi, 2007). As a result, in 1970, seventy-two percent of Lebanon’s GDP consisted of tertiary activities; its primary and secondary sectors\(^24\) were eclipsed (Gates, 1989). The “Switzerland of the Middle East” was a country relying on services, tourism and banking. In 1973, no more than

\(^{23}\) Michel Chiha (1891-1954) was a banker, politician, writer and journalist and was a secretary to the drafting of the Lebanese Constitution in 1943. The bank that his father founded, the Pharaon and Chiha Bank, founded in 1876, still operates in Lebanon today (Gebara, 2007).

\(^{24}\) It should be noted that Lebanon developed a significant industrial sector during the 1930s, partly driven by diaspora capital, but that the post-Independence period, with the government prioritizing the development of the banking and services sectors, did not contribute to maintaining this sector (Gates, 1989).
twenty percent of the total labor force in Beirut was working in industry; most worked in trade, commercial services and educational/cultural institutions (Khalaf & Kongstadt, 1973). Income and profit taxes remained low (Kubursi, 1993, p. 169). Fiscal policies were not used for economic management and development but aimed at creating budget surpluses, taxing broad based consumption. The state liberated foreign exchange regimes, the convertibility of the domestic currency, the repatriation and movement of (foreign) capital into and out of the country, and implemented a banking secrecy law. This represented a sharp contrast with the economic policies of the emerging welfare states and regulated economic systems in the industrial countries and developmentalist regimes in neighboring states, which aimed at redistributing wealth and regulating trade. This eventually led to the dissolution of the customs union with neighboring Syria (Chaitani, 2007). Table 1 summarizes the regulatory framework in post-Independence Lebanon.

<p>| Aspects of regulatory framework encouraging trade and services- | Government-provided facilities to trade, services and tourism |</p>
<table>
<thead>
<tr>
<th>sectors</th>
<th></th>
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<tbody>
<tr>
<td>Free mobility of goods and capital</td>
<td>Modernization of the port</td>
</tr>
<tr>
<td>Deregulated trade and foreign exchange regimes</td>
<td>Construction of international airport (1953)</td>
</tr>
<tr>
<td>Low income taxes</td>
<td>Road development</td>
</tr>
<tr>
<td>Low customs duties</td>
<td>Subsidizing transport costs for Arab summer visitors</td>
</tr>
<tr>
<td></td>
<td>Guaranteeing loans to the hotel industry</td>
</tr>
<tr>
<td></td>
<td>Legalizing gambling in resorts</td>
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Table 1-Government policies in favor of the private sector (source: Krijnen, 2010, p. 48, based on several works cited above)

### 2.1.3.1 Beirut as a regional financial center

Lebanon and especially Beirut, which was the privileged site of state investments in trade infrastructure, indeed attracted huge amounts of capital at this time. A large part of this was due to regional turmoil. Many businesses were fleeing socialist and nationalist regimes in other Arab countries, and found in Lebanon a safe haven for their capital. The creation of the state of Israel in 1948 brought a huge influx of Palestinian wealth to Lebanon, while Beirut lost its main rival, the port of Haifa. The Suez-crisis and nationalization in Syria sent more businessmen fleeing with their resources to Beirut. Investors from oil states, who were accruing increasingly large revenues, and Arab businessmen from other countries as well as Lebanese
expatriates saw Lebanon, and more specifically Beirut, as a safe location for their capital, both as a place of deposit and of investment (Khalaf & Kongstadt, 1973). Moreover, in 1948, an estimated US$3 million was remitted to Lebanon annually by its expatriate population (Chaitani, 2007, p. 100), which was of course not only invested or deposited in banks but which does provide an idea of the amount of capital flowing into the country at this time.

In this period, Beirut became a regional financial center, an intermediary of trade between the West and the Middle East, echoing its nineteenth century role. The liberal trade regulations, facilities to business, relatively high-skilled workforce, availability of other labor, already existing connections with Western businesses and highly developed trade infrastructure ‘bestowed on the country some real advantages in being able to act as the indispensable middleman in much of the contacts of the Gulf and other Arab countries with the west and to provide the conduit routes of trade between the two areas’ (Kubursi, 1993, p. 170). In 1951, for example, thirty percent of the world’s gold traffic passed through Beirut (Khalaf, 1993, p. 53). Foreign companies found a platform for their regional trade operations and recycling of capital and established their Middle East headquarters there (Chaaban & Gebara, 2007 citing Nasr, 1978). All kinds of services, financial institutions, government agencies and other economic, political, social and cultural institutions clustered in Beirut, which became the financial and commercial center of the Middle East.

Banking, which had been an extremely important sector of the Lebanese economy since the nineteenth century, boomed. While there were seven banks in Beirut in 1945 (Gaspard, 2004), about a hundred domestic and foreign banks operated in Beirut in the 1960s (Peters et al., 2004). These banks attracted enormous surplus capital from the Gulf in the form of petrodollars, which was typically exported as deposits with correspondent banks in Europe and North America (Gaspard, 2004). Many of these banks operated in Euromarkets, and recycled the funds as loans to developing countries (Hanieh, 2011) who eventually went bankrupt, triggering the 1980s crisis mentioned in the previous chapter.

Capital flowing into the country was also fixed in the built environment, leading to an increase in land and rental prices and far-reaching changes in the city’s landscape as ground rent increased. In the 1950s, a true real estate boom was underway that more or less continued until the start of the civil war (Boudisseau, 2001; Gaspard, 2004; Khalaf & Kongstadt, 1973). Many hotels and entertainment venues were constructed along the seaside and Northern coastline, often illegally. At the same time, rural migrants and foreign (Palestinian) refugees and workers
moved to the city, because it was the only place that offered employment and/or an education. Conditions in the neglected regions of Lebanon, already dire, were exacerbated when the State of Israel was created, which cut South Lebanon off from its hinterland and led to a period of protracted conflict in that region, and when the customs union with Syria was dissolved, isolating Northern Lebanon and the Bekaa region further (Chaaban & Gebara, 2007). The migrants from these areas constructed informal settlements, often close to surrounding villages, which offered them a foothold in the city (Fawaz & Peillen, 2003; Fawaz, 2012). The real estate boom and the need for shelter contributed to the expansion and densification of the city, whose inhabitants grew from 300,000 in 1950 to 1.2 million in 1975 (Fawaz, 2012). It is estimated that on the eve of the civil war, forty percent of Lebanon’s entire rural population had moved to Beirut (Chaaban & Gebara, 2007, citing Nasr, 1978).

This urban expansion was left largely unregulated by the government (J. Tabet, 1993). In 1952, the first official master plan for Beirut presented no more than a road network, and while building regulations carried detailed requirements on setbacks, ventilation, plot ratios and so on, planning legislation itself was inexistent, as were a comprehensive approach to urban development or a view on future growth (Khalaf, 1993; J. Tabet, 1993). Meanwhile, studies by French and Greek consultants, which recommended the relocation of slum dwellers (Fawaz & Peillen, 2003), were not implemented, just like all other studies that were carried out after that date as we will see. Indeed, the government’s laissez-faire ideology was perhaps most saliently illustrated in the way Beirut developed unchecked, and the way the exorbitant living conditions of a privileged few contrasted with the struggle for a livelihood by the majority of its deprived residents.

2.1.3.2 The political economy of laissez-faire

While the proponents of the laissez-faire ideology and the political-economic reforms resulting from it claimed to act out of considerations for political stability and protecting the sectarian plurality and “economic essence” of the country (an open economy focused on trade), their claims obscure the fact that these reforms were actually very much in their own interests and in the interests of the political elites that succeeded them, as with most laissez-faire ideologies (Keynes, 1926). Political elites consisted for a large part of capitalist businessmen (Traboulsi, 2014). Their market power allowed them to engage in price-fixing and manipulation (Gates, 1998). Their banks, companies and French business allies captured the influx of capital and the contracts for state-led Build-Operate-Transfer-projects (Chaitani,
The Franco-Lebanese Monetary Accord of 1948, agreed upon in order to maintain a strong currency necessary for the international service economy, guaranteed private French concessions. As Gates (1998, p. 134) put it: ‘Building what came to be known as the Merchant Republic -based on an idealised version of the Swiss model- was a strategic objective of a small power bloc consisting of the mercantile-financial bourgeoisie, much of the governing elite and intellectual economic liberals.’ Support for the laissez-faire system from Lebanon’s political elite continued unabated throughout the 1950s, even when the ascent of Arab nationalist leader Nasser in Egypt inspired many Lebanese to revolt against the economic inequality in their country. The Lebanese business community, which included prominent politicians and businessmen that had fled the reforms in Egypt and Syria, had no desire to replace the laissez-faire ideology with Nasser’s state-controlled socialism (Attié, 2004), and Lebanon chose a firmly pro-western stance by subscribing to the Eisenhower doctrine. Excluded groups meanwhile sought influence elsewhere, in entrepreneurial activities and/or obtaining a good education (Kubursi, 1993, p. 169), and added to the numbers emigrating from Lebanon.

Hence, we see that the laissez-faire ideology and its resulting reforms in Lebanon were in the interests of the mercantile-financial bourgeoisie, whose plea for externally oriented capitalist development and limited state intervention did not extend to competitive internal production. Laissez-faire in Lebanon was not a free market in the sense of encouraging competition and efficiency. As Gates (1998, p. 10) puts it: ‘Lebanon implemented ersatz laissez-faire, intended to permit the mobility of goods and capital, but not to create competitive internal markets.’ Competition and efficiency were against the interests of the major business families (Pharaon, Chiha, Khuri, Haddad, Freige, Kettaneh, ‘Arida, Bustrus, ‘Asayli, Doumit, Sehnaoui), who often enjoyed monopoly power: in 1973, the largest 13 families controlled forty-seven percent of total industrial capital, thirty percent of bank assets and twenty-four percent of total capital. Ownership of companies was interlocked, and at least half the markets in Lebanon had a monopolistic or oligopolistic structure (Gaspard, 2004; Gates, 1989; Traboulsi, 2007). These families were dynasties of powerful political-economic actors who intermarried and in this way consolidated their shared business interests (for examples, see Dib, 2006;

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25 This refers to a speech given by then-President of the United States Dwight Eisenhower in 1957, where a Middle Eastern country could request military aid from the United States if it was threatened by armed aggression from another state. He was referring especially to the Soviet threat.
Fawaz, 1983; Hanssen, 2005a; Traboulsi, 2007). So any claims of a laissez-faire system characterizing post-Independence Lebanon are misleading, as vested economic interests of powerful political actors always prevented market access of outsiders.

Besides the concerns of the mercantile-financial bourgeoisie, French stakes continued to play an important role in the Lebanese political economy in the form of French capital and political treaties, which exerted their influence on banking, infrastructure and public enterprises, through existing concessions to companies and especially via the presidency of the Lebanese-Syrian bank, which remained under French management until 1963 (Gates, 1998). A Monetary Agreement with France, signed in 1948, tied the Lebanese currency to the French franc. The agreement enjoyed full support from the political elite and Lebanon’s merchants, who argued that breaking it would lead to inflation in a country of trade and transit and threaten the livelihoods of Lebanese expatriates in the French colonies (as mentioned earlier, many Lebanese had migrated to West-Africa). It was signed despite protests that the agreement was a reinstatement of colonial relations with France and that it gave unfair advantages to French companies (Chaitani, 2007).

Hence, the Lebanese political economy, with its privileging of banking and services sectors under the laissez-faire ideology, was ruled by tightly interconnected networks of elite agents and continued to be influenced to a large extent by an alliance between French and Lebanese business interests.

2.1.3.3 The Chehabist period

While Lebanon’s open economic model with a minimal role for the state was not uncontroversial, conflicts were usually dealt with in back-room deal making (Gates, 1998). However, in 1958, many Lebanese openly protested against then-President Chamoun, whose six-year term was about to end and which they did not want to see renewed, due to his anti-Nasserist stances. These protests originated in longer simmering tensions and dissatisfactions due to the economic inequalities, government neglect of other regions, the privileging of Beirut as a site of investment and the unequal representation of different sects in the government (Salibi, 1966). The continuing protests eventually led to a civil conflict in 1958 that lasted for three months and saw the landing of 15,000 American troops to restore authority, after which reformist President Chehab (1958-1964) came to power (Attié, 2004). He tried to intervene in the economy to distribute its proceeds more evenly, geographically as well as socially, albeit without impeding the booming market. Tabet (1993, p. 85) termed this ‘the birth of a great illusion: the dream of planned development.’ This period saw large investments in infrastructure and the
introduction of a measure of social security as well as a public, free university (Gaspard, 2004; Salibi, 1966). Moreover, Chehab established a central bank in 1964\textsuperscript{26} and asked French non-government agency IRFED (l’\textit{Institut international de Recherche et de formation Éducation et développement}) to undertake a study of the country to identify its needs (Gaspard, 2004). A Civil Service Council and Central Inspection Board were put in place to try and curb clientelism and corruption.

The Chehabist period also saw the first attempts at creating an administrative structure dedicated towards urban planning. In 1963, the Directorate General of Urban Planning (DGUP) and the attached Higher Council of Urban Planning (HCUP) were founded, who in principle had far-reaching authority to expropriate and plan large-scale developments (Fawaz, 1993; Salaam, 1993). A new master plan was approved in 1964, originally designed by French consultant Ecochard, who proposed a modernist polycentric plan with new towns to alleviate the dominance of Beirut. When this plan was approved by Parliament however it had been changed in such a way that he publicly disassociated himself from it. The plan was only partially implemented, its zoning ordinance modified under pressure of landowners, while only part of the road network and a few administrative buildings outside the center were built, and public housing and new towns were never constructed (J. Nasr & Verdeil, 2008; J. Tabet, 1993). In the 1970s, several studies of informal settlements were carried out, with a view on developing new plans for Beirut’s development. However, none of these were followed up with actual intervention or new policies (Fawaz & Peillon, 2003). Planners in Beirut merely focused on opening large arteries and the city remained central (J. Tabet, 1993).

Therefore, the Chehabist reforms, while not completely without success, especially in creating an administrative structure related to urban planning and social security that remains largely intact today, remained largely unimplemented. Even though ‘[t]he state invested in the regions, [but] capital continued to invest in the city’ (Sarkis, 1993, p. 113). Deeply ingrained interests, of landowners, bankers, French businesses and politicians (who maintained clientelist relationships) reduced their efficiency and credibility (Salaam, 1993; Salibi, 1966). When the Central Bank was founded, it met with opposition by the Association of Lebanese Banks (ABL), who demanded many changes to the newly established Code of Money and Credit (MCC). They feared control and regulation and consequently fought a battle with the state over banking secrecy and the financial sector’s dominance over

\textsuperscript{26} The Central Bank could not be established earlier because former colonial power France had reserved the right to be the country’s fiscal agent and issue notes until that date.
the Lebanese economy. In 1973, the MCC was amended with article 174, specifying that the Central Bank take the opinion of the ABL into account when laying down overall banking regulations.\textsuperscript{27} The ABL’s opposition led to legal and instrument independence of the Central Bank, following a mostly non-interventionist policy (Dibeh, 2009). It is one of the most independent central banks in the MENA region.\textsuperscript{28} The Central Bank’s main priority became the stability of the value of the currency. It did not intervene much otherwise in the pre-civil war era (Dibeh, 2009). Hence, even if Lebanon saw a short period of developmentalist, national scale-making policies, it did not change its political economy in any significant way (Chaaban & Gebara, 2007), with (foreign) banks recycling petrodollars and the related services sector continuing to be dominant. Moreover, despite many attempts at creating master plans for Beirut and the country, not more than seven percent of the Lebanese built environment was ultimately the result of predetermined physical planning (Sarkis, 1993, p. 111).

\textbf{2.1.3.4 The civil war}

Eventually, the severe socioeconomic polarization in Lebanon that Chehab had been unable to fix, combined with several other geopolitical factors and events, led to the outbreak of the Lebanese Civil War in 1975 and a series of Israeli invasions and occupations. The first two years saw heavy fighting between groups allied with the pan-Arab, leftist ideology of Nasser’s Egypt, and right-wing nationalist groups. Beirut’s financial center was destroyed and moved to Bahrain, who had introduced regulations that allowed for offshore banking (Hanieh, 2011). A lull in fighting led to a short-lived attempt at Keynesian redistribution policies in order to reduce the inequalities that were a major cause of the war (Kubursi, 1993). Semi-public banks were formed to provide credit to the productive and housing sectors, the Central Bank, who maintained its function and status throughout the civil war (Dibeh, 2005), curtailed speculation in real estate and foreign exchange (Corm, 1988; N. B. Hourani, 2010). However, the war soon flared up again and fighting continued until 1991. Lines of confrontation shifted continuously, and militias who were allies at


\textsuperscript{28} Independence in this case refers to independence from governments. The arguments in favor of monetary policy independence derive from a central bank’s monopoly over money creation. This monopoly carries with it certain powers that elected governments may be tempted to misuse for short-term benefits at the cost of rising inflation over time. Resisting such temptations requires a degree of commitment on the part of the central bank, and without independence, that commitment might be difficult to maintain.
one point battled each other at another. The main Lebanese groups involved were a collection of right-wing, nationalist oriented, mostly Christian militias including the Lebanese Front that included the fascism-inspired Kata’eb (*Phalange*) party and the Lebanese Forces, the South Lebanon Army that was trained by Israel to fight the Palestinians and later resistance groups to the Israeli occupation of South Lebanon; and a collection of left-wing, pan-Arab oriented groups, including the Lebanese National Movement, the Syrian Social Nationalist Party. Other main groups were the Shiite militias Amal and Hezbollah (the latter established in response to Israel’s occupation of South Lebanon). The main foreign parties in the conflict were the Palestine Liberation Organization (PLO), the Syrian, Israeli and American armies and many other countries and states indirectly by funding and training the militia of their choice.

Lebanese banks survived the war and in fact managed to grow a lot more powerful. They expanded to countries with significant Lebanese immigrant populations (Gebara, 2007) and dominated the banking sector, profiting from the fact that foreign banks had withdrawn from Beirut. Prior to 1977, the banking sector was in the hands of a few oligarchs whose control over this sector and the resulting socioeconomic horizontal and vertical inequalities acted as a catalyst for conflict, especially when they started to profit enormously from petrodollars (N. B. Hourani, 2010). These oligarchs were unwilling to allow for the establishment of new banks. With a new president in 1977, however, the Free Banking Law was introduced as part of the reforms enacted after the first years of fighting that attempted to redress the dominance of some families in the sector. It was ruled by decree that the establishment of any new bank required the approval of the Central Bank, who was to decide in the public interest. This allowed new banks to come that had connections to Gulf capital, such as Hariri’s Bank Med, and purchased licenses of Western banks, who were by then withdrawing from Lebanon (such as the French Mediterranean bank, whose French shares were bought by Hariri in 1980) (N. B. Hourani, 2010). Together with the establishment of new banks, powerful new constellations of actors emerged, consisting of militias who created their own financial networks that were connected to diaspora funds as well (Chami, 1992; N. B. Hourani, 2010; Peters et al., 2004). In this way, Lebanon became a militia economy run by networks of capitalists, companies and other institutions working within and alongside a variety of states in pursuit of political-economic power (N. B. Hourani, 2010, p. 290). The warlords created their own mini-states with ports, airports, services, taxes and taxation systems. Some even ran their own courts and public sector (Traboulsi, 2007). In total, there were about twenty illegal ports in service (S.
In this way, Lebanon’s economy remained actively interconnected to transnational flows of capital.

The civil war also marks the period when large-scale government borrowing from Lebanese banks became a normal practice. When the Israeli invasion of 1982 led to the collapse of the economy and thus tax revenues, the government started to lean heavily on the commercial banks and the Central Bank for borrowing in order to pay public wages, maintain services and import basic goods. The banks more than doubled their assets and deposits in the period 1980-3 (Maasry, 1988). At the end of the war, the financing of the high budget deficits by the Central Bank and commercial banks had led to a massive increase in money supply, followed by a severe depreciation of the Lebanese currency (from 2.25LBP per dollar in 1975 to 2300LBP per dollar in 1992), dollarization and high prices of imports (Bolbol, 1999; Kubursi, 1993). Despite the continuity of capital inflows, therefore, the war also had deleterious consequences for the banks, because these developments eroded their capital base (S. Hakim & Neaime, 2001; Kubursi, 1993; Peters et al., 2004). Nonetheless, as we will see in the next chapter, the arrangement of Lebanese banks financing the budget deficit with the help of the Central Bank remained intact.

Naturally, the war had far-reaching consequences for the geography of Beirut. The civil war, Israeli invasions and Israeli, Syrian and American bombardments led to the large-scale destruction of infrastructure and capital, the deaths of an estimated 120,000 people as well as the displacement of an estimated 450,000 (Ministry of Displacement) to 900,000 people (a report mentioned in Picard, 2005, p. 38), around two thirds of its population. Political parties and militias carried out their resettlement during the war, and many moved to Beirut where they occupied apartments vacated by other displaced people, sometimes on the condition of enrollment in the militia. Many young men of the displaced became militia members, which gave them a lot of power during and after the war (Bou Akar, 2005). The massive population displacements also led to the formation of new informal settlements or the reshuffling of their populations (Fawaz & Peillen, 2003). The city became divided by one large demarcation line, in addition to many shifting frontlines throughout the years, and large groups of people moved across these lines to one area or the other, either preemptively or following destruction of their homes and/or deportation on the basis of their political and/or sectarian belonging. Capital followed suit, and speculation and soaring land prices in “safe” areas, the construction of residential and commercial complexes, encroaching on beaches and
the mountains, were as much a characteristic of the war as destruction (Corm, 1988; J. Tabet, 1993, p. 90). The coast was disfigured by illegal construction (Fawaz, 1993).

Moreover, massive numbers of people, of which a significant amount of young, high-skilled, well-educated members of the workforce (over sixty percent), left Lebanon (Bolbol, 1999, p. 1861; Bourgey, 1985; Kubursi, 1993, p. 171; S. Nasr, 1993, p. 65). Kubursi (1999, p. 70), who bases himself on several studies by Lebanese sociologist Boutros Labaki, reckons that around 740,000 individuals (fifty percent of the 1970s labor force) left Lebanon between 1975 and 1988, another 240,000 in 1989 and another one during the last vicious conflict in 1990. In total, around a million people left. Many went to France, initially to pursue higher education, but stayed there when the war started (Ahmed et al., 2012; Al Ariss & Özbilgin, 2010). A large part also migrated to the oil-producing countries as the oil price rose in 1973 (Ahmed et al., 2012, pp. 305–306; G. Hourani, 2010). The diaspora kept Lebanon afloat during the first half of the civil war, transferring forty percent of total national income in remittances, often channeled via local militias (Picard, 2005), so national per-capita income actually increased during 1974–81 (Bolbol, 1999, p. 1861; Bourgey, 1985; Corm, 1988; Humphrey, 1993, p. 4; Kubursi, 1993, p. 174) until the end of the oil boom and inflation (explained below) put an end to this and larger numbers were forced to migrate, moving mainly to the Gulf, especially to the United Arab Emirates that needed high-skilled migrants at the time (G. Hourani, 2010). Prominent political parties and militias such as the Syrian Social Nationalist Party (SSNP) and the Lebanese Phalange sought to strengthen ties with their constituencies abroad (Brand, 2007, p. 7). ‘A global geography of war mobilization outside Lebanon could be mapped with Amal and then Hizbollah supporters in West Africa, and Lebanese Forces supporters in Australia and the United States, among others’ (Picard, 2005, p. 44). The displaced, at home or abroad, were therefore connected by the ways in which political parties intervened in their resettlement.

Plans for the reconstruction of Beirut were drawn up as soon as a lull in fighting seemed to signal the end of the conflict. In 1977, the French Atelier Parisien d’Urbanisme (APUR) was asked to design, with Lebanese urban planners, a planning scheme for Downtown Beirut, which became a master plan for reconstruction in 1977. It focused on preservation and protection of heritage. In the same year, the Council for Development and Reconstruction (CDR) was founded to replace the Ministry of Planning, concentrating powers at the expense of the existing administrative structure. In 1982-1983, after the Israeli invasion, President Gemayel proposed a plan to bulldoze informal settlements, refugee camps and much of Beirut Central District and develop a large-scale project with sea reclamations to...
the North of Beirut. Rafiq Hariri, a Lebanese-Saudi construction tycoon, offered to help and put his company Oger to work in the city center. The company razed the ancient Nourieh and Sursock souks, as well as the Saifi area, which had escaped Ottoman destruction and French Mandate layouts. Many salvageable or non-damaged structures were destroyed. A beginning was also made with bulldozing houses in the informal settlements, but these were halted due to an uprising in 1984 and resumption of the war. From 1983 to 1986, a General Master Plan for Beirut was drawn up, with the participation of another French agency, IAURIF (Institut d’Aménagement et d’Urbanisme de la Région d’Île de France) and Lebanese experts, striving to introduce a hierarchy of centers by integrating war developments, but that meant also following militia borders. It recognized the permanency of informal settlements and argued against relocation as such (Fawaz & Peillen, 2003; J. Nasr & Verdeil, 2008; J. Tabet, 1993). However, the implementation of this plan was thwarted by yet more rounds of fighting. In 1990, however, the Ta’ef Accords, negotiated in Saudi Arabia, put an end to the civil war, and a newly formed Lebanese government eventually embarked on an extensive program of reconstruction and state building.

### 2.2 The postwar era

Postwar Lebanon was characterized by the rise of Lebanese entrepreneurs who made their fortune in the Gulf and rich Lebanese diaspora from West-Africa (S. Nasr, 1993), constituting a new political elite, also referred to as the “contractor bourgeoisie” (Baumann, 2012). The number of politicians who had been emigrants at some point in their lives increased (Labaki, 2006, p. 13). In 1992 almost nine percent of MPs were Lebanese former migrants; in 2000, this had increased to 16.5 percent and in 2005, 19.5 percent (G. Hourani, 2007, p. 11). Many expatriates also started to work at government institutions and banks (Labaki, 2006, p. 9). Political parties received a lot of support from Lebanese diaspora members abroad (Labaki, 2006, pp. 14–15) and parties have been known to fly in members from the diaspora when voting in absentia was not yet allowed (Fielding-Smith, 2009). These new actors existed alongside former warlords who had gained prominent political positions and received amnesty for any war crimes they may have committed. They controlled thirty-nine cabinet posts between 1989 and 2003 (Gebara, 2007).
Warlords and diaspora politicians could overlap as well: Nabih Berri, Speaker of Parliament up until this day, leader of political party and powerful civil war-militia Amal, was born in Sierra Leone and maintained good ties there (Gberie, 2002, p. 12). In keeping with Lebanese tradition, most politicians were businessmen and had considerable interests in the banking and construction sectors (Dib, 2006), whether obtained via their successful companies started as diaspora abroad or as militia leaders during the civil war. Their wealth was striking: Lebanon’s Parliament in 1996 counted thirty-five millionaires and three billionaires (Makdisi, 1997).

Lebanon’s second postwar Prime Minister Rafiq Hariri (1992-1998; 2000-2004) claimed that he would put Lebanon back on track as a destination of tourism, trade and capital investment and let the country continue from where it supposedly halted due to the war (even though we have seen above that the country by all means stayed connected to international flows of capital). While still under military tutelage of Syria, which was one of the conditions of the Ta’ef Accords that put an end to the civil war, Lebanon would reconquer its position as a center of trade, reliving the supposed economic success story of its *laissez-faire* tradition (Leenders, 2004). The reconstruction agenda started with the Horizon 2000 program, intended to ‘convince investors that Lebanon re-emerged as a stable location for big finance and capital’ (Gebara, 2007, p. 13). Hence, Hariri’s discourse pointed towards a certain continuity of political-economic traditions when announcing what many observers considered a neoliberal agenda of reconstruction (Baumann, 2012; N. B. Hourani, 2013; Makdisi, 1997; Roy, 2009a; Yassin, 2012).

While the arrival of Hariri represented a dramatic intensification of the presence of market forces in national economic and political organization (Makdisi, 1997, p. 695), and the international experience and reliance on Western-educated experts of these new actors represented a break from earlier styles of politics (El-Husseini, 2004), many aspects of neoliberal reform were already present in Lebanon’s past, as we have seen above. These historically specific regulatory landscapes and political settlements (Brenner & Theodore, 2002a, p. 357) were introduced in a context where setting up infrastructural projects with the help of private companies and capital; facilitating tourism projects; a focus on tertiary economic activities; privileging the urban as a site of state investments; and delegating the provision of basic needs to non-state actors (Cammett & Issar, 2010; Fawaz, 2009b) did not constitute a radical break with the past (Traboulsi, 2014). In many ways, it seems that, as Gaspard (2004, p. 210) put it: ‘The *laissez-faire* system in Lebanon has suddenly become part of the actual mainstream.’ Many of the neoliberal policies in Lebanon fell within the earlier existing tradition of delegating social provision and
other tasks to non-state actors. However, the way in which the state actively intervened to create conditions for the profitable exploitation of land and the new connections and networks that had emerged during the civil war constitute an important difference with the prewar era.

2.2.1 1990-1998: “Harirism”, Solidere and public debt

Hariri was to play a prominent role in the Lebanon’s first postwar decade. A rich construction magnate who had made his fortune in Saudi Arabia (and even obtained Saudi citizenship), who had played a role in setting up the Ta’ef Accords and who had already started demolitions in the city during the war with his company Oger (as explained above), he was determined to reinstate the business function of the city center of Beirut as fast and efficiently as possible. He lobbied for the appointment of the former head of Oger as new head of the CDR in 1990 and for a legal framework where a private company would reconstruct Downtown Beirut. In 1991, Law 117 (see Table 2) was passed to this effect. Meanwhile, the CDR had begun demolitions without an approved master plan and with such strong explosives that other undamaged buildings were ruined beyond repair. As protests mounted, however, Hariri worked his way into Lebanese politics and was appointed Prime Minister in 1992. After laying the legal basis, in 1994 private company Solidere was founded (an acronym for Société Libanaise pour le Développement et la Reconstruction de Beyrouth), of which Hariri owned significant shares. Solidere benefited from a mechanism in the law that had existed since 1983, allowing a company who acquires a majority of shares to dissolve property, and received exceptional powers to expropriate all property owners in Downtown Beirut (with the exception of religious endowments, awqāf) and issue them shares in return. It then swiftly demolished large swaths of the center, destroying large amounts of invaluable, salvageable (archeological as well as built) heritage and turned what had once been a meeting place of Lebanon’s different socioeconomic and religious groups into a privately secured upmarket consumption zone. More buildings were destroyed during “reconstruction” than during the war. Only French mandate-era and religious buildings were spared. In exchange for providing infrastructure works, Solidere was allowed to sanitize and reclaim as land the garbage dump in the sea that had grown throughout the war years, just off Downtown, and sell part of it for development. In order to succeed in his ambitions, Hariri appointed several of his business associates to powerful positions in prominent institutions (the Central
Bank was governed by his banker at Merrill Lynch, the finance ministry by former Citibank employee Fouad Siniora who worked for Hariri’s enterprises, the governorship of Mount Lebanon to Suhail Yamut, who used to be the director of Hariri’s business interests in Brazil (Denoeux & Springborg, 1998, p. 162) and circumvented existing administrative structures. He has been accused of bribing opponents with shares in his banks. This entire process has been well-documented in all its details by a range of critical scholars (Becherer, 2005; Leenders, 2003, 2004; Makdisi, 1997; Mango, 2014; Summer, 2005).

The privatization of Downtown Beirut was accompanied by several other large-scale works that sought to pave the way for investors to “return” to the country and turn Beirut into a “Singapore of the Middle East” (Denoeux & Springborg, 1998). A new highway, built by the CDR, ensured a swift connection from the airport to the city center, bypassing the old airport road that led through an impoverished area, and several other infrastructural works such as tunnels and roads were constructed. Reconstructing other damaged parts of the city was however not a priority. Instead, taxes on income and corporate profit were lowered to ten percent maximum (but raised to twenty percent in 1998 for incomes and fifteen percent for corporations) and no taxes on financial transactions or interest-bearing instruments were levied. Massive transfers and capital inflows from abroad characterized the political economy of Lebanon in this period. Foreign capital inflows, transfers and remittances constituted on average thirty-three percent of GDP annually between 1993 and 2005 (Berthélemy et al., 2007). Hence, while the new Downtown area did attract investments, most of Lebanon was left to fend for itself and still dependent on family remittances, as government spending did not extend to many areas outside Beirut Central District or to many ordinary Lebanese, for that matter. The Ministry of Displaced, for example, that was set up in order to return the people who had been displaced by the war, was soon accused of corruption and inefficiency (Leenders, 2012). The Minister of the Displaced was an ex-militia leader responsible for many of the displacements himself (Yahya, 1993, p. 150).

### 2.2.1.1 Postwar reconstruction and public debt

On the macroeconomic level, Hariri focused on stabilizing the Lebanese currency in order to stop inflation. As mentioned before, the Lebanese pound suffered from severe inflation at the end of the war. In 1992, this led to riots after the exchange rate jumped by around 300 percent when the Central Bank stopped intervening. When Hariri came to power, he introduced a stabilization program that eventually pegged the Lebanese pound to the dollar in 1997 (Dibeh, 2011) and relied on
borrowing from Lebanese banks to partly finance his reconstruction plans. Indeed, the banking sector grew enormously and once again became one of the country’s most profitable economic sectors (Peters et al., 2004). Banks’ capital increased from US$143 million end 1992 to US$3.3 billion end 2002. While they witnessed a large increase in their deposit base, the growth of their consolidated assets from US$14.5 billion in 1994 to US$52.4 billion in 2002 (Srouji, 2005, p. 34) was due largely to the borrowing patterns of postwar governments.

Government financing was undertaken via writing out treasury bills, denominated in Lebanese pounds (LBP) and auctioned by the Central Bank. Some Eurobonds were issued as well in 1994, but most bonds at this time were in Lebanese pounds. The government offered high interest rates, i.e. above market levels, to attract buyers: around twenty-five percent for twelve-month bills in 1990, peaking at over thirty-six percent at one point in 1995. Although they were bought by foreign investors as well (S. R. Hakim & Andary, 1997), the majority of buyers were Lebanese commercial banks (Hardie, 2012). Their extreme profitability allowed these banks to transform the huge postwar growth in deposits, that was a result of transfers of Lebanese expatriates and Arab investors lured by high interest rates and good returns on real estate investment (Bolbol, 1999, p. 1870) into lucrative and relatively safe investments. Interest payments on bank loans to the government reached forty-two percent for some maturities in the early 1990s, twenty-eight percent in 1992. There was a twenty-five percent return rate on three-month securities in dollars. From 1993, the yield on three-month securities averaged 14.6 percent, and on two-year bonds 19.29 percent and (S. R. Hakim & Andary, 1997; Peters et al., 2004). However this did go down somewhat: the average rate went from 21.4 percent in 1993 to 12.07 percent in 2000 (Peters et al., 2004). The banks passed these high returns partly on to their depositors via high interest rates, attracting even more deposits. The resulting increase in rentier income provided a pillar of political-economic support for the system (Dibeh, 2011).

The Central Bank has been crucial to the setup surrounding public debt in Lebanon as auctioneer of the bonds. Its postwar position has been quite powerful: all banks and financial institutions in Lebanon fall under its jurisdiction; it controls

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29 I.e., their assets combined.

30 Eurobonds are bonds denominated in foreign currency listed on the Luxembourg Stock Exchange.

31 According to data provided by the Central Bank, see www.bdl.gov.lb/webroot/statistics/table.php?name=t5271-3.
entry into the banking industry; defines the scope of banking activities and regulates banks’ practices. The banks also fall under the Banking Control Commission (BCC), which was established in 1967 to supervise banking activities and ensure compliance with regulations.\textsuperscript{32} The Central Bank is quite prudent when it comes to speculative practices and regulations around these are very strict. It regulates monetary policy, including exchange rate policy and interest rate ceilings (Saad, 2014). However, the Central Bank is at its most powerful in the role it plays in the Lebanon’s public debt.

The Central Bank’s role in Lebanon’s public debt has several aspects. First, the Bank auctions Lebanese pound-denominated treasury bills, controlling the primary market. It thus has an influence on who buys these bonds. The Bank shielded the market from competition by foreign investors by committing to fulfill all foreign demand for treasury bills regardless of size or interest rate and also if this demand exceeded the financing needs of the government, thus preserving high interest rates. These foreign investors could well be dealers hired by domestic Lebanese banks. The Bank refused to release data about the number of market participants at the weekly auctions, reinforcing this suspicion (S. R. Hakim & Andary, 1997). Second, the Bank controls the interest rates and could hence protect the Lebanese pound exchange rate by making investments in pounds more attractive (S. R. Hakim & Andary, 1997), encouraging deposits in Lebanese pounds by offering a higher interest on these (Poddar, Goswami, Solé, & Icaza, 2006) and requiring Lebanese banks to invest a minimum of forty percent of their LBP-deposits in treasury bills from 1994 to 1997 (S. R. Hakim & Andary, 1997). When supply levels were low vis-à-vis demand high interests rates were maintained, which could not be justified transparently. Third, there is hardly a secondary market for these bonds, but the Central Bank buys its obligations back at a discount (Peters et al., 2004). It also absorbs excess liquidity via certificates of deposit and finances the government to meet liquidity shortfalls (Poddar et al., 2006). In short, the Central Bank is an agent of the Ministry of Finance, a dealer, and the main financial regulatory body of Lebanon, which is asking for conflicts of interest (S. R. Hakim & Andary, 1997). As Gaspard (2004, p. 218) argued, the treasury bill-market was not regulated through supply and demand, but an unofficial understanding between the Central Bank and major commercial banks, reflecting the oligopolistic structure of the banking industry. The Central bank’s policy of providing high interest rates allowed banks to

\textsuperscript{32} This paragraph is largely based on information from the website of the Association of Banks in Lebanon (ABL) www.abl.org.lb/subPage.aspx?pageid=360. Accessed August 12, 2014.
make super profits between 1993 and 1997 by investing their deposits in the T-bills, and later Eurobonds. The state and the banks had reached an understanding that upheld these practices, avoiding a debt crisis, a state-central bank-commercial banks collusion (Dibeh, 2005, p. 16; Kubursi, 1999).

The Central Bank’s actions in the 1990s have taken away capital from banks that could have been invested privately in the country. The authorities’ argument was that investors’ confidence needed to be restored first. Then, Lebanon would re-emerge as a regional financial hub, not based on banking secrecy, but as a capital market channeling funds into the Middle East, Hariri’s dream of turning Beirut into a Singapore (S. R. Hakim & Andary, 1997). The Central Bank paid exorbitant amounts of interest on Lebanese-pound denominated T-bills while at the same time Eurobonds were flying over the counter. Why did the government not raise more debt internationally? Hakim and Andary (1997) maintain that the Lebanese-pound bills subsidized the operations of the domestic banks, who would otherwise not have not been able to survive. Its policies ensured the continued stability of the Lebanese banking sector, by for example never (directly) transmitting the costs of banks’ bankruptcies to depositors (Berthélemy et al., 2007).

The high interest payments on bank loans to the government were partly financed through the broad taxation of essential goods for the Lebanese population, for example via import duties, hitting the poorest segments of society hardest (Srouji, 2005, p. 24). This is because Lebanon was dependent on imports for a large part of its consumption, in part because historically Lebanese governments did not give priority to the development of industry and agriculture but also because the postwar development of productive sectors was hindered by the government’s high interest payments to the banks, which crowded out loans to the private sector (Gebara, 2007). If a bank can lend to the government on conditions of such favorable returns, it will only lend to the private sector if they can get at least the same returns. The exorbitant interest rates on loans were simply unaffordable to many businesses. Hence, the productive sectors were starved of credit and the Lebanese remained dependent on imports, which are heavily taxed. Of course, taxes could have been collected on high incomes and corporate profit as well, but successive postwar governments almost always avoided taxation of the rich: in the 1990s, taxes on income and corporate profit were lowered to ten percent maximum (but raised to twenty percent in 1998 for incomes and fifteen percent for corporations) and there are no taxes on financial transactions or interest-bearing instruments to date.
However, notwithstanding this form of accumulation by dispossession of the Lebanese population (between 1993 and 2008, servicing the Lebanese debt cost US$9,500 per person, Traboulsi, 2014, p. 28), this entire setup would not have worked if the banks were not awash with cash remittances from the Lebanese diaspora. Some of these came from Lebanese nationals residing in the Gulf and Sub-Saharan Africa (Labaki, 2006). Indeed, migration had continued in postwar Lebanon because of the high youth unemployment rates, around thirty percent (G. Hourani, 2009).
2.2.1.2 The role of diaspora capital

THE LEBANESE IN THE WORLD

The circulating numbers of Lebanese immigrants in the world are wildly varying, frequently inflated and rarely attributed to any official research or figures. These inflated numbers are due to urban myths, a natural desire to exaggerate the prominence and presence of the community, and difficulty in locating accurate data.

