



Kellogg
School of Management

Real Estate Program

N O R T H W E S T E R N U N I V E R S I T Y

American Real Estate Firms' Failure to Buy-in to Morocco's Vision: Why American FDI in the Real Estate Sector Will Continue to Lag

Breanne Henkelman

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I. Introduction

Globalization has broadened the mindsets of executives, extended the geographical reach of firms, and increased the visibility of international opportunities. However, the global financial crisis brought about the downfall of many real estate development projects and increased the risk aversion of those firms left standing. As the world emerges from the global financial crisis, real estate companies are beginning to redeploy capital. Morocco, hoping to capitalize on its geographical location, its diplomatic ties with both the Western world and the Arab world, and the lack of real estate investment opportunities in Europe, has stepped up efforts to attract investment to the country. The government is particularly focused on the lodging real estate market, as investment in this sector helps alleviate unemployment and social unrest, and significantly contributes to Morocco's gross domestic product (GDP). While capital is flowing into Morocco's real estate and tourism sector from other countries, there is a noticeable absence of American developers and real estate investors.

The purpose of this paper is to provide an on-the-ground review of several recent initiatives in Morocco's tourism and real estate sector, with an eye toward American foreign direct investment (FDI). This topic has important managerial implications and relevance for real estate organizations looking to invest in Morocco and other similar Arab countries. The paper strives to provide unique information on Morocco's lodging real estate sector and the cultural and economic business context to allow managers to make informed decisions concerning expansion into the Moroccan real estate market. This paper is not comprehensive, as the majority of it is based on interviews conducted in-country,

focusing on the true state of Moroccan politics and society and the main reasons why American FDI in the sector lags and will likely continue to lag other countries. I first review the history, political climate, political structure and economic situation in Morocco. I then examine Morocco's tourism sector, its current initiatives, and the active developers in the sector. Finally, I examine the main reasons for the lack of American FDI in tourism in Morocco, which spans discussions of the differences in culture, business norms, and economic markets. I conclude by providing predictions and recommendations.

II. Background Information on Morocco

It is important to understand Morocco's history, current political climate, structure of the government, socio and economic situation, diplomacy and economy in order to grasp why companies from certain countries invest in Morocco more heavily than American companies and why promoting tourism is important to the Moroccan government.

Geographically, Morocco is both the "gateway to Africa" for Western travelers and the "gateway to Europe" for many Arabs. Just 8 miles across the Strait of Gibraltar from Spain, Morocco is located in the westernmost region of North Africa. Morocco is also known as "Al Maghrib" in Arabic, which translates to "the West."ⁱ

A. History of Morocco

Morocco's history continues to have an impact on its culture, trading partners, and FDI contributors and therefore is important to understand. Morocco's largest FDI contributors are countries with which it has a shared history, such as France, Spain and the numerous Arab nations.

History has driven Morocco to unite different ethnic groups, from various cultural and religious backgrounds, under the flag of the Moroccan nation. Morocco is a melting pot of cultures, nationalities, and civilizations, with Greeks, Romans, Berbers, Arabs, and the French all leaving a strong impact on the country. Indigenous to Morocco are the people known as Berbers. They are thought to have migrated from southwest or central Asia to North Africa as early as 10,000 B.C. Centered around clan and tribe, Berber society was relatively isolated until the rise of the great Mediterranean empires. Berbers today vary greatly in physical appearance as a result of thousands of years of mixing with other ethnic groups.ⁱⁱ

Phoenicians, Romans, Visigoths, Vandals and Byzantine Greeks all ruled Morocco at one point in history. Arab forces began occupying Morocco in the 7th century A.D., bringing their civilization and religious beliefs (Islam) with them.ⁱⁱⁱ Many Berbers welcomed the security that the Arab invaders provided and converted to Islam. Although in theory the Maghreb was under the rule of the Caliphate in Baghdad, the Berbers and Arabs chose to adapt Islam to local conditions and established an independence that would continue for centuries.^{iv}

By the beginning of the fifteenth century, most of Morocco's ports had been captured by Spain and Portugal. In the nineteenth century, Morocco's strategic importance and economic potential attracted the interest of Europe's imperial powers. Sultan Abd ar-Rahman opened Morocco to European commerce in 1856 under British pressure. In 1860, Spain invaded and Morocco was forced to cede it the southwestern region of Ifni. In 1880 the major world powers agreed to preserve the territorial integrity of Morocco and to maintain equal trade opportunities for all. But Spain, Germany and France, which had

colonized neighboring Algeria, were intent on securing Morocco for themselves. On March 30, 1912, Sultan Abd al-Hafid was compelled to sign the Treaty of Fès, giving France the role of protecting power over Morocco and Spain the role of protecting power over northern and southern Saharan zones. The Sultan was declared the figurehead of the Moroccan state, with true control coming from Paris.^v France began to develop its new acquisition and more than one hundred thousand French settlers moved into the territory. Resident-General Lyautey modernized the infrastructure – electricity was provided, roads and railways were created, and Casablanca became a major commercial port.^{vi} In 1923 the city of Tangier was established as an international zone controlled jointly by France, Spain and Great Britain.^{vii}

Under the French protectorate, nationalist political parties began taking shape. Post World War II declarations such as the Atlantic Charter sparked a strong campaign for independence. A manifesto of the Istiqlal (Independence) Party in 1944 was one of the earliest demands for independence.^{viii} The French outlawed the Istiqlal Party in 1952. Moroccan protestors reacted by detonating a bomb in Casablanca's central market. The French arrested thousands, and, in response to Sultan Mohammed V's growing support and encouragement of the Istiqlal party, they deposed and exiled him to Madagascar in 1953 and replaced him with the unpopular Mohammed Ben Aarafa.^{ix} Ben Aarafa's appointment was widely perceived as illegitimate and sparked active opposition to French rule. In 1955, France allowed Mohammed V to return to rule. Shortly thereafter, on March 2, 1956, the Treaty of Fez was declared no longer in effect and Morocco gained independence.^x

Hassan II ascended the throne in 1961 after the sudden death of his father Mohammed V and ruled for nearly four decades. At the outset, he updated his own role,

turning Morocco into a constitutional monarchy, and created a parliament. Though opening the door to democracy, he still kept absolute power and several times disbanded parliament and ruled by decree.^{xi}

Despite conflicts at home, where he faced significant opposition and survived two assassination attempts, Hassan II's involvement in foreign affairs was impressive. In 1969 he secured the return of the Spanish overseas province of Ifni to Morocco. He was a firm advocate of a peaceful solution to the Arab-Israeli conflict. He also showed support for the United Nations against Saddam Hussein during the first Gulf War.^{xii}

Following the death of Hassan II in 1999, his son, thirty-five year old Mohammed VI, ascended the throne. During his first speech as king, he promised to grant a pardon to 50,000 prisoners. He also fired the infamous head of the security forces known as "the Butcher Basri."^{xiii}

King Mohammed VI has proved to be a progressive monarch. Starting with his 2002 marriage to computer engineer Salma Bennani, he has demonstrated support for women's rights. In 2004 his government made landmark changes to the Moudawana, or Family Law, guaranteeing rights for women in the areas of marriage, divorce, and child custody.^{xiv} Following the creation of the Moudawana, a family code that protects women's rights, Morocco is considered one of the most modernized Arab countries.^{xv}

B. Current Political Climate

Thanks in large part to a strong executive authority, King Mohammed VI helped Morocco stay ahead of the curve as the early months of the Arab Spring unfolded by initiating constitutional reforms and other efforts aimed at quelling revolutionary sentiments.^{xvi}

In February and March 2011, thousands of Moroccans took to the streets of Moroccan cities, demanding an end to corruption, reforms to fight unemployment, better civil rights, and a reduction in King Mohammed's powers.^{xvii} The demonstrations reflected similar protests in other Arab states. In the wake of these protests, on March 9, 2011 King Mohammed VI addressed the nation and called for unprecedented reforms to the Constitution. He assembled a consultative constitutional commission, made up of academics, policymakers, civil society and political party leaders, trade unions and youth to draft the reformed Constitution by June 2011. In early April 2011, a committee of ministers presided over by the King approved a draft law to protect whistleblowers and victims of corruption by public officials.^{xviii}

On June 17, 2011, King Mohammed VI announced the reforms that were presented to him by the consultative commission. Among the reforms: enhancement to the role of Prime Minister, appointment of the Prime Minister by the King from the party which wins the most seats in the elections, stronger mechanisms for the promotion and protection of women's equality, inclusion of additional human rights, recognition of Amazigh (Berber) as an official language, key political appointments must be made by the King in consultation with the Prime Minister, and a restructuring of the Cabinet and the judiciary to increase independence and transparency. On July 1, 2011 the proposed reforms were put to a national referendum. The voter turnout was 73% and 98% voted in favor of the reforms.^{xix}

On November 25, 2011, Morocco held the first parliamentary elections since the adoption of broad constitutional reforms approved by referendum in July. The elections were also the first parliamentary elections in the region since the Arab Spring began. Voter turnout was 45%, up from 37% for the 2007 national Parliamentary elections. The

moderate Islamist party, the Party of Justice and Development (PJD), won 107 of 395 seats in the Lower House of Parliament. Since the PJD did not have a majority, they were required to form a governing coalition with other major parties. On November 29, 2011, King Mohammed VI appointed Abdelilah Benkirane, leader of the PJD as Prime Minister of the newly elected parliament.^{xx}

C. Structure of the Government

1. Executive and Legislative Branches

Morocco is one of the oldest monarchies in the world. Today the Kingdom is best described as a constitutional parliamentary monarchy.^{xxi, xxii} The royal institution, dominated by the King, is the cornerstone of the entire political system. It controls the various pillars of the system, and the wide powers it holds enable it to control the other pillars.^{xxiii} Through recently there have been great changes to the Constitution where the prime minister, ministries, and parliament have been given more power, the King still remains a central figure with direct control of the country, ministries, and parliament.^{xxiv} Transparency International put it very bluntly when it wrote, "In Morocco, the activities of the King remain largely unchecked by other public institutions."^{xxv}

The executive, which is in theory partitioned between the King and the government, is weighted in favor of the King. The King holds the title of the Commander in Chief as the country's military leader and the Commander of the Faithful as the country's religious leader. Following parliamentary elections, the King appoints the Prime Minister from the party that wins the most seats in the election. With the Prime Minister's recommendations, the King then appoints the other Ministers and members of government. In the event of

legislative gridlock, the King has the power to dissolve parliament and call for new elections. The King can also dismiss a minister from office if he feels it is warranted.^{xxvi} These powers that the King holds are enshrined in Article 19 of the Constitution, which grants the King a unique status by shielding his acts from judicial or any other form of control.^{xxvii} The Prime Minister has the right to introduce bills, exercise administrative powers, and delegate some of his powers to other Ministers.^{xxviii}

The legislative branch of government is composed of two houses: the upper house is the Chamber of Counselors and the lower house is the Chamber of Representatives. The Chamber of Counselors has a total of 270 seats and consists of members elected in each region by electoral colleges made up of local councils, unions, and professional groupings. Counselors serve nine-year terms, with a third of the house up for election every three years. The Chamber of Representatives has 325 seats, of which 295 are multi-seat constituencies and 30 seats are reserved for national women-only electoral lists. The members of the House of Representatives are elected for a six-year term by direct universal suffrage. No Member of Parliament can be prosecuted, arrested, put into custody or brought to trial as a result of expressing opinions or casting a vote while exercising office functions, except when the opinions expressed are injurious to the monarchical system and the religion of Islam or derogatory to the respect owed to the King.^{xxix} The Chamber of Representatives has the authority to dissolve the cabinet through a vote of no-confidence.^{xxx}

2. Judicial Branch

Morocco's Constitution establishes a judicial power and claims that the "judicial authority is independent from the legislative power and the executive power."^{xxxi} The

