Cities 69 (2017) 73–78

Contents lists available at ScienceDirect

Cities

journal homepage: www.elsevier.com/locate/cities

Real estate, banking and war: The construction and reconstructions of Beirut

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ARTICLE INFO

Keywords:
Real estate
Sovereign debt
Political economy
Transnational
Hybridity

ABSTRACT

In urban studies scholarship, Beirut is often theorized on the frontiers of sectarian conflict as well as on the frontlines of neoliberalism. Entangling real estate, banking and transnational financial circulations, managed by the Banque du Liban, its political economy was – and still is – swayed by the fortunes of war. According to literature on the political economy of violence, profits are often made in times of conflict, a context appropriate to the civil war and postwar eras, during which the spoils of war enriched the pockets of warlords-turned-politicians. Yet as the fighting in Syria spills over the border, encumbering Lebanon's long paralyzed politics and straining Beirut's already deteriorated infrastructure, its political economy prospers – if only for a few – not because of violence but in spite of it. Beirut's skyline is covered in construction cranes erecting affluent, if empty, apartments; the banks are infused with deposits invested in the debt of a sovereign bankrupt in ways not simply financial. Both sectors are said to be resilient, a discourse so often repeated that resilience has become the dominant mode by which Beirut is understood. Excavating these discourses, this article presents Beirut's political economy as an assemblage of real estate investment, sovereign debt and emigration, and in so doing theorizes the Banque du Liban as a city builder fusing the political and the economic into an apparatus of transnational investment.

1. An introduction by way of walking in Beirut

Around the reconstructed downtown, near where construction financier and former Prime Minister Rafiq Hariri was assassinated by a massive car bomb in February 2005, there is an intersection that perhaps perfectly captures the paradox of Beirut. On one side are the Damac Tower and Beirut Terraces, lavish property developments financed by petro- and diaspora dollars, on the other, the luminous BankMed headquarters and the rocket-pierced Holiday Inn, devastated during the Lebanese civil war (1975 to 1990). Beirut's political economy is constructed around banks and real estate, against the backdrop of war.

With almost 600 branches of 69 banks operating in Beirut (Association des Banques du Liban, 2015), their offices are on almost every street corner, which in a city without official addresses means that directions are often indicated by turning left at one bank and entering the building across from another. With over $150 million in deposits, the Lebanese banking sector exceeds the size of the economy almost four times over. Hariri acquired BankMed in the early 1980s, after militias divided downtown Beirut into sectarian quarters and foreign bankers fled. Today, BankMed is Lebanon's fifth largest and fully owned by his descendants. The billionaire Hariri family epitomize what Baumann (2013) describes as "the new contractor bourgeoisie in Lebanese politics," emigrants who earned tremendous wealth in the Gulf and returned to Lebanon as politicians. Facing the BankMed headquarters, the Damac Tower and Beirut Terraces exemplify how luxury real estate construction characterizes Beirut's postwar reconstruction. The Damac Tower was built by Dubai's largest development company, which chose Beirut as their first foreign venture in 2006. The July war that year temporarily halted their plans. Once the dominant foreign investors, Gulf capital has recently – especially since the outbreak of the Syrian war – retreated. Expatriate investment finances the visually-striking Beirut Terraces, with gardens hanging over their unenclosed balconies. Both buildings are situated across the bombed out structure of what was once the Holiday Inn. Situated on the frontlines between warring militias, it was destroyed during the battle of the hotels between 1975 and 1976 (Fregonese, 2009). Its war-scarred *façade* is preserved because of an ownership dispute between its Lebanese and Kuwaiti shareholders, the former who want to renovate it into loft style apartments and the latter who seek to demolish and rebuild in a manner similar to the Damac Tower and Beirut Terraces.

Beirut's past decade has witnessed political assassinations and paralysis, worsening electricity blackouts, water shortages, slow crawling internet and uncollected garbage, which brought people into the streets in the summer of 2015 in the largest protests since Hariri's assassination. Yet walking these very streets, what most catches one's eyes are

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http://dx.doi.org/10.1016/j.cities.2017.06.003
Received 18 November 2016; Received in revised form 22 March 2017; Accepted 4 June 2017

the prevalence of bank offices, the affluent architecture under construction and the heritage buildings, threatened with demolition, whose bullet-pocked walls memorialize wars past and portend those yet to come (Bou Akar, 2012).

These contrasts point to the hybridity through which Lebanon is often theorized. Beyond policy discourses construing the state as weak, its sovereignty comprised by actors deemed outside the state, these categories are in practice blurred (Fregonese, 2012; Hourani, 2013). Tracing the transnational financial flows sustaining the war economy, Hourani (2010) underlines the impossibility of locating the boundaries between the militias, their financiers and the processes of capitalist globalization. What he terms the fusion of the political and the economic is also critical to understanding the postwar political economy, wherein reconstruction's reliance on real estate speculation has caused it to be considered a war by other means (Verdeil, 2001). In urban studies scholarship, Beirut is theorized on the frontiers of sectarian conflict as well as on the frontlines of neoliberalism. As city planners, Hezbollah is on the forefront of both. Fawaz (2009, 2014) portrays Hezbollah as constellations of public and private actors who profited from the post-2006 reconstruction of their southern suburbs not through financial windfalls but by consolidating territorial control. Likewise, Bou Akar (2012: 163) uncovers how, by construction and zoning regulations, they transformed Beirut's peripheries into frontiers of conflict, their spaces "produced by the continuities and discontinuities of neoliberal practices with practices of religious affiliation, sectarian constructions, service provision, resistance ideologies, and militarization."