For example, the most widely used figure for Lebanese-Americans is around 3.3 million. In fact this figure is for all Arab-Americans and the Lebanese constitute only a third of that total. Even 1.3 million is optimistic since it includes around 500,000 third and fourth generation descendants of the first wave (1870-1920) who may or may no longer identify as Lebanese-Americans.

To correct these problems, this fact sheet provides the most current accurate estimates of Lebanese immigrant population. We have compiled these numbers with census data from various countries (US, Canada, Australia, Brazil, etc.), information gathered by various scholars, Lebanese Ministry of Foreign Affairs and Emigrants, Demographic models of growth over time, and data from the Lebanese Emigration Research Center (NDU, Lebanon).

Figure 4-The geographical spread and numbers of the Lebanese diaspora. This fact sheet claims to have the most accurate numbers © Moise A. Khayrallah Center for Lebanese Diaspora Studies. Retrieved from lebanesestudies.ncsu.edu, accessed April 24, 2015. Estimates of the size of Lebanon’s current diaspora range from 600,000 (MPC Team, 2013) to a staggering, unbelievable 20 million (see freakonomics.com/2013/08/29/who-are-the-most-successful-immigrants-in-the-world). This variation results from different ways of counting who is Lebanese (i.e.: is it only people born in Lebanon? People who hold Lebanese citizenship? Do descendants count? If so, how many generations should one go back? And so on).
Currently, the United States number anything from one to 2.5 million (descendants of) Lebanese immigrants (Marinova, 2010, p. 1). Australia and Latin America have a huge Lebanese diaspora community as well (there are an estimated seven million people of “Lebanese” origin in Brazil alone, Cohen, 2008, p. 95). Wealthy emigrants sent money back home and returned sometimes flaunting their money and renovating their ancestral homes, which changed the look of entire villages (Khater, 2001). Postwar, the government saw diaspora capital more and more as a valuable source of investment, and actively tried to attract it. It had however never developed a consistent framework regarding its diaspora population (Brand, 2007; G. Hourani, 2007). The Lebanese state did not yet exist when the first migration waves started and henceforth had not been very proactive in pursuing ties, due to distance and because many emigrants lost their (Ottoman/Syrian) citizenship (Brand, 2007, p. 6). Therefore, there was never a separate Ministry for Expatriates and expatriates could not vote in Lebanon in order not to upset the delicate sectarian balance (Brand, 2007, p. 8). There were some attempts at setting up official institutions, such as a short-lived Ministry of Foreign Affairs and Interests of Lebanese Abroad between 1941 and 1942, the Ministry of Foreign Affairs and Expatriates set up in 1945, consular missions in countries with a large Lebanese community, allowing for Turkish citizens of Lebanese descent to apply for nationality (Brand, 2007; G. Hourani, 2007; Labaki, 2006) and the Lebanese World (Cultural) Union that found itself paralyzed at the outbreak of the war (Brand, 2007, p. 8).

Despite these mostly failed attempts to maintain official ties with the diaspora, in the early 1990s the belief in its power to help rebuild the country was strong among the government and scholars alike. The diaspora was estimated to have US$10-30 billion in assets (Kubursi, 1993, p. 179; S. Nasr, 1993, p. 72). Many expressed hope that these expats would return to invest (Khalaf, 1993; Kubursi, 1993). These ‘gifted professionals and entrepreneurs’, symbolizing the ‘idyllic national character’, could play a role in rebuilding the war-torn country with their ‘cosmopolitan Levantine and republican spirits’, ‘native and consummate virtuosity’ (Khalaf, 1993, pp. 44–53). The Solidere company sold US$550 million of its US$650 million issued in shares to Lebanese expatriates (Mango, 2014, p. 291). The diaspora assisted in buying government bonds in the 1990s (around US$35 million) (G. Hourani, 2007, p. 6) and in June 2000, the Minister of Economy issued zero percent rate bonds where subscribers would receive the Migrant Medal, an initiative that was not continued. While the diaspora’s indirect influence on Lebanon’s political economy, via its remittances and contributions to the banks’ deposit boom as explained above, was
enormous, and the impact of powerful diaspora entrepreneurs and politicians no less so, any direct contribution to the country’s rebuilding via an active state policy of attracting their resources remained minimal.

2.2.1.3 The return of the displaced: sectarian tension and the role of political parties

Meanwhile, hundreds of thousands of people remained displaced. In 1993, Lebanese Ministry for the Displaced and the Central Fund for the Displaced were created, two public agencies that were meant to facilitate the return of displaced people and compensate them in cash for reconstructing or repairing their houses, or for being displaced as squatters, a category which was added under pressure from political parties. In the end, the latter category was resorted to most, while the Ministry’s mandate to reconstruct housing was not carried out, with the exception of one project in the Northern city of Tripoli. The people who squatted in what would become Solidere’s reconstruction project were given the priority to be removed first. These people were able to receive compensation sums that were sometimes way above what was officially mandated by the Ministry of the Displaced, partly because the initial compensation was too low and political parties intervened on their behalf; partly because of using personal connections to obtain higher sums (Bou Akar, 2005; Leenders, 2012). Families moved to their old apartments, to informal settlements but also to newly developed residential complexes with flexible payment schemes, made possible by financial support of political parties, who had an interest in locating their constituencies in contentious areas i.e. areas situated between several sectarian-homogeneous areas.

The role of political parties was a consequence of the state disappearing from the few services it was providing before the war, reinforced by the postwar Ta’ef settlement. The state did not go further than handing out compensation; it did not develop any social housing or low-interest subsidized loan programs. Therefore, political parties could step in where they provided financial incentives for affiliated developers to build cheap housing in Beirut’s suburbs and employed social networks to bring people there. They also intervened in infrastructure provision, mediated conflicts, and provided community facilities. This led to a construction in the suburbs at the time. The arrival of the displaced caused considerable tension with the residents of a different sect in a nearby suburb (Bou Akar, 2005). In this way, the monetary compensation after the civil war resulted in the formation of geographic religious enclaves that reinforced sectarian divisions (Bou Akar, 2015).
will show that this dimension played an important role in the materialization of the spatial fix.

2.2.2 1998-2008: Crises, reforms, debt and investments

The system of reconstruction by public debt got in trouble at the end of the 1990s. The dollar peg had required a cap on wages to avoid that they would spiral out of control due to the real exchange rate appreciation that resulted from the peg, and led to unprecedented suppression of labor by the Hariri government as well as a frozen minimum wage until 2008 (Dibeh, 2011; Makdisi, 1997). The peg also had negative effects on economic growth as exports became more expensive, and resulted in a crisis in 1998 that halted the postwar reconstruction boom temporarily (Dibeh, 2008). The foreign-induced economic growth that was hoped for did not materialize. Debt servicing swallowed a whopping ninety percent of government revenues in 1998 (Srouji, 2005, p. 28). Hariri left as Prime Minister and was replaced by Selim al-Hoss. Hoss ruled from 1998 to 2000 and attempted to reform the economy. However, he soon left office and Hariri came back in power again. Banks pressured the government to issue Eurobonds. Conveniently, this allowed them to adjust their accounts as they could now profitably invest their dollar deposits as well, although the yields on these bonds were lower than for those in Lebanese pounds (ten to twelve percent) (Srouji, 2005, p. 28). Foreign currency debt increased therefore to fifty-four percent in 2004 (Srouji, 2005).

In addition, a donor conference in Paris in 2002 (“Paris 2”, Paris 1 having been an earlier meeting to prepare) provided the government with relief from debt servicing (with public debt at 170 percent of GDP at that time), pledging US$4.3 billion in soft loans from France, Saudi Arabia and other states, plus US$2 billion from Lebanese commercial banks (Lebanon’s debt was US$36 billion at the time), in exchange for promises of privatization and reforms. Deposits by Saudi Arabia and Kuwait and diaspora remittances were vital as well (Dibeh, 2011). Diaspora remittances made between ten to fifteen percent of GDP between 1990 and 2004 (Labaki, 2006). Besides sending cash, the diaspora also mobilizes to fund development projects in their home villages and built schools, hospitals, infrastructure and so on (Adebayo, 2010, p. 72; G. Hourani, 2007, p. 8; Labaki, 2006, pp. 7–8).

Paris 2 showed the confidence of foreign investors in Hariri and the strength of his network. To meet the demands of the donors, several reforms were passed to
facilitate foreign direct investment (FDI). The government entered into free trade agreements and structural adjustment packages with international bodies such as the EU and the World Bank. In 2000 and 2001, the government ratified an Association Agreement with the European Union (EU), the trade provisions of which entered into force in 2006,\footnote{See ec.europa.eu/trade/creating-opportunities/bilateral-relations/countries/Lebanon for details.} and introduced an open skies policy and tariff cuts. A €50 million structural adjustment facility was signed in the context of Lebanon joining the Barcelona declaration and Euro-Med Partnership in 2000, including the introduction of Value-Added Tax (VAT) (Euro-Med Partnership, n.d.). Lebanon also pledged to join the World Trade Organization (WTO), of which it is an observing member since 1999, and the Arab Free Trade Area. In 2004, the country signed a free trade agreement with four EFTA (European Free Trade Association) countries.

Interest rates on treasury bills declined significantly after Paris 2 (Srouji, 2005): the average rate went from 21.4 percent in 1993 to 12.07 percent in 2000 (Peters et al., 2004) from over fourteen percent in 2001 to eight percent in 2005. Commercial banks’ share in government debt financing was decreased from eighty percent and reached sixty to sixty-five percent in 2009 (Dibeh, 2011). Although debt declined as percentage of GDP, it was still at 173 to 180 percent of GDP end-2005, eighty percent of which was held by Lebanese banks (Berthélemy et al., 2007; Saad, 2014). Hence the public debt system of borrowing from domestic banks continued, when the banks agreed to lower interest rates. The IMF at the time stated that investor confidence in Lebanon ‘has become the lynchpin of a unique symbiosis between the public-sector and the banking-sector balance sheets and how the authorities used this to overcome the near roll-over crisis of 2001-2002’ (cited in Dibeh, 2011, p. 47).

In total, in the period 1992-2004, debt servicing constituted forty percent of all government expenditure, making Lebanon more dependent on foreign grants and funding for its reconstruction (Srouji, 2005, p. 26). Interest payments took up to almost twelve percent of GDP yearly from 2005-2008. The banks profited from all this as they held most of the debt, even eighty percent of foreign currency debt in 2004 (Srouji, 2005, p. 34). The banking sector grew into a major pillar of the postwar economy, with deposits up to 255 percent of GDP in 2005, the second highest ratio in the world after Luxembourg (Berthélemy et al., 2007) Lebanon had the largest banking sector relative to GDP of all MENA countries (Cobham, 2011). In this way, the reconstruction program of the government constituted a massive transfer of finance to the political elite and the banks (Gaspard, 2004). Moreover, the high unemployment rates, political crises and Israeli war meant that many Lebanese...
soon opted to leave their country once again (G. Hourani, 2009, 2010), adding to the availability of remittances. In total, an estimated 466,000 people left between 1992 and 2007, of which thirty-five percent to the Gulf (G. Hourani, 2009, p. 5), adding to the already large Lebanese diaspora and the image of Lebanon as a bird with two wings, resident and expatriate (Brand, 2007, p. 7). Meanwhile, the attempts at decreasing debt-to-GDP ratio had largely failed, and in 2008 this ratio stood at a staggering 190 percent, the highest rate in the world (compared to Japan, 130 percent and the United States, one hundred percent, see Traboulsi, 2014, p. 27).

As we will see in the next chapter, this kind of setup has continued into the present day, although I will add the dimension of real estate investment to this as a “spatial fix” of banks’ capital surpluses. Together with the huge domestic debt in Lebanese pounds, where interest rates were much higher, post-war reconstruction in this way became a story of massive public debt where commercial bank deposits are key to ensuring government finance (Finger & Hesse, 2009).

2.2.2.1 Assassination of Hariri, war and political crisis

While the consequences of the Paris donor conference were playing out, Hariri increasingly clashed with President Lahoud over Syria’s domination of the country. He resigned in 2004, but a huge bomb targeted his motorcade in February 2005, killing him and twenty-one others. A large part of the Lebanese population demanded that Syria withdraw its forces, which it subsequently did. However, another significant part of the population had welcomed Syria’s presence and demonstrated in its favor. After the “Cedar Revolution” of 2005, therefore, the two main political blocs in Lebanon are characterized as “anti-Syrian” and “pro-Syrian” (called March 14 and March 8 respectively, after the date on which they had their biggest demonstrations).

Following the withdrawal of Syrian forces, a national unity government lasted only for a short time. In the summer of 2006, a devastating Israeli assault following a cross-border raid by Hezbollah left the infrastructure of the country in ruins, destroyed 107,000 housing units, killed 1,500 Lebanese (mostly civilians) and left 350,000 unexploded cluster bombs in South Lebanon which disrupt agriculture and kill people (mainly children) to this day. The government collapsed in a standoff between March 14 and March 8 factions. The latter’s supporters set up camp in Downtown Beirut in order to protest what they considered the unfair distribution of power. Meanwhile, another donor conference took place in January 2007 that secured almost US$1 billion in pledges. The Gulf States were key instigators of this Paris 3-conference, as the reproduction of their economies and their geopolitical
ambitions had become partly tied to Lebanon, while Iran made direct contributions for geopolitical reasons as well (Hamieh & Mac Ginty, 2010; Hanieh, 2011). However, political tensions remained unresolved and the country without President after his term expired in 2007. In May 2008, the ongoing political crisis escalated into a “mini civil war”, with street battles between supporters of the two camps in Beirut eventually moving to the mountains and Tripoli. Eventually, Qatar offered to mediate between the warring factions and a new national unity government was formed who appointed a new President.

The onset of temporary “peace”, coinciding with the continuing rise in oil prices until mid-2008 and the global financial crisis, led to a massive surge in investment in the country’s real estate and banking sectors. I will discuss this boom in the next chapter; in the remainder of this chapter I sketch the legal framework, including state-provided facilities to investors, that underlay this boom.

2.2.2.2 Facilitating real estate investment

During the postwar period, several changes to the legal and institutional framework allowed for a more intensive exploitation of the built environment. In the period after the economic slowdown of 1998-2000, and partly following the demands of donors, several reforms were passed that aimed at easing capital investment in the built environment. Restrictions on (foreign) investments and foreign property ownership were lifted, non-Lebanese were allowed to acquire more real estate or
land in 2001\textsuperscript{34} and persons of Lebanese descent abroad were given the option to own land in 2004. Investors and their companies and projects were exempted from certain taxes or registration fees (for an overview, see Krijnen & Fawaz, 2010; Krijnen, 2010). The Building Law was revised in 2004 to include extra built-up area and increase the maximum building height, in some cases allowing for the doubling of the exploitation ratio (Achkar, 2011), i.e. of how many square meters an investor was allowed to build on the plot. The Investment Development Authority Lebanon (IDAL), which was set up in 1994, was provided with special powers as a legal entity in 2001, allowing it to provide attractive incentive packages to investors and supersede all public administrations, authorities, and municipalities in issuing required administrative permits and licenses (Law 360/2001). In theory, this entity was set up to achieve a more balanced development. In practice, this entity has often issued attractive tax exemptions to upmarket hotel projects.\textsuperscript{35} It also set up investment agreements with countries with a large Lebanese diaspora, offering favorable investment conditions (G. Hourani, 2007). However, as far as tightening ties with Lebanese diaspora went, this attempt stalled as before: an attempt at setting up a separate Ministry of Expatriates failed when it descended into a sectarian turf war (Brand, 2007).

Developers quickly jumped into the opportunities provided by these reforms, leading to a significant real estate boom. A significant part of foreign direct investment into real estate came from the Gulf States. Gulf countries’ need to invest their surplus oil capital, especially after the surge in oil prices that began in the late 1990s and that lasted until mid-2008, has meant that are one of the chief investors in Lebanon: cumulative investment between 1985 and 2009 stood at US$11.3 billion, the largest share of which came from Saudi Arabia, followed by the UAE and Kuwait (G. Hourani, 2014). In the period 2003-2008, nearly fifty percent of all foreign financing for projects in Lebanon came from Gulf countries, closely tying it ‘to the reproduction of capitalism in the Gulf’ (Hanieh, 2011, p. 159). The next chapter will

\textsuperscript{34} This applied only to persons who were citizens of a recognized state. This condition allowed the government not to extend this privilege of acquiring land to Palestinian refugees, who never acquired Lebanese citizenship but also did not have a home country to fulfill the condition of reciprocity.

\textsuperscript{35} According to an interview with the director of IDAL, October 20, 2014. Statistics provided to me during the interview show that between 2003 until October 2014, 70.5% of all projects (completed and ongoing) were in the tourism sector. In terms of the regional distribution of projects, Beirut received 55.2% of total investment, followed by Mount Lebanon with 31.1%. Of projects active at the time of interviewing, 73.5% was carried out in the tourism sector, and the same percentage of active project was located in Beirut.
explore this dimension further. The table on the following pages provides an overview of legal reforms passed in the postwar era.

The role of public authorities such as the municipality has been one of active facilitation of the interests of agents of capital. The municipality hands out building permits (which are a lucrative source of income) and engages in completing the road network that was outlined in Beirut’s 1960s master plan, which remains largely unimplemented otherwise. It does not engage in any form of overseeing the massive amount of real estate projects that are under construction, planning for infrastructure, or policies that aim to mitigate the consequences of the increasing unaffordability of housing for the city’s population. Another body, the Directorate General of Urban Planning (DGU) can develop master and zoning plans for certain areas. While legally this body has the power to limit real estate construction, in practice they often do not, also due to the interests represented in its Higher Council (Krijnen & Fawaz, 2010). And when they do, they are subject to political-sectarian influencing (Bou Akar, 2005). In short, therefore, local authorities do not display the kind of “urban entrepreneurialism” (Harvey, 1989) seen in the West (Brenner, 2004; Jessop, 2002; Swyngedouw et al., 2002), but the active facilities contained in the legal changes discussed above combined with inaction in other cases together resulted in a state that actively facilitates real estate investment and created the conditions in which profitable investment became possible through exploiting resulting rent gaps. The ways in which the legal framework and changes to it and the (in)action of public authorities combined to lead to the specific materialization of the spatial fix on the ground will be explored in Part 2 of the dissertation.
Increasing building allowances: Decree 2791, Oct. 15, 1992

Amendment to implementation decree of the building law, easing the construction of high-rises.

New building law, most important changes:
- Increase in total exploitation area by allowing for more areas to be deducted: such as staircases, elevators, technical floors, double walls, maid's room and parking grounds.
- Increase of 25 percent of apartment size in balconies, up from 20 percent, can be added.
- Increase of the factor used to calculate the building envelope (gabarit) from \((2 \times \text{road width} + \text{setback})\) to \((2.5 \times \text{road width} + \text{setback})\).
- Increase of same factor for the back of the building from \((4 \times \text{road width} + \text{setback})\) to \((5 \times \text{road width} + \text{setback})\).
- Increase of the factor used to calculate the building envelope (gabarit) from \(1.8 \text{m}\) to \(1.9 \text{m}\), while not counting them towards exploitation.
- Buildings up to 50m can obtain their permit directly from the Municipality, from 40m previously.
- An excavation permit can be issued for projects waiting for their building permit.

The retour de gabarit works as follows: when a building is on a corner and thus on two streets, the height allowed before a developer needs to receive a permit is smaller.

<table>
<thead>
<tr>
<th>Reform Type</th>
<th>Date</th>
<th>Content</th>
</tr>
</thead>
<tbody>
<tr>
<td>Decree 15874</td>
<td>2005</td>
<td>New building law, making important changes.</td>
</tr>
<tr>
<td>Decree 2791</td>
<td>1992</td>
<td>Adjustment to implementation decree of the building law, easing the construction of high-rises.</td>
</tr>
<tr>
<td>Decree 402</td>
<td>1995</td>
<td>Law 339: Hotels are allowed to double their total area exploitation (built-up area), given the permission.</td>
</tr>
<tr>
<td>Law 646 &amp; implementation decree 1587</td>
<td>Dec. 11, 2004 &amp; 2005</td>
<td>Law 402: Increase Total Area Exploitation (built-up area), given the permission.</td>
</tr>
</tbody>
</table>

\[\text{gabarit} = (2 \times \text{road width} + \text{setback})\]
<table>
<thead>
<tr>
<th>Reform type</th>
<th>Date</th>
<th>Content</th>
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<tbody>
<tr>
<td>Facilitating foreign investments</td>
<td>Mar. 20, 2001</td>
<td>Formerly in Motion Law (13) the top 25 of these investors can each purchase an average of 6.46 square meters of land (2% of the total) or size city.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>The Council of Ministers has been more than willing to grant exemptions for foreign purchases of real estate in Lebanon. From a report (B1-ME, 2005).</td>
</tr>
<tr>
<td></td>
<td></td>
<td>The Council of Ministers has been more than willing to grant exemptions for foreign purchases of real estate in Lebanon. From a report (B1-ME, 2005).</td>
</tr>
<tr>
<td>Law 296</td>
<td>Amending decree 11614 of 1969</td>
<td>Facilitating foreign investments. Exemptions for foreigners can acquire up to 3000m² of property without seeking permission. Exemptions were previously only available to Lebanese citizens.</td>
</tr>
<tr>
<td>Law 771</td>
<td>Amending Law 144 of 1959</td>
<td>Exempts joint-stock companies that have a contract with the Investment Development Authority Lebanon from the requirement of having at least two Lebanese nationals on their boards.</td>
</tr>
<tr>
<td>Law 772</td>
<td>Amending Decree Law 45, 1983</td>
<td>Exempts holdings from the requirement of having at least two Lebanese nationals on their boards. Holdings can have non-Lebanese managers in Lebanese companies.</td>
</tr>
<tr>
<td>Law 773</td>
<td>Amending Law 47, 1983</td>
<td>Exempts non-resident foreign chairman of a holding company does not need a working permit.</td>
</tr>
<tr>
<td>Law 19</td>
<td>Amending Decree Law #46 from 1983</td>
<td>Removing the requirements of having two Lebanese nationals on the board of an offshore company. A non-resident chairman of an offshore company does not need a working permit.</td>
</tr>
<tr>
<td>Law 209</td>
<td>Amending Decree Law #46, 1983</td>
<td>From a report (B1-ME, 2005) citing numbers by Ramco real estate consultants: 'Between January 2001 and May 2003 for example 80 investors from the Gulf acquired 1.8 million square meters of land in Lebanon.' From a report (B1-ME, 2005).</td>
</tr>
<tr>
<td>Law 38</td>
<td>Amending Law 771</td>
<td>Exempts joint-stock companies that have a contract with the Investment Development Authority Lebanon from the requirement of having at least two Lebanese nationals on their boards.</td>
</tr>
<tr>
<td>Law 39</td>
<td>Amending Law 772</td>
<td>A non-resident foreign chairman of a holding company does not need a working permit.</td>
</tr>
</tbody>
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The Council of Ministers has been more than willing to grant exemptions for foreigners acquiring property in Lebanon. From a report (B1-ME, 2005).
<table>
<thead>
<tr>
<th>Reform Type</th>
<th>Date</th>
<th>Content</th>
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</thead>
<tbody>
<tr>
<td>Regulation</td>
<td>Dec. 7, 1991</td>
<td>Law allowing for the creation of a private real estate company in charge of planning and reconstruction of Downtown Beirut (established in 1994 as Solidere) to acquire state land.</td>
</tr>
<tr>
<td>Tax breaks</td>
<td>June 24, 1983</td>
<td>Holding companies are exempt from paying income taxes and their capital is reassessed every year, with a maximum of 100% of their liabilities. The interest of each company is assigned 4 percent of capital less 2 percent of their revenues.</td>
</tr>
<tr>
<td>Tax breaks</td>
<td>Apr. 23, 2001</td>
<td>New customs law. Hotel equipment is exempt from customs duties.</td>
</tr>
<tr>
<td>Tax breaks</td>
<td>Apr. 23, 2001</td>
<td>New customs law. Tourist transportation buses are exempt from excise taxes.</td>
</tr>
<tr>
<td>Reform type</td>
<td>Oct. 15, 1992</td>
<td>Decree 2786. Enabling the company reconstructing Downtown Beirut (established in 1994 as Solidere) to acquire state land.</td>
</tr>
<tr>
<td>Reform type</td>
<td>31st January 1977</td>
<td>Decree No. 5 promulgated on the acquisition of buildings and the sale of lease of such buildings.</td>
</tr>
<tr>
<td>Reform type</td>
<td>Dec. 7, 1991</td>
<td>Law allowing for the creation of a private real estate company in charge of planning and reconstruction of Downtown Beirut (established in 1994 as Solidere) to acquire state land.</td>
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<td>Reform type</td>
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<td>Regulation</td>
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</tr>
<tr>
<td>Creating institutions to facilitate investments</td>
<td>1994</td>
<td>Decree 5778</td>
</tr>
<tr>
<td>Establishment of an agency charged with encouraging investment in Lebanon and marketing the country abroad.</td>
<td>Aug. 16, 2001</td>
<td>Investment Development Law 360</td>
</tr>
</tbody>
</table>

| Facilities and services for an Investment Project in Zone A, B or C, including: | |
| - Work permits for foreigners, provided that the project employs two Lebanese for every foreigner. | |
| - An income tax exemption for two years for the joint stock company owning or managing the project. | |
| - 50-100 percent reduction on income taxes and taxes on project dividends for five-ten years. | |
| | |

| Facilities and services for a Package Deal Contract, including: | |
| - Discount on residence and work permits for foreigners as well as on building permits, registration, and mortgage fees. | |
| - Assistance in obtaining residence and work permits for foreigners as well as on building permits. | |
| - Exemptions from income tax for up to ten years. | |
| - Provision of work permits as long as two Lebanese are employed for every foreigner. | |

Table 2: Overview of postwar reforms.

Zone A: Coastal areas delimited by a north-south line detailed in law 360 (see Appendix). Zone B: Areas not falling under Zone A & C; industrial areas in the North and South mohafazat: Saida, Ghazieh and Tyre in the South and Ar marsh, Saida, Bint Jbeil, and Hermel in the North. Zone C: Cities of Akkar, Minieh-Dinneh, Bsharre, Hermel, Ar marsh, Tyre, Hermel, and the West Bekaa villages in the mountainous areas of the Byblos, Batroun, and Hermel. Zone D: Cities of Hermel, Tyre, and Ar marsh in the South and Hermel, Saida, Bint Jbeil, and Hermel in the North. Zone E: Industrial areas in the Bekaa. For every Lebanonese employee, the project must provide an additional employment and power.
2.3 Conclusion

This chapter discussed the historical, social, political and economic background in which the case studies in my following chapters are situated. It has first shown the way in which Beirut gradually turned into a center of international trade, where the inroads of expanding European capitalism led to its expansion during the second half of the nineteenth century as a class of local intermediaries rose to prominence. Beirut became first an Ottoman provincial capital and then the capital of the newly created state of Greater Lebanon under the French Mandate. After independence in 1943, trade, banking and services remained privileged sectors of government investment and main pillars of Lebanon’s political economy, and Beirut became a regional financial center following political upheaval elsewhere and the need for increasing amounts of petrodollars to be recycled since the surge in oil prices during the 1970s. Its built environment was shaped by surplus capital from the oil-rich countries and fleeing capital from other, Keynesian-Fordist and developmentalist states that were enacting nationalizing and redistributive policies that directed capital away from these states into one of the few welcoming zones at the time. The urban development of Beirut did not follow any master plan, contrary to other cities at the time. Another dimension that the chapter should have made clear is the salient place of migration in the history of the Lebanese territory and the way in which the diaspora has impacted the country politically and economically. This dimension became especially important during the first years of the civil war, where Lebanese expatriates’ remittances, a large part of which from the Gulf, kept the country afloat during the first years. The diaspora also played a role in new transnational financial networks connected to the several warring militias gained a foothold in what was left of Lebanon’s economy. The displacement of large parts of the population meanwhile meant that besides destruction, Beirut and its surroundings experienced a real estate boom as new residential and commercial centralities replaced the city’s destroyed core. It is also in this period, when new banks were allowed to enter the stage after the Free Banking Law of 1977, that the government needed to borrow extensively and started to rely on Lebanese commercial banks, which were awash with cash from diaspora remittances.
All this should make clear that the postwar political-economic settlement, including the reliance of the government on borrowing from Lebanese banks, the role of diaspora remittances, and the power of diaspora Lebanese like Hariri, had its roots in the civil war and did not constitute a radical break with it. Postwar Lebanon was characterized by the consolidation of power of actors who had entered the stage during the war and who were often part of the Lebanese diaspora. Hariri’s drastic interventions in Downtown Beirut, started during the war, and large-scale infrastructural projects carried out by the CDR, were combined with an increasingly large budget deficit, mediated through the Central Bank, that the country has been unable (and the political elite unwilling) to overcome despite several bailout conferences. Meanwhile, the reforms to facilitate capital investment that were passed in the early millennium following these conferences did not miss their effect as real estate developers benefited from several tax exemptions, a more intensive exploitation of the built environment than before and relaxed requirements on the acquisition of real estate by foreigners.

In short, this background should help the reader situate and understand the broader context and historical background of the spatial fix, the role of the Lebanese diaspora, the legacy of Beirut as a financial services center and the political economy of public debt. It should also prepare the reader for Part 2 of the thesis by introducing the legacy of civil conflict and displacement and the role of the state in creating conditions of profitable investment in the built environment, in order to understand how the spatial fix materialized. It has shown the way in which Beirut has always been constituted of connections that went beyond its locality, the way it was shaped by the circulation of capital throughout different periods in time, and avoided any reification or essentialism in terms of its character, scale, or liability to “Northern” theory. I will now move on to the next chapter where I explain the conditions and reasons for the post-2008 spatial fix, picking up in 2008 as a real estate boom got underway after the political settlement and national unity government that followed the conflict in May 2008.
3 The influx of deposits, the diaspora and the role of the banks in the urban transformation of Beirut

This chapter discusses two interrelated phenomena that explain the availability of capital for switching into the built environment of Beirut from 2008 onwards: the role of the Lebanese diaspora as investors in real estate (directly) and depositors in the Lebanese commercial banks (indirectly) and the role of the banks (and the Central Bank) in directing these flows of capital towards the built environment by providing credit to investors and buyers alike. As I have explained, capital investment in the built environment requires some coordination and some facilities (see Chapter 1). Individual capitalists or prospective homebuyers are usually not able to gather enough capital to be able to invest in a circuit with such a long turnover time, if they do not find investors or an intermediary willing to advance the money ahead of actual production and consumption, i.e. to create fictitious capital such as construction or housing loans. Banks can be such financial intermediaries: they are able to create money capital out of their flow of money in deposits (which can also be surplus capital resulting from overaccumulation) and advance this as credit, subject to regulations usually laid down by a Central Bank in order to protect the quality of money43 (Harvey, 1982). Financial and state institutions that control these processes can be seen as ‘the nerve center governing and mediating the relations between the primary and secondary circuits of capital’ (Harvey, 1978, p. 107).

In order to explore this “nerve center” for Beirut, this chapter will first discuss the real estate boom of 2008 and show how increased flows of capital into Beirut’s built environment could at first be linked to investments by the Lebanese diaspora (as well as capital from the Gulf). Second, I show that the banks escaped the global financial crisis of 2008 and consequently ran into excess liquidity when many members of the Lebanese diaspora transferred their capital to them. Third, I will

43 The Central Bank should make sure that fictitious values do not move too far out of line with real commodity values, in order to protect the character of money as a measure of value versus its capacity as medium of circulation (credit) (Harvey, 1982, p. 249; 279)
argue that the banks and their regulatory body, the Central Bank, directed this excess liquidity into the built environment of Beirut in order to avoid devaluation, and compensate for falling sales rates as the real estate boom stagnated around 2011. This intervention kept capital circulating via mortgage provision (cf. Aalbers & Christophers, 2014), preventing the collapse of the real estate market. The banks went along with this because the government bonds, as discussed in Chapter 2, did not provide such a profitable lending outlet anymore since interest rates on these declined due to the rolling over of state debt. I will show how several regulatory measures and incentives ensured a safe outlet for banks’ surpluses in financing real estate, resulting in a boom in credit provision to the construction sector and in housing loans serving a clientele that was mostly domestic Lebanese. In order to fully understand how this happened, it is crucial to look at the role of the powerful Central Bank. This chapter will thus make clear how the banks, with the help of the Central Bank and diaspora remittances, helped sustain Beirut’s real estate market, developers’ liquidity and the high prices of housing.

3.1 The 2008-2011 real estate boom and the diaspora

From 2008 to 2011, Beirut underwent a real estate boom. While much of the globe was embroiled in a severe financial crisis, Lebanon had just resolved a longstanding political crisis (see Chapter 2, section 2.2.2) and investors were either cashing in on the results of their speculative practices (Ross & Jamil, 2011) or eagerly profiting from the investment flows towards Lebanon, which was deemed a safe haven after avoiding the financial crisis (how and why it avoided this crisis is explained in the next section). Figure 6 and Figure 7 show cement deliveries (in tons) between 1993 and 2013, and construction permits in million square meters between 1993 and 2015. These data are not entirely suitable to gauge capital investment in the built environment in Beirut: cement deliveries normally happen when a project is

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44 Ideally, I would situate the real estate boom longer-term by describing Kuznet’s cycles for Lebanon, as Harvey (1978) does (see Chapter 1, section 1.1.1), using data on the amount of capital invested in the built environment throughout the years or building activity per capita in dollars. However, due to the fact that during the civil war no statistics were kept on construction, we will have to do with only one cycle.
already under construction, i.e. after investment has been planned and partially carried out, and construction permits are usually delivered six months to two years after a project is planned (Krijnen, 2010) and moreover do not guarantee that a project is actually being constructed. Also, I am using nationwide data, because first of all the central position of Beirut ensures that most investments are directed towards there in any case and second, the municipal borders of Beirut do not coincide with its metropolitan area, so looking at data only for Beirut would distort the picture (since construction in the suburbs would not be taken into account). Both figures are able to show that capital investment in the built environment has followed the Lebanese economy’s rhythm of growth and crisis, outlined in Chapter 2: the reconstruction boom of the early 1990s, with investors jumping into the opportunities for reinvestment given the massive devaluation of capital in Downtown Beirut, followed by the bust of the late 1990s, and a pickup in growth that starts in 2005 (after the new Building Law was passed and Gulf investors had significant surplus capital to invest). The 2008-boom which is the subject of this chapter is visible in a gradual increase of cement deliveries that accelerates in 2009 and a much larger growth in construction permit areas as of 2008, slowing down somewhat in 2009 but sharply increasing in 2010. As a real estate sales representative explained to me: “The momentum was there, a very high energy, under normal circumstances it will handicap the situation, in a saturated market it will hold the market back, but there was a momentum, after 2008 Doha we saw something very strange, never seen before in Lebanon, prices escalated in a few months to double, and tripled from 2005. 2005-2008 established some sort of price increase, 2008 Doha accord made an unprecedented price escalation”\textsuperscript{45}

\textsuperscript{45} Interview with sales representative of Achrafieh 4748, April 30, 2012.

Figure 7- Construction permits in million square meters. Source: Statistics provided by the Order for Engineers and Architects, downloaded at www.bdl.gov.lb/statistics/table.php?name=t51-11. Note that construction permits take from six months up to two years, and hence the projects themselves have already started to be planned/sold the permit is given.
The real estate boom that started in 2008 was driven largely by capital from abroad. Indeed, as the built environment is immobile, it ‘requires interregional and international flows of money to facilitate its production’ (Harvey, 1978, p. 113). These flows are especially prone to be international in a country like Lebanon, where there is no local production base (as explained in Chapter 2). However, the distinction “international” (or global) and “local” needs some qualification here, because a significant part of these flows originated with the Lebanese diaspora. In this way, Lebanon is well in line with other countries who have a large diaspora (Ghana, China) and whose international self-made entrepreneurs changed the urban landscape of their hometown by constructing malls, gated communities and housing tailored towards the demands of the diaspora, who wish to maintain the higher standard of living that they are used to in their host countries (Grant, 2005; Hobden, 2014). Housing is constructed that far exceeds the affordability of local residents and property becomes disconnected from the viability of the larger economic context in which it is situated (Simone, 2010; Wu, 2000). During the real estate boom that started in 2008, something similar happened in Beirut.

Figure 8-The real estate boom becomes visible. Picture taken April 14, 2010.
Lebanese diaspora investment in real estate is of course not a new phenomenon; with such a large diaspora, many emigrants regularly bought or constructed a house during their annual return to the motherland (Labaki, 2006). As far back as the nineteenth century, geographically mobile merchants built grand palaces and residences in Beirut that showcased influences from other places in their architecture (Kassir, 2010, p. 126), investing considerable amounts of capital in Beirut (Hanssen, 2005a). Throughout the years, part of the Lebanese diaspora always maintained strong social, economic and political ties with the homeland, which today are stronger than ever due to faster communication and travel means, although it must be noted that certainly not the entire amount of people considered of Lebanese origin maintain such ties (Mizobuchi & Takaoka, 2013). Instead, ties are strongest with Lebanese in West-Africa, Europe and the Middle East, where they are often not naturalized and are located closer to home, contrary to their counterparts in Latin America and the United States (Brand, 2007, p. 6; Humphrey, 1993) (recently immigrants to the United States have started to unite again in order to encourage transnational investment (Marinova, 2010). In the process, these migrant social networks have generated translocal ties across the globe (Adebayo, 2010, p. 73; G. Hourani, 2007) and brought capital to Beirut, the consequences of which this chapter explores with regard to real estate (in this section) and banking (in the next section).

With the postwar reconstruction of Beirut and the return of powerful Lebanese diaspora actors, the phenomenon of diaspora investment in real estate was endorsed and encouraged, and the supply of high-end apartments that the real estate boom provided was suited not only to the large amounts of Gulf buyers that formed a steady part of the demand throughout the postwar period, but also to the growing, well-off Lebanese diaspora (and of course not in any way to the resident Lebanese). The diaspora got involved in the real estate boom in two ways: as investors and as developers.

### 3.1.1 Diaspora investors

As explained in Chapter 2, after the war ended a number of rich diaspora investors returned to Lebanon. A significant amount of capital investment in real estate in postwar Lebanon came from diaspora investment. The late Prime Minister Rafiq Hariri was perhaps the most famous of them; a very successful construction magnate in Saudi Arabia who used his capital and connections to carry out his
projects (Becherer, 2005; Denoeux & Springborg, 1998; Leenders, 2004; Makdisi, 1997; Summer, 2005). Hariri was part of a larger number of diaspora investors from the Gulf: eighty percent of contractors from the diaspora active in the 1990s came from Saudi Arabia and the Gulf region (Labaki, 2006). Another example is Speaker of Parliament of the last twenty years Nabih Berri, leader of the Amal militia during the civil war, who has an empire of business interests (in real estate, banking, trade) in West Africa and the Gulf (Gberie, 2002, p. 12). At one point, he allowed a diamond dealer from Sierra Leone to mine sand off the beaches in the Southern city of Tyre, in his role as head of the government institution Council of the South (Picard, 2005, p. 40 note 44). Gauging the exact amounts of capital circulating here is difficult because there are no numbers available on Foreign Direct Investment (FDI) in real estate by Lebanese diaspora and other foreign investments.