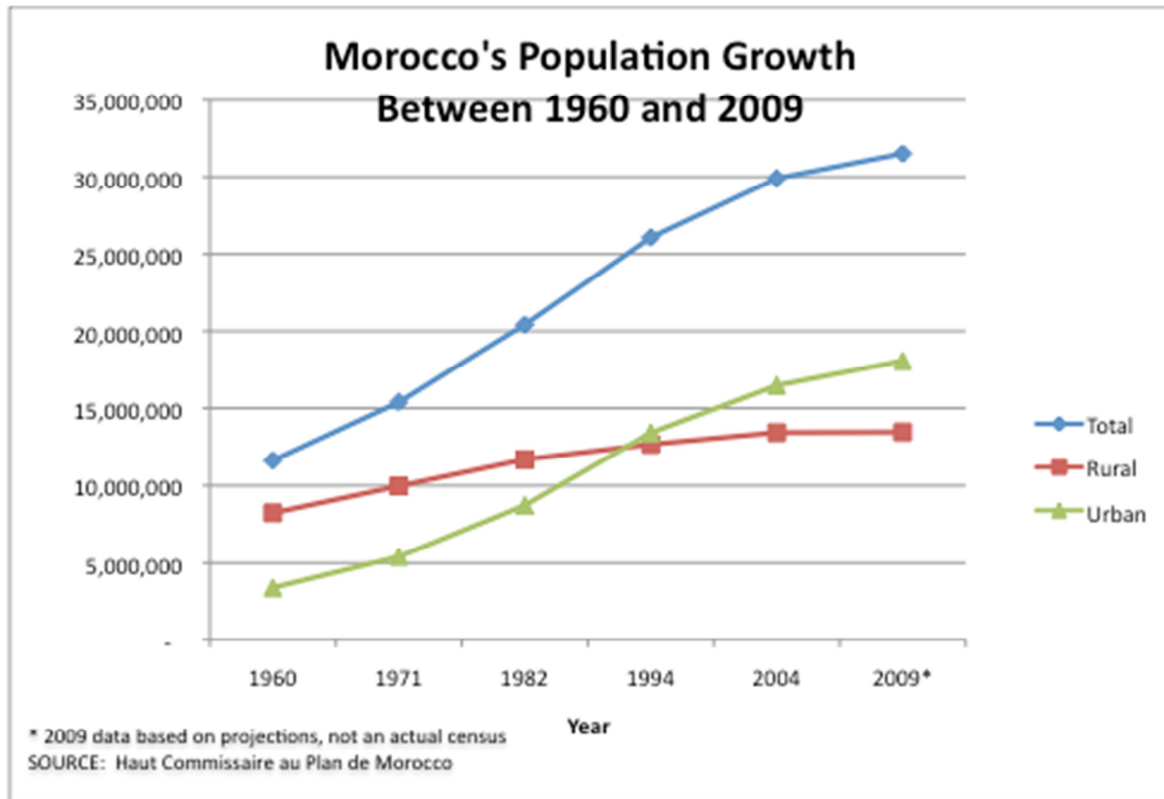
judiciary system is based on a combination of Islamic law and European civil law, and is headed by the Supreme Court. Judges on the Supreme Court are appointed by the Supreme Council of the Judiciary, which is led by the King.^{xxxii}

The Judicial branch is made up of Jurisdictions of the 1st Degree, Jurisdiction of the 2nd Degree, Administrative Courts, the Special Court of Justice, the High Court of Justice and the Supreme Court. Jurisdictions of the 1st degree are comprised of: First Instance Courts that rule on civil affairs, commercial or social statute, Trade Courts that rule on cases involving commercial activities, and Communal and District Courts that adjudicate personal estate actions. Jurisdictions of the 2nd degree act as courts of appeals and also try criminal cases. Administrative Courts make initial rulings on claims for cancellation of acts filed against administrative authorities and disputes related to administrative contracts. The Special Court of Justice hears cases in which magistrates or government employees are involved, such as cases on corruption and embezzlement. The High Court of Justice adjudicates over offences or crimes committed by government members during the discharge of their functions. The Supreme Court hears appeals for cessation of sentences when the appeal hasn't already been decided by any one of the kingdom's courts, appeals for cancellation of the Prime Minister's decisions, and jurisdiction disputes.^{xxxiii}

D. Socio and Economic Facts on Morocco

Morocco is renowned for its diverse geography and contrasting climate, with snowcapped mountains in the Atlas and Rif mountain ranges, fertile coastal plains, a drier Anti-Atlas region in the center, the Sahara desert in south and warm beaches along the Mediterranean Sea and Atlantic Ocean. Morocco's Mediterranean and Atlantic coastlines extend well over 2,200 miles in total if the disputed Western Sahara region is included.^{xxxiv}

The population of Morocco in July 2012 is estimated to be 32.3 million, and has been growing approximately 1.08% year over year recently.^{xxxv, xxxvi, xxxvii} Women represent 51% of the total population in Morocco.^{xxxviii} The distribution of the population by age is unevenly distributed, with 28% of the population below the age of 15 years, 64% of the population between 15 and 59, and 8% of the population age 60 or above.



Demographic growth in Morocco has become more important in urban areas than in rural ones. Between 1994 and 2004, the urban population grew at an average annual rate of 2.1% while the same growth rate in rural areas was only 0.6%.^{xxxix} Morocco has two cities with populations over 1 million and three more with populations around 1 million. Morocco's largest city is Casablanca, with a population of 3.1 million. Rabat, Casablanca's sister and the current capital of Morocco, has a population of approximately 1.4 million. Marrakech has a population of approximately 970,000. Fez has a population of roughly 1

million. The population of the greater Meknes area, a city an hour west of Fez, is thought to be around 1 million.^{xi}

Morocco's population is approximately 67% Arab, 31% indigenous Berber and 2% Sahrawi. Intermarriage between the different ethnic groups is common and has blurred ethnic differences throughout the centuries. However, cultural differences are still apparent, especially between the cosmopolitan coastal regions, which have been exposed to European and Arab influences for decades, and the more isolated interior locals that have been dominated by Berber and Sahara cultures.^{xli}

There are five languages that are used somewhat regularly around the country of Morocco. Classical Arabic is the country's official language, but its local dialect, Darija, is most commonly used in everyday life. French is still extensively spoken, especially among the influential and well educated, the older generations, and in urban centers. French is the favored language for business, science, law and higher education. Spanish is widespread in the northern regions of the country. Berber is also an important dialect and there are movements to revive it among the urban youth.^{xlii}

The total illiteracy rate from those 15 and older is 44%.^{xliii} Yet, in the most socioeconomically developed areas, such as Casablanca and Rabat, the illiteracy rate is 22.9% and 26.19%, respectively.^{xliiv} Additionally, the literacy rate is higher among youths (15-24 years). The male youth literacy rate is 87% and the female youth literacy rate is 72%.^{xlv}

Unemployment, especially among the youth, remains a critical concern in Morocco. Urban unemployment increased to 13.5% in second quarter 2011 from 12.7% a year earlier. In particular, youth joblessness in the urban areas deteriorated by almost 2.5

percentage points to reach 33.4% while that of the educated jobless increased by 1 percentage point to 18.2%.^{xlvi}

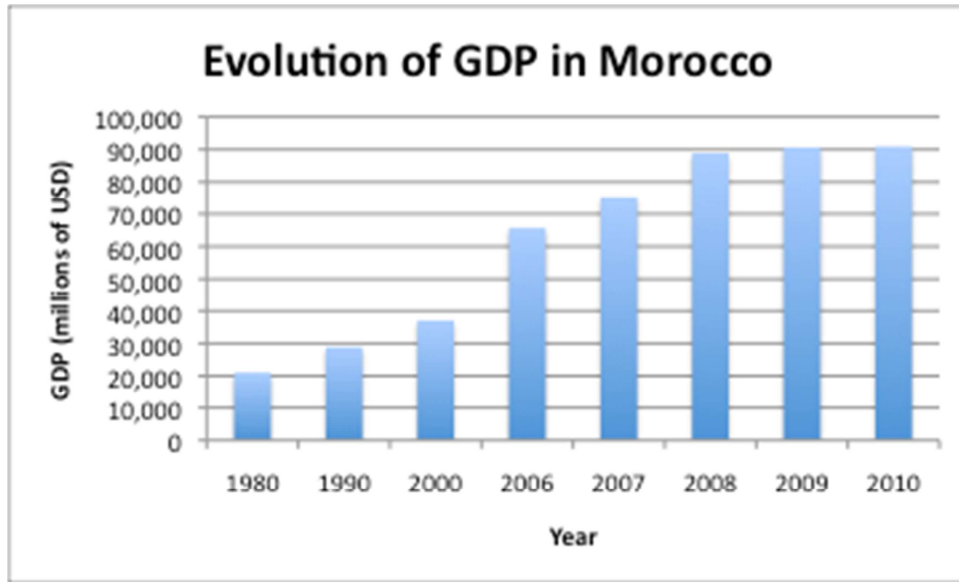
E. Diplomacy

Morocco is extremely involved in the international community, and is a member of numerous international organizations such as the Arab League, the Union for the Mediterranean, the Organization of the Islamic conference, the Non-Aligned Movement, and up until the admission of political representation from the Western Sahara into the body, the Organization of the African Unity. By grace of its geographic location, Morocco has been able to assert itself as a diplomatic heavyweight in both the Arab and African regions, while also maintaining strong political links with Europe.^{xlvii}

F. Morocco's Economy

1. Overview

As the table below indicates, Morocco's GDP has been increasing over time, before leveling off with the onset of the global financial crisis. Morocco's GDP for 2010 was \$90.8 billion USD, slightly down from 2009's figure of \$90.9 billion USD.^{xlviii}



YoY growth of quarterly GDP at 1998 chained prices per major sectors												
Activity Sectors, in %	2009		2010				2011					
	QIII	QIV	QI	QII	QIII	QIV	Qi	QII	QIII _E	QIV _F		
Agriculture	26.30	32.30	0.60	(3.40)	0.00	(3.60)	3.70	4.60	3.80	3.90		
Nonagricultural VA	0.10	5.50	6.00	4.40	4.30	2.30	4.80	4.20	4.50	4.70		
Extractive Industry	(21.90)	14.00	74.70	51.30	23.30	18.80	13.70	2.30	2.10	2.30		
Processing Industry	(0.30)	3.90	1.80	1.70	3.20	4.50	2.70	2.30	3.20	3.20		
Electricity and Water	3.10	7.60	5.10	8.70	9.30	5.60	2.30	6.20	5.40	4.00		
Construction	0.90	7.10	5.90	3.70	1.40	(0.30)	2.50	3.00	3.30	4.20		
Trade	(2.10)	4.30	2.80	(0.50)	3.60	(7.00)	3.80	4.10	4.30	5.20		
Hotels and Restaurants	0.10	2.90	8.80	8.00	8.70	6.80	7.50	(3.70)	(1.90)	(1.00)		
Transportation	2.60	5.50	11.70	6.70	6.20	4.40	5.50	4.30	4.60	4.80		
Post and Telecommunication	3.90	1.10	2.10	2.60	3.40	9.60	7.70	10.50	6.90	6.70		
General Government and Social Security	9.70	8.80	4.40	3.20	2.30	1.70	6.20	7.40	7.60	7.70		
Other Services*	2.70	3.80	5.00	4.10	4.20	2.70	4.80	4.80	4.80	4.90		
Taxes on Products Net of Subsidies	6.50	5.10	6.80	6.60	6.50	7.00	7.90	3.60	4.70	4.90		
Nonagricultural GDP	0.90	5.50	6.10	4.70	4.60	2.90	5.20	4.10	4.60	4.80		
Gross Domestic Product	3.90	8.90	5.40	3.60	3.90	2.00	5.00	4.20	4.40	4.60		

(*) Including financial activities and insurance, services in corporations and personal services, education, health and social action, and the FISIM.
Source: HCP and BAM estimates and forecasts

As the chart above shows, Morocco has important mineral, agricultural, fishing and forestry resources. Morocco is primarily dependent on agriculture, which employs a significant amount of the population in the countryside. The main crops that are produced are cereal, citrus and vegetables.^{xlix} Mining (depicted in the chart as “Extractive Industry”) is the second most important contributor to the economy with Morocco currently the world’s leading phosphate exporter, with approximately one-quarter of the global market.^l

Phosphates are undoubtedly the country's most significant resource and contribute 14.14% to GDP.^{li}

Additionally, Morocco's economy has benefitted positively from the outbound migration of Moroccans. An estimated 140,000 people leave the country each year, with the number of Moroccan workers in the European Union around 3 million. The second-largest source of foreign revenues comes from transfers from expats.^{lii} Remittances from expatriates, also known as Moroccans Resident Abroad (MREs), contributed \$6.4 billion in 2010.^{liii} The global crisis did reduce the volume of funds being remitted from abroad, with remittances dropping over 7% from the highs experienced in 2008.^{liv}

The outlook for the Moroccan economy through 2015 is that the fiscal account will remain in deficit, as the government continues to spend heavily on investment programs and to raise public-sector pay in an effort to boost job growth and tame political discontent. Inflation is expected to remain low as subsidies are boosted in order to quell political opposition. Real GDP growth is expected to average 4.6% per year during the forecast period, as it remains linked to the performance of the farming sector. Services, primarily offshoring, will take an increasingly larger share of GDP. Morocco will record current-account deficits for most of the forecast period, as it remains reliant on expensive energy imports. However, rising inflows from remittances and services will help to narrow the deficit.^{lv}