Drawing on the imbrication of real estate investment and transnational financial flows in the construction and reconstructions of Beirut against the backdrop of war (or its expectation (Hermez, 2012)), this article excavates the apparatus that makes this political economy possible. It does so by tracing the circulations of investment and violence surrounding real estate and banking, the two pillars of the Lebanese political economy. There is often overlap between the country and its capital, a blurring difficult to disentangle when Beirut concentrates half the population and an overwhelming share of the economic activity. After the civil war decimated the city's primacy (Nasr, 1993), reconstruction aspired to recapture Beirut's financial prowess as an *entrepôt* where bank deposits intermingled with property developments, both sectors seen as safe havens in a perilous region. Beirut is thus indicative of Lebanon's political economy.

Around Beirut has emerged a narrative that real estate and banking are resilient to the turbulence paralyzing politics and stagnating the economy. Yet the article argues that these discourses have merged with policies that ensure these sectors prosper not because of these overlaying insecurities but in spite of them. Dwelling less on the muddling of public interest and private profits in Beirut's reconstruction, the article draws attention to the role of the central bank as a city builder, citing both its support for real estate speculation and its mandate to direct foreign financial inflows into the debt of a bankrupt sovereign. The Banque du Liban is the central actor in an apparatus centered around attracting transnational capital, making it difficult to know where the political ends and the economic begins, in turn ensuring that Beirut's skyline of affluent, if empty, apartments and its banks are safeguarded from the circulations of violence that otherwise would destabilize such a precarious political economy.

2. A transnational political economy

At the crossroads of conflicts and embedded in regional circulations of capital, Beirut was constructed around real estate and financial services and reconstructed to recapture these flows. Financialization, what Harvey (1989: 194) writes of the "extraordinary efflorescence and transformation in financial markets," was not a spatio-temporal process but Beirut's very *raison d'être*. Eighty-five percent of French investment during the mandatory period (from 1923 to 1943) went into the financial sector (Gates, 1989: 19). Yet Lebanese *laissez-faire* truly began in 1948, when the government lifted restrictions on foreign currency transactions, allowing unimpeded currency circulations through the banking system. The enactment of banking secrecy in 1956 further cemented Beirut's status as a financial center. Its banks were a "refuge" for private capital fleeing from *coups d'État* and nationalizations of Arab countries (Makdisi, 2004: 21). When its neighbors turned towards import-substitution industrialization, Beirut became the banker for Arab elites and intermediary for their oil wealth. As a recipient of foreign investment, it benefited from regional turmoil, at least until the civil war, but these flows were concentrated in the financial rather than productive realm, with transnational capital invested in a "continuous real estate boom" (Gaspard 2004: 145). From 1960 to 1970, Beirut witnessed an upsurge of concrete buildings financed by fortunes from the Gulf Arab states (Corm, 2003: 247).

As the civil war devastated downtown into "the site of organized aggressions" (Yahya, 1993: 132), barricading Beirut into segregated sectarian quarters, "only the banking system resisted canontization – money crossed communal lines" (Picard, 1996: 149). *The New York Times* noted, "both Lebanese and other Middle Easterners still see Beirut as a safe heaven for deposits…a remarkable tribute to this country's ingenious bankers" (Friedman, 1982). The banking system consolidated the country despite pervasive warfare (Moore, 1987: 201). But by rolling over the debt of industrialists and the state, the banks became captives of their borrowers in a prisoner's dilemma, thus becoming a component of the war economy in which real estate speculation was also another weapon. Beyond taxing the movement of people and goods, trafficking in drugs, trading in toxic waste and pillaging the port (Corm, 1994), the myriad militias were also real estate developers, privatizing the northern coast, building the first gated communities in the mountains and raising the southern suburbs (Glasze & Alkhayyal, 2002; Picard, 2005). They cemented their territorial control through unauthorized construction, the profits lining their pockets in turn paving the path of reconstruction, "not a break from the war economy but its modernization and routinization" (Picard, 2005: 34).

Following the concept of a spatial fix, wherein capital is fixed in space (in luxurious real estate in Beirut) in order to overcome space (to facilitate its profitable circulation from oil-producing economies into Lebanese banks), investment in real estate was not simply a spatial fix but the essence of reconstruction (Harvey, 2001). Symbolized by Solidere, the private real estate holding company that turned downtown Beirut into stocks and its owners into shareholders, reconstruction sought to reestablish the city's role as a regional *entrepôt*. Hariri intended to turn Beirut into "the Singapore of the Middle East" (Denoeux and Springborg, 1998: 158), but the result, in the words of former Finance Minister Georges Corm (2003: 227), was "the Monte Carlo of the Arab world, a tax haven, a large casino, a tourism center and a luxury supermarket for wealthy Arabs." "A place of choice for global capital flows," the Beirut rebuilt by Solidere represented "the withering away of the state…and decisive colonization by capital" (Beyhum, 1995: 59; Makdisi, 1997: 693).

The return of Gulf Arabs' investment was imperative for the real estate sector was constructed around their affluence. After the easing of restrictions on foreign ownership in 2001, they were permitted to own up to 3000 square meters of property, or up to 10% of Beirut (*Lebanon Opportunities*, June 2001: 18). While North American and European bankers saw their wealth with suspicion after September 11th, Beirut's developers welcomed Gulf investment, which totaled $1 billion in seafront apartments in Solidere in the nine months after the attacks (*Lebanon Opportunities*, May 2002: 76). According to the general manager of FFA Private Bank and chairman of FFA Real Estate, "following September 11th a lot of our clients, mainly Gulf investors, began searching for real assets in the region. We have found a niche – when you buy a plot of land, create a project and deliver, you are able to make a beautiful investment" (*Lebanon Opportunities*, September 2004: 65). In the first quarter of 2006, Solidere sold $1.1 billion of land to