Apart from these examples, my own research has provided some idea of diaspora developer involvement after the real estate boom in 2008. Mercury Development, now called Trillium Development, the developer of the Trillium Beirut towers in Corniche en-Nahr, is a company founded by Lebanese-British diaspora entrepreneur Mustapha Ahmad. Before coming to Beirut, the company worked in postwar reconstruction in Afghanistan and Iraq. After making a fortune abroad, Ahmad set his eyes on Beirut a decade ago and started buying plots, including the Trillium plot. Meanwhile, the company continues to develop projects abroad, currently building an entirely new, one million m² city in Erbil, as well as other projects in Iraq, Djibouti, Sierra Leone, Afghanistan and Morocco. “Mercury began to do projects in Iraq, Djibouti, all over Africa. We had already a lot of capital when we started in Lebanon.”

Another diaspora developer is HAR Properties, the developer of UPark in Corniche en-Nahr and the AYA-project in Mar Mikhael. HAR consists of two partners who both used to live in Paris. Its CEO Fahed

46 The US government has since indicted Ahmad and some of his partners for defrauding them. I also found out that a recurring shareholder in several companies owned by Ahmad, Mohammed Abu Derwish, a Lebanese businessman who opened a private security company in Iraq after the 2003-invasion, was arrested in 2004 on suspicion of smuggling US$13 million worth of Iraqi cash into Lebanon, obtained from a procurement contract with the Iraqi Ministry of Interior (the charges were dismissed). This same person was accused of defrauding the US Government through food and food equipment provisions supplied to US-installed Iraq government., see https://www.fbi.gov/albuquerque/press-releases/2012/former-officers-of-new-mexico-based-defense-contractor-charged-in-fraud-and-money-laundering-schemes-related-to-rebuilding-efforts-in-iraq

47 Interview with the developer of Trillium residential high rise, December 4, 2013.

48 Interview with sales representative of Trillium Beirut, April 24, 2012.

49 Interview with the developer of UPark, December 12, 2013.
Hariri is a billionaire heir of the late Prime Minister who made his fortune in the Gulf. Moreover, while the Pearl Office Tower in Corniche en-Nahr is developed by the Lebanese subsidiary of a Kuwaiti company, its Lebanese project manager told me that he used to work in Nigeria, again illustrating how many former Lebanese diaspora currently work in real estate in their home country. Other developers have had careers abroad as well before coming to Lebanon. A partner in BEAR Properties, developer of Factory 4376 in Corniche en-Nahr, was born in Montpellier, France and moved to Beirut when the war was over. Hence, Lebanese expatriates have been actively involved in real estate as developers.

3.1.2 Diaspora buyers

Apart from capital investment in real estate development, the diaspora have been active buyers of this real estate as well, and this was once again affirmed after the latest boom, which started in 2008. The Lebanese that were living abroad “started to put their money in real property”, seeing that the market in Beirut was stable as opposed to the markets of the countries where they were living. The Lebanese diaspora constitute a large part of the buyers of upper middle class to high-end residential real estate, whether as end users or speculators (Wehbe, 2014c). Exact numbers are hard to find, however: “Suppose I go and buy an apartment, the seller doesn’t care if I’m resident or not.” Therefore, a large share of buyers consists of expatriate Lebanese that are employed abroad in well-paying jobs abroad, which means that they can afford to buy these properties. Developers confirm many of their clients work mostly in white-collar professions abroad and are university-educated. They buy an apartment for their return to Lebanon after retirement, as a summer residence or as an investment for their children. Indeed, only two out of ten apartments in Beirut are sold to local residents. In terms of financing, buyers

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50 Interview with the developer of Pearl Office Tower, December 5, 2013.

51 According to the sales contract of the land, obtained in December 2013 from the Land Registry, concluded March 31, 2010.

52 Interview with the Vice President of an economic think tank, December 10, 2013.

53 Interview with the Vice President of an economic think tank, December 10, 2013.

often deposit an initial down payment and pay the rest of the sum in subsequent installments, usually following different stages of completion of the building. However, in the past years, mortgage financing is becoming more common, as we will see. It is estimated that in 2010, forty to forty-five percent of demand for residential real estate came from Lebanese expatriates, mostly high-end apartments, and real estate agents and developers actively tried to reach expatriates (Pearlman, 2014). These buyers relied on personal savings, mortgages, and assistance from family members.\(^{55}\) Online real estate portals have opened that cater to Lebanese diaspora looking for a home in Lebanon\(^ {56}\), and there is an online banking portal where they can compare mortgages\(^ {57}\) (Cauli, 2014). Byblos Bank receives applications for expatriate housing loans through its representative office in Dubai and its online portal (Bathish, 2012). Ten percent of Lebanese non-resident depositors in Lebanese banks stated that having real estate services in Lebanon was their reason for depositing (Khoury & Kanj, 2013, p. 161). An advertising agency stated that they do roadshows for Lebanese living in the Gulf.\(^ {58}\)

Most developers and other experts I interviewed concede that expatriate Lebanese make up a large part of the demand for real estate in Beirut: “It’s the Lebanese working outside who want to invest in their country; the only safe option is property, land; that never lost value, its either stagnating or growing.”\(^ {59}\) “Three-quarters of buyers live abroad, stay three months a year or bought it as an investment, especially the smaller ones.”\(^ {60}\) For the Trillium Beirut-project in the Corniche en-Nahr-area, clients consist of sixty percent expats and ten percent foreigners (Boudisseau, 2011). One lawyer expressed the possibility of investing in these apartments as a way of saving, especially considering the low interest on mortgages: “If I have some money, I purchase apartments because the interest is very low, I’m paying $2000 a month, and once it is constructed I can sell it with a

\(^{55}\) Also, local buyers have reported being helped by wealthier relatives abroad, hence this is part of where remittances by the diaspora do flow into real estate (Krijnen & De Beukelaer, 2015).

\(^{56}\) See, for example propertyfinder.com.lb, which offers a mortgage calculator as well. 2529 properties in Beirut are listed for an average price of US$1.4 million (based on results of September 17, 2014).


\(^{58}\) Interview with the director of an advertising agency, December 10, 2014.

\(^{59}\) Interview with an advertising agent working for UPark, December 10, 2013.

\(^{60}\) Interview with sales representative of Achrafieh 4748, April 30, 2012.
profit of $50,000.” While the amount of people who buy for these purposes has not been established, it seems clear that a large part of buyers during the real estate boom consisted of diaspora Lebanese. The diaspora had an arguably even bigger impact in the banking boom that started in 2008. I will now turn to this story.

3.2 The post-2008 influx of bank deposits

Chapter 2 has discussed how banking has been an extremely important sector of the Lebanese territory’s economy since the nineteenth century when Beirut became a hub of trade, through the post-independence period when Beirut was a regional financial center recycling fleeing and Gulf capital, and the civil war when Lebanese banks monopolized the banking sector as foreign banks withdrew from Beirut and they became important for government borrowing, using the funds they attracted in remittances, expanding to countries with significant Lebanese expatriate populations. With the Free Banking Law of 1977, new banks belonging to Lebanese with connections to Gulf and West African capital entered the scene. Meanwhile, the Central Bank, founded during the Chehabist period in 1964, was required to take the opinion of the Association of Lebanese Banks (ABL) into account for every decision, showcasing the banks’ power. During the postwar era, Lebanese commercial banks became the main lenders to the government on very favorable terms (for the banks) via Treasury Bills (and to a lesser extent Eurobonds), swelling their capital, which was increasing also because of continuing diaspora remittances, which were in turn attracted by the high interest rates banks could offer (Hardie, 2012). The debt was repeatedly rolled over in this way and increasingly through Eurobonds, allowing banks to adjust their accounts by investing their dollar deposits. As a result, the Lebanese banking sector became enormously inflated. The postwar role of the Central Bank has been especially crucial, as it auctioned the bonds, maintaining high interest rates even when it appeared unnecessary.

Currently, Lebanon has sixty-four commercial banks (Saad, 2014). In 2003, the five largest banks controlled about half of total deposits volume. Most banks are managed by the founding families, of which twelve are dominant (Cochrane, 2010). The so-called alpha banks (with over US$2 billion in deposits) are owned by

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61 Interview with a lawyer, March 18, 2015.
shareholders other than the founding families, mostly investors (such as the Bank of New York Mellon), holding companies and Gulf capital (such as that of the Kuwaiti, UAE and Saudi royal families). Founding families still sit on the board of directors but do not have many stakes. Often banks also have shares in other banks (Cochrane, 2010). Foreign banks are still not settling in Lebanon, because they do not trust the security situation but moreover because they cannot compete with the interest rates that Lebanese banks are able to offer: “It’s not a safe place here so international bankers are very shy. HSBC offers two percent on any dollar savings account; local banks offer three to four percent, so why should they be interested in Lebanon? It’s a risk for them.”62 “They cannot compete in Lebanon with the banks with the high rates on deposits.”63 This section will explore how the Lebanese banking sector, already in such a strong position, ran into enormous excess liquidity. It will explain how and why Lebanon escaped the global financial crisis in 2008, which coincided with the (temporary) resolution of the political crisis. These two factors combined led to a surge in confidence, increasing economic activity, huge capital inflows and a real estate boom (Sadikov, Kyobe, Nakhle, & El-Ganainy, 2012), the consequences of I will outline in Part 2 of this dissertation. They also resulted in a large increase in bank deposits, especially in Lebanese pounds, and huge profits for the banks. Consequently, the period 2008-2012 has been referred to as a ‘golden period’ for Lebanon’s banks (Saad, 2014, p. 183). How did this golden period come about and who were the depositors who increased the banks’ deposit base to such a large extent?

### 3.2.1 Escaping the financial crisis

How did Lebanese banks escape the financial crisis? In the early 2000s, Riad Salameh, president of the Lebanese Central Bank, issued several decrees and directives prohibiting commercial banks from investing in risky instruments such as mortgage-backed securities, engaging in subprime lending and purchasing exotic derivatives (see Table 3). The regulations required banks operating in Lebanon to obtain prior approval from committees they established themselves for any decisions on granting credits, investing liquid assets, real estate investments, shareholding and participation, and operations involving structured or derived

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62 Interview with a project management consultant, March 10, 2015.

63 Interview with an investment banker, October 17, 2014.
financial instruments. These committees had to make sure banks comply with all regulations set forth by the Central Bank. Moreover, the Central Bank demanded high reserve requirements\textsuperscript{64}: twenty-five percent of their demand liabilities and fifteen percent of their term liabilities in Lebanese pounds (LBP), as well as other reserves, are to be deposited at the Central Bank. Banks also needed sufficient capital adequacy to cover loans. Third, the Bank made sure that Lebanese banks complied with the latest international finance standards. Together, these strict regulations prevented Lebanese banks’ exposure to the risky instruments and derivative products (such as securitized mortgages) that caused the downfall of so many banks in the United States and Europe, and led to a large degree of trust in the banking sector, traditionally viewed as the only safe and stable sector of the Lebanese economy. “All the big banks were on the verge of bankruptcy while Lebanese banks were standing in the middle of the crisis, this gave credibility to Lebanese banks.”\textsuperscript{65} The Central Bank has thus been quite conservative regarding the creation of fictitious capital in order to keep speculation in check. One interviewee contributes this to the volatile security situation in the country: “2008 they say it was great, not because we were smart but because we learned in our environment we need to stay liquid. If something happens. It’s not because my neighbor bank, they won’t try to come and support me but they will finish me off. We need to keep thirty percent in liquidity. If something happens to the region you need the liquidity.”\textsuperscript{66} If depositors would take their deposits for example, the banks won’t collapse if sufficient liquidity is maintained.

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<td>-Art. 1.1-1.3 (amended most recently in September 2006): “All decisions taken by banks operating in Lebanon concerning credit granting, liquid asset investments, real estate investments, shareholding, participations, and operations performed on their own account on structured financial instruments or derivatives, must be submitted to the prior approval of one</td>
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\textsuperscript{64} Reserve requirements are amounts of cash from deposits or notes that banks are not allowed to lend out and have to store at the Central Bank.

\textsuperscript{65} Interview with an accountancy consultant, March 10, 2015.

\textsuperscript{66} Interview with a financial consultant, March 11, 2015.
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| May/Sep. 2001 | Basic Circular 84/Basic Decision 7835 (May 30, 2001); Basic Circular 86/Basic Decision 7926 (September 20, 2001); Basic Circular 87/Basic Decision 7935 (September 27, 2001). | - Banks are required to maintain a compulsory cash reserve on client deposits in LBP.  
- This must be in the form of a non-interest earning deposit calculated on the basis of 25 percent of the weekly average demand deposits and 15 percent of the weekly average term deposits.  
- Banks are also required to maintain a compulsory cash reserve on client deposits in foreign currency.  
- This must be in the form of an interest earning deposit calculated on the basis of the weekly average foreign currency deposits. |
| Jul. 2002  | Banking Control Commission Circular 237 (July 8, 2002).                | - Setting the capital adequacy ratio at a minimum of twelve percent, compared to 8 percent required by the Bank of International Settlements.                                                                 |
- Exceptions: those products or instruments benefiting from an unconditional guarantee on the total capital; those whose value does not exceed 25 percent of the bank’s funds. |


Central Bank-governor Riad Salameh was widely praised in the media for his role in preventing the crisis (Daragahi, 2009), hailed as a visionary and proudly boasting that he saw the crisis coming. He was voted Central Banker of the year by the Banker Magazine. However, it should be remembered that at the time Lebanese banks did not necessarily feel the need to invest in these risky products because they had another steady source of interest income: the large interest payments from the government on the loans they provide to sustain the public debt. The role of the Central Bank was instrumental in sustaining this system (as explained in
Chapter 2). After it became clear that the Lebanese financial system was largely unaffected by the global financial meltdown (which was hence not entirely global, and probably Lebanon is not the only country whose banking sector remained unaffected), many people transferred their deposits there, attracted by the high interest rates these banks could offer compared to interest rates in most of the rest of the world, which plummeted dramatically. How much capital was transferred? Who were these people that transferred such large amounts of capital to Lebanon’s banks?

3.2.2 The influx of bank deposits: Gulf and diaspora transfers and remittances

After the 2008 financial crisis, Lebanese banks’ private sector deposits increased massively, growing by fifteen percent in 2008, twenty-two percent in 2009 and nine percent in 2011 and reaching a total of US$141.2 billion in 2013, with bank assets at 440 percent of Lebanon’s GDP (Chaaban, 2015; Wehbe, 2014b). The value of deposits in LBP of the resident and non-resident private sector increased by fifty-five percent in 2008 and forty-three percent in 2009, while deposits in foreign currencies increased by four percent in 2008 and fourteen percent in 2009 (Association of Banks in Lebanon, 2009a). The higher growth in LBP-deposits can be explained by the higher interest rate offered on these, a measure decreed by the Central Bank to de-dollarize deposits and improve balance sheets (Poddar et al., 2006). Consequently, at the end of 2008, liquidity in Lebanese pounds increased while liquidity in US dollars decreased, due to the wave of exchange to benefit from the better interest rate on LBP. Banks’ net profits increased with twenty-six percent in 2008 (Bank Audi, 2014a). Meanwhile, non-resident deposits increased with over 5 billion LBP (forty-four percent) in 2009 (Association of Banks in Lebanon, 2009a), and in 2013 constituted nearly twenty-three percent of all deposits, from ten percent in 1997 (Khoury & Kanj, 2013, p. 154). The majority of these deposits is in foreign currency (US dollars) (86% in 2012, see Kanj & Khoury, 2013) but an increasing percentage (almost eight per cent in 2013), is in Lebanese pounds (Kanj & Khoury, 2013). Figure 9 shows the growth in both resident and non-resident deposits for the period 2007-2014.
Where did all this money come from? The origins of bank deposits cannot be determined in definite terms because of banking secrecy. While Lebanese banking secrecy has come under fire since 9/11, when US authorities started a crackdown on tax evasion and alleged terrorism financing worldwide, the country has managed to stay off the blacklist while keeping most of its banking secrecy in place, only to be lifted in suspicious cases, as new laws passed in December 2015 confirmed.

“Compared to Switzerland, Beirut was called Switzerland of the Middle East, because it was and still is a nice place, but as well I think now even we hear from our clients that Switzerland is not like it used to be, they made agreements to share info with governmental and non-governmental organizations, we didn’t reach that point in Beirut, we have secrecy.”

However, the Central Bank passed strict regulations regarding banks’ responsibilities with regards to deposits and the trustworthiness of their clients, in addition to setting up a Special Investigation Commission (SIC) with a mandate to investigate suspected money laundering cases and lifting the banking secrecy if needed. As a result, seventy-nine out of 103 cases

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67 American media have accused Lebanese banks of money laundering for Hezbollah, something Central bank Riad Salameh denies. The Lebanese Canadian Bank was formally charged with this by the United States, which led to its takeover by the Central Bank and eventual acquisition by the Lebanese unit of French Société Générale (Derhally, 2012).

68 Interview with a lawyer, October 9, 2014.

69 See Basic Circular 83, May 18, 2001, amended several times over the years, especially in 2011, which can be downloaded from www.bdl.gov.lb/laws-and-circulars.html. Banks must ascertain that foreign
saw banking secrecy lifted in 2001 (Aoun, 2012). More laws allowing for the lifting of banking secrecy were passed in November 2015. However, unless a case is brought before the SIC, accounts are still protected by banking secrecy.

Notwithstanding the continuing existence of banking secrecy, there are indications as to the origins of bank deposits. First, there is the Lebanese diaspora. Traditionally, this is a loyal bank client with a high degree of trust in their banking sector, who either deposit their own savings in Lebanese banks or use the accounts for remittances to their families (Finger & Hesse, 2009; Hardie, 2012; Labaki, 2006). Many Lebanese families rely on remittances for survival. They form an important social safety net for families afflicted by illness, war, unemployment, the high cost of education and so on (G. Hourani, 2010, p. 11). They also constitute the top source of foreign exchange earnings (Tabar, 2010). The diaspora therefore has a “home bias” (Berthélemy et al., 2007). Most of the diaspora deposits are transferred from the Gulf States (fifty-eight percent in 2009), where the UAE is followed by Saudi Arabia, and West Africa (Awdeh, 2013, p. 9; Brand, 2007, p. 6; G. Hourani, 2010, p. 11), then Europe, North America and Africa (Khoury & Kanj, 2013, p. 160). Formal remittances of Lebanese living in the Gulf to Lebanon constituted US$1.7 billion in 2005 (of a total of US$4.9 billion) and US$4.75 billion in 2011, fifty-seven percent of the total US$8.2 billion in remittances that year (G. Hourani, 2009, 2014). Indeed, there is a direct correlation between the increase in diaspora remittances and the increase in GCC-countries’ GDP (Finger & Hesse, 2009; Poddar et al., 2006).

During the financial crisis, remittances were only briefly affected and recovered afterwards, making Lebanon the only country in the MENA-region where remittances increased as percentage of GDP (Ghobril, 2012). Many Lebanese expatriates transferred their capital to Lebanese banks, seeing that these were unaffected by the crisis and could offer a higher interest rate than banks in their countries of residence, in addition to banking secrecy and a tax exemption on non-

correspondent banks are not shell banks, ensure customers’ identities, source of funds, reasons for opening the account, and notify the Special Investigation Commission in the case of suspicion of money laundering or terrorism financing. They must have specialized committees and officers for this.

70 There are many suspicions of money laundering and the depositing of money from criminal activities in Lebanese banks. It goes beyond the scope of this dissertation to research these accusations. However, it is certainly plausible that for example quite some money originates from the fact that the diamond industry in Sierra Leone is dominated by the Lebanese expatriate community there (see Gberie, 2002, p. 7 who states “Because they have external contacts and access to greater resources than indigenous Sierra Leoneans, the Lebanese dominate the diamond industry at all levels.”). Traboulsi (2014, p. 94) discusses a case of a bank money laundering for the Russian mafia, Saudi Arabian Islamist groups and Saddam Hussein’s regime, mostly through real estate.
resident deposits (G. Hourani, 2009; Khoury & Kanj, 2013). “The Lebanese diaspora in countries from the financial crisis, with losses in the banking sector and the crisis in property markets, they realized that Lebanon was a safer environment for their money, so the money came in.”71 “Most of the sources of money are foreign private deposits, non-resident, they can be Lebanese. Most are.”72 Moreover, remittances were not affected by exchange rate effects that other countries experienced during the financial crisis (for example when then Russian ruble depreciated), since the LBP was pegged to the dollar and the main source countries of remittances had the same peg or did not face exchange rate effects (Ghobril, 2012, pp. 372–373). Fears that Lebanese expatriates in the Gulf would lose their jobs and be forced to return to Lebanon en masse have proven unfounded, although many did lower their expenses somewhat and some moved to other countries to pursue opportunities there (G. Hourani, 2009). Remittances were only temporarily affected, however as the Gulf States managed to contain the impact of the crisis somewhat and the white-collar Lebanese found it relatively easy to transfer sectors or cities and were well aware of the lack of opportunities in Lebanon (Ghobril, 2012). Remittances therefore stood at US$7 billion in 2009, and have been confirmed to have come from Lebanese expatriates who wanted to move away from risks faced in foreign banks (G. Hourani, 2009, p. 22). An anecdote told by the Central Bank’s governor himself in an interview in 2009 relates how a super-rich Lebanese investor living overseas called him after the collapse of Lehman Brothers in the US: “He was always skeptical about the stability here. But he told me, ‘I sent all my money to Beirut now to the banks. You were right.’” (Daragahi, 2009). Lebanese banks have actively tried to attract these non-resident deposits via their websites, by sending officers abroad or via their offices in countries with large expatriate Lebanese populations (Pearlman, 2014).

Second, there are indications that a large part of the deposits is coming from Gulf residents as well. When in 2008 the financial crisis did not spare their region, many transferred their resources to Lebanese banks, whose interest rates remained high (Kanj & Khoury, 2013). The price of oil continued to rise until 2008, and the revenues were transferred to Lebanon’s banks, where interest rates were higher (Saad, 2014). “All the businessmen from the other countries, comes and puts the money here, and if they have a lot of money they take a share of this bank.”73

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71 Interview with the Vice President of an economic think tank, December 10, 2013.

72 Interview with professor of economy, American University of Beirut, October 20, 2014.

73 Interview with a finance journalist, October 15, 2014.
Because of banking secrecy, precise numbers are hard to get by, however, and it is impossible to gauge the amount of illicit wealth that is stored in Lebanese bank accounts. “I suspect the big accounts are affiliated with money laundering, illicit activities and Gulf money, petrodollars.”74

![Graph of remittances in US$ billion from 2002 to 2014.](image)


While the exact numbers remain unknown, therefore, it is still safe to assume that remittances from the Lebanese diaspora are responsible for a large part of the increase in resident private sector deposits, and the Lebanese diaspora together with Gulf residents are the main contributors to the increase in non-resident deposits (NRD).75 The large amount of excess liquidity that resulted from this increase had to be profitably reinvested somewhere. From this moment on, the

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74 Interview with a professor of economy, American University of Beirut, March 11, 2015. This suspicion was confirmed by a finance consultant, interviewed March 11, 2015.

75 The Code on Money and Credit defines non-resident deposits as all deposits by foreigners and Lebanese residing outside Lebanon. Interestingly, a law creating a banking free zone was passed in 1975 (Decree 9976/1975 and 29/1977), exempting non-resident deposits and banking commitments in foreign currency from non-residents from the deposit guarantee tax, reserve requirements and income tax on deposits interests. The latter exemption was canceled in 2003 by article 51 of Law 497/2003. So we can see that non-resident capital has been important to Lebanese banks for a long time.
Central Bank started to encourage banks to invest their surpluses in consumer credit, including mortgages and construction loans. The resulting boom in private credit was primarily supply-driven (Sadikov et al., 2012). The next section will show how this was happened, and once again how important the role of the Central Bank was in this regard, as an institution controlling the production of money and governing the relations between the different circuits of capital, including the switching of capital into the built environment (Harvey, 1978).

### 3.3 Post-2008 mortgage incentives

Traditionally, credit has played a very minor role as a means of obtaining housing or land in Lebanon: buyers have paid in installments (Bou Akar, 2012; Fawaz, 2009a) or relied on personal funds, developers have made deals with landowners who are given some apartments in exchange for letting the developers construct on their land. The Central Bank, during its establishment in 1964, stimulated the provision of credit to the real estate sector (Dibeh, 2009 footnote 12), but this apparently had little effect. One interviewee said that “in the past there was a naïve thinking that the deposits term should match the credit term, but this is nonsense in banking, banks are made for lending.”76 In 1996, Law 543 exempted banks from some taxes regarding housing loans.77 In the same year, the Public Corporation for Housing was founded by Law 539 to provide mortgages to lower income households. Although banks started to provide more loans in the 1990s after these regulations, these did not constitute more than thirty-five percent of assets because of strict measures for risk management and control imposed by the Central Bank (S. Hakim & Neaime, 2001) and lucrative other investment opportunities that were considered safer, such as government bonds. The residential mortgage market was therefore small (Peters et al., 2004). When many vacant apartments remained unsold in the 1990s, for example, owners sat and waited it out, since they did not have any financial obligation to pay off a mortgage. In this sense, there was no housing bubble in Lebanon (S. R. Hakim & Andary, 1997).

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76 Interview with the Vice President of an economic think tank, December 10, 2013.

After the large inflow of deposits following the global financial meltdown and the (temporary) resolution of Lebanon’s political crisis, the real estate boom had driven up land and apartment prices. Also, the banks’ continuing financing of the budget deficit and the stabilization of the Lebanese pound inevitably necessitated a rolling-over of the debt, where banks would refinance the government at increasingly lower interest rates, to prevent a government default. The Central Bank allowed swapping of bonds to allow lower cost and longer maturity (Sadikov et al., 2012). But some outlet needed to be found to prevent collapse: “It’s all dependent on itself, the system, the inflow from Lebanese expats is steady, and is large. And that goes to a banking sector that invests almost completely in government, and the government has a need for that. If one of the links breaks there is an economic collapse.”

Therefore, banks needed an additional outlet for their excess liquidity. It is not legal for banks to be involved directly in real estate development; they cannot own real estate property unless it is for their own business (for example, the new Crédit Libanais headquarters currently under construction in the Corniche en-Nahr area). Banks cannot participate in real estate brokerage, finance real estate speculation or buy real estate for resale. The Central Bank however stepped in to provide incentives that encouraged the banks’ indirect involvement in real estate, by stimulating loans to the private sector, including the housing and construction sectors. “The Central Bank wanted to encourage this type of loans because they thought there is a real demand and you can help the economy in general and individually by providing such loans. And this would help banks to extend more credit and remove extra liquidity in the system; it’s one way to channel this liquidity and to use for investment.” In this way, mortgages became an increasingly interesting investment option for banks and they began to play a larger role in the gentrification of Beirut, as providers of loans to real estate developers and homebuyers alike. How exactly did this happen?

In June 2009, the Central Bank reduced its reserve requirements at the proposition of the Association of Lebanese Banks (Association des Banques Libanaises, ABL) (Association of Banks in Lebanon, 2009b). The reserve requirement exemptions allowed banks to deduct sixty to one hundred percent of a qualifying loan in LBP (depending on the type of loan) from required reserves on customer

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78 Interview with a World Bank official, October 16, 2014.

79 Article 2bis h, from Circular 77 of the Central Bank, added 21 July 2008.

80 Interview with director of economic research at the Association of Banks in Lebanon, October 10, 2014.
deposits, up to a ceiling of seventy-five percent of the reserve requirement for all qualifying loans, including mortgages (Sakr, 2013). This also meant that banks could reduce the interest rate for debtors down to near five percent (Bank Audi, 2010). Also, banks made it easier for buyers to borrow in order to buy apartments still under construction by providing subsidized loans. This was intended to speed up the sale of unfinished apartments in order to improve the economy. Banks have lists of pre-approved developers that they trust to finish their projects, as confirmed in interviews with several property developers in the Corniche en-Nahr area. The under-construction loans were especially targeted towards the diaspora, whose members can usually wait a few years before moving in (Batish, 2012). Lending to non-residents therefore increased rapidly (Sadikov et al., 2012). Moreover, the ceiling to apply for a public housing loan through the Public Corporation for Housing was raised and loans for this institute were allowed to be taken out for up to eighty percent of the price of the house instead of sixty percent. “The home should be under 200 square meters and under US$350,000. And the one who should take this loan between him and his wife, the maximum salary should be US$4,500. There are these three conditions.”

3.3.1 Stagnation and additional incentives

The post-2008 mortgage incentives provided an initial outlet for the banks’ excess liquidity, and increased developers’ potential clients for their (under construction) apartments, since the mortgage incentives meant that banks were more willing to provide credit to people who otherwise could not have afforded to buy at these high prices. The measures therefore also helped maintain the high property prices in Beirut. In 2011 however, the real estate market started showing signs of stagnation, when sales transactions slowed by eleven percent. The following year, this trend continued, with sales declining 9.9 percent in 2012, and sales to foreigners decreasing by 8.9 percent in the same year (Sakr, 2013). Some real estate projects were put on hold, including the gated community Bella Casa that was planned by MENA Capital in the Corniche en-Nahr area. Foreign and diaspora demand slowed down as well (Bank Audi, 2014b; G. Hourani, 2009; Nash, 2014). The slowdown in the market was a consequence of oversupply as much as political instability, with

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81 Interview with the developer of the Urban Dreams-project in Corniche en-Nahr, December 4, 2013.
82 Interview with the director of the Public Corporation for Housing, October 29, 2014.
severe political crises, the fall of the Lebanese government in 2011, and the larger political and security fallout (including several bomb attacks) related to the Syrian uprising taking its toll on investors’ confidence. The role of Hezbollah who was fighting in Syria on the side of Assad, violating the disassociation policy Lebanese political leaders had agreed upon earlier in 2012, and several other incidents\textsuperscript{83}, led to deteriorating relations with the Gulf States (G. Hourani, 2014, pp. 644–645). As a consequence, also of declining oil prices since 2008, capital transfers and investment from the Gulf and Saudi states in real estate receded. While in 2011, the Gulf still accounted for fifty-six percent of real estate investments in Lebanon; in 2014, this share dropped to thirty-four percent (Abou-Mosleh, 2015). Even though every developer I interviewed was quick to emphasize that prices have stagnated, but will not decrease and have not ever decreased as a consequence of political crises, and even though in 2013, investments in the construction sector still accounted for twenty-one percent of Lebanon’s GDP\textsuperscript{84} (compared to for example five percent in the United States and eleven percent worldwide), the stagnation of the market meant that there over 200,000 apartments were standing empty in Lebanon as of June 2014 (Wehbe, 2014c).

Meanwhile, Lebanese expatriates continued to work in the Gulf States, albeit under a threat of deportation for some of them (see footnote 83), and diaspora bank deposits kept flowing in, regardless of the state of the Lebanese economy, and indeed have not been much influenced by the dire political situation (Khoury & Kanj, 2013). Moreover, Gulf agents still had stakes in Lebanese banks: “It’s not like suddenly Gulf capital left Lebanon. They’re still the same shareholders in the banks.”\textsuperscript{85} Lebanese debt was still popular with the banks: they invested US$37.66 billion in Treasury Bonds in 2013, a twenty percent growth from 2012 (Wehbe, 2014b), but the continuing rolling over of the debt had lowered interest rates on government bonds to a little over five percent for twelve-month treasury bills in 2013\textsuperscript{86} (and lowered the debt-to-GDP ratio to 125% in 2012, Saad, 2014, p. 174) so the

\textsuperscript{83} Such as the accusation of Lebanese Shiites living in the UAE of sympathizing with Hezbollah, supporting Shia demonstrators in Manama, Bahrain, and consequent (threats of) deportations of Lebanese citizens from the UAE and/or GCC-countries; the issuing of negative travel advice following perceived threats in Lebanon to GCC-nationals, and others. For details, see Hourani (2014, pp. 645–649).


\textsuperscript{85} Interview with a finance journalist, October 15, 2014.

\textsuperscript{86} According to data provided by the Central Bank, see www.bdl.gov.lb/webroot/statistics/table.php?name=t5271-3.
banks were interested in other outlets. They were provided with these as the Central Bank rolled out yet another incentives package, geared towards subsidizing mortgage interest rates for resident Lebanese given stagnated diaspora demand and towards ensuring continuing liquidity for developers. In January 2011, banks were allowed to use up to ninety percent of their reserve requirements for housing loans (Sadikov et al., 2012). When banks had used the maximum allowed percentage of their reserve requirements, the Central Bank stepped in once again. In April 2013, it provided the commercial banks with one percent interest loans at a total value of US$1.46 billion in order to stimulate credit provision to the housing sector (Sakr, 2013). These loans were aimed at apartments in the lower middle segment. The banks welcomed this intervention with great enthusiasm; some of them offered the first loans within two days (Schellen, 2013).

Moreover, the Public Corporation for Housing (PCH) received funds to start to offer more loans in conjunction with the commercial banks. The institution now offers subsidized interest rates so lenders do not pay over three percent. Currently, it receives 6,500 applications a year, constituting fifty percent of total real estate loans in Lebanon (in numbers, not in value) (Habib, 2014; Schellen, 2013). In this way, the banks started to invest in other things than government bonds and continued the trend of increased provision of credit to the private sector (Wehbe, 2014b). In 2014, the Lebanese commercial banks held just over fifty percent of public debt (Saad, 2014). The table on the next pages summarizes the different regulations and incentives issued by the Central Bank since 2009.
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<td>Apr. 2012</td>
<td>Intermediate Decision 10986/Intermediate Circular 298, adding Art. 1.4c in Basic Circular 81 (February 21, 2001).</td>
<td>-Art. 1.4c (added in April 2012): Banks are also prohibited from granting facilities to their customers against a guarantee consisting of more than 5 percent of their shares unless approval is given by the Central Bank.</td>
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| Jul. 21, 2008 | Intermediate Decision 9958/Intermediate Circular 177, adding Art. 3.1-g to Basic Circular 81 (February 21, 2001). | -Banks cannot provide real estate loans that exceed 60 percent of the value of the property.  
-Exceptions: housing loans for first purchase; loans granted by the Housing Bank; loans granted to the Housing Authority; loans granted to the Military Volunteers Housing System; housing loans stipulated in Basic Decision No. 6180 (May 31, 1996). |
-50 percent of this is to be used for housing loans  
-Ceiling on loan is LBP800 million (US$530,300)  
-Maximum interest rate is 5.44 percent based on one-year Treasury Bills  
-Down payment is obligatory  
-Loan cannot be combined with other bank loans.  
-The Housing Bank may benefit from 80 billion Lebanese pounds in credit at a 1 percent interest provided interests and commissions on loans granted to customers do not exceed 3 percent. |
Retail loans, including housing loans, must not exceed 75 percent of the price of the item, except for loans granted through the Public Corporation for Housing, agreements with specific groups (such as the military), the Home Savings Plan in Basic Decision 6180.

- Total monthly installments of a housing loan must not exceed 35 percent of a family’s income.

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<th>Date</th>
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<td>2009</td>
<td>Exempting banks from reserve requirements on certain loans including consumption, real estate development, and operational capital purposes.</td>
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<tr>
<td>2010</td>
<td>Banks can use up to 60 percent of reserve requirements for the loans granted through the agreement with the Public Corporation for Housing.</td>
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<td>2011</td>
<td>Valid for loans granted from January 1, 2009 until June 30, 2011.</td>
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Table 4: Central Bank mortgage regulations and incentives. Based on Schellen (2013), Sakr (2013), and several circulars downloaded from the website of the Central Bank of Lebanon (www.bdl.gov.lb/laws-and-circulars.html) or obtained during interviews at the Central Bank in December 2013 and October 2014.
Hence, we have seen in this section that the Central Bank stepped in during two moments in time since 2008 to stimulate the provision of credit to the real estate market. The first moment was in 2009, responding mostly to banks’ enormous excess liquidity due to the inflow of deposits, and the second moment started in 2011 and has continued on a yearly basis since then, responding to the stagnation of the real estate market. The difference between the 2009 and 2011-2013 packages is that the first fueled demand during the real estate boom while the second was meant to stimulate the real estate sector and served the interests of developers and other people dependent on this sector (Schellen, 2013). The next section will show that these incentives have led to an unprecedented mortgage boom in Lebanon, the consequences of which will be felt in the decades to come as an entire generation is put into mortgage debt for the first time in the country’s history.

3.4 The mortgage boom

The incentives issued by the Central Bank combined with several circumstances outlined above (such as the lower interest rate on government bonds) contributed to the willingness of banks to lend to the private sector. From 2008 to 2010 private credit grew at twenty percent per year, compared to on average six percent during 2005-2007, with credit in LBP expanding about twice as rapidly as foreign currency credit (loans in LBP were encouraged in order to stimulate dedollarization). New loans extended from 2008-2010 consisted of twenty-four percent household loans (consumption, education, cars, and mortgages) and sixteen percent construction loans. Consequently, the number and amount of mortgages has increased (Sadikov et al., 2012). Loans benefiting from the 2009 exemptions grew fast, and housing loans even faster. Construction loans increased by twelve percent in 2009 and thirty percent in 2010; housing loans increased by thirty-four percent in 2008, fifty-nine percent in 2009 and even sixty-one percent (!) in 2010 (Bank Audi, 2010). The amount of outstanding housing loans increased from US$1.1 billion in 2006 to US$5.9bln in 2011. According to a board member of real estate developers association REDAL, about half of clients finance their purchase with a mortgage.87

87 Interview with board member of REDAL (Real Estate Developers Association Lebanon), December 12, 2013.
Another interviewee expressed his surprise at how fast banks’ willingness to lend changed: “How the mood has changed: when I wanted to buy my apartment I had to bring in the deed and go to the bank to mortgage it, when the Waterfront came in [a new large-scale real estate development situated to the North of Beirut], they created a new product called, they said don’t bring the deed in but give us the sales agreement, we finance it, when you have the apartment we mortgage it for you. Without any mortgage they offer to finance the project.”


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88 Interview with a project management consultant, March 10, 2015.
Hence, basically the Central bank has provided cheap funding for mortgages (Wehbe, 2013). The banks have fared well since 2008. Almost every real estate developer now allows their clients to take out mortgages, something that a few years ago they were less than happy about when asked in interviews, preferring payment by installments. Nowadays, with the Central Bank incentives, risks are low. Mortgages have consequently been on the rise, especially in more affordable areas outside Beirut, according to Central Bank statistics. The average loan is US$80,000 with a limit of US$500,000, way too little for an apartment in Metropolitan Beirut and in the upper end of the market. “Few people take mortgages for Beirut [by which municipal Beirut is meant]. You cannot offer to have US$500,000 or US$1 million for an employee. On average it’s like 120,000 dollars, this does not even get you a one-bedroom in Hamra [a central area] and it needs renovation.”

Most in demand are US$200,000 to 300,000 loans, outside Beirut, for resident Lebanese. Banks partner up with developers to offer lucrative financing terms for buyers in their projects. Sometimes banks agree to finance up to eighty percent of the apartment and use the developer as a guarantee. For example, the bank pays the developer according to a payment schedule with the completion of each phase, and the buyer only pays interest on the amount paid to the developer, not the whole.

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89 Interview with an official at the Ministry of Finance, October 15, 2014.

90 Interview with the Vice President of an economic think tank, December 10, 2013.
loan amount. In interviews, developers made clear that they prefer to work with particular banks and sometimes refer their clients to them, although the clients are free to go to any bank. “We have a good reputation and banks know us, it’s easy, we provide the client with the documents he needs. The rest depends on the client’s income.”

Besides mortgages taken out by the middle class, many real estate developers have taken out a construction loan as well to finance their projects, according to the Cadastral records I obtained. A number of developers in the Corniche en-Nahr area, which I study in Chapter 6 (including Al Mawarid Real Estate, MENA Capital, LOFT Investments and BEAR Property Consultants) financed (part of) their land purchase with a mortgage. They happily use the banks’ willingness to lend: “The project development is about equity, so if you finance the entire project from your pocket, your rate of return is very low, so you should use the money of the customer and the money of the bank. It’s not conceivable today to do a project without a bank, but the bank is not a partner, it lends you money and then you have to send it back.”

In 2011, Al Mawarid Bank arranged a US$28 million real estate funding deal with four other banks, to ‘benefit the whole economic cycle in Lebanon’ by boosting the real estate market (Al-Mawarid Bank, 2011).