2. Foreign Trade

Over the last decade, the Moroccan government has been liberalizing trade with the signing of free-trade agreements (FTAs) with its trading partners. Morocco has an association agreement with the European Union, which took effect in March 2000, that

provided for the complete dismantling of tariffs by 2012. In March 2004, Morocco signed an FTA with the United States that came into effect on January 1, 2006. Morocco has also concluded FTAs with Tunisia, Egypt, Jordan (these four countries are signatories to the Agadir Declaration), European Free Trade Association (EFTA) and Turkey. Morocco also began negotiations with Canada in January 2011 to work towards a FTA. Morocco is a member of the World Trade Organization (WTO) and the Greater Arab Free Trade Area (GAFTA).^{lvi}

Data available at the end of November 2011 showed a continued rise in exports. However, the trade deficit worsened further year on year, in connection with the higher increase of imports. The increase in exports results from an increase in the sales of phosphates and derivatives. The increase in imports is mainly due to the increased price of crude oil and an increase in wheat, corn and sugar imports.^{lvii}

Additionally, under the leadership of Mohammed VI, Morocco has aggressively pursued economic liberalization with clear positive outcomes, including a competitive telecom market with three licensed operators following the privatization of the industry in the 1990s and a thriving Tangier Free Zone that has brought 475 international companies to the country's main Mediterranean port.^{lviii} Morocco's ports represent more than 95% of Morocco's commercial transactions, and are thus very important to the Moroccan economy.^{lix}

3. Foreign Investment Environment

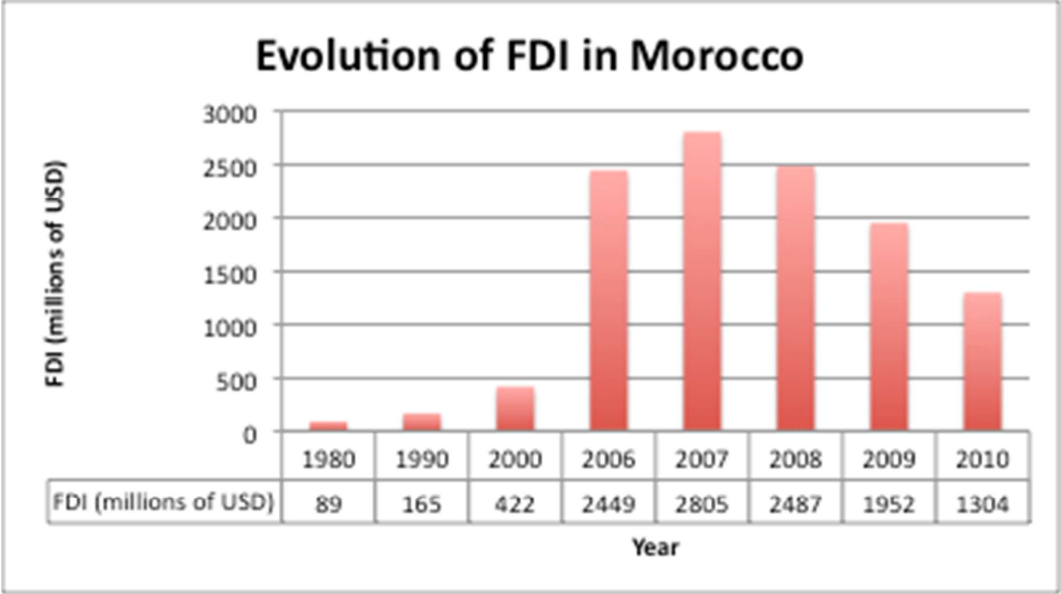
Foreign investors spanning a range of industries are attracted to the opportunities that expansion and investment in Morocco offers. The Moroccan market is a very progressive and open market as evidenced by the country's early accession to the World

Trade Center Organization and the country's signing of the Fair Trade Agreement (FTA) and the European Union (EU) Association Agreement. These initiatives toward market openness and trade liberalization make the Moroccan market an attractive destination for direct foreign investments by international firms from around the globe. Additionally, Morocco is making great efforts to facilitate investment in the country with the creation of Regional Investment Centers, which work towards facilitating the foreign investment procedures, and significant tax and custom duty exemptions. Morocco is also focused on improving its legal system, which in many places is not computerized and full of corruption.^{lx} In 2009, "Reda Oulamine, a corporate lawyer who does legal consulting for foreign clients seeking to invest in Morocco's retail sector, told [a reporter] that his clients' primary concern is the state of the legal system. 'Morocco loses foreign investment due to the blatant inefficiencies of its commercial court system. Worried, some clientele simply choose to invest elsewhere.'"^{lxi} To combat this, the Ministry of Justice, with the assistance of several donors, has embarked on a program of court computerization. The Ministry's staff has installed information technology software that was specifically designed to meet the needs of the Moroccan judicial system. The continued challenge comes in expanding the computerization to the entire court system and ensuring regular upgrading. Additionally, the judicial training college, the I.N.E.J., has expanded to offer in-service training for judges and professional training for court administration staff.^{lxii}

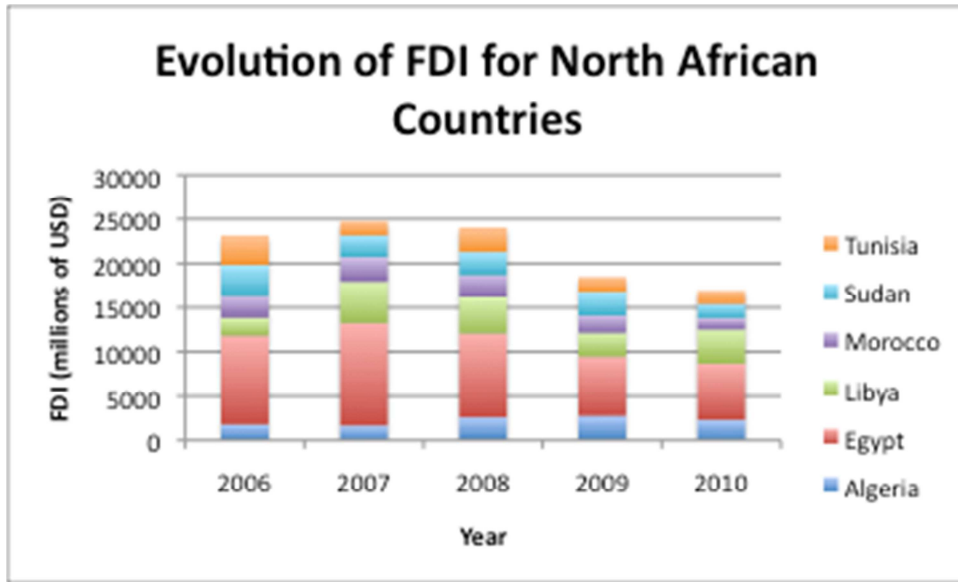
FDI plays an important role in job and income creation in Morocco and thus the Moroccan government actively seeks foreign investors, offering income tax holidays, import duty exemptions and subsidies to foreign firms, as well as infrastructure development and even monopoly rights. Morocco offers such subsidies because it believes

the positive spillovers that will result from foreign investment will outweigh the cost of the subsidies. For manufacturing and technology industries, the positive spillovers are the transfer of technology and knowledge to domestic firms. For the real estate development industry, the main benefits are job creation and an increase in the country’s GDP as a result of growth in tourism.

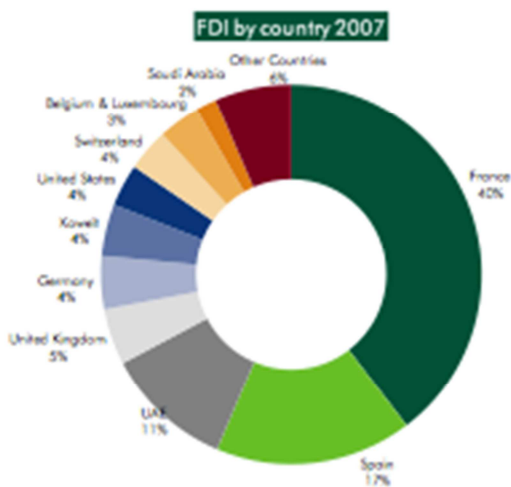
In 2010, foreign direct investments reached \$1,304 million USD in Morocco. This represents a 53.5% decrease compared to the FDI highs experienced in 2007. This is mainly attributable to the international financial crisis. This is illustrated below.^{lxiii}



In 2010, Morocco was the last destination for FDI in the MENA region.^{lxiv} This is illustrated in the chart below.^{lxv}

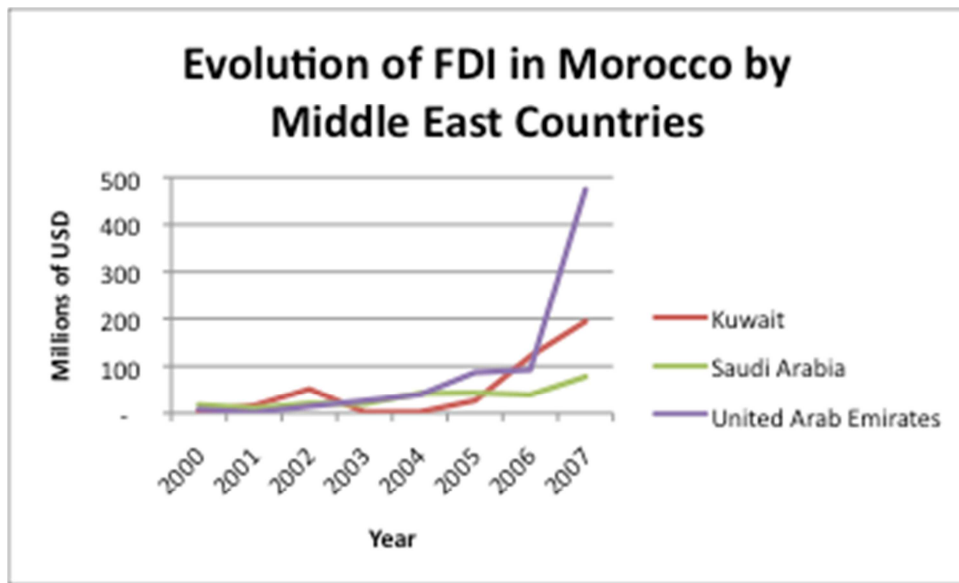


In 2007, at the height of FDI in Morocco, France and Spain accounted for 56% of global FDI in the country. This is mainly attributable to the historical ties and the strong economic relationship between Morocco and these two countries. The third most important foreign investor in 2007 was the United Arab Emirates (UAE) with approximately \$478 million USD. This is illustrated in the chart below.^{lxvi}

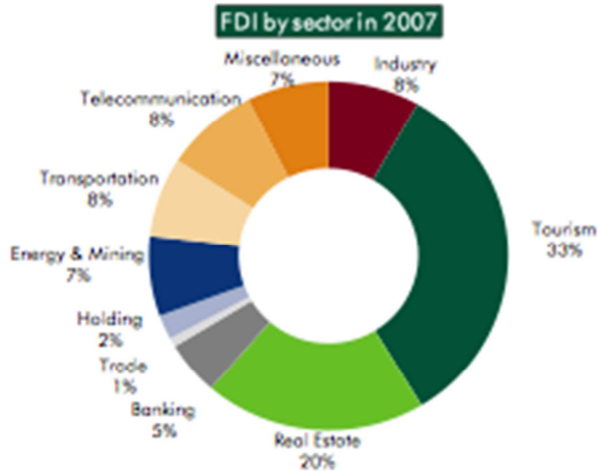


In 2008, France kept its FDI leadership position with 37.2% of the global FDI; however, Spain fell from the second position, relinquishing it to the United Arab Emirates with 9.1% and 17.8% respectively of the global FDI. Spain, impacted greatly by the global financial crisis, witnessed the bankruptcy of several companies operating in Morocco’s real estate markets, such as Fadesa.^{lxvii}

The below chart illustrates the evolution of FDI in Morocco by the first three Middle Eastern countries investing in the country. It shows that investments coming from the Middle East were constant from 2000 to 2005. After 2005, the amount of investment by the UAE increased considerably thanks to a bilateral partnership between Morocco and the UAE.^{lxviii}



The graph below illustrates FDI by sector in 2007, at the height of FDI in Morocco. The sectors that attracted the most foreign investments in Morocco in 2007 were Tourism (33%), Real Estate (20%) and Industry (8%). Foreign investment was encouraged in these sectors by government initiatives, such as Vision 2010 and Plan Azur.^{lxix}



The graph below details FDI in the Real Estate sector specifically.^{lxx} Following the sector's high in 2008, there has been a decline in foreign direct investment due to the global financial crisis and the Arab Spring.