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91 Interview with the developer of Factory 4376, December 4, 2013.
93 Interview with BEAR Properties, December 4, 2013.
Banks also have mortgage packages specifically tailored towards Lebanese expatriates (Batish, 2012; Cauli, 2014), something observed in other countries with large diasporas as well (Grant, 2005). While diaspora demand slowed, loans to non-residents still represented 13.1 percent of the total of loans granted to the private sector at the end of the years 2010 and 2011 (Association of Banks in Lebanon, 2011). The Bank of Beirut offers an Expat Housing Loan of up to US$1 million\textsuperscript{94}, as do all the other major Lebanese banks. According to my interviews though, the majority of non-resident Lebanese prefers to pay in cash for their purchase, especially on the high-end side of real estate.\textsuperscript{95} “Those rich Lebanese that work in the Gulf or in Africa and bring a lot of money, they don’t take loans.”\textsuperscript{96}

Still, even the subsidized loans provided through the Public Corporation for Housing remain unaffordable for lower incomes in Lebanon (UN-Habitat & UNHCR, 2014). A down payment of ten percent is still required, something which not everyone can afford (Schellen, 2013). Since October 1, 2014, for a first home, the down payment for a subsidized mortgage is twenty-five percent, and a maximum of


\textsuperscript{95} Interview with the Vice President of an economic think tank, December 10, 2013.

\textsuperscript{96} Interview with the head of a department in the Central Bank, December 10, 2013.
seventy-five percent may be financed. Cumulative monthly payments for a housing loan must not exceed thirty-five percent of the household’s income, making such loans impossible for many Lebanese (BDL Intermediate Circular 369). An interviewee at the Central Bank conceded that this rule made it difficult for new buyers to qualify for a loan: “It’s very difficult, people who want to marry, they were going to the bank and financing themselves, now they have to ensure they have twenty-five percent. A young guy cannot. But for us it’s important in order to prevent the volatility of the price in the future, (...) We want to protect the banks. If their clients are massively not able to reimburse regularly their loan the impact will go on the banks.”

This shows that many people in Lebanon, in the absence of any other affordable housing policy, cannot access housing. It also shows to what extent the Central Bank is conservative in terms of lending. Banks are not allowed to lend more than sixty percent of the housing value (except for public housing loans where it is eighty percent) and forty percent of the construction cost (except for first houses or loans granted by the Housing Bank and several occupational organizations such as the Military that have a deal with the Central bank) . The prudent regulation by the Central Bank means that subprime lending is unlikely.

It seems that mortgage loans will continue to be an important outlet for banks’ excess liquidity. The Lebanese financial market is limited in terms of market capitalization, trading volumes, liquidity and the number of listed companies (with only eleven listed companies on the Beirut Stock Exchange end 2011, currently 15). Some banks are listed on this exchange, but, as one interviewee put it: “It’s private deals, it’s not about market stocks, the volume of trading is ridiculous.” Laws have been passed to encourage banks to transform illiquid assets into liquid ones by converting them into securities, and investing in financial instruments to attract capital and savings (Laws 705 and 706, 2005). However, trading on financial markets was heavily regulated and monitored subsequently. A Capital Markets Authority (CMA) has been set up, whose President is Riad Salameh, governor of the Central Bank. During an interview, a high-ranking official at the CMA explained that “there was some resistance [to the CMA’s establishment as regulatory body] and at the level of business we weren’t seen in a good light. Having the chairman as the

97 Interview with the head of a department at the Central Bank, December 10, 2013.

98 Articles 2bis g from Circular 77 of the Central Bank, added 21 July 2008, also modifying Basic Circular 81 of February 21, 2001 by adding Art. 3.1-h.

99 Interview with an economist, March 18, 2015.
governor helped a lot. At first it was like, thought to be not a very good thing to have this chairman shared, but actually one person heading the two institutions was helpful, the transition went smoother.” The CMA will therefore perhaps issue regulations regarding capital markets, but will not deviate much from Central Bank policies given that they share the same governor.

Hence financial markets play a moderate role compared to the banking sector (Awdeh, 2012; Hardie, 2012). “Banks are the main financial intermediaries in the country, they dominate the financial interrelation in the country, we don’t have a mature capital market, we don’t have mature non-bank financial institutions, or uh, not as competitive as banks.” “Since in Lebanon capital markets are not developed, not a developed stock market, no direct financing to companies from investors, the banking channel, financial intermediation gained a lot of importance. No corporate bonds and other instruments. No securitization of mortgages, no complex products.” Some LBP-denominated treasury bills were securitized in the 1990s, but this is not standard (S. R. Hakim & Andary, 1997). Government bonds are rarely traded on secondary markets and most are held by the banks (Cobham, 2011) “The Treasury Bills, I don’t think they sell them. Because it’s more profitable to the banks to keep them here.” All this means that while the increase in mortgages signifies a major shift in financing housing and construction in Lebanon, a financialization of the economy is so far unlikely. However, more banks are currently on the stock exchange and diversifying and moving outside Lebanon (though mostly following Lebanese clients, according to interviewees), so in the future more complex, transnational financial products might find their way onto the Lebanese market. As a professor of economy said about the banks: “These companies were granted a lot of space to experiment through their monopoly position in Lebanon, they get a lot of money and then move out very quickly.” The consequences of this move remain to be seen.

The years since 2008 have seen a true mortgage boom, where lending to housing and construction exploded and a large amount of people resorted to credit in order to be able to buy their first house. “People thought it’s going to be saturated, no way

100 Interview with director of economic research at the Association of Banks in Lebanon, October 10, 2014.
101 Interview with an investment banker, October 17, 2014.
102 Interview with a finance journalist, October 15, 2014.
103 Interview with a professor of economy, American University of Beirut, March 11, 2015.
it’s gonna be more, something new happened in the world: Lehman brothers fell, economy crippled in the US, rippled effects in Europe, banks here and there, everybody was very scared, to make things worse this rippling effect came to Dubai, and the Arab world, the only safe haven for anyone was Lebanon, so they reinvested. So it was still not saturated, banks were full of money, they wanted to provide loans, this created another awakening, to sustain the momentum. People forget how the timeline of events happened, but I remember very well why we are here.”

The mortgage boom provided a spatial fix for the overaccumulated capital in the banks and was connected to the real estate boom in Beirut, even though many loans were granted in the city’s suburbs. Overlapping interests between bankers and real estate developers explain this connection, which I will get to in the next chapter.

### 3.5 Conclusion

Lebanon’s banks escaped the financial crisis in 2008, which led to a huge influx of capital. The mortgage incentives passed by the Central Bank were meant to keep the system of public debt, real estate and remittances afloat and keep capital circulating to avoid crisis. It was a spatial fix meant to alleviate overaccumulation in the banks. The role of the diaspora and the Central Bank proved to be crucial. The specific circumstances of a political economy of public debt led to a conservative banking sector that had hitherto not invested much in private loans. As from 2008, this changed, a change necessitated by the decreasing returns from government bonds and the large amounts of excess liquidity that had to be directed somewhere, as well as the stagnation of the real estate market. The next chapter will zoom in on the reasons for this spatial fix, not just as a temporary capital switch to alleviate overaccumulation, but also as a lucrative deal for several networks between powerful agents active in the banking, government and real estate sectors.

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104 Interview with sales consultant of the Achrafieh 4748-project, April 30, 2012.
The official narrative that emerges from media reports and interviews alike is that bankers and the Central Bank are the guardians of the country, heroes who keep Lebanon running and save it from its incompetent government. Chaaban (2015) points to the narrative of the banks themselves, who eagerly join this discourse and insist that the government is inefficient, corrupt and spending its budget on wages and the electricity company, necessitating the banks’ help to sustain Lebanon’s economy. “The banking system, the banks are very well managed by competent people.”106 “Over the past twenty-five years the Central Bank has built trust. They are managing it properly.”107 “Once again, the banking sector is assuming tasks beyond its responsibilities to compensate for the lack of economic planning and policies by the government,” the Head of Economic Research at Byblos Bank is quoted as saying in Sakr (2013). A high-ranked individual at the Central Bank participated in this discourse: “The government is corrupt, but the private sector is active and banks are part of the private sector, so we also have to act like a private sector. That’s why here you can find people after two pm in their offices [public offices close at two pm in Lebanon]. We are not the government. If politicians were involved in the banks we would have a big disaster in the banking sector, hahah!”108 Moreover, banks are portrayed as important contributors to the treasury: “The banking sector pays more than thirty-six percent of the total income tax. Why, because it’s transparent so it pays everything, not like other sectors where there’s a lot of tax evasion.”109

This narrative obscures the fact that this set-up is a very lucrative deal for the banks, financed to a large extent by public resources. Banks have been stepping into mortgage provision because they get a huge payoff from housing loans, since they

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105 I would like to thank Koen Bogaert for this term.

106 Interview with an information consultant, March 12, 2015.

107 Interview with a financial consultant, March 13, 2015.

108 Interview with the head of a department at the Central Bank, December 10, 2013.

109 Interview with an investment banker, October 17, 2014. In reality, banks are not transparent regarding their finances and name their own auditors (Cochrane, 2010).
can free themselves from part of the compulsory reserve by reinvesting in certificates of deposit or T-bills, make borrowers pay a commission of one percent of the loan amount, force them to take two insurance policies, often sold inside the bank and to deposit their salaries there as well. “All clients of the bank are imposed this insurance company which is owned by the bank. For the record this is not allowed by BDL. But they do it. They can do everything they want to do. The big cartel.” Meanwhile the state, the Central Bank and the treasury bear the cost of subsidizing the interest rate (Wehbe, 2014d). As a result, total assets of banks in Lebanon have exceeded US$182 billion in August 2015⁴¹¹ (Bank Audi, 2014a). Thus, the mortgage incentives have proven to be very a lucrative deal for the banks. The fact that banks could profit so much from this system can be explained by looking at the larger “networks of accumulation” that are active in Lebanon. Networks and overlaps between bankers, politicians and property owners are not new in Lebanon, as Chapter 2 has shown. The laissez-faire system did not actually include a free market in the sense of encouraging competition and efficiency but instead a system used by the elite to capture capital flows. The monopoly power and control that characterized this set-up has continued to this day, but is now intricately tied to other networks, some of which will be discussed in this chapter.

The networks I discuss here form part of the system discussed in the previous chapters, in which excess liquidity, generated by debt payment interests by the government and diaspora transfers, is circulated and spatially fixed in the built environment by banks and real estate developers alike, through the mediation of the Central Bank, who is an agent of the Ministry of Finance, a dealer, and the main financial regulatory body of Lebanon, pointing to conflicts of interest as explained in Chapter 2. The Central Bank maintained high interest rates in order to allow the commercial banks to make super profits. Indeed, it consults Lebanese banks closely on policy-matters, follows up on some of their suggestions, and even sends them drafts of circulars it plans to issue.¹¹² The state and the banks in this way have reached an understanding that allowed for this to happen, a state-Central Bank-commercial banks collusion where there is a ‘congruence of interests between the state and commercial banks’ (Dibeh, 2011, p. 38).

¹¹⁰ Interview with a finance journalist, October 15, 2014.


¹¹² See, for example, this report by the ABL about its activities: www.abl.org.lb/Library/Files/Files/part%202%20E%202009.pdf.
The high interest rates crowded out loans to productive sectors such as agriculture and industry and led to the further deprivation of the majority of its long-suffering people, directly via taxation and indirectly via the rising cost of living and housing. In order to find a place to live, these people are increasingly forced to resort to mortgage loans. Without a steady and loyal diaspora investor base, regarding banking and real estate alike, this system would be hard to maintain, if only because the social reproduction of the Lebanese population would be in jeopardy. “What keeps Beirut alive is the private economy of the inhabitants of Beirut who are going to the Gulf, to Europe, to US, fishing for money, keeping for now their roots in this country. They put the money in their banks, keeping them and insurance companies alive. This keeps things together.” However, this system of “keeping things together” is characterized by glaring inequality. A few individuals control large portions of wealth. Forty-eight percent of personal wealth in Lebanon belongs to just 0.3 percent of the adult population, with just two families, Hariri and Miqati, owning fifteen percent of it. Two percent of the Lebanese population owns sixty percent of bank deposits. In measures of inequality such as the Gini coefficient, Lebanon is fourth in the world in terms of unequal wealth distribution, after Russia, Ukraine and Kazakhstan. The top fifty richest lawmakers of the United States had a combined wealth of US$1.4 billion (with a Lebanese-American in the top three), as much as Saad Hariri and less than Miqati (Traboulsi, 2014).

While the set-up indeed keeps the economy together for now, the question as to why this set-up continues points to the interests involved in the networks that I discuss in this chapter.

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113 Interview with a lawyer, March 12, 2015.

4.1 Networks and the capitalist system

I do not want to explain the Lebanese networks of accumulation away by pointing to a specifically corrupt tradition of government or crony capitalism in Lebanon, the result of the amount to which public institutions diverge from some Weberian ideal-type of bureaucratic organization that allows individuals to abuse these for their private gain: ‘the inadequacies of each of these institutions when measured against the criteria of bureaucratic organization’ (Leenders, 2012, p. 101), and that can be solved by implementing strong state institutions. I refrain from categorizing these public-private overlaps and the examples of using public office for private gain as corruption, emanating from the improper setup of these institutions that is an outcome of the political decision-making process in Lebanon, its ‘allotment state’ (Leenders, 2012). Of course corruption is rife, and the way in which the political system in Lebanon works is an essential part of this, but I maintain that explaining it in this way does not really answer how and why this system came into being, would unjustly essentialize or reify the Lebanese situation and come dangerously close to the “Arabs are essentially corrupt”-discourse, however well its intentions are. Moreover, Leenders (2012) hails the Central Bank as an exception in Lebanon, an example of the ideal-type of a Weberian bureaucratic model that managed to protect itself from corrupt influences (notwithstanding conflicts of interest in its senior management that he points out), because its independence and reputation of integrity was needed in the treasury bills-market that served the elite’s own interests. I would argue that this set-up points to exactly the opposite of integrity, and opt for seeing the role of the Central Bank and the overlap between agents as a rational outcome of a more universal logic: that of capitalism, that does not distinguish between a political or an economic sphere. Leenders’ (2012, p. 235) statement, ‘I believe that corruption is rooted in the ways in which politics, not economics, is conducted’, does not make sense in the analytical framework I employ. The solution then lies not in redesigning Lebanon’s political institutions, but in a much more fundamental overhaul of the system that requires looking beyond Lebanon to capitalism itself.

I argue that the networks of overlapping interests that I discuss in this chapter are a logical outcome of the social relations of the capitalist system itself. As explained in Chapter 1, each capitalist is driven by the laws of competition. The behavior of each capitalist to extract ever higher surplus value goes against the interests of the capitalist class as a whole, because more is produced than can be
profitably absorbed (overaccumulation) (Harvey, 1978) and the rate of profit falls as more capital is used for production relative to labor power. Concentrating and centralizing capital can temporarily counteract the falling rate of profit, but not overaccumulation. However, the logic of competition explains why capitalists have a tendency towards monopolization. If we look at the capitalist economy today, corporations have indeed tended to get larger and more powerful, but the tendency for larger capital to swallow smaller ones was already noted by Marx in in the nineteenth century. Moreover, he pointed to the instrumental role of the credit system herein, something that we find in the importance of Lebanon’s banks in this set-up. This set-up inevitably leaves its imprint on the built environment. As Zukin (1982, p. 17) has argued: 'Real estate development at the local level is connected to needs of national and international capitalists and politicians via their capital sources, responsibility to state agencies, shifting rates of profit. This network determines what gets built, when and how and where.' What the examples from my case studies will also show, is that in this network, it is not useful to speak of ‘local’ versus ‘global agents’, because these agents are both at the same time, always in relationships to other places via their diasporic connections and their conjuring of landscapes that employ ideas about urban living from elsewhere.

Who are these state agents and agents of capital that connect the interests of banks, real estate developers, the diaspora and politicians in order to create a system that thrives on the accumulation by dispossession (Harvey, 2005) of the Lebanese people and obscuring these conditions of production? How are they interconnected in tight elite networks with overlapping interests that allow for the political facilitation of this system and the monopolization of interests in these sectors? I will not attempt to provide a full picture of the entire network, as this is impossible due to its size and the lack of comprehensive data. Instead, I focus on a few examples of networks within this system connected to some case studies that have been discussed in this dissertation in order to show how they are composed. First, I will discuss more general evidence for the existence of these networks and their monopolistic practices, drawn from the literature as well as my interviews, before moving on to some examples.
4.2 Politicians, developers and banks

Several scholars have pointed towards the existence of networks and overlaps between different powerful actors. Kamal Hamdan has discussed how in business ventures the political divide between March 8 and March 14 is easily overcome. Achkar (2011) and my own master’s thesis work (Krijnen & Fawaz, 2010; Krijnen, 2010) show how real estate developers have personally helped draft the 2004 Building Law that increased exploitation ratios. I discuss how a minister passed a temporary decree allowing the building of his project in the mountains near Beirut, and canceled it after the building permit was passed, one of many examples of politicians bending the laws in their favor. Achkar (2011) discusses the project of a major developer (MENA Capital) who destroyed an old garden for a high rise, and employed an architect who sits in the Higher Council for Urban Planning, hence on the committee deciding on approving the project. Makdisi (1997, pp. 694–695) pointed out that members of parliament are largely businessmen who ‘take advantage of the very same market liberalizations that they mandate.’

In the banking sector, the overlap with politicians has been studied as well. Maasry (1988) and Traboulsi (2014) have pointed to countless examples of the connections between banks, diaspora businessmen and Lebanon’s presidents throughout history, and how Lebanese diaspora-owned banks provided a mechanism of obtaining political power and social standing during and after the civil war. Traboulsi also pointed out that ‘one quarter of the names on any list of political families or MPs are connected with the banking sector’ (Traboulsi, 2014, p. 35). Politicians, bankers and merchants all hailed from the same powerful families and mobilized capital via the colonial state, the state apparatus, partnerships with European countries and finance capital (N. B. Hourani, 2010; Traboulsi, 2007). Srouji (2005) pointed towards the interests of state actors in the banks as well. Chaaban (2015) started mapping the control of politicians over the banking sector, showing how the ultimate shareholders of the banks can be traced to a number of ruling political families. Individuals closely linked to Lebanon’s political elites control forty-three percent of assets in Lebanon’s commercial banking sector. The Hariri-

\[\text{At a conference on October 24, 2014, audio available at yourlisten.com/ifi.aub/housing-policies-rent-control-property-taxation-session-2.}\]

\[\text{This person is also the head of the Urban Planning Department at ALBA University, training a new generation of city builders, and coincidentally my former boss.}\]
family tops the list, controlling US$2.5 billion in equity. Moreover, many shareholders and board members have direct or indirect links with these elites. The banks that Chaaban investigated have profited substantially from public debt servicing and therefore have an interest in keeping the interest rates high.

Interviewees have confirmed the existence of these networks, pointing to the different ways in which the overlapping interests between banks, the Central Bank, real estate developers and politicians sustain the existing system. “The BDL [Central Bank] comes in, instead of an independent central bank, it manages public debt and the interest rate. It sits down with the banks, asks them what they want (...) The government is always putting high rates, they could also give low rates, but the government won’t do it. They have links with the banks.”

An official at the Ministry of Finance confirmed this: “The BDL and Ministry cooperate in the treasury, treasury bills, the BDL has a good and excellent network with the other commercial banks.”

A financial consultant admitted that the Central Bank is perhaps not as independent as it should be: “It’s doing a great job, a lot goes on under the table, I’m not comfortable with that thought, but as it appears the Central Bank has learned the game and is playing the reality game. They have to do it; they can’t be in a pool and say I don’t want to get wet.”

An economist designated the Central Bank as the political core of the system: “It has a very wide autonomy, because it is the core of the whole system, of the whole political economy. At no moment did anybody hear any hesitation concerning the BDL or renewing the mandate of governors and commissions. All this is smothered. Nobody wants to touch that sacrosanct, the safe haven, this is what keeps the whole system afloat from the political side. From the banks’ side, one could consider that we have one bank in Lebanon. All the other banks are marketing branches.”

“If you have an independent government or central bank you’d offer the banks, saying we lower the rates, you buy new debt at lower rates, you keep on decreasing them for a soft landing. But marketed is: look at the new turmoil, we need to increase the interest rate.”

In this way, the volatile security situation in Lebanon is used to obscure the

117 Interview with a professor of economy, American University of Beirut, March 11, 2015.

118 Interview with an official at the public debt directorate, October 15, 2014.

119 Interview with a financial consultant, March 11, 2015.

120 Interview with an economist, March 18, 2015.

121 Interview with a professor of economy, American University of Beirut, October 20, 2014.
interests behind the system. “There is an interaction between certain special interests, policy makers, bank owners, there is a certain interaction between owners of capital and policymakers”, a World Bank official told me. Moreover, interviewees have expressed their suspicions regarding the involvement of banks in real estate: “They can’t buy real estate directly but they can finance companies that themselves would buy real estate, holding companies, and this is a black box. They’re not exposed to real estate risk directly but through the company they lend to.” As we will see in my examples, this is precisely what is happening.

The existence of these networks also means that they exclude other agents of capital. Indeed, entry into Lebanon as a new bank is difficult (Cobham, 2011), as it is in most countries, and half of Lebanon’s domestic markets are considered to be oligopolistic to monopolistic (Gaspard, 2004, p. 218). This means that new actors have difficulty entering the market (Berthélemy et al., 2007). Several real estate developers, investors and architects have confirmed in interviews that an outsider, i.e., a real estate developer with no existing social network, will not be able to purchase land or get a building permit. Developers rely on social networks in order to find investors and buyers, to gain a foothold in the market and complete the necessary formalities. “It’s based on people knowing each other from school, universities, they talk to each other, and maybe one of the guys knows other people who already met with this people, it’s kind of friendship/relationship more than... it’s not really professional. It’s small circles. Usually they go to people they know. No one comes without knowing someone.”

Hence, we see that tight networks between real estate developers, banks and politicians control Lebanon’s economy. While there has been scholarly attention for the overlaps between real estate developers and politicians on the one hand, and bankers and politicians on the other, I argue that we should also pay attention to connections between bankers and real estate developers and moreover connect all these overlaps in order to provide a more complete picture of the networks of accumulation that operate in Beirut (but are connected to many places beyond the city, especially via the role of the Lebanese diaspora). Below, I discuss three examples of networks where politicians, real estate developers and bankers have come together and often overlap in the same persons. It is difficult to fully

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122 Interview with a World Bank official, October 16, 2014.

123 Interview with a professor of economy, American University of Beirut, October 20, 2014.

124 Interview with investor in one of the loft projects in Corniche en-Nahr, April 27, 2012.
understand the ownership of these companies, because first of all not all of them are registered in the Commercial Registry and second, a politician might hide behind a range of companies: “So these politicians use many henchmen to hide themselves, they hide themselves behind many companies. Sometimes they use the American way to hide behind twenty, thirty, forty layers of companies, it can drive you nuts to get to number ten!” The data below are therefore not complete, but should give the reader an idea of the kinds of networks that I am talking about.

4.2.1 Al-Mawarid Bank, Al-Mawarid Real Estate and the Kheireddine family

This network is an example of a bank established during the civil war and run by a former diaspora Lebanese businessman. Al-Mawarid Bank, established in 1980, is owned by the Kheireddine family. Its chairman, Marwan Kheireddine, worked in Qatar, London and the United States before taking over his father’s bank in 1989. When the real estate boom took off in 2005, he created a company called Al-Mawarid Real Estate, which is developing, among others, the Achrafieh 4748 project in Corniche en-Nahr and the Skyline-project in Mar Mikhael. General director of Al-Mawarid Real Estate Rania Akhras said that the investors in the project are high-end depositors in the bank, pointing towards the importance of bank deposits in the real estate boom. Even though legally the bank and the company are not connected to each other (it is illegal for banks to be involved in real estate development), when we look at their shareholders, we can see that they are headed by members of the same family (see Table 6). Moreover the bank is financing the project via a construction loan of US$13.2 million and is facilitating the payment schemes for buyers.

As the head of the banking department of the Central bank explained to me:

Mawarid by law is not allowed, he’s doing something heike [like that], he thinks he’s smart but he’s not allowed. He shouldn’t do this. By law he is not connected, you cannot find any relation with the banks, its all hidden because

125 Interview with the director of the Lebanese Transparency Association, December 13, 2013.

126 Interview with general director of Al-Mawarid Real Estate, December 11, 2013.

127 Interview with sales representative of Achrafieh 4748, April 30, 2012; property record of Achrafieh 4748, obtained from the Land Registry on May 2, 2012.
by law its not allowed. It’s a company that is financed by Al-Mawarid to do this project. He can finance them, but he cannot own it, someone else has to own it. They usually bring someone, put a company on his name but he signs a paper of debt to the bank for the value of this company. This is not common, the real bankers don’t do it[.] Marwan likes to play smart, his father made lot of profit in London real estate, so he likes real estate.128

The connections between politics, real estate and banking are myriad in this network. Marwan Kheireddine was Minister of State from 2011 to 2014, appointed by his brother-in-law Talal Arslan, a powerful Druze leader (Traboulsi, 2014). Another former minister, Ibrahim Daher, has a stake in Mawarid Bank as well. The chairman of Al-Mawarid Real Estate is Wassim Kheireddine, a family member of Marwan Kheireddine. Wassim Kheireddine is also a shareholder in the bank. Marwan’s father Salim Kheireddine, one of the founders of the bank and its biggest shareholder, owns 500 shares in the real estate company. Hence, three board members of the bank own all the shares of Al-Mawarid Real Estate company. All three are also the biggest shareholders in Al-Mawarid Bank.129 Chaaban (2015) has established that Al-Mawarid Bank is controlled for over ninety percent by politically affiliated shareholders.

<table>
<thead>
<tr>
<th>Person/legal entity</th>
<th>Politics</th>
<th>Banking/holdings</th>
<th>Real estate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marwan Kheireddine</td>
<td>Minister of State (2011-2014), brother-in-law of Druze leader and politician Talal Arslan</td>
<td>Al Mawarid Bank: CEO, 400,000 shares</td>
<td>Al Mawarid Real Estate: 500 shares</td>
</tr>
<tr>
<td>Wassim Kheireddine</td>
<td>Related to Marwan Kheireddine</td>
<td>Al Mawarid Bank: board member, 400,000 shares</td>
<td>Al Mawarid Real Estate: CEO, 500 shares</td>
</tr>
<tr>
<td>Salim Kheireddine</td>
<td>Father of Marwan Kheireddine</td>
<td>Al Mawarid Bank: board member, 2 million shares</td>
<td>Al Mawarid Real Estate: 1,000 shares</td>
</tr>
</tbody>
</table>

128 Interview with the head of a department of the Central Bank, December 10, 2013.

129 According to company records retrieved from the Commercial Registry in Lebanon, December 11, 2013.
<table>
<thead>
<tr>
<th>Person/legal entity</th>
<th>Politics</th>
<th>Banking/holdings</th>
<th>Real estate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ibrahim al Daher</td>
<td>Former minister (2004-2005)</td>
<td>Al Mawarid Bank: board member, 2,000 shares</td>
<td>-</td>
</tr>
<tr>
<td>Majid Jumblat</td>
<td>Former vice-governor of the Central Bank</td>
<td>Al Mawarid Bank: board member, 2,000 shares</td>
<td>-</td>
</tr>
</tbody>
</table>

Table 6-The Al Mawarid network

4.2.2 Bank Audi, Audi Saradar Group.

Lebanon’s largest bank, Bank Audi-Audi Saradar Group, is involved in real estate company CGI (Conseil et Gestion Immobilière), which was originally established in the 1990s by the Saradar Bank (a family bank founded in 1948) and is developing the large-scale Gemmayzeh Village project and the Urban Dreams-project in Corniche en-Nahr, among others. CGI became affiliated to Bank Audi when it merged with the Saradar Bank in 2004. Today, CGI is owned largely by Marius Saradar Holding who acquired eighty-one percent of it in 2011 while the Audi Saradar Private Bank kept nineteen percent (Speetjens, 2013). CGI explained their relationship to the bank as follows:

> It’s the Audi Saradar group, mainly were a Saradar-owned group. We are with the bank, the bank is with us, but the land is not owned by the bank. There is a company that owns the land, banks don’t have the right to own land and develop projects. That’s why we don’t own the land, the Urban Dreams company is the company that owns the land. The company is financed by shareholders; the bank has no stake in the company.130

However, the connections between the real estate company and the bank are clear, looking at who owns CGI. Moreover, Bank Audi has been collecting investors for the project, contacting one of my interviewees.131 Bank Audi also has shareholders in the form of companies that are related to former Prime Minister Najib Miqati

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130 Interview with general manager of CGI, December 4, 2013.

131 Interview with the Vice President of an economic think tank, December 10, 2013.
(Achkar, 2011), who has a net worth of US$2.4 billion according to Forbes. \(^\text{132}\) Moreover, Audi’s chairman Raymond Audi was Minister of the Displaced in 2008. Unfortunately, I could not access the shareholders of CGI at the Commercial Registry, and the amounts of shares for Bank Audi were not named. Once again however, it is clear that there are myriad connections between real estate, politics and banking in this network.

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<thead>
<tr>
<th>Person/legal entity</th>
<th>Politics</th>
<th>Banking/holdings</th>
<th>Real estate</th>
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</thead>
<tbody>
<tr>
<td>Mario Saradar</td>
<td>-Marius Saradar Holding (CEO) -Joe Saradar Holding -Mario Saradar Holding -Bank Audi-Audi Saradar Group: board member (shares unknown, sold in 2015)</td>
<td>CGI (81 percent)</td>
<td></td>
</tr>
<tr>
<td>M1 Group</td>
<td>Partially owned by Miqati</td>
<td>-Bank Audi-Audi Saradar-group (shares unknown)</td>
<td>M1 Real Estate</td>
</tr>
</tbody>
</table>

Table 7-The Audi-Saradar network

### 4.2.3 BankMed and the Hariri dynasty

Perhaps the most famous example of the overlap between interests is the late Rafiq al-Hariri, banker, real estate developer, former Prime Minister and billionaire. Hariri’s Bank Med is owned largely by Group Med Holding, which is currently chaired by Hariri’s cousin Mohammed al-Hariri, while his widow Nazek Hariri sits on the board too. His son Saad al-Hariri, former Prime Minister as well, owns twenty-four percent of Bank Med (Cochrane, 2010). Group Med is owned mostly by

Saad and Ayman al-Hariri while other shareholders include Mohammed al-Hariri and Hariri’s widow Nazek. Another company, Medinvestment Bank, is owned mostly by BankMed, while Group Med Holding is a board member and shareholder, as well as Mohammed al-Hariri and two other Hariri family members. Rayya Haffar, former finance minister, has a stake in BankMed too (Traboulsi, 2014).

The Hariri family is not only involved in banks, but in real estate as well. Besides the activities of Hariri’s Oger company during the civil war and reconstruction (the demolition of the souks in 1983, the Solidere-project after the war) discussed in Chapter 2, other real estate companies of the Hariri-family have become involved in controversial real estate projects on Beirut’s coast (Dictaphone Group, 2013) and in Mar Mikhael (AYA) and Corniche en-Nahr (UPark) with HAR Properties, which is a company owned by Rafiq Hariri’s son Fahed. HAR Properties created the company Achrafieh 1289 to develop UPark (named after the lot number), in 2010. Of 3,000 shares, Fahd owns 1,500. Other shareholders include Ahmad al-Hariri, secretary-general of political party Future and Saad’s cousin; Ayman al-Hariri, son of Rafiq Hariri, Deputy CEO of Saudi OGER and number 258 on Forbes list of billionaires with a net worth of US$1.3 billion, and former Prime Minister Saad al-Hariri himself (150 shares each), CEO of Saudi OGER and leader of the Future political party in Parliament. Rafiq Hariri’s widow Nazek owns 600 shares and is a member of the board of directors.135

The AYA-project was developed by the company Mar Mikhael-Rmeil, of which Fahed al-Hariri owns 1940 shares, Hind al-Hariri and Philippe Tabet 30, and a company named IRAD Real Estate Development 1,000. When looking up IRAD, it turns out that Bahaa al-Hariri, Rafiq al-Hariri’s oldest son, is a significant shareholder as well. Hence we see that Bahaa al-Hariri is involved in the real estate business of his brother but only via a company that does not have his name in it. HAR Properties itself was founded in 2009, has 15,000 shares, of which 14,100 are owned by Fahed al-Hariri, 150 by his sister Hind and 750 by his business partner Philippe Tabet.136 It was founded by another company (Company 5 Real Estate), which has since been dissolved and could not be found in the commercial registry.

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135 According to company records retrieved from the Commercial Registry in Lebanon, December 11, 2013.

136 According to company records retrieved from the Commercial Registry in Lebanon, December 11, 2013.
Another real estate company, Horizon Development, is owned by Rafiq Hariri’s eldest son Bahaa Hariri, who has a net worth of US$3 billion. He sold his stake in Saudi OGER to his younger brother Saad in 2008. Horizon Development has several large-scale real estate projects under construction and is a major shareholder in the Abdali project that is currently under construction in Downtown Amman.137

In terms of political connections, besides the fact that Rafiq and Saad Hariri have both been Prime Ministers, Rafiq Hariri was also closely connected to the governor of Lebanon’s Central Bank, Riad Salameh, who was in charge of his personal portfolio at Merrill Lynch before returning to Beirut. Incidentally, Merrill Lynch is one of the main managers of the Eurobond issues that arrange Lebanon’s public debt in foreign currency.

The connections outlined above are summarized in the table below.

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<thead>
<tr>
<th>Person/legal entity</th>
<th>Politics</th>
<th>Banking/holdings</th>
<th>Real estate</th>
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<tbody>
<tr>
<td>Saad al-Hariri</td>
<td>Former Prime Minister, leader of Future Movement</td>
<td>-Group Med Holding: 22 million shares</td>
<td>-Achrafieh 1289: 150 shares</td>
</tr>
<tr>
<td></td>
<td></td>
<td>-Saudi OGER: CEO</td>
<td>-Solidere</td>
</tr>
<tr>
<td>Ayman al-Hariri</td>
<td>Rafiq Hariri’s nephew</td>
<td>-Group Med Holding: 22 million shares</td>
<td>-Achrafieh 1289: 150 shares</td>
</tr>
<tr>
<td></td>
<td></td>
<td>-Saudi OGER: deputy CEO</td>
<td></td>
</tr>
<tr>
<td>Mohammed al-Hariri</td>
<td>Rafiq Hariri’s older brother</td>
<td>-BankMed: chairman, 5 shares</td>
<td></td>
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<td>-Group Med Holding: chairman, 10 shares</td>
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<td>-MedInvestment Bank: 10 shares</td>
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<td>-IRAD Investment Holding</td>
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<td>-Saudi Lebanese bank (CEO)</td>
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<tr>
<td>Nazek Audi</td>
<td>Widow of former Prime Minister Rafiq Hariri</td>
<td>-BankMed: 5 shares</td>
<td>-Achrafieh 1289: 600 shares</td>
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<td>-Group Med Holding: 8 million shares</td>
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Table 8 - The Hariri-network

The three examples of networks discussed above tell us about how banks increasingly moved into real estate by setting up several companies in the early 2000s, fueled by excess liquidity in their accounts. They also show how a high-ranking political position was often preceded by successful business career. This business career was often made abroad during the civil war, and when the businessman returned to Lebanon with a vast amount of wealth, he would set up a bank. When government bonds became a less lucrative option and the real estate boom intensified after 2008, capital investment in real estate was stepped up. The fact that a limited amount of persons commanded a vast amount of wealth, as a result of the monopolistic tendencies already discussed, and was able to regulate themselves to a considerable extent via high political positions, made the switching of capital into real estate easy by just founding another company.
4.3 Conclusion

The examples discussed above have outlined the networks of real estate developers, politicians and bankers that profoundly impact Lebanon’s political economy. These networks show that many agents have the power to shape the regulatory framework in which they do business. Political and economic spheres are completely indistinguishable. Banks and real estate developers can draw up their own regulations, because the actual people representing the government, banks and real estate developers are often the same persons, and banks control most of the country’s debt. During the past years, the banks have become increasingly active in real estate development through their real estate development arms, and this is something that, together with their political power and the increasing creditization of society, will shape Lebanon’s built environment for the years to come. Instead of looking at these findings as evidence of corruption in Lebanon, I argue that they are a logical consequence of the need to invest surplus capital and the social relations that constitute capitalism, where the formation of monopolistic or oligopolistic tendencies is an answer to pressures of competition. The existence of a diaspora investor base together with public debt financing keeps this system afloat, contributing to the accumulation by dispossession of the Lebanese people, because the high prices of apartments are a result of the boom, which is a result of excess liquidity being switched into the built environment, part of a longer trend of banks making large profits on the public debt and now also on mortgages, paid for by their taxes. “We are financing these capital remunerations with debt that is being paid from public money in the future.” The official narrative is that in a volatile country like Lebanon, high interest rates are necessary. This chapter has shown that the reasons behind the high interest rates are somewhat different.

I will now move on to the second part of this dissertation, where I discuss how the spatial fix actually materialized in the built environment of Beirut.

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138 Interview with a professor of economy, American University of Beirut, March 11, 2015.
Part 2: The materialization of the spatial fix
5 Gentrification and the rent gap: the cases of Mar Mikhael and Zokak el-Blat

This chapter presents the first two case studies of this thesis. It describes how and why two neighborhoods in Beirut, Mar Mikhael and Zokak el-Blat, underwent significant gentrification as capital flowed towards them following the resolution of the political crisis in 2008. These areas were susceptible to gentrification because their ground rent was depressed to such an extent as to make reinvestment profitable, i.e.: their rent gap was large enough, due to the fact that building allowances had increased substantially since these areas were first constructed and the buildings had suffered from disinvestment for a long time, partly due to the legacy of conflict (Ross & Jamil, 2011). The reforms to the legal and institutional framework that were passed in postwar Lebanon in the early millennium (see Chapter 2) allowed for a more intensive exploitation of the built environment, in itself contributing to a higher potential ground rent for any plot of land in the country. In this chapter, I focus specifically on how, at the level of individual buildings and plots, two existing legal frameworks, namely heritage protection and rent controls, enlarged this rent gap. Several Lebanese state actors have attempted to reform the legal framework pertaining to these issues but have been unable to find enough support or overcome the interests of landowners, who historically have always had the power to thwart attempts at more regulated urban development processes, as was the case during the Chehabist period (see Chapter 2, section 2.1.3.3), even more so because many politicians have interests in construction.

The subsequent gentrification of these areas happened in complex and diverse ways, and this chapter will shed some light on how and why this process occurred at that time in these areas. First however, I will discuss the gentrification concept in

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139 This chapter is partially based on the following book chapter I co-authored with Christiaan De Beukelaer: Krijnen, M., & De Beukelaer, C. (2015). Capital, state and conflict: the various drivers of diverse gentrification processes in Beirut, Lebanon. In L. Lees, H. B. Shin, & E. Lopez (Eds.), Global Gentrifications: Uneven Development and Displacement (pp. 285–309). Bristol and Chicago: Policy Press. It also uses data collected during a workshop in Beirut that I was partly in charge of, titled Creative Economy, Social Justice and Urban Strategies: The Case of Mar Mikhael, organized by the Issam Fares Institute and the Department of Architecture and Design at the American University of Beirut in cooperation with GAIA Heritage. The research was carried out in the context of the American University of Beirut’s Finding Justice in the City program, housed at the IFI, and coordinated by Prof. Mona Fawaz.
more depth. We should recall that spatially fixing capital in the built environment, either as an aide to the production and consumption process of capitalism itself or as a spatial fix for overaccumulation due to competition, freezes its productive capacity, which means that the exchange value tied up in the building devalues as new and more productive fixed capital comes into being. Eventually, the remaining surplus value will be destroyed in order to open up room for fresh accumulation, be it by altering the use value of the building or cashing in on the exchange value of the land (ground rent). In this way, capital performs a ‘locational see-saw’ (Smith, 1982) around cities, following a logic of investment and disinvestment that is – crucially– a question of human agency in response to the depreciation and devaluation of capital in different areas. To understand the point at which investment becomes profitable, Smith (1979, 1984) has come up with the concept of the rent gap, as discussed in Chapter 1, section 1.1.2, to explain why redevelopment becomes profitable in some neighborhoods (for developers and consumers alike): ‘At some point, the devaluation of capital depresses the ground rent level sufficiently that the ‘rent gap’ between actual capitalized ground rent and the potential ground rent (given a ‘higher’ use) becomes sufficiently large that redevelopment and gentrification become possible’ (Smith, 1984, p. 150).

Gentrification is the term with which the socioeconomic and cultural results of renewed capital investment in the built environment have most often been described. Ruth Glass’s (1964) classical definition of gentrification describes an influx of middle class residents into working-class neighborhoods. The new inhabitants renovate low-income and downgraded properties into expensive residences, displacing the original residents and changing the entire social character of the district. This definition has been expanded in recent decades to include, among others, new-build developments (Davidson & Lees, 2005, 2010), gated communities (Atkinson & Blandy, 2006), super-gentrification (Lees, 2003), and commercial and rural gentrification (Lees et al., 2008). However, Lees et al. (2008) argue that these different types of gentrification have in common that they all cause socioeconomic and cultural transformations, due to middle-class colonization or recolonization of working-class spaces: people with less power and means are displaced involuntarily from their homes by people with more power and means (see also Davidson & Lees, 2005, 2010; T. Slater, 2006, 2011). With this in mind, and

140 ‘Depreciation refers strictly to changes in price whereas devalorization is a deeper economic process implying the loss or negation of value as a necessary part of the valorization process’ (Smith, 1982, p. 147 footnote 3).
following Lees et al. (2008, p. xv), I define gentrification as the transformation of a working-class or vacant area of the city into an area for middle-class residential and/or commercial use. Whether this happens through new construction or renovation, and whether or not this process is state-led is related to the geography of gentrification (Lees, 2000), that is, the way in which similar processes play out differently in different geographic contexts.

Following observations that gentrification has “gone global” (Smith, 2002), the initial scholarly focus on gentrification of cities in the United States and the United Kingdom has been expanded (Atkinson & Bridge, 2005; Badyina & Golubchikov, 2005; Kotze & Merwe, 2000) and, more recently, following the postcolonial critique in which the Eurocentrism of this theory has been called into question, more explicitly directed towards the Global South (Choi, 2016; Harris, 2008; Lees et al., 2015; López-Morales, 2015). This chapter fits into this trend as it looks at gentrification processes in Beirut. Inevitably, the real estate booms of the past two decades, the most recent of which started in 2008 and lasted until 2011, have led to the rapid transformation of many sectors of the city and subsequent population displacement. Neighborhoods that were once characterized by Ottoman mansions and their lush gardens, French Mandate-era villas and low-rise 1950s apartment buildings with shops on the ground floors are now dominated by glitzy high rises that remain uninhabited during most of the year. In Lebanon, land and housing markets have always been allowed to operate relatively freely and often informally (Fawaz, 2009a) and private property rights have historically been strongly guaranteed. In this way, it seems that gentrification was ‘an expected product’ (Smith, 1979, p. 538), given that the state did not strongly intervene to protect residents from the logic of capital in the housing market.

However, areas with a large rent gap do not automatically gentrify. Subsequent gentrification has to be explained by more than the rent gap alone. These explanations are embedded in the larger political economy of real estate development in Beirut that is discussed in this dissertation, and that explains the availability of large amounts of surplus capital to invest in real estate as of 2008 ). At the level of my case studies that are both neighborhoods with a rent gap, however, specific factors influenced their eligibility for reinvestment. In Mar Mikhael, creative entrepreneurs and the area’s perceived authenticity and village-like image have had a large impact on its desirability as an investment destination. Many buildings were renovated into upscale commercial spaces, which, together with the area’s reputation as a diverse, non-sectarian space was used as a selling point by real estate developers keen to sell upper middle class newly constructed
apartments. In Zokak el-Blat, the area was considered attractive by investors because of its location next to Downtown Beirut and large traffic arteries. Its architectural heritage and legacy as home of the nineteenth-century Arab Renaissance were not named as motives to invest. Therefore, the transformation remained limited to residential and new-build real estate. The case studies in this chapter show just how much gentrification processes can diverge within a single city and between two areas with similar rent gaps. The existence of a rent gap and disinvestment in these areas is therefore in and of itself not enough to explain how and why they subsequently gentrified, which is not claimed by the theory.

In what follows, I hope to contribute to a growing body of scholarship that is documenting this process of gentrification in Beirut (Achkar, 2011; Khechen, 2014; Marot, 2014; Ross & Jamil, 2011). The remainder of the chapter will be organized as follows: the next section zooms in on the Mar Mikhael neighborhood and first explains what caused the disinvestment in the area, paying special attention to rent controls, and then look at how the area gentrified. The third section of this chapter discusses Zokak el-Blat, paying attention again to how and why disinvestment occurred in this area, this time looking at the framework regarding the protection of architectural heritage and the role of conflict, and then shows how this area gentrified.
5.1 Mar Mikhael

Mar Mikhael is a mixed residential-commercial neighborhood\(^{141}\) where many villas from the 1930s survive, alongside more recent structures. It was originally a port district that started developing from 1840, when Beirut became a quarantine center and coal supply station and the bourgeoisie started moving out of the original city walls. Towards the end of the nineteenth century, the Mar Mikhael train station was built, serving the nearby port and passengers of the now-defunct Beirut-Damascus railroad. The quarter was thus mostly a transit for port goods and the railway. In the 1920s, the French colonial administration named it ‘Mar Mikhael’ (Saint Michael), and installed two military bases there.

After the Armenian genocide in 1915, many Armenian refugees and survivors settled in the district, just as they settled on the eastern shores of the Beirut River, in an area that would come to be known as Bourj Hammoud. The largest camp was set up in 1922, while later camps were transformed into permanent settlements. The character of the area remains distinctly Armenian today (Ashkarian, 2012; Zouain, Liatard, & Fournier, 2011). It also possesses a historical, social, economic, architectural and urban tissue that has mostly been destroyed elsewhere in Beirut: neighbors sit outside on stairs, under trees, on dead-end streets. Some places have a village-like feel, with small, car free streets connecting old low-rise houses with porches overhung with vines.

\(^{141}\) Note that the quarter does not have official borders but comprises parts of the Rmeil and Medawar Cadastral sectors. The borders of the area shown in the map are based on the mental map of the inhabitants, as explained in Ashkarian (2012).
Generally described as a sleepy quarter\textsuperscript{142} that never fully recovered from the closure of the railroad in 1976 and the Civil War, from 2008 onwards the neighborhood started transforming (Lee, 2009). Restaurants, pubs, boutiques, art

\textsuperscript{142} See, for example, Garine Tcholakian’s portrayal of the neighborhood in the \textit{Daily Star} from January 19, 2004: ‘Shop after shop, the small unlit spaces display more than merchandise: a man sits at his desk facing the door, leaning his plump cheek against his even plumper hand. In the next one, three men sit around a table at the window quietly eating their sandwiches. In the next, a balding white-haired barber squinting through his thick-lensed glasses, looks at a magazine while sitting in one of the large green vinyl barber chairs of his empty shop. A man emerges onto the sidewalk. He yawns slowly. The look on his face reveals at once tiredness, boredom and dread. See also the New York Times travel special about the quarter at \url{www.nytimes.com/slideshow/2010/09/05/travel/20100912-SURFACING.html}, where the Mar Mikhael of 2010 is described as ‘dusty’ and ‘dowdy.’
galleries and small bookstores opened one after another, increasing from a dozen in 2009 to several dozens in 2013 (“Mar Mikhaël: La nuit s’en empare,” 2013). Property investors and developers followed, selling the area as the next place-to-be on their projects’ websites and in brochures. Mar Mikhael became, as one local newspaper put it, a ‘magical quarter.”142 While this coincided with a project to rehabilitate Mar Mikhael’s façades, undertaken by the Lebanese NGO Help Lebanon from 2006 to 2009 (see Figure 15), it is more probable that the new investors and renters were attracted by the lower prices of land and low rents. Property and rental prices have risen since these renewed investments, tripling in some cases (Ashkarian, 2012; Chardon, 2011; Lee, 2009; Zouain et al., 2011). While it is impossible to obtain reliable land value data over time on a neighborhood level, similar to those by Hoyt that Smith (1979) uses for example, I have combined several sources (surveys, property magazines and my own interviews and records) that provide an indication of the changes in real estate prices (see Figure 16). Unfortunately, I could not gather enough reliable data on land prices over a long period, but the few numbers I did obtain from the records and interviews show an increase in land prices from around US$1,200/m² in 2006 to US$8,000/m² in 2011. In 2014 and 2015, millions of dollars were being paid for buildings, pointing towards prices of US$5000 to US$13,500/m² for the land. For real estate prices, see Figure 16. Before moving on to the details of this renewed investment in Mar Mikhael, however, I will first look in more depth at how the initial disinvestment in the area can be explained.

Figure 14-Mar Mikhael’s eastern section. Picture taken December 25, 2011.

Figure 15-The rehabilitation of façades in Mar Mikhael by the NGO Help Lebanon, in partnership with the Banque Libano-Française. Source: Help Lebanon, s.a.
5.1.1 Rent controls and the rent gap in Mar Mikhael

In Mar Mikhael, many buildings house tenants whose contracts are subject to stringent rent controls. Surveys suggest that anything from fifty to eighty percent of residents in Mar Mikhael are renters, and eighty percent of these have rent-controlled contracts, the majority paying less than US$1,000 a year (Ashkarian, 2013; GAIA Heritage, 2015). Tenants with these contracts, signed before July 1992, pay rents based on pre-war rates and benefit from extensive tenant rights. The large number of rent-controlled contracts has contributed to the disinvestment in the area. As Smith (1979, pp. 543–545) explained for the case of inner-city disinvestment in the United States, after a first or second cycle of use by owner-

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الأجراءات العقارية في Mar Mikhael

occupants (in Mar Mikhael, many bigger villas were built as housing for the richer classes moving out of the old walled city), properties were rented out as (the children of) homeowners sought newer homes where their investments were safer. The subsequent maintenance of these rented out properties, often requiring major repairs as the only way to prevent devalorization, required renewed capital investment that was often not an option for small landlords or owner-occupiers (Smith, 1982), especially given that rent-controlled contracts yielded so little. In Mar Mikhael, disinvestment was even more severe because of the rampant inflation of the Lebanese pound in the early 1990s (see section 2.2.1.1), which meant rents yielded sometimes as little as US$120 a year (Cochrane, 2012; Fisk, 2012), a very low actual ground rent.

While it has been shown that rent controls can limit processes of gentrification in case of a rent gap (Ley & Dobson, 2008), this is not necessarily the case in Beirut. On the one hand, in a context of escalating real estate and rental prices throughout the city, it is true that rent control is one of the few reasons low-and middle-income dwellers have managed to retain their homes in central city locations. All in all, an estimated 40,000 families in Beirut alone are benefiting from so-called “old rent contracts”, but census data on who and where they are are lacking (Bekdache, 2015 forthcoming; Cochrane, 2012). On the other hand, the very low yield of buildings with old rent tenants meant that an increasingly large rent gap started to form in the area. During the real estate boom, at a time when in real market value, the rent of a building could rise above US$100,000 annually, or the plot with the building on it could be sold for millions of dollars, this very high potential capitalized ground rent provided landlords with a huge incentive to first, lobby for a new rental law to replace the temporary law introduced for pre-July 1992 rental contracts, to be able to capture market rate rents, and on the other hand, sell their buildings, including tenants, to real estate developers who were willing to pay large sums for the land and compensation above court-rate for the tenants to leave (Bekdache, 2015 forthcoming; Salem, 2010). These developers know they can construct a high rise on the land, i.e. benefit from the much larger potential capitalized ground rent, and are therefore willing to pay considerable sums. Hence, on the one hand, the old rent law allows people to stay in the city, while at the same time the rent gap it created contributed to landlords’ unwillingness to invest in

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146 In all of Lebanon, the number of old rental contracts is 153,361 officially, but probably even higher because of unregistered contracts, i.e. around 180,000. Assuming that the average household in Lebanon numbers four persons (a low estimate), this means that around 600- to 800,000 people might be displaced if the rent law is reformed (Baradeai, 2014).
maintenance and willingness to sell their properties instead, after which tenants were evicted, thus speeding up gentrification. Under-maintenance of properties in this case did not yield (temporary) surplus capital for the landlords as discussed by Smith (1979, p. 544) because the rental yields were simply too low due to their unadjusted rates after the inflation of the early 1990s.

The lobbying of the landlords to replace the old rent law and be allowed to ask market rate rents was not wholly unsuccessful. Several laws were drafted that sought to replace the old rent law, the latest involving a gradual transition to higher rent, compensation and eviction to state-provided housing with a rent-to-own scheme (Cochrane, 2012; Marot, 2014). This law was passed by Parliament but sent back for modification by the Constitutional Council. The new rent law does not bode well for Beirut’s tenants on old rental contracts, who can usually not afford to pay higher rents. While in the 1970s, leftist parties protected the interests of the tenants, today these parties are a lot smaller and suppressed by the neoliberal consensus that was formed under Hariri (Makdisi, 1997). A committee to protect tenant rights exists, but has yet to succeed in preventing evictions or securing alternative housing. On the other hand, one can wonder if a new rent law is going to make a difference at all, since property developers are buying up entire buildings with tenants included and pay more than the landlord would make if the building were rented out at market rates. However, as I will show in the next section, the way in which gentrification is happening in Mar Mikhael shows that charging high rents can (temporarily) stave off the sale of entire buildings. I will now take a closer look at how and why gentrification occurred in Mar Mikhael.

5.1.2 Gentrification in Mar Mikhael

The transformation of Mar Mikhael became first visible when older shops that had existed in the area for decades, including car mechanics, light industry and small supermarkets, started being replaced by bars, art galleries and restaurants. Having lived uphill from the area for two years (in Rmeil), I witnessed the stunning transformation first-hand. According to surveys by Ashkarian (2012, 2013), one third of all commercial spaces in the areas was new, replacing many older shops, and by now this share is certainly even higher. Therefore, gentrification in Mar Mikhael became first visible as a commercial transformation, from inexpensive shops serving local and Beirut dwellers to upper middle class and high-end boutiques and restaurants targeting young middle class customers and mostly
Western foreigners. This does not mean that at the same time no residential gentrification was taking place, but I will address this below. The commercial gentrification of Mar Mikhael meant that many buildings saw their ground floors transformed and renovated but their upper floors remained occupied by the same tenants. It could thus be argued that landlords were benefiting from increased capitalized ground rent, and the smaller rent gap allowed for the tenants upstairs to stay put (for now), albeit often with dire consequences for their quality of life as we will see below. The commercial gentrification of Mar Mikhael happened in two ways: a “creative” and a nightlife variety. Both types of renewed capital investment happened in Mar Mikhael for their own reasons: affordable work space in an “authentic”, the presence of service providers for creative activities, the quiet setting, the proximity to another nightlife area with unaffordable rents... I will explain how and why these forms of commercial gentrification happened in the next two sections.

5.1.2.1 “Creative” gentrification

The commercial transformation of Mar Mikhael was partly carried out through the settlement of young creative entrepreneurs in the neighborhood, which started as early as 2005 and peaked in 2010 (GAIA Heritage, 2015). Surveys of these companies (GAIA Heritage, 2015; Zouain et al., 2011) show that they moved to the neighborhood in two waves, the first attracted by the area's low prices and village-like characteristics around 2008; and the second attracted by the developing cultural and creative industries themselves around 2010-2011. The new boutiques replaced many former mechanics and other shops that gave Mar Mikhael its village-like feel. They paid higher rents than local shops, albeit lower than the bars and restaurants (Krijnen, 2015). The settlement of the first creative entrepreneurs coincided with the publication of Richard Florida’s (2005) highly influential work on the creative class, which was translated into policy kits that would supposedly spur economic development in the Global South (see De Beukelaer, 2014). Indeed, in Lebanon, institutions such as The British Council and the European Commission have taken it upon themselves to promote the “creative economy” as a

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For the survey in 2011, 35 creative entrepreneurs in Mar Mikhael were identified, of which 26 completed a questionnaire. Of these, 22 were actual creators, while (some overlapping) four were exhibitors of creative work and six provided services to the creators and exhibitors, including restaurants. For the second survey in 2014, 71 ACDs were identified, of which 40 completed the survey.
development tool. These organizations believe that stimulating the development of creative industries in Lebanon would facilitate a transition to, or at least a more significant role for, what they term the “knowledge economy”, and transfer resources and investments from real estate development and financial services to this sector. In this way, young, highly educated people that are currently leaving the country in droves would be inclined to stay or tempted to return. A British Council-sponsored report stated: “The importance of creativity and content in any present-day economy presents to Lebanon unique opportunities for growth, development and stability. Grasping these opportunities can transform all our futures’ (Hill, 2008, p. 15). The Lebanese consultancy company GAIA Heritage, which has been the most active in voicing support to and providing research on Mar Mikhael’s emerging creative industries, has recently joined an EU-funded project that aims at ‘improving the economic and social returns of the Arts, Crafts and Design (ACDs)’ industries (GAIA Heritage, 2015, p. I). ACDs include designers (the majority), architects, IT, publicity, communication, agents, specialized bookshops and accompanying services such as artisan furniture and “conceptual restaurants”, thus going beyond a focus on creative industries to provide support to other types of companies as well. For sure, what “creative industries” are and which alleged positive effects they actually have remains a topic of dispute (Peck, 2005), but the trend had some real effects on the ground and provided legitimacy to creative entrepreneurs seeking to start their own businesses.

148 The European Union funded project “Mediterranean Cultural Network to Promote Creativity in the Arts, Crafts and Design for Communities Regeneration in Historical Cities – MEDNETA” is part of the multilateral cross-border cooperation “Mediterranean Sea Basin Programme” of the European Neighbourhood Policy and of its financing instrument (ENPI).
Map of creative industries in Mar Mikhael © GAIA Heritage 2015. Categories are: "Alternative Art Forms, crafts and design."
While these creative entrepreneurs were probably interested in preserving the social diversity of the area (Lees et al., 2008), they contributed to creating Mar Mikhael’s “hip” image, which helped attract nightlife and provided residential real estate developers with an excellent marketing tool (see below). The effect has been that the very diversity that made Mar Mikhael attractive to creative entrepreneurs is threatened by gentrification (Evans & Shaw, 2004; Peck, 2005). As described in the literature (Ley, 2003), they valorized the area before the ‘big fish’ moved in and they are now being displaced themselves. The self-proclaimed non-profit Karaj-media lab, for example (founded by two expatriate Lebanese designers/artists in 2010), stated that it takes a pro-active stance in support of architectural and cultural preservation, but has since been forced to relocate due to rent increases (personal correspondence, June 24, 2013). Indeed, more than a few venues have indicated that they are seeking to relocate their premises because they are being priced out (GAIA Heritage, 2015; Rahhal, 2015). However, a few shops on one particular street (Pharaon) have also indicated that their landlords collectively decided against renting to pubs (Krijnen, 2015; Rahhal, 2015) in order to preserve the character of the area. Notwithstanding this, I noticed a newly opened pub on that street during a site visit in March 2015.

The establishment of creative entrepreneurs in Mar Mikhael has therefore led to far-reaching changes for its residents, most of which are not positive. They replaced shops that served the local population and contributed to rising property values, which in turn led to the forced displacement of many residents, as explained below. They do not serve local residents as their clients hail mainly from outside Mar Mikhael; when asked, Mar Mikhael’s residents rarely stated that they bought things from these boutiques; moreover forty-one percent of shops export their products abroad, mostly to the Gulf and Europe (GAIA Heritage, 2015). While GAIA seeks to promote the preservation of cultural heritage and the arts while activating their economic potential (Zouain et al., 2011) and find a balance between residents’ and ACDs’ interests (GAIA Heritage, 2015), it seems that shop tenants’ and residents’ displacement is inevitable when pursuing this strategy in Mar Mikhael. After all, apart from a few spaces that were empty when taken over by these industries, ACDs had to settle somewhere and existing tenants thus had to go elsewhere. The increase in property prices inevitably impacted prospective residents (exclusionary displacement, see Marcuse, 1985), while residents and tenants who were not protected by rent controls faced rent increases (Lee, 2009).
5.1.2.2 Nightlife gentrification

Subsequent to the settlement of creative entrepreneurs, the establishment of countless bars and restaurants all around the neighborhood arguably had a much larger impact on the area. They were attracted by its trendy image following the establishment of creative entrepreneurs but also by the lower rental prices that were unavailable in the neighboring saturated Gemmayzeh-area and the “authentic” charm of old buildings that by that time were being sold and/or demolished in high tempo in other areas of Beirut popular with investors (Rahhal, 2014a). The area’s trendy image, the competitive prices for drinks the bars could offer due to low rental prices and the wide two-way road that provided a relief from traffic-choked one-way Gemmayzeh quickly attracted many investors who could count on a large clientele (GAIA Heritage, 2015). The lack of enforcement by municipal authorities allowed bars to encroach on public sidewalks with seating areas, enlarging their revenues. Moreover, reportedly many of them operated without the proper licenses, bribing officials or working under a restaurant permit, because the municipality refused to provide permits to pubs in residential areas (Lee, 2009).

These bars once again replaced many older shops, whose tenants were forced to relocate when landlords increased the rent or gave them a month’s notice to leave (Rahhal, 2015). While one mukhtar stated that ‘with all this increased activity, there is more employment’ (quoted in Salem, 2010), and being able to rent their place out to a bar is a financial windfall for some shop owners (one says he was trying to get US$150,000 in rent yearly for his shop, another one rented out two of his garages to restaurants), interviews have made clear that shop tenants hardly benefit from the opening of these establishments; often the opposite is the case as they are threatened by rent increases, loss of clientele and eviction with insufficient compensation in the case of old rents, and consequently lose their livelihood. Rents paid by these older shops vary greatly: tenants have named US$4,000 a year to US$4,000 a month, even on rent-controlled contracts (Krijnen, 2015). One tenant said he would receive US$99,000, which does not buy him a new shop and does not last long with the high rents in place. Another one stated that he would need US$1

confirmed by interviews with residents, October 15, 2014.

Interview with garage owner, October 15, 2014, see also Rahhal (2015)

Interviews with shop tenants, October 15, 2014.
million to be able to find a new place and cannot afford anything on the same street. One mini market pays US$1,200 a month on a new rental contract and faces a rent increase of thirty percent every three years. Currently, the tenant is able to pay the rent because he stays open late at night in order to serve pub dwellers (which have flooded the area, as I will explain below). He was not sure about being able to meet his obligations at the time of the next rent increase. A hair dresser claimed that he had lost 700-900 clients in the past decade (all examples from Krijnen, 2015).

Meanwhile, the increase in pubs and restaurants has been enormous, considering the area is not that large. In 2011, fifty new businesses opened, in 2013, twenty-six (GAIA Heritage, 2015). Apart from the rent increases and displacement these new places engender, their activities have not missed their effect on the inhabitants of the area. People complain that noisy bar dwellers occupy the sidewalks until the early morning, keeping residents awake; restaurants take over their backyards, destroying old gardens; parking spaces and sidewalks are appropriated; shops that they used to frequent are closing and continuously replaced with new venues. Their doorways are littered with garbage and vomit in the morning and bins are constantly overflowing, attracting stray dogs and cats (complaints are recorded in interviews with residents as well as in Ashkarian, 2012, 2013; GAIA Heritage, 2015).

The pubs pay very high rents: fees were around US$200 per square meter in 2011, tripling to US$600-700 in 2014 on the main street and surpassing this in 2015 (“Et si Mar Mikhaël passait de mode ?,” 2015; Rahhal, 2014a). This means monthly rent for bars is at least around US$5-6,000, as residents confirmed. While a terrible nuisance for residents, bars, like ACDs, might have contributed to slowing residential gentrification processes in Mar Mikhael because many of them occupy the ground floors of rent-controlled buildings, making a landlord less pressured to sell to a developer. Considering the size of the rent gap and the temporary character of nightlife trends in Beirut more generally, however, it is unlikely that this “fix” will last forever (Rahhal, 2015). Indeed, due to the finicky nature of nightlife trends in Beirut more generally and the escalating rental prices in Mar Mikhael specifically, a new area in Beirut is being targeted for nightlife. Badaro, to the Southeast, has seen a flurry of pubs opening in 2014 and 2015 to the dismay of residents (Rahhal, 2014b). This means that the nightlife scene in Mar Mikhael

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152 The 3inab restaurant cut down a 100-year old avocado tree, according to one of my interviewees, June 24, 2013, although avocado trees are not known to live this long.

153 Interviews with residents of Mar Mikhael, October 15, 2014.

154 One disgruntled resident complained on Facebook: “So it’s not enough we have to tolerate drunkards
might slow down soon and the consequences for its residents, after their landlords lose this lucrative rental business, are potentially dire. While they would enjoy a restored night’s rest, real estate developers are on the lookout to cash in on the (newly opened) rent gap.

all night, puke on our doorsteps in the morning, parking valets and the impossibility of parking in our own street, the Badaro Merchant association apparently has just decreed a car free Sunday so that they bring in as much noise and annoyance because FUCK the residents as long as they can hype the street and make more money on stupid shop rents...” Later he commented: “I can sleep through shelling, bombs and firework...it’s the drunken Haaaappyyyy biiirthday tooo yooouuuuuuuu that get to me.” His friend commented: “God be with you, everyone I know is also complaining.” (posted May 27, 2015. I chose to not name this resident).
The influx of creative entrepreneurs, bars and restaurants has been visualized in the map below (Map 5), which compares two surveys that I conducted in 2011 and 2013. It also shows new real estate projects that are being executed in the area, to which I will turn below. Below this map, a graphic by business magazine Executive shows the bars and restaurants in 2014 shows the large number of these kinds of businesses operating in Mar Mikhael.
Map 5 - Real estate projects and venues 2011-2013 © Vicken Ashkarian ©
5.1.2.3 Residential gentrification

The renting out of buildings’ ground floors to pubs or ACDs has possibly protected some of them from being sold to real estate developers when the area initially became popular with investors. Selling buildings with tenants included is a popular practice in areas experiencing reinvestment. Sometimes, owners initiate the eviction of tenants through winkling practices (bribery and harassment practices to evict tenants, see Lees et al., 2008, p. 14), such as the tagging of buildings, warning of their possible collapse and obtaining a notice from the municipality for eviction and cutting off services (Bekdache, 2015 forthcoming). Once a building is sold and the tenants have been evicted, it is usually demolished. The existing high exploitation ratios via zoning and building laws coupled with sufficient demand from the Lebanese diaspora means that enormous profits can be made by demolishing older, three-to-six-floor buildings and replacing them with twenty- to forty-story high rises. This is even more so given the relatively low costs of construction and the abundance of cheap labor power provided by Syrian migrant workers, which has become even cheaper due to the massive influx of Syrian refugees during the past four years.

Figure 18-The Skyline tower, a project by Al Mawarid Real Estate, a twenty-four-floor residential tower designed by Bernard Khoury, completed in July 2014.
As field findings indicate, this is happening increasingly often in Mar Mikhael as well. Allegedly, real estate developers followed in the footsteps of the creative entrepreneurs (Zouain et al., 2011), but in fact many developers bought their plots at the same time as creative entrepreneurs were moving in. Developers certainly were attracted by the relatively low prices of land in Mar Mikhael compared to the rest of the city, but also knew that they could cash in on the area’s trendy image, as I will show below with some examples of projects below. Generally, developers bought several lots, merged them, evicted existing tenants (residential and commercial) and demolished the old structures, in order to be able to build a residential high rise. Several tenants reported that their buildings had been sold and compensation was being negotiated. For example, one older lady told me that she needs to leave the apartment she and her husband share on the fourth floor of an old building, because it has been sold to a developer. The building has been emptied of other tenants and is in very bad shape: leaking ceilings, peeling paint. She said she would need US$2-400,000 in order to find a new apartment, even outside Beirut. Her husband has temporary work and they will never meet the minimum income requirement needed for a subsidized mortgage (see Chapter 3). Therefore, they will probably move to their mountain house. Their entire social network and access to services as well as employment will be cut off. Indeed, residential displacement means that the thirty-nine percent of inhabitants who work in the area (GAIA Heritage, 2015) will have to start commuting to work from the Northern suburbs where they usually relocate, a difficult task as car ownership is low and daily traffic jams on the roads leading to Beirut are severe. One older lady was startled one day as a developer “accidentally” knocked a hole in her bedroom wall while demolishing the building next door. She had made an agreement to move out but had not in fact moved out yet. The developer maintains that he did not intend to damage her house. Moreover, those tenants in Mar

155 In the Lebanese building law, a high rise requires a setback because of the building envelope-rule. Moreover, if a plot area is at least 4,000m², Article 16 of the building law allows a developer to circumvent the maximum height of 50 meters. Through merging lots, a procedure called ‘damm w farz’, a developer can obtain the needed lot size.

156 One shop owner told me the building was sold to the same developer that is doing the AYA-tower, discussed below, but I have not been able to verify this as other people contradicted this.

157 Interview with a resident on a rent-controlled contract, October 15, 2014.

158 Interviews with residents, October 15, 2014.
Mikhael who are not protected by rent controls have faced direct displacement through enormous rent increases (Lee, 2009).\textsuperscript{159}

When evicted, displacees usually have no other choice than to move to the periphery of the city, into politically segregated neighborhoods that first emerged during the mass displacement of the civil war (see Chapter 2, section 2.1.3.4). These areas are characterized by sectarian homogeneity and sometimes under the control

\textsuperscript{159} Confirmed by interviews with residents, October 15, 2014.
of political parties (Bou Akar, 2005). Most rent-controlled clusters from which people are being evicted were among some of the last remaining diverse sections in the city (Bekdache, 2015 forthcoming) and in this way gentrification in Beirut contributes to sectarian segregation as well. As residents are being directly displaced, the remaining inhabitants experience increasing displacement pressure (Marcuse, 1985) and sociocultural displacement (Davidson & Lees, 2005): the area changes beyond recognition, shops close and social networks fall apart. Half of the residents have been living in the area for over thirty years, forty percent was born there and the majority spends all their free time in the area. This deep rootedness, together with high rates of unemployment and old age, makes these residents especially vulnerable to changes (GAIA Heritage, 2015). One lady told me that her neighbors “almost died having to leave their house that they had been living in for generations.”

A repair shop owner told me that his client decided to have a coffee next-door in a new bar while waiting for his repairs, and returned in shock: “What is this? I pay you twenty dollars, and I just paid them twenty dollars too!” The distinctly Armenian character of the area is under threat as well. A Lebanese-Armenian friend wrote: “How do we know that gentrification is “destroying” Mar Mikhael? Well, today when our march for the 98th commemoration of the Armenian genocide passed through Mar Mikhael, shops owned by Lebanese-Armenians were closed, shops that have been owned by Lebanese who have been living with the Lebanese-Armenians for a long time in Mar Mikhael were also closed. However, many of the new trendy places do not seem to care: Chez Sophie and 3enab for example: shame on you!” (Kevork Baboyan on Facebook, 24 April 2013). Of course, the fact that large numbers of residents’ children have emigrated abroad for work has always meant that a certain social rupture was going to take place in the area, now that over a third of residents are between fifty-five and seventy years old (GAIA Heritage, 2015). But even if their children would want to, they usually cannot afford to return as prices are too high (Davidson & Lees, 2010; Marcuse, 1985).

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160 Public Works Studio, a research and design studio run by Nadine Bekdache and Abir Saksouk, has been running a project called “Narrating Beirut through its Tenants’ Stories”, where people’s experiences with gentrification and displacement are heard during several events focusing on different neighborhoods. For more information, see publicworksstudio.com.

161 Interview with a resident in a renovated owner-occupied apartment, October 17, 2014.

162 Interview with a shop tenant, October 15, 2014.
The (threat of) displacement has thus far not engaged Mar Mikhael’s neighborhood representatives to come to residents’ defense to preserve the character of the area. In fact, a mukhtar is quoted as welcoming the transformation of the neighborhood: ‘You have owners who are getting the opportunity of a lifetime when developers come pay them big money to buy their land to build a tower’ (Salem, 2010). Moreover, there is no overlapping structure in which Mar Mikhael’s 20,000 residents come together on a neighborhood level (Ashkarian, 2012). While there are two main political parties in the neighborhood (the Armenian majority is generally aligned with the Tachnag party; the Maronite minority generally identifies itself with the Phalange) and the Mar Mikhael church parish brings together a large group of people, no larger representative organizations or committees exist. There are twelve neighborhood political leaders, the mukhatir (singular: mukhtar) but they often work alone, although they have good connections with members of the municipality.

It should be noted that, on top of the pressures of real estate development and commercial activity, the neighborhood’s morphology and residents are also threatened by a projected highway. This highway was planned in the 1960s and threatens fifty-eight heritage buildings, of which a substantial part has already been expropriated, and 8,000 m² of gardens (Atallah, 2014). Together with other organizations, SBH is fighting these plans in a civil society coalition that has so far managed to halt construction, but has not obtained any guarantees that its alternative plan will be accepted. The municipality and the CDR want to carry out the works as planned, and prices around the projected highway trajectory have already risen sharply. In fact, developers bought some properties speculating on the increased values. More research is needed to understand how exactly this affected gentrification in the area.
Figure 20—The impact of the Fouad Boutros highway. © Antoine Atallah, Robert Saliba, Alex Nicolas, Save Beirut Heritage (Atallah, 2014). Picture of sign announcing the highway taken by author, March 2015.
5.1.2.3.1 AYA

To illustrate how process of residential gentrification in Mar Mikhael actually took place, I will discuss the first large-scale real estate project in the area, namely the AYA-tower. I elaborate on the way in which the developer marketed the neighborhood to prospective buyers and how space was cleared for the project. The AYA-tower is developed by HAR Properties (est. 2009), one of whose founders and major shareholders is the son of former Prime Minister Rafik el-Hariri, Fahed el-Hariri. Forbes estimated his inherited fortune at US$1.4 billion in 2010.\(^{163}\) He heads Oger Dubai, established in 2005, an offshoot of his late father’s construction company Saudi Oger, established in 1978, and is head of the latter’s property portfolio and a major shareholder.\(^ {164}\) He studied architecture in Paris and has the ambition to be an “aware developer” who adds “a theatrical dimension to the public spaces” he seeks to create. He hopes to “participate in the definition of modernity”

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(quoted in Ashby, 2009) and the AYA-tower is one of the projects that contribute to this objective: it has an open area that supposedly creates a public space (see Figure 22). HAR Properties sought to “create a thin tall building that cannot be seen from anywhere, it’s where the street turns, so you won’t see it. (...) The idea was to not have a big impact’ and ‘not [to be] intrusive” \(^{165}\) (“City Sculptor,” 2014). Of course, the intention of not being intrusive is almost comically unbelievable when one sees a twenty-floor, US$30 million (Salem, 2010; Zawya database \(^{166}\)), upper-end high rise being constructed in a low-rise lower middle class area, with apartment prices from US$3,000 to US$4,200/m \(^{167}\) and facilities like a gym and a swimming pool. This rhetoric of low impact is however part of HAR’s marketing ploy, where the building had to be marketed as a special design in a unique area in order to attract buyers. The project was launched at Beirut Art Center in 2010 and is marketed on HAR Properties’ website \(^{168}\) as “low-cost” housing in a once-forgotten neighborhood full of architectural charm and potential (see also an interview in Ekaruna, 2010). The developer represents workers and residents of Mar Mikhael as elements of authenticity that can be interacted with in order to experience the “real” Beirut, the built environment ‘a place where arched doorways, romantic stairways and sepia shutters recall the true essence of Beirut’ (developer, quoted in Salem, 2010). At the same time he provides the comforting knowledge that the area is full of trendy bars:

‘Suddenly, you became the next door grocer’s best confident. He’s telling you everything about his sciatica, or about the last twists and plots in his son’s life, and your new friend won’t forget to show you the pictures of his two other kids, that he’s so proud of. Then, you stop by the hairdresser, where you play tawlat zahr (backgammon) with his friends. In the meantime you start to love Turkish coffe [sic] and narguile, and you also understand basics [sic] of Armenian language. At the bend in the path you stop by the EM Chill to have a drink and watch the boiling underground arts scene which is leaving Gemmayze and Monnot for Bourj Hammoud and Gouraud.’ ‘Let’s try

\(^{165}\) Interview with one of the partners in HAR Properties, December 13, 2011.

\(^{166}\) www.zawya.com

\(^{167}\) Interview with one of the partners in HAR Properties, December 13, 2012.

\(^{168}\) www.har-properties.com
Hence, the developer is trying to attract a certain class of buyers that is interested in experiencing “authentic” elements of Lebanese life or at least live in areas where these elements, supposedly lost elsewhere in Beirut, can still be found, and who is looking for an unusual design in a trendy place: “All our clients are aware of architecture, they like nice things, they’re not people who can buy in any classic building.”

The advertising agency for HAR Properties told me that they have lists

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170 Interview with one of the partners of HAR Properties, December 13, 2012.
of people that they buy from a company, who obtains these lists from an unknown location: “So I say I want A-class people, architects, engineers that earn in this and that area, 3000 dollars and above.” These people are invited to the launch of the project. “Were not interested in someone who makes 1000 dollars month.” The developer is adamant that he does not sell to speculators (Salem, 2010; P. Tabet, 2010): clients are “one hundred percent Lebanese, but about half of them are living abroad, in Europe, Dubai, Qatar...” When looking at sales numbers (HAR has sold about seventy percent of planned apartments at the time of writing) the developer certainly succeeded in attracting buyers.

The way in which the project was marketed masked its true impact on the area, which was significant in several ways. First, it replaced existing shops and residences, displacing the tenants. The lots on which the project is being constructed contained before their eviction eight shops, a bakery, two mini-markets and fourteen one-bedroom apartments. Salem (2010) reports that eight (mostly commercial) tenants on rent-controlled contracts remained and were paid a total of US$900,000 to leave. Second, it destroyed a significant amount of architectural heritage, including an old modernist cinema, drawing protests from local heritage preservation groups (Sikimic, 2010). The developer claims to be interested in heritage preservation and that he wanted to preserve the existing structures (Ashby, 2009) but that it was not financially feasible and that the architectural value of the cinema was not that great. However, after the Minister

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171 Interview with director of ad agency, December 10, 2013.

172 According to the developer’s website: www.har-properties.com/en/desc_projects/Aya_Beirut_Mar_Mikhael/plans

173 As evidenced by a Cadastral record requested on December 15, 2011, HAR Properties bought lots 633, containing three buildings, and 1159, containing the cinema, on September 8, 2009 and merged them.

174 No exact date is given at the description on the record, however the entry is made between two events recorded in 2008 and 2009.

175 Confirmed in an interview, December 13, 2012.

176 har-properties.com/en/our_latest_news/solution%20preserve%20Beiruts%20architectural%20heritage. Accessed December 12, 2011. The solution entails the designation of a high-rise area by the Lebanese authorities, to where exploitation rights from low-rise areas can be transported (this is also referred to as ‘air rights’). In order to be attractive to developers, the prices per built-up square meter in the area should be higher than elsewhere.

177 Interview with one of the partners of HAR Properties, December 13, 2012.
of Culture intervened, the developer was ordered to preserve the façade of one of the old buildings.\textsuperscript{178}

Figure 23-Protest March organized by citizens' group Save Beirut Heritage, September 2011.

Figure 24-An old and new render clearly show that the developer did not intend to preserve the façade of the old building © HAR Properties.

\textsuperscript{178} According to an interview with one of the partners of HAR Properties, the developer of AYA, by MK on December 13, 2011. In the original renders of the project, no such preservation can be seen.
Figure 25—Demolitions on the AYA-site (pictures taken in April 2010 and April 2011).

5.1.2.3.2 BoBo

Another project currently under development in Mar Mikhael is “BoBo”. BoBo is being developed by the Zardman-company, and consists of an eleven-floor residential-commercial building with luxury apartments starting at US$3,300 per square meter, ranging from 200 to 350 m² with a 425 m² penthouse and 108 m² roof garden. Even more clearly than in the case of AYA, the project aims to sell its apartments using an unconventional design and Mar Mikhael’s trendy image. “BoBo” stands for bohemian-bourgeois, the Francophone equivalent of “hipster”. ‘BoBo project is the new luxurious, residential estate; located in the new hotspot of
Beirut, Mar Mikhael, combining a luxurious lifestyle with a non-stop lifestyle.\textsuperscript{179} And this strategy was extremely successful: the project, designed by SOMA Architects, a New York-based firm that was founded by Lebanese-born Michel Abboud, was sold out in half an hour during its launch in February 2011.