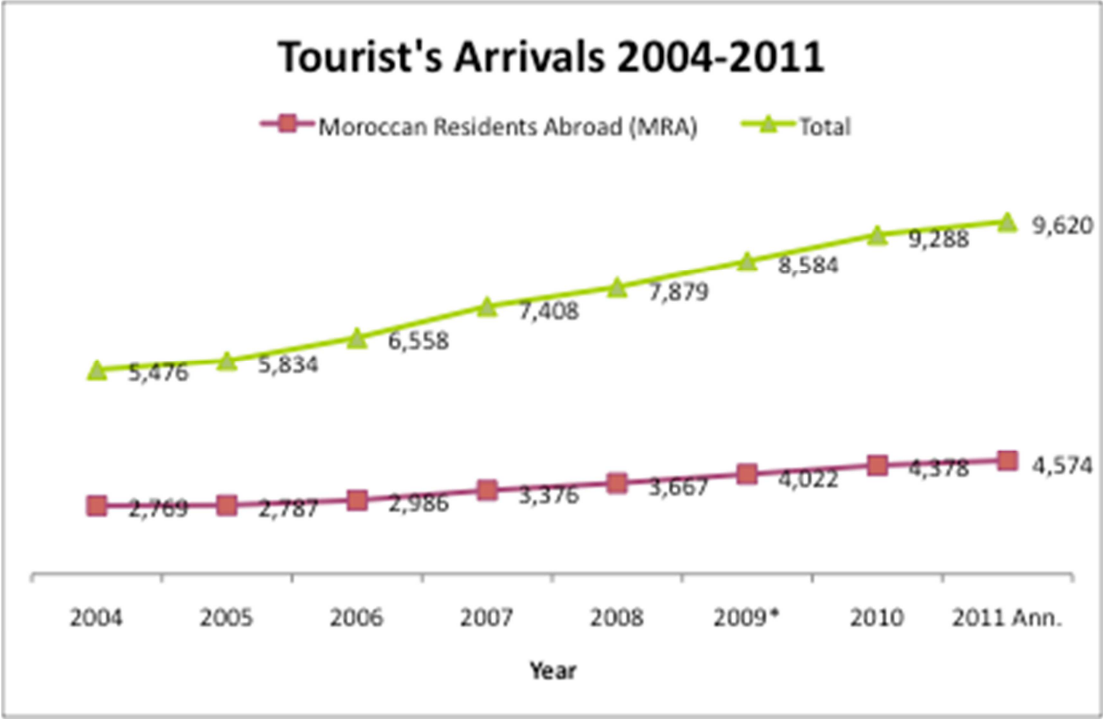


III. Tourism Sector in Morocco

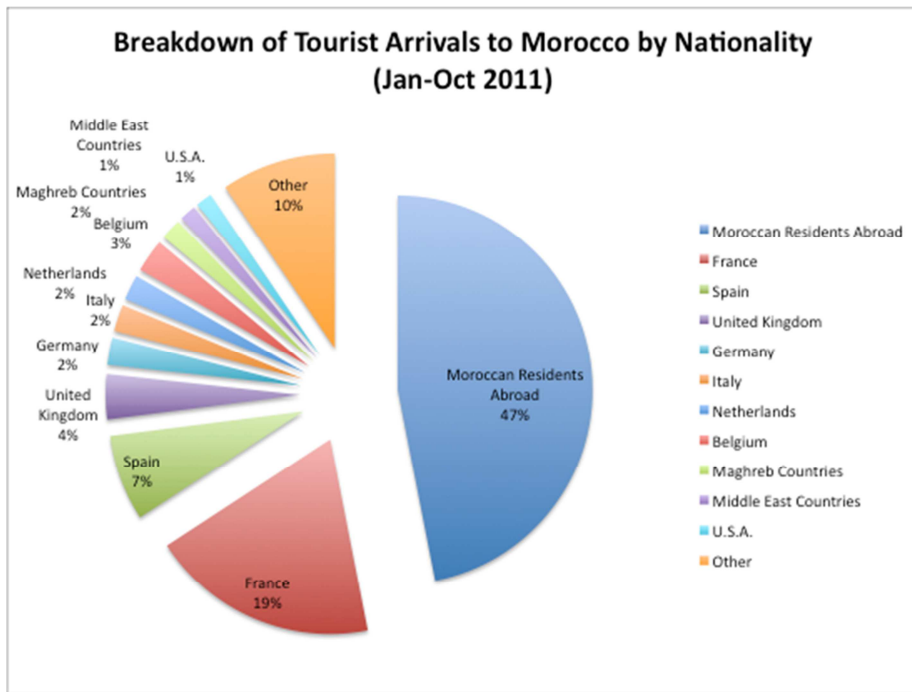
A. Overview

The geographical diversity, temperate coastal climate and rich cultural heritage make Morocco a popular tourist destination. Tourism is a major source of revenue for Morocco (as shown in the previous section’s GDP figures) and requires vast quantities of human capital, helping to alleviate the country’s unemployment problem. The government has been proactive in creating master plans to further develop the tourism sector.

The following chart presents the evolution of tourist arrivals to Morocco. In 2004, the industry started to grow, with an increase of 15% in comparison with the 2001-2003 periods, reaching 5.47 million tourists. The upward trend has continued, with Morocco welcoming 9.6 million tourists, which represents an increase of 76% in comparison with 2004.^{lxxi}

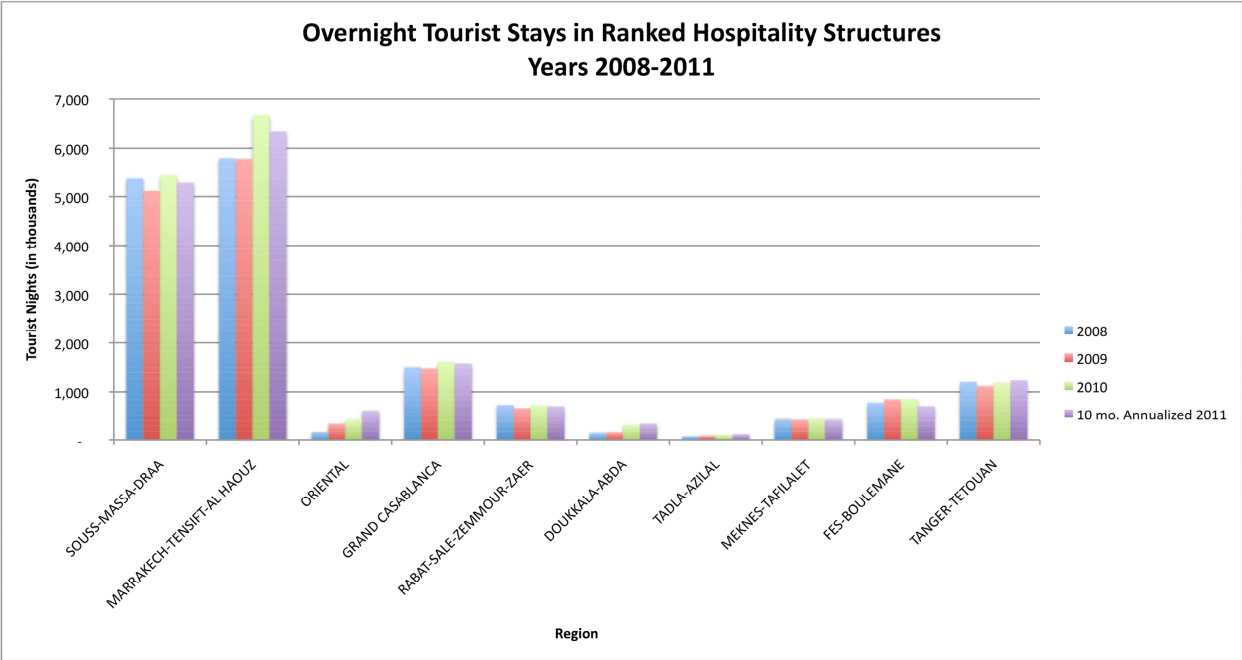


The chart below presents the breakdown of tourist arrivals to Morocco by nationality for the first ten months of 2011. As the chart illustrates, the highest percentage of arrivals to Morocco from abroad are by Moroccan Residents Abroad (MRA). The category MRA represents around 48% of total tourist arrivals to the country in 2011. This category does not typically stay in hotel structures, but rather come to visit their family and stay in their own houses. The French have the second highest percentage of arrivals to Morocco with 19%. The geographical proximity, shared language and historical relationship between the two countries are the main drivers for the high figures of French arrivals. On a greater scale, the majority of tourists to Morocco are from the European Union, with non-EU countries composing 14% of tourist arrivals in Morocco.^{lxxii}



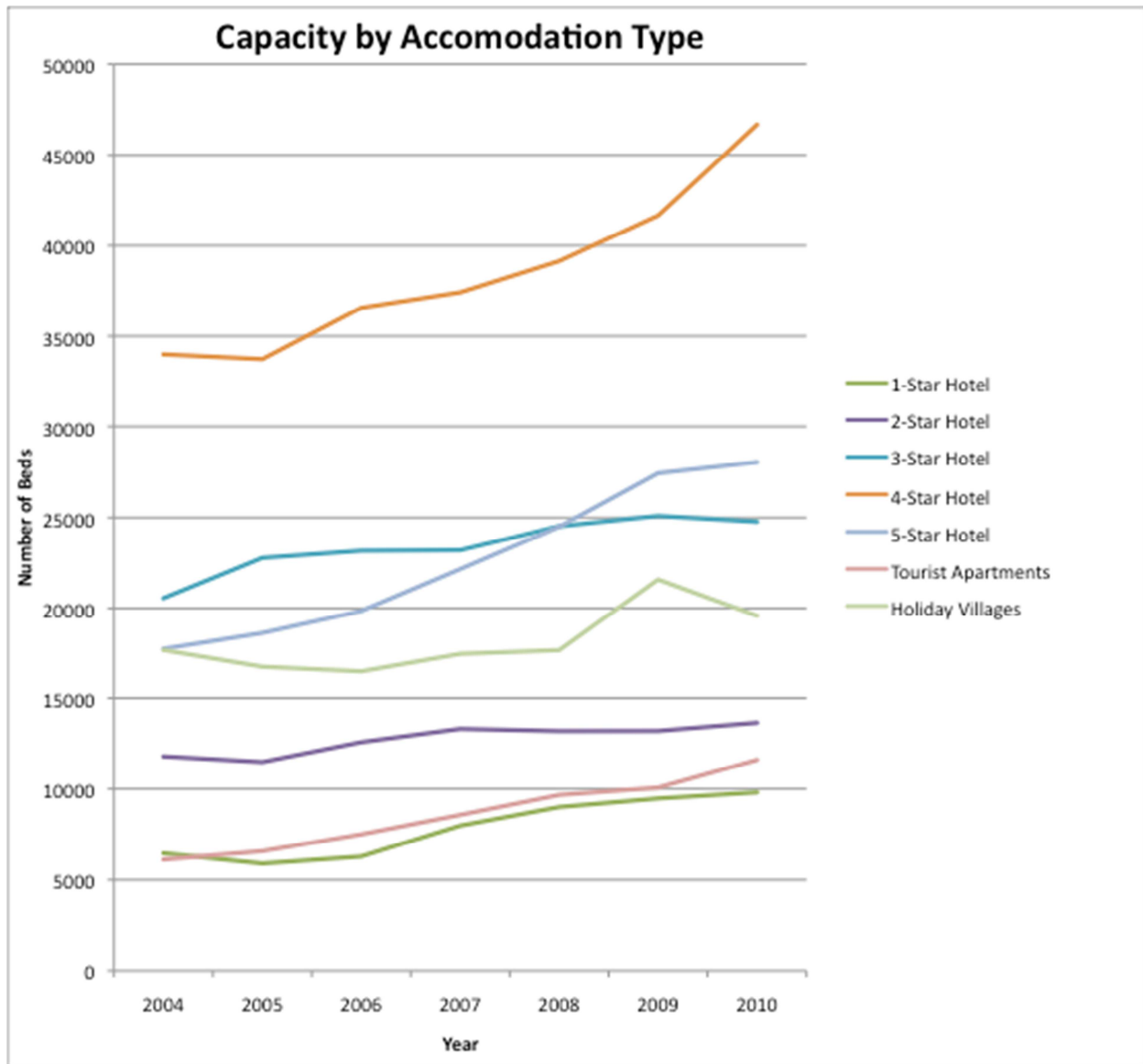
The graph below illustrates the number of overnight tourist stays in ranked hospitality structures, broken out by region. The Marrakech-Tensift-Al Haouz region and

the Souss-Massa-Draa region are the most popular tourist destinations.^{lxxiii} The graph also illustrates the decline in tourism that took place in 2011. Marrakech was hit hardest, experiencing roughly 400,000 less tourist nights, or a 6% drop, from 2010.^{lxxiv} The main reasons for Marrakech’s descent as a tourist destination was the global financial crisis, which affected European tourists’ auxiliary spending decisions, and a terrorist bombing that occurred in April 2011 killing 17 people. In 2010, there were 13,925,793 overnight stays in Morocco by foreign tourists (i.e., excluding Moroccans Residing Abroad). For 2011, the figure declined to 12,994,742 overnight stays.^{lxxv}