Figure 26-BoBo © Zardman.

Once again, the project impacted the area in several ways. Its original design did not include the old building, because its preservation did not make sense in a framework where the rent gap was so large. Activists lobbied and managed to get an order from then-Minister of Culture Warde that forced the developer to preserve the façade.\textsuperscript{180} However, the large number of floors added will naturally have an impact on the area. Moreover, graffiti has appeared on the site that protests the class nature of the transformation and accuses the government of being complicit in the destruction of Beirut’s urban and social fabric.

\textsuperscript{179} From Zardmans Facebook-page: www.facebook.com/zardman/?fref-ts.

Besides the hip and trendy character of the area, developers have noted in interviews that some clients prefer Mar Mikhael because of its allegedly non-sectarian character. Political flagging is mostly absent, except for Armenian banners calling for the recognition of the genocide by Turkey. Of course, since the majority of residents is Christian, the area is in reality far from non-sectarian. However, the impression of a non-sectarian area can be explained by the large amount of Armenian inhabitants, a group that stuck together during the civil war and did not get involved much.

This section of the chapter has shown how the area of Mar Mikhael has significantly transformed in recent years. One of the main conditions for this transformation was the rent gap, which became quite large following the disinvestment in the area due to old rental contracts and high potential built-up area that was allowed by Lebanese law. The subsequent gentrification of this area started when a group of creative entrepreneurs, followed by bars and restaurants, moved in because of lower prices and other attractive conditions. At the same time, some developers decided to invest in the area and use its increasingly trendy yet authentic and moreover sectarian neutral image to successfully sell their projects. These gentrification processes led to far-reaching transformations in the area and various forms of displacement for its residents. While the high rents charged by landlords might have temporarily staved off the sale of some buildings to developers, the slow saturation of the bar scene means that more landlords will be tempted to sell their buildings and cash in on the high potential capitalized ground rent that developers are willing to pay for. I will now move on to discuss the area of Zokak el-Blat and point to the way in which the heritage protection framework has contributed to the
rent gap, as well as how the area’s transformation was made possible due to its location near Downtown Beirut and influenced by the legacy of conflict. The case of Zokak el-Blat will help the reader understand just how differently gentrification processes can play out across Beirut.
5.2 Zokak el-Blat

Map 7-Zokak el-Blat. By MAJAL ©
In contrast to Mar Mikhael, the case of Zokak el-Blat illustrates processes of new-build residential gentrification that are, thus far, unaccompanied by commercial changes. Located southwest of Downtown Beirut, Zokak el-Blat was one of the first areas to develop outside Beirut’s city walls, urbanized by a merchant elite that owned businesses in the city center and built their residences there (Mollenhauer, 2005). When Ibrahim Pasha of Egypt occupied the region (1831-1840), he paved the street leading from Downtown towards the Southeastern hill, giving Zokak el-Blat (‘the paved alley’) its name. Powerful local and foreign families such as the Pharaons, Dassoums, Farjallahs, Soussas, Yamouts and Mezhers resided there, and writers, diplomats, professors and presidents alike have called the area home. Zokak el-Blat was a central locus of the so-called Arab Renaissance (an-Nahda), famous for its cultural and sectarian diversity and vivacity (Mollenhauer, 2005).

During the 1920s, port workers, mostly migrants from rural areas in the south that were newly integrated into the state of Greater Lebanon and Kurds fleeing prosecution in Anatolia, took up residence in the area, leading to densification. Subsequent new building laws led to the demolition of many old Ottoman palaces and villas, to be replaced with apartment buildings up to eight stories with shops on the ground floor. Middle class families relocated to quieter suburbs. By 1945, forty-five percent of existing buildings had been demolished. Additionally, infrastructural projects during the 1960s cut main highways through Zokak el-Blat (Fouad Chehab and the airport road), involving the demolition of more than fifty houses (Bodenstein, 2005). Here we see that, to a far greater extent than in Mar Mikhael, far-reaching urban transformation had already impacted the area during the French Mandate and post-Independence period, with an outflow of the middle classes towards the suburbs and a poorer segment of the population moving in. The presence of a poorer population and main arteries cutting through the area would have consequences for how it gentrified, as we will see.
Figure 28-Zokak el-Blat. Pictures taken between 2010 and 2013, bottom row pictures © Sietske Gadema 2010 (sietske-in-beiroet.blogspot.be/2009/10/friendly-neighborhood-walk-zokak-el.html).
Before 1960, most inhabitants worked in trade and services in the city center and in the port. In 1958, the escalating conflict between Arab nationalists and Lebanese conservatives led to the first civil war and resulting migration wave from the area (Hanssen, 2005b). Afterwards, work opportunities in Beirut attracted an increasing number of migrants, mostly Shiites from rural areas who had been displaced by Israeli invasions and the debilitating poverty of the neglected Lebanese regions. From 1975, the Civil War and the consequent division of Beirut into a mainly Muslim and mainly Christian half led to the relocation of most Christian and Sunni elite families to other areas of Beirut or Lebanon. It is estimated that around 50,000 Christians left the area after 1984. The Armenian inhabitants of Zokak el-Blat attempted to remain neutral during the war and have hence succeeded in preserving most of their institutions. A large, mainly Shiite, refugee population from the South moved in, often squatting in the abandoned mansions (for example: the Ziadeh palace was squatted by twenty-one families from the Beit Lif village in the south) or renting apartments in newly built ten-to-twelve-story buildings. With them came militias that ensured their protection and provided social services (Hanssen, 2005b; MAJAL, 2012). Many of these squatters were displaced from the Eastern suburbs or the South of Lebanon, and were housed there by militias who
opened the abandoned apartments. Here we see that the abandonment of property happens somewhat differently from what is discussed by Smith (1979) for the United States: in his explanation, which he cautioned was not universal, abandonment occurs when disinvestment is complete, after the landlord is unable to any longer use the building profitably. In a context like Beirut however, it would do well to remember that many buildings were abandoned forcibly because of civil conflict and war, long before their property value had a chance to decline or their owners had a chance to undermaintain it, and consequently occupied by refugees with their own forms of protection. As we will see, this has definitely influenced gentrification processes in Zokak el-Blat.

Post-civil war reconstruction activities extended the existing highways and destroyed many buildings in the area’s northern segment, which became part of Solidere’s “reconstruction” of Downtown Beirut (see Map 7). What remains of the original area is inhabited by poorer people, including some refugee squatters that remain to this day. Also, there are pockets of informal housing (Gebhardt, Sack, & Bodenstein, 2005) and a high number of schools and other educational institutions (MAJAL, 2012), mosques and churches. Two political actors prevail in the area: (1) Hezbollah, a major party in Parliament, with a primarily Shiite constituency and famous for leading the resistance against the Israeli occupation of South Lebanon (1978-2000) and (2) Haraket Amal, a predominantly Shiite party sprung from Imam Moussa Sadr’s Movement of the dispossessed in the 1970s. In some areas of Zokak el-Blat, flags and banners of either party are visible. Once again, this influenced the way gentrification processes ultimately took place in the area. A sufficiently large rent gap, due to the many squatted or abandoned buildings and the high potential ground rent landowners could profit from by selling their buildings to developers, made profitable reinvestment possible. The way in which this reinvestment occurred, however, was influenced by how Lebanese state agents attempted to change the legal framework pertaining to the protection of heritage. This had an impact on the rent gap and subsequent gentrification in Zokak el-Blat because the area houses a large number of heritage buildings.

5.2.1 Non-protection of architectural heritage and the rent gap

State attempts at safeguarding architectural heritage have in fact sped up the transformation of Zokak el-Blat and Beirut. During the 1990s, when Lebanese state
institutions ordered several studies on heritage buildings in the pericentral areas of Beirut, many owners demolished their properties in order to prevent their classification, afraid that once they were listed they would not be able to capture the full capitalized ground rent they saw other owners—who sold their properties to developers—reap. Heritage protection plans always failed to devise incentives or subsidies that would convince owners to invest in their monumental properties, instead of illegally demolish or neglect them. Once lists with classified protected properties were established therefore, landlords lobbied to get their buildings declassified, stating in one letter: ‘we also ask you to preserve the wealth of a large portion of the middle class by releasing all the buildings on the list’ (Bekdache, 2015 forthcoming). The way in which stone represents trapped wealth and becomes an obstacle to further accumulation became very clear in this formulation. Landlords successfully lobbied to remove about three-quarters of properties from the list (Bekdache, 2015 forthcoming; MAJAL, 2012), and more were declassified subsequently. While in an exceptional move, the municipality of Beirut acquired the childhood home of Lebanese singer Fayrouz and the mansion of Bechara el-Khoury, both located in Zokak el-Blat in 2008, so far no renovation project has attempted to save the crumbling mansions. More recently, a law was drafted to better protect buildings. It allows owners to sell their land development rights in exchange for preserving the property. This law has been sitting in parliament since 2007 and has not been voted on because of political conflict (Byrns, 2011; MAJAL, 2012) and other interests. Meanwhile, Minister of Culture Warde (2009-2011) temporarily froze all demolition permits, resulting in the preservation of some façades (as discussed above for Mar Mikhael), but his successor has since revoked this measure.

The few buildings that remain under official protection today (many of which are located in Zokak el-Blat) are often subject to illegal demolitions by landlords and developers alike. The Heneine mansion, a magnificent palace that was placed on the World Monument Watchlist for 2016, recently received a large gaping hole in

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181 A case in point is a listed villa in the Gemmayzeh-neighborhood that was protected on paper. Once it was emptied of its tenants, developer Zardman committed illegal demolitions in order to prevent a forced preservation of the façade. An activist from the Save Beirut Heritage-group (SBH) reports: ‘They began demolishing the traditional elements only: indoor and outdoor arcades, they ripped out the gorgeous tiles, broke the berkeh [fountain] and opened sewage onto the foundations. We closed the sewage pipes ourselves. One of our members actually bribed the illegal demolition workers to stop working to buy us time to notify the ministry.’ While the demolition was halted under then-Minister Warde, the new Minister gave permission to go ahead. As related by Save Beirut Heritage on the Skyscraper City Forum Lebanon on September 15, 2011, see www.skyscrapercity.com/showthread.php?t=653138&page=3.

182 See blogbaladi.com/the-iconic-heneine-palace-in-beirut-placed-on-the-2016-world-monuments-fund-
its façade, which the owner claims was accidental but activists suspect was intentional. The neighboring Akar-palace was largely demolished overnight in 2011. This operation was completely illegal but so far no one has been punished for it. Hence, any attempts at preserving what remains of the city’s architectural heritage were met with successful lobby efforts by the landlords and developers (Fielding-Smith, 2010).

Therefore, while in certain contexts, classifying buildings officially as monuments and protecting them from devalorization can present an incentive to gentrification if owners are provided with subsidies or tax breaks for renovation (see for example Lees et al., 2008; Lees, 2003), in Beirut, assigning landmark status to buildings speeds up their destruction and in that way paves the way for subsequent gentrification. However, when developers became interested in investing in the area, profiting from the rent gap, not all heritage buildings in Zokak el-Blat were sold and demolished. Besides complicated property inheritance patterns, where several heirs need to be tracked down that are usually scattered all over the world given Lebanese emigration patterns, the fact that many monumental buildings are still occupied by refugees who enjoy a certain form of political protection plays a role in preserving these buildings as well. The legacy of civil conflict in shaping gentrification processes hereby comes to the fore. In the next section, I will zoom in on this dimension, while explaining how and why gentrification reached the area after the rent gap became sufficiently large.

5.2.2 Residential gentrification and political parties in Zokak el-Blat

Zokak el-Blat is facing intensive capital investment in its built environment, as evidenced by an increase in sales transactions and construction permits, the disappearance of empty lots and older buildings (MAJAL, 2012). As elsewhere, a developer usually acquires several lots, merges them, demolishes existing...

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183 See www.happyplanetlebanon.com/newsdetails.aspx?id=608&CatType=1

184 See savebeirutheritage.org/akar-palace and www.happyplanetlebanon.com/newsdetails.aspx?id=608&CatType=1

185 This is especially so in Zokak el-Blat, where many lots are not large enough to meet the minimum lot size for construction: 125 lots in the Patriarchate area (twenty-three percent) do not exceed 100 m², often
structures and constructs a high rise. One such large-scale real estate development in Zokak el-Blat is the Jamil Agha/ Binadar-project, consisting of three fourteen-floor towers. According to a Binadar-representative, the 210-250 m² apartments sell for an average of $3,200/m² and target middle-class buyers, eighty percent foreigners or Lebanese expatriates, mostly well-off families living and working in Qatar or Dubai. Most apartments sold rapidly, attesting to high demand, while some were retained to make a higher profit later. Initially, one tower was planned, but due to high demand, three were built.\footnote{186}{Interview with Binadar representative, conducted by MK for MAJAL, September 28, 2010.}

![Figure 30-Binadar Highland, La Citadelle and Solitaire-towers (picture taken Fall 2010).](image)

In this way, between 1991 and 2003, buildings up to twelve stories appeared at a rate of more than five per year in Zokak el-Blat. Construction peaked between 2006 and 2008, while a slowdown in 2009 and 2010 can be explained by the temporary measure of the Minister of Culture to review all demolition permits since Zokak el-Blat has so many historic properties. Since then, development has continued apace, with the newest projects rising far above twelve floors (see Map 8). Investors...
profited from the area’s proximity to Downtown Beirut, moreover a low-rise part of Downtown. They were well aware that buyers would be interested in an apartment overlooking the business district and the sea. “It is as if they built it for us to look at”, one developer stated.\footnote{187} Another one said that the price of land can “triple when the property overlooks Solidere.”\footnote{188} Most upper middle class and high-end projects there cluster on the edge of Zokak el-Blat, especially bordering the Fouad Chehab and airport roads. Currently, 32- and 44-floor towers are under construction on the Fouad Chehab highway, walling the neighborhood in. Consequently, prices in the area have risen sharply (see Figure 16).

Figure 31-Building under construction at the edge of the area on the highway. Picture taken December 11, 2013. Since this picture was taken, a 42-floor tower is under construction next to this building.

\footnote{187}{Interview conducted for MAJAL, September 30, 2010.}

\footnote{188}{Interview with developer, conducted for MAJAL, September 30, 2010.}
I have reviewed all issues of the Lebanon Opportunities magazine from 1998 until 2011 and noted land and real estate price tables. The tables for Zokak el-Blat were only published for the year 2000. They listed prices for several streets in the quarter. I have taken the average of these prices, so when reading this one should note that on the bigger roads, prices are much higher.
In addition to selling the view of the sea and Downtown, developers have successfully managed to attract buyers by pointing towards the area’s proximity to major thoroughfares, Downtown, and the entertainment and shopping neighborhoods of Hamra and Achrafieh. They knew the area itself did not have a very good reputation because of the squatters and lower-income population, so building on the edges and emphasizing the proximity of other, more attractive areas for upper class residents was a must. One developer summarized it as such: “The location of our project is interesting because it is located near Downtown and the tunnel to the airport. The surroundings and the people are still poor though.”

Another developer claims that his clients were looking for a high standard of living, regardless of the sectarian identity of the area: “They try to break away from sectarian boundaries.” Developers in Zokak el-Blat have stated that most demand comes from Lebanese expatriates, while hardly any developer claims to have sold to foreigners. They claim their clients work in white-collar professions and are university-educated (MAJAL, 2012).

However, there are indicators that the presence of Hezbollah and Amal might influence locational choices of investors; indeed, interviewees have told me that especially in the inner areas, where some smaller-scale real estate projects were constructed, developers and most owners were mostly local Shiites who would supposedly support these parties. Moreover, developers can choose not to acquire land in an area with a heavy political presence because the parties might protect poor inhabitants or refugee squatters living in heritage buildings from eviction. Therefore, some of the most remarkable palaces and mansions in the area that are in fact protected on paper remain squatted and supposedly safe from demolition.

The high prices of land in Zokak el-Blat have pushed up prices for existing residents. According to one café owner, local people cannot afford to live in Zokak el-Blat anymore and are forced out to the Southern suburbs, whence they face a long commute to work. An Egyptian worker told me his rent went up from US$300

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190 Interview with developer, conducted for MAJAL, September 24, 2010.

191 Interview with developer, conducted for MAJAL, September 30, 2010.

192 This is confirmed by the Sheikh of the local Husseiniyah (a place where Shiites gather for several (religious) community activities), in an interview conducted by Hala Moussawi and Jean-Marc Adjizian for MAJAL, August 20, 2010. Let it be noted, just to be clear, that not everyone who is a Shiite necessarily supports these parties, nor vice versa.

193 Interview, October 13, 2014.
to US$500 a month and that he was already forced to move once. He said that people generally receive US$5,000 as compensation for being displaced. It should be noted that normally only Lebanese households receive compensation when displaced. A representative of Zokak el-Blat’s mukhtar said that people are taking two, three jobs in order to afford the rent, and that those who are not on rent-controlled contracts are forced to move out. As woman who owns a hair salon said: “I pay US$1,300 a month. We are slowly dying here trying to pay the rent.” Hence, residents are certainly noticing the increase in prices and their displacement to sectarian homogeneous areas reinforces the sectarian segregation of the country, as in Mar Mikhael (and as observed by Bou Akar, 2005).

Gentrification in Zokak el-Blat was therefore influenced by the possibilities and constraints of reinvestment specific to the area, which were in turn determined by its legacies of displacement and civil conflict: investors opted for large projects at the edges, but did not invest in nightlife or creative industries because of the area’s reputation and presence of powerful political parties, together with the lack of available properties that would attract clients and tenants since many old mansions were either demolished or squatted. Nightlife was moreover not an option because of the dominance of a conservative attitude towards alcohol in the area, an orientation that is sustained by the political parties. Moreover, the fact that the vast majority of new residents do not actually live in Lebanon for most of the year means that they do not have the same influence on changing landscapes of consumption as elsewhere (see T. Slater, 2011) and if they do reside in Zokak el-Blat, they probably go elsewhere as developers made the accessibility of entertainment areas a selling point. A survey carried out by MAJAL (2012) that included all 527 shops in the area, found that most were serving local residents and had been around for a long time; functions had not changed during the past decade. Contrary to Mar Mikhael, therefore, residential gentrification in Zokak el-Blat has not been accompanied by commercial changes.

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194 Interview, October 13, 2014. This Egyptian worker also noted that the presence of Syrian refugees who are desperate for work is forcing him to work for LL5,000 (barely US$4).

195 Interview, October 13, 2014.

196 Interview, October 13, 2014.
5.3 Conclusion

Both case studies of gentrification processes follow the same logic as gentrification processes elsewhere: a sufficient rent gap creates the first, necessary condition for reinvestment. In both areas, there was a considerable rent gap because of the substantial increase in building allowances since these areas were developed and because the buildings had suffered from disinvestment for a long time. This rent gap became larger due to rent controls, the way in which a legal framework related to heritage failed to protect buildings, and the legacies of conflict and displacement that shaped the possibilities for reinvestment to occur. The role of the state in creating the rent gap and in allowing its exploitation becomes clear here. Reinvestment in both areas occurred as a result of different decisions, circumstances and ideas: lower prices of land, perceived authenticity, trendiness, a convenient location with a view, the presence of political parties and squatters, diaspora demand, gentrifiers’ (non-)sectarian preferences... While these dimensions do not figure prominently in the literature on gentrification, they need to be understood properly in order to provide a more comprehensive explanatory framework for gentrification in Beirut. I will return to this in my conclusion, where I claim the contributions my findings have made to the study of gentrification and the rent gap more generally.

While this chapter has remained fairly “local”, as it sought to clarify some factors that influence the rent gap at the level of individual buildings in Beirut, the different ways in which processes of gentrification in Beirut unfold, and how they are influenced by context-specific factors, the next chapter will “zoom out” and look at how the urban transformation of Beirut creates places out of multiple relations and circulating ideas.
Creating Soho in Beirut: circulating capital and ideas in Corniche en-Nahr

In Chapter 1, I pointed towards the open sense of space that is needed in order to understand a place in its full complexity. Places are always constituted of multiple relations that reach beyond their locality (Massey, 2005). As the history of Beirut has shown, the city has always been shaped by connections that went beyond its immediate boundaries. After the previous chapter discussed the disinvestment and subsequent reinvestment of Mar Mikhael and Zokak el-Blat, paying special attention to locally specific forces, this chapter will use the case study of Corniche en-Nahr, an area at the Eastern edge of the city located just within Beirut’s municipal borders, to zoom in on some translocal dimensions that played a role in its ongoing transformation into an upper middle class residential enclave. I will focus on the ways in which the making of this area constituted a coming together of several actors, ideas and capital that reached beyond the immediate boundaries of the city but found “friction” there (Tsing, 2005). In order to flesh out these different dimensions, I discuss the “Soho Beirut”-development, a cluster of projects whose developers not only succeeded in directing capital flows towards their real estate projects, but also adopted ideas and referents borrowed from other national and regional contexts in order to shape the particular projects they built and the way they marketed them. The idea of loft living is sublimely incorporated into their narrative. In this way, they treat the area like a tabula rasa without its own history, which, as we will see, has a dark side related to the civil war.

The way in which the Soho-model is referenced is reminiscent of how some cities are shaped and reshaped by citing, alluding to or aspiring to other cities as models, either as a form of urban makeover or by disciplining urban residents into a new way of life. Of course, the making of such new places requires that space for redevelopment is available in the first place. The developers chose Corniche en-Nahr because of its rent gap, and used its industrial character together with the increasing presence of art-related spaces to engage in the fantastic construction of an imagined future bohemian chic quarter. I will show that the creativity at work in designing this area is at the end in the service of a sound capital investment by the real estate developers. Even as these developers display real enthusiasm about
creating a trendy, lively enclave, in practice the area will closely resemble a gated community with conventional upper middle class to high-end apartments (and in this way resembles what the original Soho-quarter in New York quickly became after real estate developers cashed in on its artistic valuation). Imagining Soho helped the developers create a unique and successful product, allowing them to set themselves apart from other investors in Corniche en-Nahr who exploited its rent gap by constructing conventional high rises instead of quasi industrial loft buildings. The extent to which these lofts are “authentic” is of little importance in this construction.

In order to tell this story, I will first introduce the area of Corniche en-Nahr and show how and why it developed a considerable rent gap, the first necessary condition for capital reinvestment. I also discuss the conditions that led to developers’ willingness to consider investing in the area. I then consider the Soho-case specifically, showing how developers engaged in the construction of a new favorable image for the area while glossing over its dark past. Most of these developers and their architects drew on ideas they picked up while living abroad in order to shape the new space they imagined. In this way, they used the area’s industrial character and emerging image as an art hub to connect it to the redevelopment of brownfields in the United States and Western Europe and Soho Beirut became part of an imagined urban world of loft living. In the process, many existing tenants, including the art spaces that helped developers sell their product, were displaced or threatened by rent increases. The way in which Corniche en-Nahr has transformed points towards the ways in which capital can grip onto circulating ideas about urban living, and the large amount of urban inter-referencing that these actors employ is part of how Beirut, like most places, is being shaped by ideas, actors and capital from elsewhere. It also points to the role of the municipality in allowing for the transformation of this space.
Figure 33-A satellite image of Corniche en-Nahr in 2012. Edited by myself and Dalila Ghodbane, Arnaud Thomas ©
6.1 Corniche en-Nahr: a disinvested space

Corniche en-Nahr, i.e. the river cornice, lies at the Eastern edge of Beirut’s municipal area, next to the densely populated, mostly low-income Bourj Hammoud and Naba’a quarters on the other side of the river. During Lebanon’s short-lived industrial boom of the 1940s, many industries settled in the area, feeding off the cheap labor that was available in the form of rural migrants living in the informal settlements nearby (Fawaz & Peillen, 2003; Frem, 2009; Joreige, 2015). Next to its large, overgrown railway yard, with its stacked tracks and abandoned train wagons, frantic construction activity is taking place. Towards the south, fields with plastic greenhouses growing tomatoes, strawberries and other crops mark the limit of this activity, as long as their owners have not sold their land to developers. Real estate development in the area has resulted in its transformation from a largely industrial/agricultural zone with many empty, privately owned plots into what some developers believe will be Soho Beirut, while others see it merely as a natural extension of the built-up area of the city, with residential and commercial buildings that resemble those closer to the center. What made the rent gap in Corniche en-Nahr large enough in order for developers to consider reinvestment? Which conditions contributed to their decision to invest there?

Footnote: Note that Mar Mikhael has been named the “new Soho” of Beirut as well, for example in Salem (2010).
Corniche en-Nahr was in many ways the logical next place for capital to touch down in Beirut. During the French mandate, large amounts of capital were invested in infrastructure (the railway station) and industry in the area. These kinds of investments in the built environment have a long turnover time (Smith, 1979) but were not maintained for various reasons: the post-Independence Lebanese political economy disinvested in industry before it became fashionable and the civil war put an end to the operation of the railways, which were in decline in any case due to the rise of private cars. During the war, the area was abandoned, its few residents chased out and used by militias as an execution ground. Postwar, some factories resumed business, but the railways were never reinstated and many warehouses remained abandoned. What was left was an area with many empty plots, abandoned warehouses and a cluster of activities, mostly industrial wholesale (steel, wood, concrete, air conditioning installations), car sales (Impex garage) and some offices, and, further southwards, an agricultural zone. Investors did not consider it as a site of investment; the area was effectively “off the map” for real estate brokers: “Before, on this plateau, land was not available, any broker said there is no land.”\footnote{Interview with sales agent of the Achrafieh 4748-project, April 30, 2012.}
For the kinds of upper-middle class to high-end real estate investments that are the subject of my investigation, developers were still investing in areas closer to the center of Beirut.

However, around 2008, when a lot of capital became available that was looking for spaces to invest in (see Chapter 3) and prices were going up really fast in other areas of Beirut where high-end investors had purchased large amounts of plots, Corniche en-Nahr became interesting for some developers. In other parts of the city, prices had risen to such an extent that construction had become too expensive because cheaper apartments would still be available, as one developer explained, who was offered a piece of land in high-end Achrafieh for US$3,700,000, which would cost him US$3,200/m² to construct so he would have to sell for US$4,000/m². This was not feasible for him since similar apartments can still be found below that price. It had become “uneconomic to develop” in some areas, according to the CEO of large-scale developer MENA Capital (“Moving times,” 2013). Ground rent had increased following the see-sawing movement of capital to these places until it was not profitable to develop anymore.

This is why some developers started looking around for areas with lower prices of land. In 2008, a few “pioneers” bought the first plots in Corniche en-Nahr, profiting from and reinforcing the hype around the area as an up-and-coming arts hub and fixing its unfavorable image. They moreover knew that there was an oversupply of high-end luxury apartments elsewhere which ensured a growing demand for the smaller, more affordable units they were planning to build (Abu-Nasr, 2013; Bank Audi, 2014b). In just two years’ time, Corniche en-Nahr became a wanted place for capital investment. Below, I will trace how exactly this happened using the case study of Soho Beirut.

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199 Project manager of Achrafieh 4748 project, April 30, 2012. Note that the more built-up area is allowed, the more potential development becomes profitable. In order to build high, however, a large plot is needed, usually made up of several plots combined. These have become harder to find in more central locations.

200 I am aware of the derogatory meaning of the word pioneer, because it suggests that these places were not previously socially inhabited (Smith, 1996, p. xvi) and this is why I use it with quotation marks.
6.2 The making of Soho Beirut

Corniche en-Nahr was an area I would occasionally cross to get to Beirut’s weekend flea market, Souk al-Ahad. I would take a minibus to what is known locally as the Fiat bridge, get off on the highway just before the bridge and walk across the abandoned rail yard which I entered through a hole in the fence, all the while hoping that the pack of stray dogs that was living in the abandoned train wagons would be in a friendly mood. I would pass the industrial area on my right, where the bustling activity of the businesses still in operation sharply contrasted with the empty warehouses in its midst. In January 2009, the area became a destination for an audience that until then did not set foot there, when Beirut Art Center (BAC), a privately run art gallery, opened to the public after renovating a former furniture factory in the area that they had been eyeing since 2004 and finally managed to obtain after tracking down twelve heirs around the world (Joreige, 2015; Khouri, 2009). I often combined visits to the gallery with a visit to the market. If there was an opening in the art center at night, I would make sure to get a ride back with someone rather than walking back to the highway to catch a cab, because the area was considered unsafe for a woman alone at night (I have occasionally been followed by harassers in the area, but the biggest nuisance was private cars trying to pick me up on the highway).

A few months later, I was very surprised to find that one of the plots close to Beirut Art Center was being prepared for construction. This was the Artist Lofts project, a circular building of eight floors organized around a central core that houses a freight elevator, so residents can in principle bring a car up to their apartments. “We wanted to make the people dream, but we have also provided parking spaces downstairs”, Mark Doumet, one of the developers, said in an interview (Boudisseau, 2015). His company LOFT Investments bought the plot for US$2,200/m² (this is compared to around US$10-20,000/m² in more central areas) from a French-Lebanese family in February 2008. He chartered famous Lebanese

201 Interview with the developer of Artist and Factory Lofts, April 27, 2012.

202 Interview with developer of Artist and Factory Lofts, April 27, 2012.
architect Bernard Khoury – a Harvard graduate – for the building’s design. Reportedly, Khoury told the developer: “I am crazy, but you are crazier.” By branding and designing the building as “artistic lofts”, the developer cleverly played on the area’s image as an emerging creative hub. As Khoury told me: “For the developer it was a purely financial move, it was still very affordable and I think his project was to have a low incidence on the cost of land, so he was ahead of others, so you need a convincing product.” This convincing product was the loft-concept, as the developer sold ninety percent of his 29 units in the building for around US$4,000/m² (compared to US$6,000/m² in Downtown Beirut in the second quarter of 2009, up from US$1,200/m² in 2004), providing a handsome profit since he bought the land for almost half of that price. LOFT Investments also acquired a warehouse in the same area in 2010 for US$2300/m², and created a trendy venue there called Warehouse and Loft. This warehouse is slated for demolition and will be replaced with newly built lofts that are to be incorporated into the Soho-project.

203 Interview with partner of LOFT Investments, April 27, 2012.
204 Interview with Bernard Khoury, January 21, 2014.
206 According to the sales contract, obtained December 12, 2013.
207 Interview with Beirut Art Center director, December 11, 2013; website loftinvestments.com. Accessed June 4, 2014. Initially, another building, designed by Bernard Khoury, was to be constructed there, but this was canceled in 2011 (interview Bernard Khoury, January 21, 2014; developer at LOFT Investments, April 27, 2012). Another architect has now designed a new building.
For a while, Artist Lofts remained the only project under construction in the warehouse-area, until April 2010, when BEAR Property Consultants acquired plot 4376, next to the Artist Lofts plot. This coincided with the opening of yet another modern arts association, *Ashkal Alwan*, which moved into a warehouse next to Beirut Art Center. BEAR planned to construct a project called Factory 4376, a low-rise building inspired by New York’s lofts, “a modern interpretation of the industrial loft building”, according to the project’s brochure. The land cost US$2,900/m² and belonged to a family formerly active in the steel retail business (that also owned the Warehouse and Lofts plot and the plots for the Urban Dreams project, mentioned below). They came to the broker themselves because the land and warehouse on it was unused and they wanted to sell.208 The developer was interested in buying: “It's overcrowded in Achrafieh, they’re fighting for the lands, it's easier to find a land here and build it. Prices are lower.”209

Soon after the land for the Factory 4376-project was bought, another developer, HAR Properties (which, to remind the reader, is also building the AYA-tower in Mar Mikhael) acquired the neighboring plot. It was already under option with the

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208 Interview with the developer of Factory 4376, April 24, 2012.

209 Interview with sales representative of Factory 4376, April 30, 2012.
developers of Factory 4376, who approached HAR.\textsuperscript{210} HAR’s project, called UPark, has a similar design and shares a garden with the adjacent Factory 4376-project. They bought the land in August 2010 for an unknown price.\textsuperscript{211} Across from the Factory 4376 and UPark projects, CGI Saradar is building the Urban Dreams project, another low-rise residential building built on land bought for US$3,700/m\textsuperscript{2} in October 2010 from a member of the same Fayyad family.\textsuperscript{212} CGI’s CEO told me that he remembered he knew the owner when they planned the project.\textsuperscript{213} In 2012, they merged two lots that they acquired in 2010.\textsuperscript{214} Hence, within a relatively short time period, a cluster of projects with similar designs and densities was under construction.

\textsuperscript{210} Interview with the developer of UPark, December 12, 2013.

\textsuperscript{211} Property record of plot 1289, obtained December 9, 2013. I did not get the price from the developer and could not obtain the sales contract, nor was there a mortgage on the plot that could help me estimate the price.

\textsuperscript{212} Property record of plot Achrafieh 4368, obtained December 9, 2013.

\textsuperscript{213} Interview with the developer of Urban Dreams, December 4, 2013.

\textsuperscript{214} Property record of plot Achrafieh 4368, obtained December 9, 2013.
Figure 36-Left: the Urban Dreams and Artist Lofts project. Right: the UPark project and interiors of UPark. © Charles Hadife, BEAR Property Consultants.
The developers of this cluster of projects teamed up to create a distinctive area within the Corniche en-Nahr neighborhood that they decided to call “Soho Beirut”\textsuperscript{215}. This would eventually encompass about ten projects, to be completed in three phases by the end of 2015 (Boudisseau, 2012a; Sahli, 2013) (this date will not

\textsuperscript{215} It is impossible to establish which developer came up with the idea first because during interviews, different developers claim to have coined the concept; it is hence impossible to establish who came up with it first.
be made). The Soho-name refers to “South of Houston”, the quarter in New York where artists, looking for affordable studio space, moved into disinvested warehouses in the formerly industrial area, ‘residentially virgin territory’ (Zukin, 1982, p. 17), during the 1960s. This fit into a wider “loft-living” trend around New York City, where countless warehouse floors were converted into artist lofts. Soon, this living concept started to circulate, spreading throughout deindustrialized areas of the United States and Western Europe, with Paris for example advertising ‘les lofts’ in 1980 (Zukin, 1982). The idea started to have a certain “circulatory capacity” (Roy, 2011a).

The loft-living idea has now found “friction” (Tsing, 2005) in Beirut via its Lebanese developer-team (including the architects). One of the few former industrial areas in the city, Corniche en-Nahr reminded them of what they had seen elsewhere, as dual citizens, expatriates, students or visitors. They cited places in Europe and the United States, including of course New York’s SoHo (Dalal, 2013; Sahli, 2013), but also formerly industrial areas in London and Paris, as sources of inspiration.216 “Beirut Art Center looks like any place in Detroit or LA so let’s take those elements that people are used to seeing in the movies. So it was my idea to bring those industrial look buildings after spending a few months in New York in 1993.” 217 “I went to pay a visit to my uncle who lives in Washington DC and I went to Baltimore, you know, I spent two days walking in the old port and saw the old buildings, and when I came back to Lebanon it was an idea.”218 The brochure of LOFT Investments compares its projects to the Meatpacking District of Manhattan. Indeed, references about “the good city” ‘circulate not only through the state-formulated plans but also through the urban aspirations of middle-class associations and elite NGOs all seeking to create the good city’ (Roy, 2011c, p. 10). In this case, a couple of developers well connected to trends of urban living elsewhere decided to come together and work on the creation of what has to become Soho Beirut. I will now zoom in on the details of this project, answering the following questions: How exactly did the developers and architects use the loft-living idea in their projects? How is the development of Soho Beirut intertwined with the image of the area as an emerging art hub? And who is actually buying into these projects?


217 Interview with the architect of Factory 4376 and UPark, December 9, 2013.

218 Interview with the developer of Factory 4376, December 4, 2013. Again, it is a bit difficult to establish who came up first with the idea of bringing loft-living to Beirut, because most developers and architects claim it was them.
6.2.1 Architecture and the loft-living concept

The architectural style of all Soho-projects has been conceptualized with the industrial loft living-concept in mind, in the earlier projects stronger than in the later ones. LOFT Investments “aims at providing non-typical working/ living lofts for the emerging creative scene in Beirut, similar to the artists studios as they were known in SOHO in the 1970s”.\footnote{From Loft Investments’ website, see www.loftinvestments.com.} Other developers told me that they tried to give their projects the look of former factories:\footnote{Two of them in fact fought over who had the right to use the term “factory” (interview with developer who wishes to stay anonymous, April 2012).} “I said I will go to invent a story saying that my grandfather used to own a factory here and my father and uncles went to university in the US, and they came back and asked the grandfather if they could live in it. So the grandfather said OK, and if you look at the picture of the building, the first floors are bricks so it’s like the old factory. Then the second generation is a more nineties design: it replaces brick by steel and keeps the openings, and then transparent houses, the third generation.”\footnote{Interview with developer of Factory 4376, April 24, 2012.}
As is probably clear by now, none of the Soho-projects consists of converting an actual warehouse into residential lofts. Instead, all projects are new-build and any existing warehouses on the plots (the majority of plots was actually empty) were slated for demolition. This was the case for the Factory 4376-project and will be for the Warehouse and Lofts-project by LOFT Investments (to be incorporated into Soho at a later stage). One of the developers justified this choice as follows: “The existing warehouse was not a nice warehouse, no bricks, just concrete.” In other words, it did not resemble the nineteenth-century industrial brick warehouses that were originally the target of loft conversions. Instead, this particular industrial look and feel had to be created from scratch, and, as we have seen was incorporated to varying degrees.

— Interview with developer of Factory 4376, April 24, 2012.
Besides the new-build character of the loft-buildings, the majority of apartments that are constructed do not resemble what is usually considered a loft. The “original” lofts that Zukin (1982) describes were characterized by large amounts of open space, huge windows, exposed brick walls, wooden floors and cast-iron façades (Zukin, 1982, p. 2). Only the Artist Lofts-project, designed by Bernard Khoury, retains some of these characteristics, while other developers have applied these concepts sparsely: “We have some lofts in the building but it’s not a full loft as done by Bernard [Khoury] or other developers. We have two floors with a high ceiling, but it’s not the whole project.”*223* Others had to listen to their clients: “We put a lot of money not to have any concrete pillars inside so you can have a big space. But mostly all of our customers kept the three bedrooms. (...) There is only two out of thirty that really made it into a real loft. A lot of people don’t want the bricks inside. They don’t want a concrete ceiling and they cover it. So in fact it’s... I love old cars but I would buy a new one that looks like an old one. It’s logical, if the apartment starts at US$700,000 and finishes at US$1 million, if I have kids I have to create a livable space for my family. If I was living alone I would have taken another apartment. The people that have the purchasing power are well established; they need a different type of space. But they accept a lot, they accept that you don’t have marble, that the common areas are very rough, purely industrial, the floor is béton, everything is béton.”*224* Even the architect of the only project that has somewhat “lofty” apartments, Artist Lofts, has this to say: “I don’t call them lofts on my website, this is a very basic commercial terminology that my client is using. It is simplistic marketing terms that I don’t necessarily agree with. These are not lofts, they have nothing to do with lofts.” He concedes that they are not conventional apartments either, though: the freight elevator is meant so “that you can bring any sort of loft-scale object into your apartment” and have “another flair, another field into the apartments.”*225* Hence, the loft-elements of the Soho-projects are more of a marketing ploy than real architectural features. Instead, the apartments have been adapted to the needs of well-off buyers who are perhaps interested in a project that looks different, but not in an apartment that feels like a loft.

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222 Interview with developer of Urban Dreams, December 4, 2013.

223 Interview with developer, December 4, 2013.

224 Interview with the architect, January 21, 2014. I had permission to quote him.
6.2.2 Art and Soho Beirut

All developers have appealed to the area’s image of an emerging art hub, citing the opening of art-related institutions as inspiration. “First Beirut Art Center opened there. This is how the idea of Soho came, because it was industrial (...), little by little it was mixed between an artistic area and an industrial area, this is why the idea came.” Indeed, as more galleries opened, the media picked up on it and started referring to the area as “the post-industrial Jisr El Wati creative hub” (R. Thornton, 2013) or “SoAd”, signifying the nearby Adlieh roundabout after which the neighborhood is named as well (Dalal, 2013) (although in fact it should be called “NoAd” since it is located North of Adlieh). Some developers actively tried to connect their projects to the artists that supposedly frequent the area: “We will do graffiti in the common area of the project. On the site, I left white spaces and ask people to come and tag on it.”

Figure 38-The “tagging” spaces left on the boards fencing off the Factory 4376-plot (picture taken April 28, 2012).

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226 Interview with developer of UPark, October 21, 2014.

227 Jisr El Wati is another name for the area of Corniche en-Nahr.
Other developers conceded that perhaps their projected lofts were not so much meant for artists, but that they would support the settlement of creative industries in the area: “We would like to put shops there, but not any shops, but galleries, restaurants, pubs... And offices, but I mean architects, designers... not artists, because you have to have some money for this, but still creative professions.” In this way, the hip, trendy character of the area, eagerly perpetuated by the media (Sahli, 2013), is gratefully latched onto by the developers, who emphasize that anyone who wants to be on top of things trendy should invest in an apartment. A representative of the developers stated: “it's cool to be among the first owners of what will surely become the next SoHo of Beirut” (Dalal, 2013).

This kind of utilization of an area’s trendy image has been seen in the Mar Mikhael-area as well, but in Corniche en-Nahr it is arguably even stronger. Such a strategy closely resonates with the literature on the relationship between art and gentrification. The cultural capital that artists bring with them when they move into a quarter is converted into economic capital by real estate developers (Ley, 2003, drawing on Bourdieu). In New York’s Soho, developers quickly bought the remaining lofts and started renovating them and selling them to wealthy buyers, in the process displacing the artists that valorized the area in the first place (Ley, 2003; Zukin, 1982). As we have seen, in Soho Beirut the entire process of artists moving into abandoned warehouses and subsequent loft conversion has been absent, but the establishment of several art centers has definitely brought some cultural capital along that was eagerly transformed into economic capital by the developers. The institutions that brought this cultural capital are in some cases already threatened with eviction. Institutes such as Beirut Art Center and Ashkal Alwan do not own their spaces; Ashkal Alwan acquired the use of a factory floor for five years in 2011, a donation from the Philippe Jabre Association, whose founder specializes in speculative share trading and runs a Geneva-based hedge fund. BAC is on a rental contract and is aided by the same association as well. The future of these kinds of contemporary not-for-profit art spaces is far from certain. At one space I was told, on condition of anonymity, that their owner had realized the profitable potential of the area and might sell. At the same time, new entertainment venues have opened, including the short-lived Solea V club (closed due to high rents in April 2013) and Station Beirut, a gallery and club launched in September 2013 by Lebanese-Swiss

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228 Interviews with developer of Factory 4376, April 24, 2012 and April 25, 2013.

entrepreneur Nabil Canaan, housed in a former wood factory. Together with the real estate activity, which hinders the existing spaces already\textsuperscript{230}, these new spaces arguably drive up rental prices more and indirectly threaten the pioneer art spaces. Eventually, the continuing development of the area into an expensive residential quarter will probably push them out for good.

Figure 39-The Warehouse and Loft-building that will be demolished; in the background Station Beirut, opened in 2013. Picture taken in October 2014.

6.2.3 Selling Soho

Once the Soho-idea was born, developers actively marketed their product as such, as we have seen above. How did they attract buyers and which market segment did these belong to? In New York’s SoHo, buying an apartment in these developments became a middle class expression of lifestyle, an aesthetic choice. The Lebanese developers readily concede that the pricing of their apartments attracts a similar, upper-middle class clientele: “The location of this project has been chosen with the idea in mind to target and attract open-minded and young urban professionals and

\textsuperscript{230} Opposite BAC, the aforementioned Warehouse and Lofts-project is going to be under construction soon, something that prompted the director of BAC to say she might have to change her opening hours because the center would be practically unreachable. Interview with the owner of Beirut Art Center, December 11, 2012.
artists who wish to have an original living quarter which fits their well-off status, while having more freedom and advantages than other common bourgeois areas in town” (Dalal, 2013). “A real loft like in New York or something, the people who are willing to live in it are artists, and they can’t afford to live in it. It’s the same in the whole world.”

“The description ‘emerging creative scene’ is not very true because the emerging creative scene would not afford this kind of property, this was not said in a very serious tone. It is either single non-married people, or people with one foot abroad, or people without kids. Professionals or business people. There is some creatives, but these are quite established in order to afford that.”

Hence, the apartments are aimed at the same kind of public that developers try to attract in Mar Mikhael: highly educated professionals who appreciate somewhat of an unconventional design. However, in practice, there are indications that quite a number of buyers are families (such as the fact that people refuse to leave out internal walls in order to have three bedrooms).

Another indication that perhaps the projects are attracting more “conventional” buyers materialized from interviews: Soho Beirut, once the plan has been carried to completion, will more closely resemble a gated community than a hip quarter. Streets will be closed off and private guards will keep watch: “Actually we would like to put security on the entrances to the neighborhoods, on all four streets. It’s not the Pentagon, but we have 2,500m2 of gardens, if my daughters are playing, I don’t want just anyone to be able to come there.”

The developers claim that they got municipal permission to do this. As soon as the Soho-idea was born, they wanted to register the name at the municipality of Beirut and be allowed to officially name the area “Soho Beirut”. In exchange for permission to use this name, they would carry out all the public and infrastructural works in the area: “The Mohafez [governor] of Beirut gave us the authorization to name it Soho Beirut. He allows us to create the road, the pavement, lamps, so we create a small neighborhood that is unique, in harmony, we got his authorization to make the neighborhood as we want.”

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231 Interview with developer of Factory 4376, December 4, 2013.

232 Interview with the architect of Artist Lofts, January 21, 2014.

233 Interview with developer, April 2013.

234 Several interviews have been held with the Soho-developers, as well as email exchanges and phone calls requesting updates on the project. At the time of writing (Fall 2015), nothing official has been guaranteed and a brochure that was supposed to present all the projects together as Soho Beirut has still not been produced. The developers of the four projects accused the others of not being fast enough and sometimes even asked me to convey a message to the others.
Nahr at the municipality of Beirut was unaware of the plans, and said that the city council should decide on naming matters, not the Mohafez. This points to a long-existing institutional problem in Beirut: the (appointed) governor has executive powers and the mayor and (elected) city council take decisions that the governor has executive power to implement. The law is not very clear on the exact jurisdictions of each authority, leading to conflicts on a regular basis, even more so because they often belong to different political blocks in Lebanon (March 8 and March 14). Despite persistent attempts, I have not been able to speak to the Mohafez himself about this matter (it should be noted that a new Mohafez has been appointed since May 2014), so I will assume that the plan to landscape the streets, provide infrastructure and lighting, and close them off with private security guards at the entrances is real. It has been confirmed by three developers, an architect, an article (Sahli, 2013) and an ad agency working for HAR Properties. The privatization of public space by private parties fits into a longer tradition in Beirut, such as working on the public domain in exchange for a building permit or privatizing public spaces with security measures (Fawaz, Harb, & Gharbieh, 2012; Ghodbane, 2012). In this way, the developers’ role in infrastructure provision and landscaping mirrors that of political parties in low-income formal and informal settlements, who also step in to provide these services where municipal authorities do not (Bou Akar, 2005; Fawaz, 2004).

The concern to close oneself off from the outside also goes back to the civil war, when residents would close off their streets at night to prevent militiamen from entering (Sarkis, 1993, p. 120). It perhaps betrays a sense of unsafety that goes back to the lingering legacy of the area as a no-go zone during the war, its postwar shady reputation together with the bad reputation of the flea market nearby (for more on that market, see Krijnen & Pelgrim, 2014). Besides emphasizing its unique qualities as an art hub therefore, developers “normalize” the area by highlighting that it is located within the municipal boundaries of Beirut, in the Cadastral area of

235 Engineer at municipality, December 10, 2013. This was confirmed by an architect at the main municipal building in Downtown Beirut, December 13, 2013.

234 This dual structure exists because the borders of the city of Beirut are the same as the borders of the governorate Beirut.

237 Interview with vice-president of the municipal council, October 14, 2014.

238 Interview with the director of Beirut Art Center, December 11, 2013.
Achrafieh, a name that is usually associated with the upmarket neighborhood on Beirut’s eastern hill: “This is still part of Achrafieh; this is what makes it a plus.”

Finally, the developers all share a concern for making sure that their projects are “green”: they participate in the Jouzour Lubnan-program, where for every square meter sold a tree is planted somewhere in Lebanon; they have planned some gardens as part of their projects; and once more they plan to work on the public domain, this time the abandoned railyard, lobbying with the Ministry who owns the lot for the right to plant trees there: “The railyard is public land but it is closed. We thought: let’s do something, we can manage to plant twenty to thirty meters deep, even if we don’t have access to it after, at least we can see it.” This sensitivity for greenery did not come out of thin air, but fits in nicely with a “green building trend” in Lebanon and existing plans for the area, where NGOs as well as private consultants advising the municipality have drawn up extensive plans to “green” the Corniche en-Nahr area, including the idea to cover the river in greenery and convert the railway yard into a public park.

Developers are well aware of these plans and refer to them when they promote their projects, even though they themselves are often skeptical about the probability of their implementation. When asked, the director of one of the agencies who is planning a green project emphasized repeatedly that it was in the planning stage, not any project stage. A consultant who worked on these plans struck a rather pessimistic note as well, lamenting the lack of cooperation from public bodies. Nevertheless, selling one’s project as “green” contributes to positioning it in a worldwide trend of “green” urban living and environmental consciousness, which is in and of itself not a bad thing, and in the context of Beirut public authorities cannot be counted on to take responsibility for this.

To conclude this section, we have seen that Soho Beirut incorporates some loft-living elements, but will at the end be a secured, upper middle class gated community, with apartments not much different from other projects under

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239 Interview with sales representative of Factory 4376, April 30, 2012.

240 For more information on the Green River Project, see … and the park plan, see …


242 Interview with director of IAURIF, December 9, 2013.

243 Interview with a consultant, October 10, 2014.
construction in Corniche en-Nahr. The main reason that the Soho-buildings are being built is that a sufficient rent gap in the area coincided with a large amount of surplus capital looking for spaces with a rent gap to invest in, and developers managed to create a convincing product using the area’s industrial and trendy image. In this way, it actually resembles the original SoHo closer than one would expect: ‘Far from being either an indigenous or a spontaneous artists’ community, SoHo was really a creation of the investment climate’ (Zukin, 1982, p. 16). One developer readily conceded this: “In fact if you wanna see the pure marketing of it, it was that we had a large client who wanted to buy a large apartment that was not available in Achrafieh [for that price]”244 By erasing the actual built environment and inventing an alternative narrative, the loft developers have managed to create a niche in Beirut’s real estate market that has arguably successfully reflected on their sales percentages. Regardless of actual Soho emerging, the idea itself of the area being a “Soho of Beirut” has gained traction, in the press as well as among developers who are not included in the Soho project: “This is the new Soho they say”, another developer’s sales representative told me.245 We see here how the developers invite potential buyers to see a world that does not (yet) exist: they conjure a landscape that allows them to make a profit (Tsing, 2005), given that most developers finance construction by selling apartments off-plan, and contrast it with competing investment areas:

“Mar Mikhael is our main competitor. People buying there are the same as in our project. I have had to develop a counterargument: Mar Mikhael existed already; it has charm, a spirit. We have to create a spirit. It will happen anyway because of the type of projects we built. So it depends: if you want authenticity, or you want comfort. With us, there is no sound, no traffic, there are gardens, the buildings are all new, there is new infrastructure, and it is not like the building next to you will be demolished suddenly and there will be a tower built next to you, taking the view. Our area, once it is finished, will be finished, it won’t change. Mar Mikhael is disorganized urbanism, there is a small shop here, a large plot there, a tower, an old building…”246

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244 Interview with a developer, December 2013.
245 Interview with MENA Capital’s sales representative, December 5, 2013.
246 Interview with developer of Factory 4376, April 25, 2013.
I will now zoom out to look at how the Soho-area is situated in larger development in the area and how other developers have created different products, investment in which is justified using other reasons than the Soho-developers.

### 6.3 Urban change in Corniche en-Nahr

Real estate development in Corniche en-Nahr is not limited to the Soho-area alone. When the first developers moved in around 2008, others noted that the area had become a profitable investment opportunity. Hence, more of them swiftly followed, which drove up land prices. From US$2,000-3,500 in 2008, prices in 2011 had gone up to on average US$5,500/m², and in 2013 to around US$8,000/m². Indeed, it seems that in 2010, somewhat of a scramble for land took place among developers, something that would have made landowners realize they could increase their prices. A developer told me he rushed to buy after “we felt like we were losing the land.”

Other developers than the Soho-related team had moved into the area as well. The first actually bought their land at the same time as the Artist Lofts-plot. Al Mawarid Real Estate, the real estate investment company founded by Al Mawarid Bank, acquired a large plot to the South of Beirut Art Center, away from the Soho-cluster, where they planned three high rises called the “Achrafieh 4748”-project (named after the plot number). The project consists of three large residential towers that are constructed on a plot of around 13,000m², with 10,000m² of landscaped areas. The land was bought in 2008 for US$1,160/m² from the Beton Company, who moved their industry out of Beirut after a general assembly of shareholders decided to sell the land. One of the loft developers said he tipped off

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247 These numbers are based on several interviews and were cross-checked with the mortgages mentioned on property records or sales prices mentioned in sales contracts. Persons interviewed include: developer of Factory 4376, April 24, 2012; sales consultant Trillium Tower, April 24, 2012; developer Artist Lofts/Factory Lofts, April 27, 2012; sales consultant at the Achrafieh 4748 project, April 30, 2012; developer Trillium Tower, December 4, 2013; developer Pearl Office Tower, December 5, 2013.

248 Interview with developer, April 27, 2012.

249 According to sales contract obtained December 12, 2013, size obtained from property record of Achrafieh 4748, obtained December 12, 2013. Interview with sales representative of Achrafieh 4748, April 30, 2012.
Marwan Kheireddine, head of the Al Mawarid Bank, because they are friends (this claim remains unverified; all I got out of the developer was that indeed someone told them about the land). Apartments sell for US$2,200 to US$3,700/m², making it one of the more affordable developments in the area (although by all means out of reach for ordinary Lebanese: while the project’s ads claim that “the good life starts with a downpayment of US$25,000”, meant to show how little money that is, this sum is unaffordable for the majority of Beirut’s population, in a country where the minimum wage is US$450 a month). With 270 apartments and a total built-up area of 105,000 m², the company managed to make a handsome profit considering the low price they paid for the land. They market their project in its brochure as “a self-sufficient neighborhood”, where “the chaos of the city is immediately forgotten.” In this way they refer to the agricultural setting and island-like feel of the area, the project being located on the highway and river, cut off from the poor neighborhoods on the other side.

On the other side of Corniche en-Nahr, the National Holding Group (a subsidiary of Kuwait’s National Real Estate Company) bought the land for their project “The Pearl Inter
view, April 2012; interview with developer of Achrafieh 4748, December 11, 2013.

Interview with sales representative of Achrafieh 4748, April 30, 2012.
Office Tower” in 2008. The developer bought it from a family facing financial difficulties and put it on the market for an attractive price.\textsuperscript{252} Indeed, two records for nearby plots, owned by the same family, have several notices of confiscation for unpaid debts on them.\textsuperscript{253} Together with Achrafieh 4748 and Artist Lofts, these were the first developers in the area. After this initial phase of land acquisition by connection or personal preference or memory of developers, professional real estate brokers started knocking on doors of existing businesses, inquiring about landowners and their willingness to sell.\textsuperscript{254} They then tipped off developers, and more projects were announced subsequently.

Besides the “pioneer” large-scale residential high rise project Achrafieh 4748, two other large-scale residential tower-projects have been planned. First, the Trillium towers, consisting of two twenty-five-floor residential high rises and a separate six-floor commercial block, the land of which was purchased via a neighbor of the developer in his village of origin (indeed, not via a broker) and cost US$7,000/m\textsuperscript{2}.\textsuperscript{255} Apartments were priced at US$3,500-4,000/m\textsuperscript{2} and sold out completely. Second, the Bella Casa gated community project is an investment by large-scale developer MENA Capital, consisting of three towers. MENA bought the plots in July 2011 for US$3,500/m\textsuperscript{2} and merged them in order to be able to increase the height of their buildings.\textsuperscript{256} Since March 2014, the project has been suspended because of low sales (fifteen percent in two years), blamed on the dire political and economic situation (Makar, 2014): the project was considered too big for such a risky time and some investors already got their money back.\textsuperscript{257} One of the loft developers said that in fact, the Bella Casa project did not fit into the area architecturally and that is why they did not sell,\textsuperscript{258} but my explanation is that developers overshot their chances, as land prices had become too high to profitably

\textsuperscript{252} Interview with the developer of Pearl Office Tower, December 5, 2013.

\textsuperscript{253} Property records of plot Achrafieh 997, obtained May 2, 2012, and Achrafieh 4928, obtained December 9, 2013.

\textsuperscript{254} Interview with factory owner, October 18, 2014.

\textsuperscript{255} Interview with Trillium sales representative, April 24, 2012.

\textsuperscript{256} Property record of lot 998, Bella Casa: merged lot numbers 5439, 5440 and 5441 into this one

\textsuperscript{257} Interview with marketing manager of Bella Casa developer, December 5, 2013; interview with developer Bella Casa, October 14, 2014.

\textsuperscript{258} Interview with developer, October 21, 2014.
invest. Achrafieh 4748 and Trillium, both with similar amenities, are just around the corner and are much cheaper because of their prices per square meter or because they offer smaller apartments between 100 and 200m² (compared to over 200m² for most apartments in that price range in the city).

Finally, the second wave of development in Corniche en-Nahr saw some high-rise office buildings being constructed. The twenty-storey Les Etages office building, by Development H (former A&H), is built on a plot that is owned by the Mizher-family. The developer did not buy the land but gave the family a share in the building, a deal struck in 2010.²⁵⁹ The bank Crédit Libanais has built its 33-floor headquarters on land that was owned by an individual who sold it because they wanted an investment. He was approached by the bank itself and got US$3,000/m².²⁶⁰ This is the same landowner as the neighboring Trillium plot. Hence, between 2010 and 2013, Corniche en-Nahr was well on the way to being transformed from a once agricultural-industrial area to an upper middle class to high-end residential and commercial enclave.

The table on the next page summarizes the information about real estate projects in Corniche en-Nahr, including the Soho-area. Details provided are based on interviews, property records, sales contracts²⁶¹ and property ads.

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²⁵⁹ Interview with sales representative of Les Etages, December 4, 2013.

²⁶⁰ Interview with a representative of Crédit Libanais, December 16, 2013.

²⁶¹ Property records are publicly accessible and can be obtained for a fee at the Land Registry. For details about selling prices, pending cases or blocks on plots, one has to forward a request to another department. In this case, I managed to get copies of the official records and contracts I requested, but I did not manage to get all of them because very often, property transactions and contracts are not registered at the Land Registry for purposes of tax evasion. I have thus been unable to establish details for every single real estate project under construction in the area, but obtained them for six out of thirteen projects.
<table>
<thead>
<tr>
<th>Project name</th>
<th>Owner; developer</th>
<th>Plot</th>
<th>Plot size in m^2</th>
<th>Land price in US$/m^2</th>
<th>Real estate price in US$/m^2</th>
<th>Type</th>
<th>Slogan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bella Casa</td>
<td>Adlieh Development Company; MENA Capital</td>
<td>Sep. 2008</td>
<td>10,400</td>
<td>54,500</td>
<td>3000</td>
<td>3 res; 22, 24 and 28 fl.</td>
<td>Escape the city… inside the city</td>
</tr>
<tr>
<td>Credit Libanais HQ</td>
<td>Crédit Libanais</td>
<td>Dec. 2009</td>
<td>6000</td>
<td>43,000</td>
<td>3000</td>
<td>1 comm, 33 fl.</td>
<td>Built for success</td>
</tr>
<tr>
<td>Factory 4376</td>
<td>Factory 4376 s.a.l.; BEAR Property Consultants</td>
<td>Feb. 2010</td>
<td>2093</td>
<td>16,000</td>
<td>2900</td>
<td>1 res 10 fl.</td>
<td>Design a space that reflects your mind and soul</td>
</tr>
<tr>
<td>Factory Lofts, US$4376</td>
<td>Factory Lofts and Loft Company; Loft construction (Lebanese s.a.l.)</td>
<td>Aug. 2010</td>
<td>1200</td>
<td>-</td>
<td>2200</td>
<td>1 res, 8 fl.</td>
<td>Live well, live loft</td>
</tr>
<tr>
<td>UPark</td>
<td>HAAR Properties; Al Mawarid Real Estate</td>
<td>May 2010</td>
<td>1767</td>
<td>-</td>
<td>4750</td>
<td>1 res 1 comm, 8 fl.</td>
<td>Why join the navy when you can be a pirate?</td>
</tr>
</tbody>
</table>

**PART OF SOHO BEIRUT**

- **Artists Lofts**
  - **Project name**: Creations
  - **Owner; developer**: Creations
  - **Plot**: Us$51,449
  - **Plot size in m^2**: 4,000
  - **Land price in US$/m^2**: 3,900
  - **Real estate price in US$/m^2**: 22,000
  - **Type**: 1 comm, 8 fl.
  - **Slogan**: Live in the city... escape the city

- **Credible Solution**
  - **Project name**: Creations
  - **Owner; developer**: Creations
  - **Plot**: Us$51,449
  - **Plot size in m^2**: 4,000
  - **Land price in US$/m^2**: 3,900
  - **Real estate price in US$/m^2**: 22,000
  - **Type**: 1 comm, 8 fl.
  - **Slogan**: Welcome to the good life
The developers who are not part of the Soho-project did not use the area’s increasingly trendy image as an art hub, but they did employ other selling strategies which I will discuss in this section and which were often employed by the Soho-developers as well. First, they emphasized that the area was still located within the city’s municipal boundaries: “You are in Achrafieh, on the papers. These are the last Achrafieh lands.” The brochure of the Trillium-project sells its apartments with a series of half-truths or blatant fabrications using the Achrafieh-card, naming the highway next to Corniche en-Nahr (the Pierre Gemayel boulevard) as “the most active part of the centre of Beirut, after Downtown” (it really is not), presenting the area as full of heritage buildings (which it is not), and “hundreds of them are listed by the Directorate of Archeology as buildings of historic architecture, thus preserving them for posterity.” If the previous chapter has made anything clear, it is that listed buildings are not protected in any significant way, and in any case there are very few and definitely not “hundreds” in Achrafieh.

Second, these developers endlessly emphasize the area’s supposed accessibility by car, because of the many large traffic arteries that surround it: “It’s close to everything, if you want to go to the mountains, the highway takes you to Baabda, to Jounieh, to Habtoor, Downtown is like five minutes, the sea, Achrafieh... If you want

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262 Interview with sales representative of Achrafieh 4748, April 30, 2012.
Notwithstanding the fact that traffic gridlock usually ensures that Downtown Beirut takes at least thirty minutes to reach by car, the proximity of highways is an often-used sales tool that we have also seen for Zokak el-Blat, and that makes sense in a city where private cars are usually seen as the only viable means of transportation for the middle and upper classes.

So far, these marketing tricks are not too different from those employed elsewhere in Beirut. However, what is unique about the Corniche en-Nahr area is a third selling point that developers cite again and again: the area’s supposed "virginity". So, on the one hand, the fact that the area is still part of Beirut and that the city is easily reachable is considered an advantage, but on the other hand, the area’s unique, uninhabited character is used as an advantage as well. The area’s perceived "virginity" provides developers with a supposed tabula rasa to experiment and allows them to market their projects as existing in an empty, new area where possibilities are endless, unlike in old Beirut, and conveniently gloss over its bad reputation. Using the blank slate in this way has been observed in Dubai as well, where it de-politicized the practice and participated in constructing an image of the urban that evades political and social responsibility (Kanna, 2012). "It was a virgin area." Because the area is new, it’s not like Beirut, this project started two years ago, the area was a virgin area." You don’t have someone in front of you blocking your view, there’s a lot of greenery, it’s a virgin area." Related to this latter aspect is the supposed sectarian neutrality of the area, a trait that was named as favorable for Mar Mikhael as well. “It’s a mixed area, all kind of religions, it helps when something bad happens. It’s not Christian, it’s not Muslim.” The location it’s a mixed area, from all the religions, it’s not unique, any person can buy.”

These claims obscure certain facts that prove that Corniche en-Nahr is in fact by no means a “virgin area” or a tabula rasa. First, as I have already mentioned in passing, it has a dark past. During the civil war, the area was under control of the Lebanese Forces-faction, who used it as an execution ground. The (Muslim)

263 Interview with sales representative of Achrafieh 4748, April 30, 2012.
264 Interview with sales representative of Trillium, April 24, 2012.
265 Interview with sales representative of Les Etages office tower, December 4, 2013.
266 Interview with developer of Bella Casa gated community (on hold), December 5, 2013.
267 Interview with sales representative of Les Etages office tower, December 4, 2013.
268 Interview with developer of Bella Casa gated community (on hold), December 5, 2013.
residents of one of the few houses in the area explained how during the war, the (Christian) Lebanese Forces militia burnt their house down and killed their neighbor and his two children. They fled and lived in the Corniche Mazra’a area in Beirut until they returned in 1991 to rebuild their house using compensation acquired through the Ministry of the Displaced. They said that mass graves are probably still to be found in Corniche en-Nahr, if developers have not quietly dug them up already. They even pointed towards a hill where bodies would still be buried.269 Once again, these people are threatened with displacement. They fear that once the projects are finished, a road that has been planned for a long time and that runs right through their plot will be opened to facilitate circulation.

Yet, this reputation and history did not prevent capital investment. It has been observed that stigma can prevent investment in the most severely disinvested areas with the largest rent gap (T. Slater, 2015). While a negative perception of a neighborhood can lead to targeting them for reinvestment to be “fixed”, a too negative perception can act as a symbolic barrier or diversion of circulation of capital. In Beirut, we see that many poor areas are not gentrified. However, in the case of Corniche en-Nahr, its dark past was not a barrier to the circulation of capital. I can only speculate as to the reason for this because I did explore this sufficiently. I think it has to do with the general amnesia surrounding the civil war, the fact that 17,000 people remain missing, the amnesty for the warlords who are still active in politics.

The tabula rasa selling point also obscures the fact that Corniche en-Nahr still has quite some active industrial activity, which has been impacted by the developments in different ways. These include the United Industrial Corporation (UIC) is a large company established in 1967 and specialized in manufacturing air-conditioning equipment. Karam Bois is a wood seller that has been there for forty years.270 The Impex Garage, selling luxury cars, has been located in the area since 1973.271 Besides expressing their worries about a large increase of traffic in the area and insufficient parking spaces, one of these companies has fought in court with the developer of the Achrafieh 4748-project about its appropriation of space. UIC is located above the

269 Interview with residents, December 7, 2013.

270 Karam Bois is a wood supplier owned by the Karam family. Four children own the plot (since 1981 according to the property record).

271 These data were obtained by interviewing employees and owners of these companies, October 18, 2014. Behind the large Achrafieh 4748 project, the heir of Karagoula family owns plots 4747 and 5041 to 5046 (according to sales contract between father and son, obtained December 12, 2013).
Achrafieh 4748-plot. When the developer started excavation works, UIC sued them for supposedly drilling under their land, cutting trees and removing the road that separates plots 4383, 4365 and 4366 from 4748. UIC’s president told me that he needs this road, because the other road they use is not public and always crowded, something the developer vehemently denies.272

According to the subpoena that I obtained, the road provided “passage between a number of properties in the middle of a crowded area that contains a large number of factories and companies.” The developer told me that this road was a leftover plot, a so-called fadle, and that they were forced to buy it when they obtained their construction permit in order to compensate for building so high, something that is confirmed by the building permit that I obtained.274 The role of the municipality is

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272 Interview with developer of Achrafieh 4748, January 30, 2014; interview with industry owner, October 18, 2014.

273 According to a subpoena obtained December 12, 2013.

274 Interview with developer January 30, 2014; DGU-permit for Achrafieh 4748, obtained from achrafieh4748.com/progress.asp. The developer opted to construct high rises, occupying just thirty percent of the lot, even though they were allowed to occupy seventy percent since the plot is situated in Zone 7. In fact, it turns out that the road should be reopened because it is a necessary road for the adjacent school, the developer told me, something that the government did not foresee. The developer
important here, because they are selling leftover spaces that were committed for green spaces through the Plan Vert that they signed in partnership with French agency IAURIF. Instead, it allows developers to build more and higher by buying these leftovers. According to the developer, UIC’s accusations are baseless and motivated by the desire to get rich quick (they demanded US$100,000 compensation according to the subpoena record). UIC’s president meanwhile lamented the fact that the state would sell leftover plots to real estate developers instead of turning them into public spaces, and said that there is no more room for industry in Beirut. The only reason he managed to stay, he said, is because he owns his plot and has no desire to sell it to the brokers that regularly knock on his door, to his own surprise: “No one thought this would be a residential area one day.” At the end, UIC lost the court case. Other industries have either sold their land, or, if they were renting, were replaced by the new renters related to the art industry or paid by the developer to leave. In this way, gentrification in Corniche en-Nahr resembles the transformation of New York’s Soho-area as described by Zukin (1982, p. 5), where most of the victims of gentrification are existing businesses, not residents. With loft-living, the industrial look is valued, but actual industry is not. Manufacturers and their workers are deprived the space they need to work (Zukin, 1982).

What this story should make clear is that the tabula rasa narrative as employed by the developers is somewhat baseless, as the area has a history and developers have been forced to interact with its users. Nevertheless, developers have managed to shape the site according to their wishes and were free to conjure up a new story for the area. Buyers are either unaware of or not deterred by any facts contradicting developers’ claims. Instead, the developers have told them a story that justifies their buying in the area (even if they might be aware of its history) and covered up the conditions of the production of this conjured new landscape (Tsing, 2005). This was possible because the kinds of activities that Corniche en-Nahr harbors, industry and agriculture, became undesirable in the context of the expanding city. While IDAL has packages stimulating the development of industry and agriculture in Lebanon’s regions, the majority of projects granted tax exemptions are actually in

still profits from garage space under the road, however.

275 Interview with the president of United Industrial Corporation, October 18, 2014.

276 According to one industry owner, for example, there was a carpenter in a building that is currently empty. The owner sold the land, the carpenter was paid to leave by a real estate developer and the building will be demolished (interview, October 18, 2014).
the tourism industry. When the war ended, there were high hopes for industrial growth and Lebanese industrialists started looking for cheap land to expand, but were thwarted in part because of the boom in the suburbs that followed the compensation and resettlement of displaced people, accompanied in one case by a successful (re)zoning of the areas as residential (Bou Akar, 2005). Historically, Lebanese governments have seldom given priority to the development of industry and agriculture, as explained in Chapter 2, but the postwar development of productive sectors was also hindered by the government’s high interest payments to the banks, which crowded out loans to the private sector (Gebara, 2007). Indeed, the government’s policy of neglecting industry and agriculture was deliberate, just as the displacement and takeover of manufacturing space in New York in the 1970s by real estate developers keen to sell lofts was encouraged by the city’s administration (Zukin, 1982), part of a neoliberal agenda in which the interests of real estate developers (well represented in the city council) and other tertiary sectors took precedence.

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277 Based on statistics received during an interview at IDAL, October 20, 2014, see also section 2.2.2.2 in Chapter 2.
6.4 Conclusion

In Corniche en-Nahr, buildings based on the model of loft living in former industrial warehouses were created from scratch and sold using the area’s industrial character and trendy image as an emerging art hub, connecting these buildings to trends of urban living that circulate around the globe and that are desirable to a certain clientele. Other developers sold their projects citing the area’s location within
Beirut’s municipal limits, proximity to highways and supposedly “virginal” character in order to conjure up an acceptable story, a desirable landscape, and cover up the conditions of its production as well as the darker sides of its history. While the urban transformation in Corniche en-Nahr could not have happened without the existing rent gap and available capital for reinvestment therefore, reinvestment only occurred when a combination of events, ideas and actors came together at the right time and the right place.
7 Conclusion

This dissertation set out to answer two main research questions: first, why did circulating capital become fixed in Beirut’s built environment, answered in Part 1, and second, how did this happen, answered in Part 2. A third question, namely: what were the effects of this spatial fix on Beirut’s urban landscape and its residents, has been answered throughout the chapters in this thesis and will also become clear from the summary of findings and contributions in this conclusion. In Part 1, I showed that a large amount of surplus capital flowed to Lebanon via its diaspora and the Gulf States, when its banking sector escaped the global financial crisis due to conservative banking practices mandated by the Central Bank, made possible through the opportunities for profit that lending to the government entailed. Not only did a large amount of capital become available for investment, but investors also found a legal framework in place that created profitable investment opportunities in real estate and loans to the housing and construction sector. The latter were stimulated via several regulations passed by the Central Bank, entailing subsidized interest rates and other incentives, encouraging capital switching into the built environment. A spatial fix was thus achieved that was very lucrative for banks and real estate developers alike. The “networks of accumulation”, formed by powerful agents with overlapping interests in the banking, political and real estate sectors, explain why this spatial fix was allowed to occur in this way. It is this elite that profits from the massive returns of the banks and the increasing indebtedness of the Lebanese population. These networks are neither a corrupt exception, nor a manifestation of crony capitalism, but instead they are a logical outcome of the social relations of capitalism, especially the laws of competition, which encourage the concentration and centralization of capital and hence monopolistic and oligopolistic tendencies. It shows that political and economic spheres are completely indistinguishable and indeed do not exist as separate spheres as such.

In Part 2, I moved on to show how the spatial fix materialized in Beirut, by looking at three different areas in the city that had each received considerable capital investment in their built environment since 2008. In all three areas, there was a considerable rent gap, due to rent controls that lowered the actual ground rent, a dysfunctional heritage preservation framework that prevented the
valorization of older buildings, and a legal framework that allowed for an exploitation factor that exceeded the current exploitation of the land many times. The ways in which all three areas subsequently gentrified varied greatly, influenced by legacies of displacement and conflict, the presence of art-related institutions, creative industries or political parties, the previous uses of the land or buildings, the extent to which buildings were allowed to be demolished without prosecution, and the reputation of the area. In each case, developers emphasized different selling points and, in the case of Soho Beirut, conjured entire future landscapes based on circulating ideas of urban living. The previous connections of developers, which allowed them to buy the land, get their building permits and mobilize capital, were important as well.

This conclusion will bring my findings together and claim their theoretical contribution, which are relevant to scholars interested in the rent gap theory, the circulation of capital in urban land markets, urban political economy, the production of networks of accumulation, the structure, function and influence of diasporas, the historical development of secondary circuits of accumulation and neoliberalism, postcolonial/Marxist debates, the geographies of the financial crisis and the financialization of housing and land. I will revisit the debate between Marxist-geographical and postcolonial urban scholarship by pointing towards dimensions that my work brought in as a case from the “South”, which might open up relevant questions for cities everywhere. In this way, I take seriously the experiences of Beirut as a city occupying the same historical time as Western cities (Massey, 2005; Robinson, 2006) and as a place full of potential for theory making, beyond a place that is exceptional, lagging behind and in need of a developmental fix. The remainder of the conclusion is divided into three parts: the first two parts outline the findings and theoretical contributions related to Part 1 and Part 2 of the thesis. The third section outlines more general contributions the thesis made to theories on the social relations of capitalism and the debate between postcolonial scholars and Marxists.
7.1 Explaining the spatial fix

7.1.1 The financial crisis creates a boom: the position of Lebanese banks and the role of public debt

The first important finding relates to the role of the Lebanese banking sector and the political economy of public debt in avoiding the consequences of the global financial crisis and indeed profiting from it. Lebanese banks moved into a powerful position during the civil war, when foreign banks retreated from what used to be the financial center of the Middle East. As the war progressed, the government increasingly resorted to borrowing from these banks as its revenues dried up. These banks were awash with cash due to remittances from Lebanon’s diaspora (whose role is discussed in the next entry). This set-up, which I term “the political economy of public debt”, continued during the postwar period. The high interest rates paid by the government, maintained by the Central Bank, crowded out loans to the productive sector, including industry and agriculture, but also to the housing and construction sectors, and provided a steady source of income for the banks, who did not have to resort to risky financial instruments and products in search of a good profit. The Central Bank, who consults Lebanese banks closely on policy-matters, moreover regulated lending conservatively. This meant that the banks were not affected by the financial crisis and could in fact offer attractive interest rates on deposits, which led to a large influx of funds transferred from countries struck by the crisis, mostly by Lebanese expatriates but also Gulf investors.

The subsequent mortgage boom is then a direct consequence of the financial crisis, as the transfer of funds to Lebanon’s banks created a large glut of money that had to be profitably reinvested somewhere, and could not be invested to the same extent in government bonds as before, because the rolling over of the public debt resulted in lower interest rates. The Central Bank-provided incentives ensured a profitable reinvestment of these funds as well as the maintenance of high housing prices. This points to the importance of understanding the consequences and geographies of the financial crisis beyond Europe and North America, and thereby gauging the extent to which this crisis can actually be termed “global”. Indeed, as the Lebanese case has demonstrated, one country’s crisis can be another country’s boom. These findings can be relevant to understanding how and why other contexts as diverse as India, Canada, Nigeria and Moldova escaped the financial crisis and perhaps subsequently experienced a boom: do they have a history of domestic
banks lending to the government? Do they have a large expatriate population sending remittances back home? How did their Central Bank regulate lending to the private sector and which role did it play in maintaining interest rates on government bonds? What was its relationship to domestic banks? The spatial fix is a temporary displacement of overaccumulated capital, but as the Lebanese case has made clear, this displacement only serves to exacerbate the contradictions of capitalism. The propping up of the real estate sector and its function as a valve to relieve overaccumulation will only be temporary and ultimately, the resulting crisis will be even more severe, as has become clear from the 2008 credit crunch in the West (Gotham, 2009).

7.1.2 The role of the diaspora in the banking and real estate sectors: remittances, investments, intermediation

Lebanon’s diaspora played a crucial role in the spatial fix. When Beirut’s financial center functions moved to the Gulf during the civil war, and these economies experienced large growth because of the surge in oil prices, Lebanon’s highly educated, prone-to-migrate workforce profited from their country’s history and reputation as trade intermediary between West and East by being hired as service providers there (but also in many other high-income countries in Europe and North America). Their remittances contributed to the rise of Lebanon’s domestic banks and the latter’s ability to lend to the government. More directly, several Lebanese who had made a fortune in the Gulf and West Africa founded new banks and companies towards the end of the war, which grew into powerful postwar conglomerates spread over several countries. As postwar reconstruction failed to deliver on its promises, emigration of Lebanon’s high-skilled workforce proceeded unabated, over half of which to Gulf countries. The postwar settlement therefore continued to hinge on remittances and domestic lending to the state. Besides propping up the banking sector, the diaspora fulfills an important function in supporting the real estate sector as well, either as investors in and buyers of real estate, as we have seen. Moreover, they support this sector indirectly by helping resident family members access housing.

The role of the diaspora in making a spatial fix possible is a major contribution to the theory, and one that hints at the kind of contribution a Southern view can
bring. Many countries in the Global South have a sizeable expatriate population; the ways in which these influence their political economies, by maintaining consumption levels of resident family members, by purchasing real estate, by transferring money to their banking sectors, are important factors that should be taken into account when studying the kinds of processes that I researched in this dissertation. The impact of diasporas on their host cities has been researched quite extensively, but we also need to look at how migrants shape their home cities. How are the places whence these transnational elites come shaped by them, the cities and countries that are left behind yet visited, that do not attract financial center activities yet are overbanked, that do not produce but live from remittances and grants? This goes beyond the literature on urban neoliberalism where the story is often one of a city attracting international investors and tourists. The Lebanese case shows us another type of investor and tourist, an international national, an agent that should be taken into account perhaps not only in cities of the South but also in other places with a sizeable part of their population residing overseas.