The average length of stays in Morocco across all accommodation types for 2011 was 3.11 days. The accommodation types registering an average length of stay greater than Morocco’s average accommodation types were 4-star hotels (3.31 days), 5-star hotels (3.24 days), tourist apartments (3.42 Days) and holiday villages (6.10 days).^{lxxvi}

The table and graph below show the increase in bed capacity that Morocco has seen over the past seven years. The increase in the bed supply is mainly explained by the government's encouragement of the expansion of supply in order to meet its goal of hosting 10 million tourists in 2010. With the Plan Azur, the government encouraged the development of seaside resorts that oftentimes included several hotel plots. Many of the hotels at these resort developments were 4-star and 5-star hotels, as evidenced in the graph by their higher growth rate. In the last seven years, the bed capacity of 4-star and 5-star hotels in Morocco has increased by 37% and 58%, respectively.^{lxxvii}



Bed Capacity	2004	2005	2006	2007	2008	2009	2010
Hostels	14	1,091	1,437	1,681	1,789	1,815	2,217
1-Star Hotel	6,448	5,894	6,277	7,972	9,003	9,478	9,815
2-Star Hotel	11,800	11,492	12,586	13,319	13,199	13,205	13,653
3-Star Hotel	20,552	22,781	23,175	23,204	24,526	25,088	24,772
4-Star Hotel	33,991	33,727	36,568	37,421	39,149	41,664	46,666
5-Star Hotel	17,758	18,634	19,848	22,159	24,498	27,421	28,025
Tourist Apartn	6,108	6,569	7,492	8,568	9,672	10,074	11,612
Holiday Villag	17,693	16,777	16,523	17,483	17,685	21,579	19,584
Guest Houses	4,714	7,079	9,038	10,663	12,544	13,317	15,604
Motels	170	170	170	202	220	260	260
Pensions	-	56	116	597	651	711	925
Total	119,248	124,270	133,230	143,269	152,936	164,612	173,133

B. Major Tourism Initiatives

Morocco has focused on three types of tourism: cultural tourism, mountain/countryside tours, and golf-based tourism. One of the main reasons for its strong tourism agenda is to decrease Morocco's unemployment rate.^{lxxviii} In order to help achieve its tourism and unemployment goals, Morocco's Ministry of Tourism created Vision 2010, Plan Azur and Vision 2020.

1. Vision 2010

On January 10, 2001 at the National Meeting on Tourism, King Mohammed VI announced the launch of a new tourism policy for Morocco. He believed that the country had been underachieving in the tourism sector, as it was not at the forefront of world travel destinations and he felt that it should be, given its combination of climate, culture and natural scenery.^{lxxix}

The new tourism policy became known as "Vision 2010" program, with the goal of attracting 10 million tourists to Morocco by the end of 2010, a boost of 8 million visitors.^{lxxx} In addition to the tourist arrivals objective, the government also aimed to increase hotel capacity by 160,000 beds (130,000 beds in sea tourist resorts and 30,000 beds in the various cultural destinations of the country), reach 64 billion USD in foreign currency receipts, create 600,000 new jobs, and increase tourism's contribution to GDP to 20%.^{lxxxi} A total of 12 million USD was designated for the launch of the new resorts and infrastructure. The government also established several programs, focusing on marketing, air transport, training of professionals, etc.

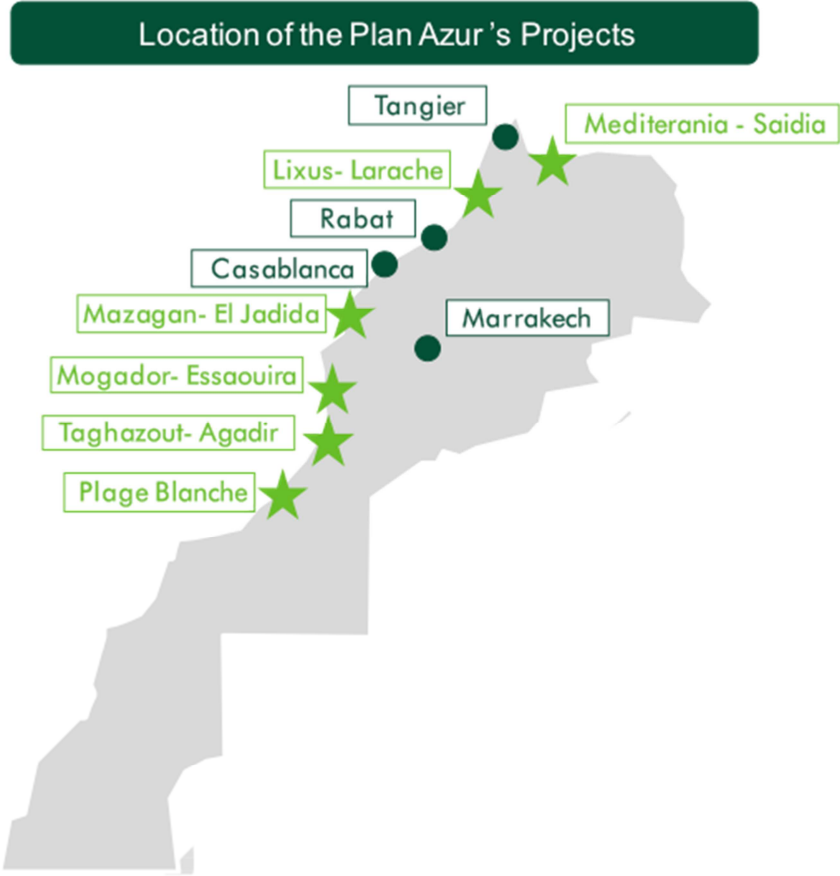
a) Plan Azur

In order to achieve the goals of the Vision 2010 program, the government recognized that certain areas of Morocco should be granted a special status. With this in mind, six Plan Azur (meaning “Blue Zones” in English) areas located on the Mediterranean and Atlantic coasts were identified. These six areas were recognized for their outstanding natural beauty and untapped tourist potential. They were located in undeveloped areas and each area was to be given a theme, such as culture, sustainability, and sport, in order to act as a coherent strategy for development. The aim of these six major development projects was to create more than 130,000 beds, where 73,000 are hotel beds and the remaining beds were villas.^{lxxxii} Tax advantages were offered for the villa properties in these resorts in an effort to increase the attractiveness of the property to overseas property purchasers. Property buyers benefitted from an exemption from tax on rental income for five years, no inheritance tax and no capital gains if the property was sold after 10 years.^{lxxxiii}

Each Plan Azur development required an agreement between the developer and the government. The investment conventions laid out the economic terms of the deal. The developer, in exchange for receiving the land at almost no cost, agreed that the resort would fulfill certain requirements, such as number of hotels, number of beds, number of jobs created, and the date that the resort would be completed. The government, in addition to providing the land at almost no cost and providing tax exemptions, committed to undertaking the installation of the water and electricity connections, road access and communication networks. The developers must uphold their side of the bargain, which means respecting the regulations and the conditions in the investment convention that

concern the deadlines, the creation of tourist units, etc. The government, extremely concerned with meeting the goals of the “Vision” plan, played a very active and involved role. In the case of the non-respect of regulations and conditions, the government authorities held the power cancel the development.^{lxxxiv} It is important to note that practically 100% of villa sales in Morocco are conducted as off-plan sales, i.e., units not constructed until sold.^{lxxxv}

The six sites of the Plan Azur are: Saidia Resort, Port Lixus, Mazagan Resort, Magador Essouira Resort, Taghazout Resort, and Plage Blanche Resort. Five of these are located on the Atlantic Coast and one, Saidia, is on the Mediterranean Coast.^{lxxxvi}



As the capital requirements for these Plan Azur developments are similar to the requirements being asked of foreign developers today, it is helpful to examine each project in greater detail.

(1) Saidia Resort

Groupe Fadesa Maroc, a Spanish company, signed the convention with the government for this development in August 2003. The total surface area of the development is 713 hectares and the plan was for the resort to include 6 hotels with a capacity of 16,000 beds, 3,000 villas, and apartments with a capacity of 12,000 beds, a marina with 740 boat births, and a golf course with 18 holes. The average price of the apartments is 1,500,000 dh (~60,000 USD) and the average price of the villas is 3,300,000 dh (~395,000 USD).^{lxxxvii}

The duties laid out in the convention were to commence in April 2004, with the completion of the first stage in 2007 and the second stage in 2010. The first hotel was to open in summer 2008.^{lxxxviii}

Given the geographical proximity of Saidia to Spain, it is logical for the Mediterranean resort to be developed by a Spanish developer. Unfortunately, as Spain and Fadesa Spain became deeply entangled in the global financial crisis, Fadesa had to relinquish control of the resort to Addoha, a Moroccan developer specializing in social housing. Unfortunately Addoha did not have the expertise required to make this project successful.^{lxxxix} Additionally, the Moroccan state did not develop any support services and the region lacked a large airport that could deliver the number of visitors that was envisioned. The Moroccan government has stepped in again, and is attempting to

recapitalize the development company and relaunch the resort. It is unlikely that this action will successfully turn Saidia around.^{xc}

(2) Port Lixus

Alliance, a French company, signed the convention with the government for this development in October 2004. The total surface area of the development is 416 hectares and the plan was for the resort to include hotels with a capacity of 7,360 beds, villas and apartments with a capacity of 4,500 beds, a marina, and an 18-hole golf course.^{xci}

The duties laid out in the convention were to commence February 2006 with the opening of the first hotel in 2009. The end of the first stage was planned for 2011.^{xcii}

Occupancy and villa sales are currently suffering at Port Lixus because of a lack of complementary services available. There is one completed golf course. This discourages sales of villas as weeklong stays are nearly impossible as there are no other auxiliary activities available.^{xciii} This shortcoming is apparent and Alliance is currently in the middle of restructuring in order to provide additional support services, such as leisure and entertainment offerings.^{xciv}

(3) Mazagan Resort

Kerzner International, in association with CG, SOMED, and MAMDA, signed the convention with the government for this development in August 2004 and amended it in May 2006. Kerzner International is a South African developer with its international headquarters located in Florida. The total surface area of the development is 504 hectares and the plan was for the resort to include 4 hotels with a capacity of 3,700 beds, residential

units with a capacity of 3,876 beds, a conference center, a casino, and a golf course with 18 holes.^{xcv}

The duties laid out in the convention were to commence in June 2007, with the start of the second stage to be in the beginning of 2012 and the start of the third stage to be in 2016.^{xcvi} The first stage was completed and Kerzner and the Moroccan government are currently in discussions regarding the second phase.^{xcvii} It is believed that a new hotel will not be built within the next five years as the current hotel is suffering from low occupancy rates and room revenue.^{xcviii}

(4) Mogador-Essaouira Resort

RISMA and Capital T signed the convention with the government for this development in February 2004 with an update signed in May 2006. The plan was for the resort to include 11 hotels and guesthouses with a capacity of 6,600 beds, residential units with a capacity of 3,800 beds, and an 18-hole Gary Player signature golf course. The residential units are laid out around the golf course, not the coastline. It was believed that this resort would become the first beach destination for Marrakech holiday goers, as the distance between Marrakech and Essaouira is only 170 km.^{xcix}

The duties laid out in the convention were to commence June 2006 with the opening of the first hotel in 2009. The resort was to be completed in its entirety by the end of 2014.^c

One hotel is currently open, Hotel Sofitel Essaouira Mogador Golf & Spa, and the first phase of villas, a neighborhood of fifty, has been sold. Two other hotels are planned, in addition to the development and sales of additional villas.^{ci} According to Nawfal Bendefa, who oversees a \$500 million real estate portfolio as a Managing Director of Actif Invest,

Mogador is struggling because it positioned the resort at a price point too high above what is suitable for this established summer destination. Additionally, it is rumored that the developers are likely to run out of capital, due to liquidity and debt constraints, in the medium term.^{cii}

(5) Taghazout Resort

Colony Capital, a U.S. developer, and Grupo Satocan Lopesan, a Spanish developer who is the leader of tourism in the Canary Islands, signed the convention with the government for this development in July 2006. The total surface area of the original development site was 6 million square meters and was then revised downward to 3 million square meters. The plan was for the resort to include hotels with a capacity of 16,000 beds and villas and apartments with a capacity of 5,000 beds.^{ciii}

The duties laid out in the convention were to commence January 2007 with the opening of the first hotel to be in Summer 2009. The end of the first stage was to be in Summer 2015, while second stage was supposed to commence in Summer 2010.^{civ}

When Colony Capital could not obtain financing and thus did not begin construction at the time stipulated, the government cancelled the contract based on non-respect of the regulations and conditions and took back the land. CDG has been awarded the land to construct a resort at the site, although this is unlikely that construction will begin as the city of Agadir is currently struggling with outdated rooms and oversupply.^{cv,cvi}

(6) Plage Blanche

Fadesa signed the convention with the government for this development in September 2007. The total surface area of the original development site was 7 million

square meters. The plan was for the resort to include hotels with a capacity of 19,500 beds and villas and apartments with a capacity of 10,500 beds.^{cvii} The duties laid out in the convention were to commence at the end of 2008 with the opening of the first hotel in 2012.^{cviii}

Due to the bankruptcy of the Spanish developer Fadesa in 2008, the project was downsized to 500,000 square meters and will be developed by the Egyptian group Pickalbatros.^{cix}

b) Current Status of Plan Azur

Many of the Plan Azur resorts were never completed according to schedule. Unfortunately, many of the Plan Azur conventions were signed just before or at the beginning of the global financial crisis and as the crises deepened, many of the international developers had to transfer their project to local operators due to economic hardship. Examples of this include the resorts of Saidia and Port Lixus, where were taken over by the Groups Addoha and Alliances Developpement Immobilier, respectively. Consequently, it is national developers that are currently developing the majority of the Azur Plan resorts.^{cx}

The only successful development to come out of Plan Azur was the Mazagan Resort, located 90 km to the south of Casablanca, on the Atlantic coast.^{cxii} The Mazagan Resort covers 250 hectares of land, and is located on a 7km long beach. The property currently features a 500 room hotel, a conference center that offers 2,000 square meters of meeting space, an 18 hole links golf course, and a casino with 450 slot machines and 50 gambling tables.^{cxiii} It was developed by the Kerzner Group, the original signatory to the convention with the government. The Kerzner Group is a renowned international investor in the

tourism industry with iconic projects such as the Atlantis in the Bahamas and Dubai and elite One and Only brand. The resort successfully achieved one of the government's main Plan Azur objectives, as it employs 1200-1500 people.^{cxiii}

The casino component of the Mazagan Resort is an essential element. In fact, the developer's sole reason for signing the agreement for this Plan Azur plot was the opportunity to develop a casino rather than just a pure tourist resort. Yet, it wasn't the Kerzner Group's idea to build a casino, but the government's. This is interesting as Morocco is a Muslim country and gambling is against Islamic teaching. The casino portion of the development compelled the developer to request numerous amendments in order to proceed. The government was required to amend Moroccan law to make gambling legal. The government complied, making gambling legal, although it is still adverse to the country's religion. Today, private buses transport eager gamblers, many of which are Muslim, from Casablanca to the resort.^{cxiv} The developer also demanded a twenty-year exclusive on the operation of a casino for an expansive area that included both Casablanca and Rabat. The developer felt that the exclusivity requirement would ensure profitability from the start and impose a high barrier of entry on the competition. The developer's vision didn't entirely materialize, as the casino isn't entirely profitable; it is proving difficult for the hotel component to get off the ground. Currently the casino is "sponsoring" the rest of the resort. This insight into the developer's motivations is important, as it illustrates how, in the boom years of 2004-2006, an experienced developer saw the development of a casino, and not leisure real estate, as a worthwhile investment in Morocco.^{cxv}

Most Plan Azur resorts, including the Mazagan Resort, have a marketing and positioning hurdle that is proving difficult to overcome. Tourists do not associate the Plan

Azur resorts, often located away from developed and renowned cities, as vacation spots. For example, the location of the Mazagan Resort is not a typical tourist destination. El Jadida, the closest existing city to the Mazagan Resort, has never been thought of as a tourist destination by foreign tourists. Additionally, visitors reach Mazagan Resort by flying into Casablanca, a city not normally associated as a resort jump off. For more resorts to be successful and profitable, and thus encourage further FDI, the government needs to create master developments that take perception into account.^{cxvi}

2. Vision 2020

a) Overview

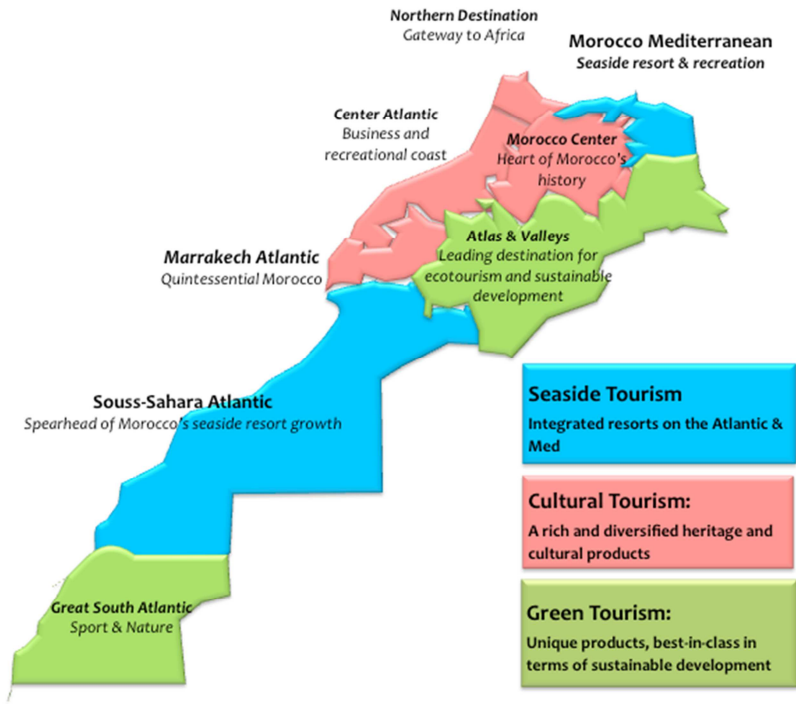
Vision 2020 (“Vision”) is an optimistic strategic plan launched by the Ministry of Tourism that aims to transform Morocco into one of the top 20 tourist destinations in the world.^{cxvii} It is an extension of the Vision 2010 initiative, which failed to achieve all its objectives.^{cxviii} As much of future foreign direct investment in Morocco’s lodging real estate industry will fall under the Vision 2020 umbrella, it is important to understand the Vision’s goals, strategy, and territories.

The main goal of Vision 2020 is to double the size of the tourism sector, thus making tourism the largest industry in the country. In 2010, 9.3 million tourists visited Morocco. The aim is to increase this number 2.1 times to 20 million visitors a year. In 2009, the annual revenue from tourism was \$11 billion USD. The Vision aims to increase annual revenues from tourism to \$28 billion USD, an increase of 2.5 times the figure for 2009. It is believed that 672,000 jobs will be created in order to achieve these goals.^{cxix} Morocco plans

to achieve Vision 2020 using sustainable development methods that will allow for intense growth while at the same time respecting the social, cultural and natural environment.^{cxx}

b) The Territories

The Vision identifies eight tourism territories in Morocco: The Great South Atlantic, a green tourism area that will focus on sports and nature, The Souss-Sahara Atlantic, an area focusing on seaside tourism that will spearhead Morocco's seaside resort growth,^{cxxi} the Marrakech Atlantic, an area focusing on cultural tourism that will showcase what is "quintessentially Morocco,"^{cxxii} the Center Atlantic, an area focusing on cultural tourism with a concentration on business and recreation, the Northern Destination, an area focusing on cultural tourism and will be the "gateway to Africa," the Morocco Center, an area that will focus on cultural tourism as it contains the "heart of Morocco's history," the Morocco Mediterranean, a seaside tourism region focusing on resorts and recreation, and the Atlas & Valleys, an area focusing on green tourism whose aim is to be the leading destination for ecotourism and sustainable development in the world.^{cxxiii}



Additionally, with Vision 2020 comes a revised Plan Azur, dubbed Azur 2020. Azur 2020 aims to complete the various seaside resort projects that were started under Plan Azur, reposition some of the seaside resorts that are already completed so that they offer additional activities and entertainment options and further integrate the various environmental aspects. Vision 2020 has six different pillars that it will focus on, believing that, when executed, the Vision will lead to a high quality, authentic and diverse tourism market that will be sustainable. In addition to the Azur 2020 pillar, the other pillars are: culture and heritage, green/sustainable development, domestic tourism, entertainment/sports/leisure, and business, health and wellness. The presentation specifically states that one of the aims of the Azur 2020 is to make “Morocco a new international destination for wellness and health.”^{cxxiv} It is unclear how the Ministry of Tourism arrived at these six pillars in order to most optimally position Morocco as a top tourist destination. It appears that Morocco’s tourism visions play more off of the current

tourism buzz words rather than Morocco's unique offerings although focusing on attracting business travelers, and travelers looking to relax and improve their health at wellness centers would substantially increase the length of stays by international tourists.

c) The Framework

The main government agencies overseeing the achievement of these goals are the Moroccan Society of Tourism Engineering (SMIT) and the High Authority for Tourism, which will ensure the Vision 2020 is implemented, and Tourist Development Agencies, which will guarantee that the regional policies are properly implemented.^{cxxv}

d) The Fund

In order to help achieve these ambitious goals, the Moroccan Fund for Tourism Development (FMDT) was created. The purpose of the fund is to enable Morocco to attract additional foreign investors, enter into partnership agreements with other country's sovereign funds, and secure land required for planned tourist developments. The initial capital has been contributed by the Moroccan government and the Hassan II Fund, and is in the amount of \$1.8 billion USD. The government plans on granting investment premiums that take into account the investment level of risk perceived by investors for the various territories and product types. The level of capital support will vary around an average of 10% of the total investment for the project.

In 2010, three Gulf Arab sovereign wealth funds (SWFs) and UAE-based property developer Al Maabar contributed at least 15 billion MAD for a tourism fund associated with Vision 2020. The three SWFs were Bahrain's Mumtalakat, the Kuwaiti Investment Authority and the Qatar Investment Authority.^{cxxvi}

In Fall 2011, Qatar Holdings, the Kuwait Investment Authority's Al Ajial Investments and Aabar Investments agreed with FMDT to inject \$2.5 billion USD into a newly-created vehicle called Wessal Capital. Wessal Capital's sole focus will be on developing new resorts in Morocco. The proposed equity capital structure for Wessal Capital is that all four partners will contribute 25%. Wessel will create an investment firm led by Morocco that will fund investment opportunities proposed under Morocco's Vision 2020.^{cxxvii} The ceremony unveiling the fund was attended by King Mohammed VI, Emir of Qatar Sheikh Hamad bin Khalifa al-Thani, Crown Prince of Abu Dhabi and Deputy Supreme Commander of the UAE Armed Forces Sheikh Mohammed bin Zayed bin Sultan Al Nahyan, and Kuwait's Finance Minister Sheikh Mustafa Jassim Al Shamali.^{cxxviii} Additionally, Qatar's SWF and the Moroccan state revealed an agreement to establish a 50-50 joint venture worth \$2 billion USD that aims to help fund major development projects in Rabat.^{cxxix}

In order to reassure investors that financing is available, the Ministry of Tourism has announced that it will team up with the private banking sector to create a dedicated committee that will be responsible for implementing a bank financing mechanism for \$2.8 billion USD for the years 2011-2016. It will provide the 2020 Vision projects with preferential terms and favorable long-term credit conditions. Aside from commercial financing from banks, funds for national investments have been created, such as Actif Invest, Madaef, H Partners, Capital T and Saham Hotels.

To have an adequately prepared and educated workforce, a Human Resources & Training commission will be implemented as part of the High Authority for Tourism. New schools and training centers will open throughout Morocco to train Moroccans to work in tourism locals.

Vision 2020 is budgeted to cost upwards of \$21 billion USD. This includes the budget for promotion and distribution, investment incentives, investment and training programs, public and private equity and national and international banking financing.