7.1.3 Gulf capital and the making of political economy

My findings emphasize the importance of looking at the role of Gulf capital, not only in shaping the built environment of the Middle East and beyond (Barthel, 2010; Bogaert, 2011b; Daher, 2008; Musa, 2013; Simpson, 2013) but also in shaping other countries’ banking sectors (Hanieh, 2011, p. 157 looked at this to some extent). In Lebanon, the amount of Gulf capital that flowed towards its real estate and banking sectors, beginning in the early 2000s but reaching an absolute peak in 2008, together with the peak of oil prices and the onset of the financial crisis, has had a profound impact not only on the built environment of Beirut and probably other cities as well, but also on its political economy, as the banks ran into considerable excess liquidity that they could put to profitable use by lending to the government and, later, homebuyers and real estate developers. In this way, the economies of the Gulf were partially reproduced through Lebanon (Hanieh, 2011), as their large amounts of deposits but also ownership shares in Lebanon’s main banks ensured good returns, and vice-versa, as they helped bail out Lebanon’s economy during public debt and other crises via several Paris-conferences. Here, it became clear that Gulf economies’ investments in Lebanon made the country “too important to fail.”

The dimensions of Gulf and diaspora capital are intimately connected and even co-constitutive. Lebanese expatriates contributed to the rise of Gulf economies as
service providers, building on their longstanding reputation as successful intermediaries between west and east and their high education to become indispensable elements of their growth, taking their salaries to invest in banking and real estate at home (G. Hourani, 2014; Krijnen, Bassens, & van Meeteren, 2016). I focused here on links with the Gulf, but there are other networks between Lebanon and West Africa, Lebanon and France, Lebanon and the United States... all these could provide interesting insights into how they shape Beirut and Lebanon’s political economy and vice versa.

Once again, we bring a kind of “Southern” perspective into the research on spatial fixes and the movements of capital into banking and real estate. Whereas Gulf capital or as it is commonly known, petrodollars, was tied to “the West” much more strongly in the past when it was recycled to Euro-American banks via Beirut and later Bahrain, the attacks on New York City of September 11 restricted the flow of these dollars to the West as oil prices rose. My research points towards a massive “wall of money” originating in the Gulf after the surge in oil prices (from 1999 to 2008), which became entangled in Lebanon’s political economy and beyond as it moved around looking for profitable investment opportunities.

7.1.4 A neoliberal fix in a different context

The way in which the state stepped in to facilitate investment in the built environment, and “rolled out” a legal and institutional infrastructure that generated conditions for its profitable exploitation by private investors (such as the changes in the early 2000s), fits in very well with what has been described in the literature on neoliberalism. However, when this literature speaks of a “roll-back” of the state in terms of its welfare, developmentalist or redistributive functions, it becomes less applicable. Beirut’s history as a trade intermediary and provider of financial services, the making of its primacy by the French colonial regime when it created the state of Greater Lebanon, and the ways in which its political economy was proclaimed and regulated as “laissez-faire” since Independence, resulted in a country where Keynesian or developmentalist policies never gained a strong footing. The provision of social services was already delegated to private actors (political parties), industry and agriculture were not subsidized or encouraged to the same extent as in most other Arab countries, where developmentalist policies were in place, and the government never took responsibility for large-scale public
housing, even though some attempts were made, notably during the Chehabist period.

A neoliberal policy agenda found fertile ground in this context, where the secondary circuit of accumulation was to a large extent the only circuit, industries’ interests were historically weak and those of tertiary sectors such as banking and real estate strong. In such a context, the consequences of social and economic inequality, an inevitable byproduct of capitalist development, were never buttressed by a welfare or developmentalist state. This set-up also dovetailed quite well with traveling neoliberal policy prescriptions that encouraged investment in finance and real estate. The neoliberal agenda moreover allowed for the small amount of social policies that did exist, such as rent control, to be reversed during the 1990s. The introduction of policies such as rent liberalization and housing access through mortgage loans make housing even more unaffordable in Lebanon than they do in the West, because the social minimum is much lower as a result of the lack of welfare policies.

Another way in which neoliberalism in Lebanon is different is in the way it was introduced, not enforced as part of a Structural Adjustment Program (SAP) following a debt crisis by institutions such as the IMF or WB, but traveling with rich returning diaspora Lebanese. Indeed, the collusion between domestic banks, the Central Bank and the state allowed Lebanon to maintain its high debt-to-GDP ratio without having to answer to international finance discipline. Notwithstanding this, some form of structural adjustment was imposed after the Paris 2-conference in 2002, where debt relief was pledged in exchange for promises of privatization and reforms encouraging foreign direct investment, and several free trade agreements were signed. However, the role of domestic banks remained crucial in government financing.

The Lebanese case demonstrates that neoliberal reform cannot be generalized across contexts in the North as well as the South. Especially in terms of theorizing the path dependencies and specificities of the latter, beyond SAPs and the dismantling of developmentalist regimes, the Lebanese case provides an example where the tradition of government was already well in line with a neoliberal policy agenda; one where the transition to neoliberalism constituted more of a continuity, instead of a rupture, with previous policies.
7.1.5 Mortgages and the financialization of housing

The increasing resort to credit by homebuyers and developers alike is a new phenomenon in Lebanon and part of a wider trend where the “wall of money” (i.e., surplus capital) that led to the financialization of housing in the Global North is making its way to the Global South, increasingly so after the 2008 crisis (Fernandez & Aalbers, 2016; Gruffydd Jones, 2012). Strategies to provide affordable housing have been progressively underpinned by finance-based models, from residential mortgage-backed securities in Mexico implemented in coordination with Western donors and financial institutions as a development strategy (Soederberg, 2015), to slum upgrading programs premised on attracting private capital from commercial banks and capital markets that is repaid by indebted slum dwellers, making slums “bankable” (Gruffydd Jones, 2012, see also Bogaert, 2011), to the way in which affordable housing policies in Morocco are increasingly used to promote Tangier’s property market as a destination for foreign investment, creating new submarkets in a country with an underdeveloped financial system (Kutz & Lenhardt, 2016). The belief that market-based housing finance, and not the right to housing, should organize the provision of shelter across the globe (Rolnik, 2013) is becoming widespread, reflected in the policy-oriented literature on housing in the global South that can be found in World Bank and UN-Habitat reports and journals. Both political economy and policy-oriented research have mostly focused on the financialization of home as a tool of development, part of the “poverty industry” extracting value from low-income individuals and linking their housing rights to global financial flows (Soederberg, 2015). In all cases, these programs have largely failed to provide adequate housing to lower-income groups, but have been profitable for the financial and construction interests involved.

The Lebanese case then can be situated in this trend, although mortgages are not so much aimed at slum upgrading but are directed towards the middle-income bracket. The poorest residents of Beirut still resort to other means to access housing: informal settlements, housing provided by developers connected to political parties, or help from family members abroad.

The “wall of money” that moved from the Global North but also the intensification of capital flows from the Gulf after the crisis indicate that the mortgage boom and the inflation of housing prices in Lebanon are in a way the result, and not the trigger of the financial crisis, which once again points to the different consequences of the crisis in the South. A glut of money in the South is
now reproducing the same problematic conjuncture of capital switching into the built environment to temporarily relieve crises of overaccumulation.

7.2 The materialization of the spatial fix

7.2.1 The rent gap in Beirut: a legal framework facilitating gentrification

The rent gap in the three areas that I studied in Beirut, explaining why some areas became susceptible to investment and disinvestment, but not if and how they subsequently gentrified, was influenced by rent controls, a high potential ground rent due to the building law and future highway plans, and ineffective heritage preservation measures. Rent controls lowered the actual ground rent to such an extent that landlords discontinued building maintenance, leading to a deterioration of the building stock and a strong motivation to sell. Rent controls allow 40,000 families to live in Beirut, and in this way limit processes of gentrification (Ley & Dobson, 2008), but their tenancy is not secure as increasing numbers are evicted when buildings are sold to developers. The building law ensured that a plot with an older building on it had a much higher potential ground rent because of the high exploitation factor. The priority given to highway construction raised the potential ground rent of plots located along a planned trajectory, as car accessibility is important in a context with no efficient public transportation. The ineffective heritage protection framework, with no budget for repairing listed buildings, no possibility to transfer development rights and no repercussions when illegal demolitions occurred, did not encourage the preservation of old buildings and allowed for the full exploitation of the plot they were located on. Many owners in fact demolished their properties in order to prevent their classification and reap the full ground rent by selling to a developer. The classification of buildings then did not present an incentive to gentrification by way of refurbishing them and selling them to higher-income buyers, as discussed for the United States, for example (Lees et al., 2008; Lees, 2003), but it did encourage gentrification in the sense that owners demolished their properties preemptively or were not prosecuted for doing so once a building had been listed, because the framework did not provide for funds with which owners could refurbish or sell development rights.
The role of the state in creating the rent gap becomes clear here. What we can learn from the Lebanese case is the importance of national laws for influencing the rent gap at a very local level. In the context of Beirut, where no local master plan exists, the national legal framework decides the exploitation factor of a plot. The changes in the framework in the first half of the 2000s set the stage for a more intensive exploitation of land. The national level also decides on the regulations related to old rent or the law on heritage protection. The role of local authorities is then not one of proactively designating zones for redevelopment, engaging in public-private partnerships with developers or place-marketing as described for cases in Europe and North-America (Brenner & Theodore, 2002a). Instead, the municipality facilitates the exploitation of potential ground rent by handing out building permits, selling leftover spaces to developers, letting developers privatize an area in exchange for the latter’s work on infrastructure, in short: being moved by developers to suit their projects. Local authorities are not entirely stripped of prerogatives, though. The municipality could improve public transportation (which arguably does not lower potential ground rent because then its value becomes related to being located near a public transport hub) and the availability of public spaces, but it prioritizes the construction of highways and parking spaces, raising the potential ground rent of properties located close to these and close to shopping districts and entertainment districts, which explains why Zokak el-Blat gentrified. In this way, pedestrianizing streets, encouraging the use of bicycles or public transportation, interventions that improve the quality of life for residents but that arguably facilitate gentrification in many Western cities as well, are not strategies Beirut municipality engages in, making high-income dwellers prioritize access to thoroughfares (also because they allow people bypass certain stigmatized areas, but I will get to that below).

In short, the rent gap is to a large extent created by the legal framework in place, mostly decided on a national level. It is not done through large sweeping gestures such as the authoritarian redevelopment of entire slum areas in the Global South (Smith, 2002) or the creation of zones of exception, where an authoritarian state suspends laws and creates exceptional incentives for investors (Ong, 2006). Instead, it is through the existing framework, embedded in a tradition of facilitating investors, that the rent gap has been allowed to grow so large.
7.2.2 Pathways of gentrification

A rent gap alone is not enough to explain which areas gentrify and which do not, and the timing of this process. My research has uncovered certain dimensions that influence processes of gentrification in Beirut, some of which are not discussed in the literature. A first dimension relates to the role of territorial stigma and legacies of conflict and displacement, which influenced the abandonment and reoccupation patterns of buildings (hence also the rent gap) and subsequent processes of gentrification. In Zokak el-Blat, the presence of people displaced during the war, protected by former militias turned political parties, prevented the full exploitation of the rent gap, limiting development to its edges near highways. This has prevented gentrification and also possibly protected some monumental buildings from demolition because they were occupied by refugees who enjoyed certain forms of protection. It is interesting to note that Zokak el-Blat’s neighboring area, the equally stigmatized district of Bachoura, is currently being transformed into “Beirut Digital District” with a large capital injection, public support and an extensive campaign that framed the transformation as saving the neighborhood from poverty (Whiting, 2012). Here we see that with powerful means, pooling capital and coordinating a large campaign, the stigma is forcibly overcome. In Corniche en-Nahr however, where there were for the most part no actual people involved, the area’s stigma, that consisted in part of stories of massacres that took place there during the civil war and the probable presence of mass graves, was easier to gloss over, corresponding to the general amnesia surrounding the conflict that was necessitated by the need to move on (a capability that contributes to Beirut’s reputation as a place that “won’t die”). This allowed developers to construct a new identity for the area, a tabula rasa onto which they had a freedom to inscribe their projects not found elsewhere in densely built-up Beirut, using its reputation as an emerging art hub, selling new forms of urban living based on examples from deindustrializing Western cities. In the process, the area was moreover presented as a sectarian neutral space, something that emerged from the Mar Mikhael-findings as well. Justified or not, the fact that these areas were perceived as such, and that this was a positive selling point (“in case something happens”), points to the role of past and also future anticipated conflicts (Bou Akar, 2012) in explaining processes of gentrification. Besides the rent gap then, an area’s stigma, which is not only related to poverty but also to legacies of conflict and displacement, and the ease or difficulty of overcoming this stigma, helps explain
why gentrification does or does not occur in severely disinvested areas and why some central Beiruti working class neighborhoods have not yet gentrified.

A second contribution relates to the diversity of gentrification processes taking place in one and the same city. In the case of Mar Mikhael, the perceived authenticity of the area, in part related to its old buildings, was used as a selling point by developers (who however did not find it economically feasible to preserve more than a façade); catering to an increasing desire for “authenticity” in a city rapidly losing its built heritage. Moreover, the area’s reputation as a creative and nightlife hub allowed for the profitable transformation of commercial ground-floor spaces into bars, galleries and restaurants, partially and temporarily closing the rent gap. These and other factors that I discuss in this conclusion explain why gentrification in Mar Mikhael is so notably different from what we have seen in Zokak el-Blat, an area with a similar rent gap and a more impressive architectural heritage. My case studies therefore demonstrate how gentrification processes in one and the same city, taking place simultaneously, can have vastly different dynamics and outcomes.

A third dimension to take into account are the complicated property patterns that exist in Beirut’s old areas, due to the law related to inheritance which results in so many heirs that on the one hand property transfers are facilitated but on the other hand sometimes costly, and avoided. Transfers are facilitated because developers can buy a certain amount of shares and then force the remaining heirs to sell (a process that I did not explore in detail this thesis but am currently exploring in a co-authored paper), or they are hindered because tracking down multiple heirs is tedious and costly. Legacies of displacement and conflict play a role here as well, because many properties were abandoned during the war, not reoccupied by their original owners who fled, passed away and left heirs scattered all over Lebanon and even the world.

My findings have, fourthly, drawn attention to how the geographies of displacement by gentrification reinforce sectarianism. Many lower-income tenants and working class households have been displaced to confessionally homogeneous areas outside Beirut, which has enhanced their susceptibility to the sectarian appropriation of their political consciousness. Sectarian appropriation and depoliticization are widespread, and it should be remembered that sectarian organizations and later political parties, which are unfortunately often tied to one particular sect (although sects are divided between parties as well), have played an important role in providing services and employment to their constituencies who moved to Beirut in search of a better life or who were displaced; services that the
state did not provide (Bou Akar, 2005; Cammett & Issar, 2010; Fawaz, 2009a). Of course they could only play this role because the state did not provide any services or construct affordable housing.

Finally, the role of the Lebanese diaspora, not only in channeling capital towards Beirut’s banking and real estate sectors as discussed above, but also in shaping gentrification processes, is another important dimension. The fact that many developers had lived abroad allowed them to pick up ideas that influenced the way in which they conceived of and marketed their projects. They appealed to the tastes of their buyers, under which there were many expatriates. In this way, ideas that were developed in the context of deindustrializing cities in the West gained traction in Corniche en-Nahr.

### 7.3 The urban transformation of Beirut and the social relations of capitalism

In this dissertation, I have connected concrete developments on the ground to broader questions about capitalism, the role of the state, networks of accumulation and the exploitation of land. The idea that the urban process reflects and constitutes the relations and contradictions of the capitalist system was explored by first looking at how these relations and contradictions direct capital towards the built environment, and then by looking at how these impact the built environment itself. The two parts of the thesis reflect elements that are co-constitutive; previous investments in the built environment determine future ones. Capital renders space in its own image, raising barriers to further expansion and profitable investment, which are only removed when the rent gap becomes large enough to consider reinvestment. I paid close attention to specific factors that influenced how the rent gap and gentrification occurred in Beirut and that were not always discussed in the literature, contributing to theory formation by looking at ‘[t]he shared capitalist structures of gentrification vis-à-vis the sociological, cultural and institutional contextual particularities [that] the phenomenon acquires in each place’ (López-Morales, 2015, p. 566). Taking seriously the experiences of Southern cities as places occupying the same historical time as Western cities (Massey, 2005; Robinson, 2006) and as places full of potential for theory making takes urban theory beyond treating
these cities as places that lag behind, in need of developmental fixes. As I have shown in the introduction, Beirut is too often described in just such terms, as lagging behind, full of problems and abnormalities, and not as a place that could inform urban theory or produce more general knowledge about how cities work. As we have seen however, processes of gentrification and urban transformation, triggered by the flow and fixation of capital in the built environment, are actually similar to processes documented elsewhere, with some specific dimensions.

This is however not just a story about Beirut. It is also about the social relations of capitalism in general and their relationship with the built environment in particular. At its core, gentrification is about class struggle. Not a class struggle between yuppies and existing tenants, but one that is situated in the realm of the circulation of capital, between people living in precarity and the “agents of capital” that produce and exploit rent gaps (T. Slater, 2015). Their actions are shaped by the laws of capitalism but also highly contingent connections that are based on many different factors, including (colonial) nation-state making, cultural preferences and histories of war and conflict. These connections generate friction that allow capital to touch down in different places. The agents of capital are organized in powerful networks of accumulation. I argued that these networks are not indicative of a particular culture of corruption but are part of the social relations of capitalism itself. Of course the network-formation, monopoly-encouraging tendencies of capitalism did find an especially fertile ground in Lebanon, where even before the country came into existence there was a tradition of clientelism and the state itself was premised on a tertiary economy, with its politicians coming from powerful business families. However, these alliances and networks were established during the rise of capitalism in the Levant itself. It is not as if capitalism descended onto a clientelist sectarian structure; in fact as Chapter 2 has shown, the ways in which European powers actively utilized alliances with Christians and lobbied with political institutions for economic goals, shows that this structure was made together with, perhaps co-constitutive of, and not in opposition to, capitalism. Of course, the fact that a limited amount of persons commanded a vast amount of wealth, as a result of the ways in which capitalism played out in Lebanon, made the switching of capital into real estate easier, because this elite could just found another company and channel capital there. But this set-up is a result of the relations of capitalism itself.

Therefore it is imperative to take the study of the Middle East away from a focus on corruption and authoritarianism, because this conceals more than it clarifies. Looking at how the networks of accumulation are situated in and can be explained
by the social relations of capitalism breaks down the barriers between North and South and points towards the urgency of understanding the class struggle underlying the capitalist transformation of urban space. The endless complexity of a case such as Lebanon shows that viewing urban transformation in this way is not a reductionist or dull exercise, does not preclude complexity or necessarily overlooks certain dimensions because I am using a theory that originated in the West. To the contrary, using this framework allowed me to ask the right questions, the search for answers to which allowed me endless freedom to think deeply about what shapes Beirut today.

What we learn from Beirut is the importance of looking beyond North America and Western Europe when trying to understand the consequences of the financial crisis and the functioning of the capitalist economy as a whole. It teaches us to look at the impact a large, highly educated diaspora can have on a country’s banking and real estate sectors, the role that Gulf capital plays in shaping the built environment of cities, and how a differing political-economic context, with no history of a welfare or developmentalist state model, has fared in an increasingly neoliberal context. It also teaches us about the many specific dimensions that come into play when areas are gentrifying as a result of renewed capital investment, such as the role of conflict, a rent control and heritage protection framework in limbo, and a state and legal framework that allow almost unlimited exploitation. Notwithstanding these specificities, it is pointless to reify differences between Northern and Southern cities because the circulation of capital is a universal process. This process takes place in endlessly intricate, varied and complex ways that open up many fascinating research questions for cities all around the globe, that can help us understand the connections between the context of changing global financial and economic dynamics, between burgeoning cities and networks of profit and ultimately, and this is why this research is important, between these dynamics and the increasingly glaring socioeconomic inequality.

This dissertation has shown that, far from being an exceptional place, Beirut is shaped by the same dynamics of capital investment that wreak their havoc elsewhere. In all three areas whose gentrification I examined, consequences for existing residents and commercial tenants were dismal, because they faced rampant displacement (pressure) and unaffordable rents. As elsewhere, the “good city”, the good life that the real estate developments promise, is not meant for poor or even middle income people. No matter if it is the state or other actors displacing them, no matter if the references used are New York or Shanghai (Roy, 2011c), there is no place for the poor in gentrifying areas. Fifty percent of households in Lebanon live
on less than US$6,500 a year and the income of Lebanon’s middle classes averages US$24,000 a year (Traboulsi, 2014). It is very difficult to obtain an apartment that costs half a million dollars on such a salary. Mortgage lending has meant that housing prices are not going to decline anytime soon in Beirut and that they are maintained in its suburbs as well. Ironically, the subsidized mortgages that many Lebanese are forced to resort to have been financed to a large extent by their own taxation. In this way, they are exploited in the interests of the agents of capital that are driving the urban transformation of Beirut, and that will continue to do so as long as the capitalist system is in place.
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Appendix 1: Fieldwork trips and interviews

Besides being resident in Beirut from September 2007 until September 2011, I undertook fieldwork trips in November and December 2011, March and April 2012, April 2013 and December 2013, October 2014 and March 2015. In addition to my own interviews, listed in the table below, I benefited from interviews conducted by Abir Saksouk-Sasso (three), Mona Fawaz (one) and those conducted by AUB and Sciences Po students in the context of a workshop on gentrification in Mar Mikhael that took place in March 2015 (twenty-nine), which I led.

This table includes interviews conducted for my master’s thesis research, because I relied on these as well. All interviews took place in Beirut, mostly in English, but French and Arabic were also used.

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# Appendix 2: Company shareholders

## Al Mawarid network

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</thead>
</table>
| **Achrifieh 4748 SAL (est. 2008/08/27)**     | LL30 min, 200 shares | Rania Rayadh Sarieddine | - Basam Abdalrazaq al-Qisi (Leb.), shareholder (4 shares: 2009/05/22).  
- Daria Rashid Sharmand (Leb.), shareholder (13 shares: 2009/05/22).  
- Raja Ali al-Shriti (Leb.), shareholder (20 shares: 2009/05/22).  
- Faysal Salim al-Halabi (Leb.), shareholder (6 shares: 2009/05/22).  
- Mohammed Arkan al-Siblani (Leb.), shareholder (13 shares: 2009/05/22).
- Marwan Shkib Daw (Leb.), shareholder (37 shares: 2009/05/22), board member (2009/05/22), founder (2008/08/28).
- Maan Shkib Daw (Leb.), founder (2008/08/28), shareholder (8 shares, 2009/05/22).  
- Local legal entity: Company 4791 Real Estate SAL (Leb.), shareholder (13 shares: 2009/05/22), board member.  
| **Company 4791 Real Estate SAL (reg. 2005/15/07)** | LL30 min | Rania Rayadh Sarieddine | - Crowheart Professional Auditors (Leb.), responsible for audit.  
- Rania Rayadh Sarieddine (Leb.), chairwomen, shareholder (980 shares), founder, responsible for signing.  
- Mazen Wassim Tajeddine (Leb.), shareholder (10 shares), founder, board member, lawyer.  
- Ibrahim Samir Azar (Leb.), shareholder (10 shares), founder, board member. |
| **Al Mawarid Real Estate Company (reg. 2002/27/04)** | LL2 bin | Wassim Salim Kheireddine | - Wassim Salim Kheireddine (Leb.), chairman, shareholder (500 shares), founder, responsible for signing.  
- Hikmat Ismail Nawfal (Leb.), responsible for audit.  
- Salim Ismail Kheireddine (Leb.), shareholder (500 shares), founder, board member.  
- Marwan Salim Kheireddine (Leb.), shareholder (1000 shares), founder, board member.  
- Nadim Najib Mukhaibar (Leb.), lawyer.  
- Rania Sarieddine Akhras (nationality unknown [?]), general director, responsible for signing. |
| **Al Mawarid Bank (reg. 2008/08/21)** | LL36 bin | Marwan Salim Kheireddine | - Marketing and construction company (Leb.), shareholder (7500 shares).  
- Grand Thornton (Leb.), responsible for audit. |
<table>
<thead>
<tr>
<th>Company</th>
<th>Share capital</th>
<th>CEO</th>
<th>Shareholders</th>
</tr>
</thead>
</table>
|         |             |    | - Price Waterhouse Coopers (Leb.), responsible for audit.  
|         |             |    | - Marwan Salim Kheireddine (Leb.), chairman, shareholder (400,000 shares), responsible for signing.  
|         |             |    | - Edmond Amin Jreisati (Leb.), shareholder (3600 shares), board member.  
|         |             |    | - Tamim Mahmoud Zidane (Leb.), shareholder (3250 shares).  
|         |             |    | - Rami Manam Nasreddine (Leb.), shareholder (3250 shares).  
|         |             |    | - Rada Atif Saad (Leb.), shareholder (2500 shares).  
|         |             |    | - Rakan Manam Nasreddine (Leb.), shareholder (3250 shares).  
|         |             |    | - Salim Ismail Kheireddine (Leb.), shareholder (2,072,000 shares), founder.  
|         |             |    | - Samir Abdallah Najad (Leb.), shareholder (17,000 shares).  
|         |             |    | - Abdelrahman Ben Abdelaziz (Leb.), shareholder (30,000 shares).  
|         |             |    | - Nizar Mahmoud Zidane (Leb.), shareholder (3250 shares).  
|         |             |    | - Wassim Rashid al-Rasamny (Leb.), shareholder (1250 shares).  
|         |             |    | - Wassim Salim Kheireddine (Leb.), shareholder (400,000 shares), board member.  
|         |             |    | - Wajdi Rashid al-Rasamny (Leb.), shareholder (1250 shares).  
|         |             |    | - Walid Rashid al-Rasamny (Leb.), shareholder (1250 shares).  
|         |             |    | - Mona Rashid al-Rasamny (Leb.), shareholder (625 shares).  
|         |             |    | - Ibrahim Emile Hanna al-Daher (Leb.), shareholder (2000 shares), board member.  
|         |             |    | - Majid Aref Junblat (Leb.), shareholder (2000 shares), board member.  
|         |             |    | - Marwan Yousef Kisrwni, (Leb.), founder.  
|         |             |    | - Mona Amr Jandi Daw (Leb.), shareholder (12400 shares).  
|         |             |    | - Amr Mahieddine Jandi (Leb.), board member, founder, shareholder (3000 shares).  
|         |             |    | - Mahmoud Hamdane Zidane (Leb.), board member, shareholder (2500 shares).  
|         |             |    | - Ghassan Ismail Kheireddine (Leb.), shareholder (21,100 shares).  
|         |             |    | - Nada Rashid al-Rasamny Rizk (Leb.), shareholder (625 shares).  
|         |             |    | - Ibrahim Wafiq al-Hasamy (Leb.), board member.  
|         |             |    | - Mustafa Mohammed Sahtoot, (Leb.), shareholder (6250 shares).  
|         |             |    | - Nadim Najib Mukhaibar (Leb.), shareholder (150 shares).  
|         |             |    | - Abir Ghaleb Ramadan (Leb.), lawyer.  
|         |             |    | - Note: request for a sign of concession franchise… [?], number 466/s.  

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## Audi-Saradar network

<table>
<thead>
<tr>
<th>Company</th>
<th>Share capital</th>
<th>CEO</th>
<th>Shareholders</th>
</tr>
</thead>
</table>
| Urban Dreams Trust Holding, SAL (est. 2010/08/11) | US$20,000, amount of shares 1,000 | Martine Isabel Akoub Joubourian | - Emile Pascal al-Bina (Leb.), shareholder (120 shares, 2010/08/12).  
- Toufig Rabih Awad (Leb.), founder (2010/08/12).  
- Joseph Ibrahim al-Kisrwan (Leb.), shareholder (120 shares, 2010/08/12).  
- Joseph Michel Halit (Leb.), board member, shareholder (120 shares, 2010/08/12).  
- Salim Badri al-Maoushi (Leb.), lawyer (2010/08/12).  
- Ali Azmi Mohammed Aziz (Leb.), shareholder (120 shares, 2010/08/12).  
- Leila Sami Alamuddine (Leb.), shareholder (120 shares, 2010/08/12).  
- Martine Isabel Akoub Joubourian (Leb.), chairwoman, shareholder (120 shares, 2010/08/12), responsible for signing, founder (2010/08/12).  
- Nada Joseph Jlailati (Leb.), board member, shareholder (120 shares, 2010/08/12), founder.  
- Foreign legal entity: Ernst and Young Co., responsible for audit. |
| Bank Audi SAL (est. 1962/02/06)             | LL460 bin (roughly), amount of shares around 352 mln. | Raymond Wadih Audi          | - Ahmad al-Hamidh (nationality unknown), founder (1962/02/06).  
- Elie Samir Samaha (Leb.), general director (1962/02/06).  
- Jean Wadih Audi (Leb.), founder (1962/02/06).  
- George Wadih Audi (Leb.), founder (1962/02/06).  
- Hamid al-Saleh al-Hamidh (nationality unknown), founder (1962/02/06).  
- Khalil Michel Bitar (Leb.), board member (2013/04/08).  
- Raymond Wadih Audi (Leb.), chairman (1998/03/19), responsible for signing, founder (1962/02/06).  
- Souad Hamad al-Hamidh (nationality unknown), board member (2013/04/08).  
- Samir Naqoula Hanna (Leb.), general director (1998/03/19), responsible for signing in union [7], board member (2013/04/08).  
- Sana Hamad al-Hamidh (nationality unknown), founder (1962/02/06).  
- Shahdaan Elias al-Jbeily (nationality unknown), general director (1962/02/06).  
- Sheikha[?] Mohammed Idiradi (nationality unknown), founder (1962/02/06).  
- Adel Naqoula Batal (nationality unknown), general director (1962/02/06).  
- Abdallah al-Habib (nationality unknown), board member (2013/04/08).  
- Imad Ibrahim Itani (Leb.), board member (2013/04/08), general director (2013/04/08). |
<table>
<thead>
<tr>
<th>Bank Audi Saradar for Private Services SAL (est. 1999/05/19)</th>
<th>LL40 bln, amount of shares 40mln</th>
<th>Fadi George Amaturi</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Gaby George Qassis (nationality unknown), responsible for signing in union (?) (2013/04/08), general director (2013/04/08).</td>
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<tr>
<td>- Freddy Charles Baz (Leb.), board member (2013/04/08), general director (2013/04/08).</td>
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<tr>
<td>- Mark Jean Audi (Leb.), general director (2013/04/08), responsible for signing in union (?) (2013/04/08), board member (2013/04/08).</td>
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<tr>
<td>- Mario Joseph Saradar (Leb.), board member (2013/04/08).</td>
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<tr>
<td>- Marwan Mukhtar Ghandour (Leb.), (Leb.), board member (2013/04/08).</td>
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<tr>
<td>- Mariam Nasr al-Sabah (nationality unknown), board member (2013/04/08).</td>
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<tr>
<td>- Yousef Asad Nasr (Leb.), board member (2013/04/08).</td>
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<tr>
<td>- Freddy Charles Baz (Leb.), board member (2013/04/08), general director (2013/04/08).</td>
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<tr>
<td>- Marwan Mukhtar Ghandour (Leb.), (Leb.), board member (2013/04/08).</td>
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<tr>
<td>- Mariam Nasr al-Sabah (nationality unknown), board member (2013/04/08).</td>
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<tr>
<td>- Yousef Asad Nasr (Leb.), board member (2013/04/08).</td>
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<tr>
<td>- Toufik Rabih Awad (Leb.), shareholder (5 shares, 2013/03/21), board member (2012/05/16).</td>
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<tr>
<td>- Jad Nassib Chedid (Leb.), founder (1999/05/19).</td>
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<tr>
<td>- Joe Marios Saradar (Leb.), founder (1999/05/19).</td>
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<tr>
<td>- George Said al-Khoury Yusef Doumit (Leb.), shareholder (5 shares: 2013/03/21), board member (2012/05/16).</td>
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<td>- Joumana Raymond Hashem (Leb.), lawyer (2012/01/11).</td>
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<tr>
<td>- Khalil Michel Bitar (Leb.), shareholder (5 shares: 2012/03/21), board member (2012/05/16).</td>
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<tr>
<td>- Stefan Istefan Naji (Leb.), board member (2012/05/16), shareholder (5 shares: 2012/03/21).</td>
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<tr>
<td>- Salam George Nadh (Leb.), shareholder (5 shares: 2013/03/21), board member (2012/05/16).</td>
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<tr>
<td>- Fadi George Amaturi (Leb.), shareholder (5 shares: 2013/03/21), responsible for signing (2012/06/11), chairman (2012/05/16).</td>
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<tr>
<td>- Marios Joseph Saradar (Leb.), founder (1999/05/19).</td>
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<td>- Henriette Saradar (Leb.), founder (1999/05/19).</td>
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<tr>
<td>- Wafa Suleiman Younes al-Dawuq (Leb.), shareholder (5 shares: 2013/03/21), board member (2012/05/16).</td>
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<tr>
<td>- Yousef Antoun (Leb.), board member (2012/05/16), shareholder (5 shares: 2012/03/21).</td>
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<tr>
<td>- Local legal entity: Bank Audi SAL “Group Audi-Saradar” (Leb.), shareholder (39,999,960 shares: 2012/03/21), board member (2012/05/16).</td>
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<tr>
<td>- Foreign legal entity: Company Ernst and Young (Leb.), responsible for audit (2010/07/28).</td>
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</table>
| - Note: On 2003/08/12 noted report number 487 submitted by lawyer Charbel Khairallah: Bank Saradar SAL represented by its chairman Marios Saradar issued by the Court of Appeal of Beirut.
### BankMed network

<table>
<thead>
<tr>
<th>Company</th>
<th>Share capital</th>
<th>CEO</th>
<th>Shareholders</th>
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</thead>
</table>
| **Achrafieh 1289 SAL (est. 2010/06/16)**               | LL30mln       | Fahed Rafiq Al-Hariri         | - Ahmad Mukhtar Mohammed Al-Hariri (Leb.), shareholder (150 shares: 2011/02/11).  
- Ayman Rafiq Al-Hariri (Leb.), shareholder (150 shares: 2011/02/11).  
- Joumana Musa Ismail Al-Sheikh (Leb.), shareholder (150 shares: 2011/02/11).  
- Rola Nazar Al-Tabash (Leb.), founder (0 shares: 2010/06/16).  
- Rita Yousef Al-Jamill (Leb.), shareholder (150 shares: 2011/02/11).  
- Saadeddine Rafiq Al-Hariri (Leb.), shareholder (150 shares: 2011/02/11).  
- Fahed Rafiq Al-Hariri (Leb.), shareholder (1500 shares: 2011/02/11), founder (2010/06/16), chairman (2010/06/16), responsible for signing (2010/06/28).  
- Philippe Afif Shaiban Tabet (Leb.), board member (2010/06/16), founder (2010/06/16), shareholder (150 shares: 2010/06/28).  
- Mohammed Yousef Alam (Leb.), lawyer (0 shares: 2010/06/16).  
- Nazek Asad Al-Rizaq Audi (Leb.), [widow of Rafiq Hariri, director at BankMed] board member (2011/02/11), shareholder (600 shares: 2011/02/11).  
- Foreign legal entity: Saidani and Associates for Accounting, responsible for audit (2010/02/12). |
| **Mar Mikhael-Rmeil Company (reg. 2009/21/02)**        | LL30mln       | Fahed Rafiq Al-Hariri         | - IRAD Real Estate Development Company SAL-IRIADAT HOLDING (Leb.), shareholder (1,000 shares).  
- Saidani and Associates for Accounting, responsible for audit.  
- Fahed Rafiq Al-Hariri (Leb.), chairman, shareholder (1940 shares), founder, responsible for signing.  
- Hind Rafiq Al-Hariri (Leb.), shareholder (30 shares), founder, board member.  
- Philippe Afif Shaiban Tabet (Leb.), shareholder (30 shares), founder, responsible for signing, board member.  
- Mohammed Yousef Alam (Leb.), lawyer. |
| **IRAD Real Estate Development Company SAL-IRIADAT HOLDING (est. 2003/18/11)** | LL1,885bln    | TBA                           | - Ernst and Young (Leb.), responsible for audit.  
- Baha’eddine Rafiq al-Hariri (Leb.), chairman, shareholder (12,490 shares), responsible for signing.  
- Safi Olivier Nazih Kalo (Leb.), shareholder (5 shares), board member.  
- Jamil Jamil Biram (Leb.), shareholder (5 shares). |
<table>
<thead>
<tr>
<th>Company</th>
<th>Share capital</th>
<th>CEO</th>
<th>Shareholders</th>
</tr>
</thead>
</table>
| HAR Properties SAL (est. 2009/03/12) | LL150mln, amount of shares 15,000 | Fahed Rafiq al-Hariri | -Fahed Rafiq al-Hariri (Leb.), responsible for signing (2009/03/13), founder, shareholder (14100 shares, 2009/03/13), chairman.  
-Philippe Afif Shaiban Tabet (Leb.), responsible for signing (2009/03/13), board member (2011/06/08), shareholder (750 shares: 2010/11/29).  
-Mohammed Yousef Alam (Leb.), lawyer.  
-Hind Rafiq al-Hariri (Leb.), shareholder (150 shares, 2009/03/13), founder, board member.  
-Local legal entity: Company 5 Real Estate [cannot find it anywhere!], Leb., founder (2009/03/13).  
-Foreign legal entity: Saidani and Associates for Accounting, responsible for audit (2010/08/12). |
-Mohammed Ahmad Mukhtar al-Hariri (Leb.), chairman, shareholder (5 shares), responsible for signing  
-Maroun Michel al-Asmar (Leb.), shareholder (5 shares), board member.  
-Bassil Elias Yared (Leb.), shareholder (293 shares), founder, board member.  
-Naamah Elias Sabbagh (Leb.), shareholder (5 shares).  
-Ghazi Ali Youssef (Leb.), shareholder (5 shares), board member.  
-Rayya Mohammed Ali Hafar al-Hosn (Leb.), shareholder (5 shares), board member.  
-Rafiq Baha'eddine al-Hariri (Leb.), founder.  
-Raja Salim Saab (founder).  
-Arif Mohammed Mneimeh (Leb.), lawyer.  
-Mohammed Ali Mohammed Asem Beyhum (Leb.), executive director.  
-Stanislas Jean Marie - De Hauss Bonczra (nationality unknown), shareholder (5 shares), board member.  
-Hani Ibrahim Suleiman Fedayel (nationality unknown), shareholder (5 |
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<tr>
<th>Company</th>
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</thead>
</table>
- Mohammed Ahmad Mukhtar al-Hariri (Leb.), chairman, shareholder (10 shares), responsible for signing  
- Bassil Elias Yared (Leb.), shareholder (16 shares), founder, board member.  
- Saadeddine Rafiq al-Hariri (Leb.), shareholder (22,387,908 shares).  
- Ayman Rafiq al-Hariri (Leb.), shareholder (22,387,907 shares).  
- Nazek Asad Abdelraziq Audi (Leb.), shareholder (8,224,139 shares), board member.  
- Mohammed Ali Mohammed Asem Beyhum (Leb.), shareholder (10 shares), board member.  
- Mustafa Hassan Razziane (Leb.), founder.  
- Yousef Salim Bek Taqla (Leb.), founder.  
- Arif Mohammed Mneimeh (Leb.), lawyer. |
| Medinvestment Bank SAL (reg. 1996/15/01) | LL85bln | Mohammed Ahmad Mukhtar al-Hariri | - Bank Med (Leb.), shareholder (8,499,924 shares), board member.  
- Group Med Holding (Leb.), shareholder (13 shares), board member.  
- Ernst and Young (Leb.), responsible for audit.  
- Mohammed Ahmad Mukhtar al-Hariri (Leb.), chairman, shareholder (10 shares), responsible for signing  
- Bassil Elias Yared (Leb.), shareholder (13 shares), founder, board member.  
- Maroun Michel al-Asmar (Leb.), shareholder (10 shares), board member.  
- Ghazi Ali Youssef (Leb.), shareholder (10 shares), board member.  
- Rayya Mohammed Ali Hafar al-Hosn (Leb.), shareholder (10 shares), board member.  
- Mustafa Hassan Razziane (Leb.), founder.  
- Hani Othman al-Dna (Leb.), founder [a note for him on BankMed's record].  
- Fouad Abdel Basit al-Siniora (Leb.), responsible for signing.  
- Mohammed Ali Mohammed Asem Beyhum (Leb.), responsible for signing, executive director.  
- Ricardos Hanna Rahme (Leb.), board member.  
- Arif Mohammed Mneimeh (Leb.), lawyer.  
- Hani Ibrahim Suleiman Fedayel (nationality unknown), shareholder (10 shares), board member. |