C. Most Active Real Estate Developers

1. Moroccan Firms

The following Moroccan firms, in no particular order, are each worth between two and four billion USD, and are the four largest real estate firms in Morocco. Many became active in the Plan Azur development projects after international developers faced economic problems.

Group Alliances is Morocco's largest integrated tourism and real estate operator in Morocco. It is active in all real estate segments, from hotels to golf resorts to social housing.

Groupe Addoha is one of Morocco's leading social housing developers and is listed on the Casablanca Stock Exchange.

Palmeraie Development, the Group Palmeraie's branch that specializes in real estate development, is very active in luxury hotel and residential projects, and golf course development, especially in Marrakech.

Caisse de Depot et de Gestion (CDG) is Morocco's largest institutional investor and is a major player in the national economy. The CDG was created by the government in 1959 and is still state owned.

2. GCC Firms

As evidenced by the contributors to the FDMT (discussed above), much of the capital deployed in Morocco in the last five years was from countries that are members of the Gulf Cooperation Council (GCC). The GCC is a political and economic union of the Arab states bordering the Persian Gulf and constituting the Arabian Peninsula. Current members of the GCC are the Kingdom of Bahrain, Kuwait, The Sultanate of Oman, Qatar, the Kingdom of Saudi Arabia, and the United Arab Emirates (UAE).^{cxxx} In May 2011, Morocco was invited, along with Jordan, to join the GCC. Morocco, located in a different corner of the Arab world from the current GCC members, is quite similar to the other member states in regard to language spoken, religion and form of government. Additionally, the GCC views Morocco's government as being capable of weathering domestic unrest, with strong military ties and close ties with the Gulf royal families.^{cxxxi} Like the United States, the UAE, Saudi Arabia, and Qatar are very interested in regional stability. The GCC countries want to help Morocco remain as stable as possible because if Morocco's monarchy falls due to a revolution then the regimes in UAE, Saudi Arabia, and Qatar will also fall.^{cxxxii, cxxxiii}

GCC developers are more attracted to investing in Morocco than Western developers. Contributing to this attraction is Morocco's rich history, open society, and ideal weather and scenery.^{cxxxiv} The rich history of Morocco, combined with the colonization that took place in the country, have created a country full of people with exotic looks and beautiful, unique architecture that Arabs from the Gulf States find alluring. Additionally, Morocco is a much more open society than most Arab countries. Consumption of alcohol, gambling, prostitution, and homosexuality is accepted in Morocco more than it is accepted in the Gulf States. All of this combines to create a "mythical place for Arabs, an oasis, a

lavish vision of paradise.”^{cxxxv} Jean-Philippe Oursin, Senior International Officer at Hines Middle East, said that all rich Saudis have villas in Morocco. “Morocco offers them the thrill of forbidden things.”^{cxxxvi} This allure is a big driver of investment by the GCC countries in Morocco. “[For GCC states] Morocco is not a rational investment. It’s a guilty pleasure.”^{cxxxvii} Oursin also believes that Morocco needs to amend its tourism plan. “Morocco wants to be Arab for the money and for the religion yet should attach restrictions on investment from the Gulf countries because along with their capital, the Gulf countries have brought their tacky architecture and lavish development. Gulf tourism is not the bread and butter of Morocco. The bread and butter of Morocco is European tourism. The natural connection to Morocco is Europe, not the MENA region.”^{cxxxviii} Morocco should be cautious with Gulf investment in an attempt to preserve the Moroccan art deco, colonial architecture, return to its core target tourist audience, and not alienate Western investors.

The greatest challenge for the Kingdom of Morocco in the coming years is to successfully achieve a balance between its heritage and economic and social progress while simultaneously attracting FDI. Unfortunately, Morocco is a country with no major resources, which has led them to act as if they are in a position where they cannot afford to turn down investment ideas, even when real estate development plans from the GCC countries do not make economic or social sense. Morocco has recently shifted from an agricultural-based economy to a services-based economy. “People have moved into the cities from the mountains, and as a result, they need money. Thus the government cannot be selective and must accept all investment offers that will decrease the unemployment rate.”^{cxxxix} Allen L. Krause, Economic Officer at the U.S. Embassy in Morocco, is in

agreement. As he said, “Morocco doesn’t care where the money comes from. They just want to attract investment.”^{cxl}

IV. Main Reasons for the Absence of Western Foreign Direct Investment in the Lodging Real Estate Industry in Morocco

The lack of Western developers, mainly British and American firms, in Morocco’s lodging real estate industry is blatantly apparent. While Morocco’s Ministry of Tourism aims to “provide a clear map of opportunities to attract the leading actors in the tourism industry,” leading American firms are choosing not to participate.^{cxli} Having discussed the economic, social, political and hospitality dimensions of the Kingdom of Morocco in the previous sections of the paper, the following section examines the reasons why there is an absence of foreign direct investment by Western companies, and the United States in particular.

Investment decisions are based on perceived risk and the tradeoff between such risk and the corresponding reward. Somewhere in their analysis, American firms are finding that the returns in Morocco’s markets are not large enough to warrant the risk and effort. As Rabia El Alama, the Managing Director of AmCham Morocco pointed out, “U.S. companies are not interested in the real estate market in Morocco. They are only interested in being project managers.” By acting as a project manager rather than a developer, a company maintains its international presence and relationships with international brands while having no equity stake and extremely limited risk exposure. If Morocco’s real estate leasing or sales market evaporates, a project manager is mainly out the sunk cost of opening the office and training the human capital, and the cost of closing

the offices. Developers have equity in the game, and thus have risk that they are unable to simply walk away from. If the real estate market evaporates, equity partners are unable to hedge their exposure by simply closing up shop; if a hotel is closed, mortgage payments still need to be made. Equity exposure is much more difficult to reduce, especially in times of market or political turmoil, than mere market presence.^{cxlii} If equity stakeholders chose to sell in a down economy, losses will be incurred as value has depreciated. CBRE and JonesLangLaSalle, two American firms, have offices in Casablanca and focus on real estate investment consulting and leasing and do not participate as equity holders in Moroccan real estate.

Although U.S. development companies are not present in Morocco's real estate industry, American firms do have a presence in other industries in Morocco. They are present in renewable energy, safety and security, waste management, water treatment, electricity markets and automobile manufacturing plants.^{cxliii} It is important to realize that the financial returns and risk profiles in these industries are similar to acting as a real estate leasing, sales, or consultancy company versus a developer. If profits decline, or turmoil engulfs the region and the companies decide to shut down operations, they can do so at a smaller cost than a developer can as their real investment lies in the machinery and their human capital, not in immovable buildings and plots of land with mortgages attached to them. A manufacturing company can close down a Moroccan plant and ship the machines to another location. Thus, FDI in Morocco is attractive for some industries but not for American firms looking to enter the lodging real estate market.

An executive that agreed to speak on a condition of anonymity laid out a useful blueprint for the analysis undertaken by real estate development companies when

evaluating expansion into emerging markets. In determining whether to expand into a new market, his company first takes the time to study the market, looking at the macro economic factors such as population, natural resources, size of the economy, and the population's age pyramid. Once it has evaluated the macro-economic factors and feels they are adequate, the company then evaluates the political risk and stability of the government. After evaluating the political risk and stability, and determining if the company would be able to differentiate itself from the competition in order to be successful, the development company then asks the tough question: "Can we do business ethically in this country and adhere to our values?" If the answer is yes, then the country builds a team and expands abroad into that market.^{cxliv} Applying this framework to Morocco, it appears that Morocco would not get past the first hurdle, as it does not have a large economy (see discussion above of Morocco's GDP). Morocco's political system isn't entirely stable and the country is rife with corruption.

A. Political Differences

The United States and Morocco have very different political systems and political ideals, with governance in the United States based on a system of democracy and governance in Morocco based on a constitutional monarchy. Systems of governance play a large role in attracting or discouraging foreign investors as political structure has a considerable impact on a country's business environment. When injecting FDI into a country, American development firms want to make sure that they have a clear sense of the political, social and economic risks as success in the lodging industry is not only linked to the country's cultural and recreational offerings, but also to the country's stability and security.

American investors are wary of investing in Morocco's lodging industry because it is difficult to get a grasp on Morocco's true political situation. Although the world applauded Morocco's constitutional reforms, investors are proceeding with caution before believing that Morocco is a thoroughly changed country. Many of the announcements in Morocco coming from the royal palace, the ministries, and even the media are lip service and not supported by meaningful action and change.^{cxlv, cxlvi} Amine Chafai Alaoui, a Moroccan national employed at Transparency Maroc and responsible for Transparency Maroc's ACTION Project, was willing to share his views on the King and the current political climate. Alaoui revealed that before the Arab Spring, the King was moving towards creating only one political party in Morocco, similar to that in Egypt and Tunisia.^{cxlvii} Such action goes against the King's speeches in which he supports giving the Prime Minister and Parliament more power, making his true desires and motives unclear. Alaoui referred to the new "democratic" constitution as "lipstick on a pig."^{cxlviii} He exposed that, on the Muslim holy day before the voting day, the King, Commander of the Faithful who controls and runs the country's mosques, arranged for the religious leaders to tell the believers to vote yes on the constitutional referendum. Furthermore, on voting day, buses brought uneducated voters from rural towns to urban voting locations for free, with the implied condition that they would vote yes.^{cxlix} Commentary such as this makes it hard for American investors to develop an accurate description of Morocco's political landscape, causing them to shy away from investments in Morocco or from being a first mover.

Values and ideals also play a role in limiting American FDI in Morocco. Core values in the United States are democracy, the idea that each person has a voice that should be heard, and the importance of a system of checks and balances.^{cl} Investors from democratic

nations may be deterred by the fact that Morocco's governance system "is characterized by a dominant executive in the form of the King, whose powers are not controlled by the parliament or other public institutions in any substantial matter."^{cli, clii} Such differences in governance can present insurmountable barriers for many Western investors. In fact, this is one of the reasons why Hines does not have a presence in Morocco. As Jean-Philippe Oursin, Senior International Officer for Hines Middle East, stated: "How do Muslims rationalize the oppression of individuals? No individual freedoms exist, and thus no business freedoms exist." Oursin believes that business thrives through democracy, and for democracy to work there must be laws and transparency, which serve to eradicate corruption. Once the laws and transparency is established, then business will thrive. Until Morocco becomes more democratic, transparent and less corrupt, Oursin believes that Morocco will not attract investment from U.S. developers.^{cliii, cliv} Nate Shanok, Managing Director at Tishman Speyer in Istanbul, is in agreement about the importance of transparency. He said that when Tishman Speyer evaluated expansion into Europe, the company realized that there were "cultural differences, different ways of doing business, but there was a level of transparency in the market that we were used to."^{clv} Tishman Speyer, and many other developers evaluate Morocco's form of government, the freedoms available to Moroccans, and the resulting transparency in Moroccan markets when deciding whether to invest in the country.

B. Cultural Differences

The cultural differences that exist between the United States and Morocco increase the complexity for FDI and discourage American firms from investing in Morocco.^{clvi}

Language, religion, motivational factors, and appetite for risk are factors that American development firms evaluate before making investment decisions for foreign countries.

Common language and cultural proximity play important roles in attracting FDI by American firms. While many American firms are global, the business they conduct abroad, in such countries as China, Brazil and India, is often negotiated and contracted in English. American firms are discouraged from investing in Morocco because business in Morocco is conducted in French.^{clvii} Western countries lacking senior executives fluent in French do not feel comfortable negotiating and signing legal documents in French. Translation is not always a good solution as meaning can be lost. Additionally, aside from the inability to understand legal documents, Americans may be unaware of the latest opportunities as many business and political announcements are made in French. One of the few, albeit unsuccessful, American firms to enter into a development contract in Morocco was Colony Capital. Although Colony Capital is based in Los Angeles, California, its decision to invest in Taghazout was mainly motivated and transacted by Sebastian Bazin, a French national who is the CEO of Colony Capital's European subsidiary.^{clviii} Thus, although an American firm headlined the development, the French branch of the firm, which is culturally much more proximate to Morocco, initiated and executed the deal. Unless American firms have subsidiaries staffed with people capable of executing investments in languages besides English, they will tend to pass on such development opportunities due to the linguistic complexities.

Motivations are different for different cultures. Allen Krause feels that a possible reason for the shortage of U.S. investors in Morocco is because American investors are not interested in Morocco for the long term.^{clix} U.S. investors are motivated to invest in

Morocco solely for business reasons – to help improve their bottom line. If a U.S. company does not feel that they can be profitable in Morocco, then they will not do business there as the country does not offer other ancillary benefits, such as relationships that will cultivate future profitability. The countries most active in Morocco, such as France, Spain and the various GCC states, have a long-term interest in the development of Morocco. France and Spain are neighbors to Morocco, strong trading partners, and many of their citizens vacation in Morocco, own second homes in Morocco, and retire to Morocco. The GCC states have a special political, social and religious relationship with Morocco that they are interested in preserving. The United States’ government is interested in good relations with Morocco, but American development companies have no long-term interests in the country that would incite them to lower short-term return targets.

Another cultural difference is risk aversion and the amount of due diligence required for people of certain cultures to get comfortable with something new. Risk taking is considered a vital foundation for achievement, entrepreneurship, and economic progress. In advanced industrial countries, managers often rely on hard data and input from experts and consultants in making decisions. Due to limited access to information and other reasons, managers in developing nations like the Arab states may rely on intuition and market instinct because of the instability of the economic/environment and because of a “trading mentality” (Arabs are traders by tradition).^{clx} A study examining Arab executives’ attitude toward risk concluded, “the Arab historically looks with contempt at strict rules and procedures. Participants [in the study] believe that rules are man-made and should be treated with flexibility.”^{clxi,clxii} This difference in attitude toward risk sets up American and Arab firms for conflict and paves

the way for companies from other countries who perceive Morocco as less risky or who share a similar view of risk with Moroccans to be more active in investing in Morocco.

American companies are much more conservative compared to the companies that are investing more heavily in Morocco's lodging real estate market. Youssef Benamour described U.S. companies as "very conservative" and risk averse.^{clxiii} Karim Beqqali agreed. He said, "English speaking developers definitely conduct a deeper due diligence process than other countries."^{clxiv} While degree of conservativeness can be due to culture, depth of due diligence can also be attributed to familiarity, as evidenced by French companies' due diligence practices. "The French don't conduct much due diligence [for development projects in Morocco] because they have a great cultural proximity to Morocco."^{clxv}

As Western developers engage in a strict and in-depth due diligence review, hurdles affecting profitability become apparent. While potential Western developers may not be afforded the opportunity to speak candidly with someone like Amine Chafai Alaoui (discussed in the Current Political Climate section) during their due diligence process, they can discover reports such as Transparency International's yearly publication, "Corruption Perceptions Index," Transparency International's 2010 report titled "The Good Governance Challenge: Egypt, Lebanon, Morocco and Palestine," the Doing Business Report that is published yearly by Oxford Business Group, and statistics and facts from the World Bank in addition to media articles. It is in these reports that Moroccan business norms are discovered.

C. Business Norms

Business norms are very different in Morocco than in Western countries and many of the differences discourage American investors from investing in Morocco's lodging real

estate market. Materials, technology and equipment are different in Morocco than in Western countries. Corruption tends to be the norm and not the exception. Additionally there is a great deal of bureaucracy. Further adding to the difference in business norms is the existence of nepotism, cronyism, and clientelism.

1. Materials, Technology, Equipment

American developers are often discouraged from investing in Morocco because different construction materials, technology and equipment is used. Thus, the developer's cost of construction is increased if they want to use their materials, technology and equipment.^{clxvi} This can discourage developers because it increases the cost of doing business and as costs rise, the return the developer makes must also rise. With other factors at play that raise the risk of investing in lodging real estate in Morocco, the return that American firms desire becomes impossible to reach.

2. Corruption & the Foreign Corrupt Practices Act

Corruption not only poses a problem for Moroccans,^{clxvii} it also poses a problem for American firms interested in investing in Morocco's lodging real estate industry. With corruption reports widely published, it is not difficult for real estate developers to realize that corruption is a systemic problem in Morocco.^{clxviii} Transparency International reports that "as the taboo surrounding corruption has been partially lifted over the past 10 years, [the corruption] phenomenon has come to be considered as an aspect of "the everyday behavior" of economic, social and political actors."^{clxix} Large scale corruption is often linked to public procurement, certain authorizations giving way to large-scale investment projects, the establishment of import quotas, regulation of natural monopolies,

privatization and even delegation of local public utilities (water, electricity, sanitation).^{clxx} Lodging development provides ideal breeding grounds for corruption, as all these aspects are present. In fact, a December 2010 article by *Guardian*, citing a leaked U.S. embassy report, states that corrupt practices have become ‘much more institutionalized’ under King Mohammed VI, and that the royal family has been using public institutions to ‘coerce and solicit bribes’. According to the article, the real estate sector is especially affected by this type of corruption.^{clxxi} An official at the U.S. Consulate in Morocco said that “the WikiLeaks report is accurate.”^{clxxii}

U.S. firms seeking to do business in foreign markets are familiar with the Foreign Corrupt Practices Act of 1977 (“FCPA”) and its sanctions. In general, the FCPA prohibits corrupt payments to foreign officials for the purpose of obtaining or keeping business. The FCPA potentially applies to any individual, firm, officer, director, employee, or agent of a firm and any stockholder acting on behalf of a firm. Individuals and firms may also be penalized if they order, authorize, or assist someone else to violate the anti-bribery provisions or if they conspire to violate those provisions. In addition, a U.S. company or national may be held liable for a corrupt payment authorized by employees or agents operating entirely outside the United States, using money from foreign bank accounts, and without any involvement by personnel located within the United States. The prohibition extends only to corrupt payments to a foreign official, a foreign political party or party official, or any candidate for foreign political office, regardless of rank or position. The FCPA also prohibits corrupt payments through intermediaries. It is unlawful to make a payment to a third party, while knowing, consciously disregarding, or deliberately being ignorant, that all or a portion of the payment will go directly or indirectly to a foreign

official. Intermediaries may include joint venture partners or agencies.^{clxxiii} Thus, developers, in order to avoid violating the FCPA, must place a lot of trust in their local joint venture partners.

Companies from other countries are not as concerned with corruption and thus are more active investors in Morocco than their American counterparts.^{clxxiv} Corruption and the pressure to comply with the FCPA keeps American developers out of Morocco. The FCPA is expansive and the penalties for a breach are costly.^{clxxv} Firms that pay bribes to foreign officials are the subjects of criminal and civil enforcement actions, resulting in large fines and suspension and debarment from federal procurement contracting, and employees and officers can go to jail. Allen L. Krause, Economic Officer at the U.S. Consulate Morocco stated, “American companies are very careful to steer clear of any corruption because any breach of the FCPA will affect all investments, not just the ones in the country where the breach occurred.”^{clxxvi} Krause also said French and Spanish companies often cave and pay bribes in Morocco before American companies do.^{clxxvii} Oursin went on record and said that Hines does not invest in Morocco because “compliance with the FCPA is very important to us. In Morocco, the King is always behind the curtain. And if not him, it’s his sisters, his cousins, or his friends.”^{clxxviii} An insider at the U.S. Consulate who agreed to speak on a condition of anonymity also believes that corruption in Morocco starts at the top and bleeds down. “It won’t change until the King wants it to change, “ the insider said.^{clxxix} While outwardly it appears that the King does want it to change, as evidenced by some of the laws in the new Constitution, the establishment of a specific oversight institution, the Central Authority for the Prevention of Corruption (ICPC), and the fact that King Mohammed VI hosted an OECD Dialogue on “Putting Anti-Corruption Commitments into

Practice: Transparency, Participation and Rule of Law” on June 9, 2011, until corruption is eradicated, American firms will continue to keep their money out of Morocco.^{clxxx}

3. Bureaucracy^{clxxxii}

U.S. investors, motivated by returns and market timing, are off-put by Morocco’s bureaucratic system, choosing to invest in other, less bureaucratic countries. In a 2007 interview, Thomas J. Barrack said “[Morocco] needs to learn from Dubai. [Colony Capital] has a \$3bn project in Dubai and they have made it so simple for us to do business there. In Morocco, you have the hangover of French bureaucracy that’s tired and rusty and needs to be oiled. So if Morocco wants to encourage investment, it has to streamline all the things you need to do as an investor: Customs, immigration, taxes, building permits, licenses and so on.”^{clxxxii} Bureaucracy increases the resources, such as time, human capital, and financial capital, that it takes to complete a task. By prolonging the time it takes to complete mandatory tasks, developers increase the project’s target return in order to insure they cover their costs and meet profitability targets.

Data from *Doing Business* reports supports Barrack’s statement on the bureaucracy present in Morocco. In its 2012 report, *Doing Business* ranked Morocco 93 out of 183 global economies on the ease of starting a business. It takes an average of 6 procedures over 12 days to start a business in Morocco. *Doing Business* also reports on the ease of dealing with construction permits. According to data collected by *Doing Business*, dealing with construction permits in Morocco requires 15 procedures, takes 97 days and costs 234.6% of income per capita.^{clxxxiii,clxxxiv} *Doing Business* also reports on the efficiency of the process of resolving a commercial dispute through the Moroccan court system. According to data collected by *Doing Business*, enforcing a contract requires 40 procedures, takes 510

days and costs 25.2% of the value of the claim.^{clxxxv} As evidenced by these reports, Morocco is extremely bureaucratic. In addition to increasing costs, bureaucracy increases the probability for corruption, as the greater the number of procedures and approvals needed, the greater the chance that bribes will be requested. As one developer said, “If a clerk wants to stop your project, they will. Paperwork has the ability to sit for weeks on someone’s desk.”^{clxxxvi} The bureaucracy that is present in Morocco, in combination with other factors such as language barrier, corruption, and an opaque political system, serves to further detract American FDI in the lodging real estate market.

4. Nepotism, Cronyism and Clientelism^{clxxxvii}

Nepotism, cronyism, and clientelism are rampant in Morocco and discourage American FDI in Morocco as the presence of such favoritism increases the amount of unpredictability in the market. American firms are dissuaded from entering requests for proposals when they know that the playing field is not level due to nepotism.

Ibrahim Kalin believes that “Morocco is faced with two big internal problems: the “deep state” and crony capitalism. The deep state refers to the underlying layers of power in a country where the rule of law is subverted by special interests, connections, privileges and group associations...It covers a wide range of areas including high politics, security, intelligence, the economy and foreign policy....The principles of transparency and the rule of law are subverted by the “Arab deep state,” which has devised a political order based on a tight system of control and authoritarianism. The traditional alliance between the military, political elites and businesspeople has undermined attempts to establish the rule of law in much of modern Arab history....The second main problem is crony capitalism, which establishes a special relation between the state and business elites and is another

source of both economic and political inequality. By giving interest-driven businesspeople legal and illegal privileges such as special tax breaks, insider information, government contracts and other incentives, the government creates a culture of nepotism and produces its own “choice players.” Happy with the lucrative government contracts, crony capitalists capitalize on their economic influence and buy off politicians. We, thus, end up in a vicious yet lucrative circle.”^{clxxxviii} Transparency International’s National Integrity System (NIS) assessment reached similar conclusion. The final report stated that “nepotism, bribery and patronage are so common [in Morocco] that they are widely accepted as facts of life.”^{clxxxix}

It is difficult to find people willing to speak out about nepotism, cronyism and clientelism, but, based on the facts of the Morocco Mall development, such favoritism appears to be present. The Morocco Mall, the world’s fifth largest mall located on 10 hectares in Casablanca, was developed by Aksal Group, a Moroccan company, and Group Al Jedaie, a Saudi Arabian company, at a cost of \$240 million USD. The CEO of Aksal Group is Salwa Idrissi Akhannouch. Akhannouch’s success is born from a family of entrepreneurs and state allies and her husband is the Minister of Agriculture and Fisheries.^{cx} At the Mall’s inauguration ceremony, King Mohammad VI’s sister, Princess Laila Meryem, was given the privilege to cut the ribbon and statements of gratitude and appreciation for the Moroccan monarchy’s help in the project were repeatedly stated by several spokespeople.^{cxci} Many speculate that cronyism was at play in the development based on the situation and the strong royal presence at the inauguration. Instances such as this serve to discourage American developers from investing in Moroccan lodging real estate, as they are unable to compete with local firms or other Arab developers in a society that rewards special interests, connections, privileges and group associations.

D. Economic Reasons

1. Threat of Terrorism and Violence

In addition to differences in culture and business norms, Western developers also have economic reasons for not investing in Morocco's lodging real estate market.

Terrorism and violence pose significant threats in Morocco and deter investors from pledging FDI to the lodging real estate industry.

Violent terrorist attacks significantly affect the tourism industry and there is an inability to hedge the risk of such attacks. A valid case study is Marrakech, Morocco's star tourist destination, where a terrorist bomb was detonated in a busy tourist café in April 2011 that killed 17 people. Following the attacks, Marrakech's tourism market was hit extremely hard. Sara Guerrero, one of the owners of Riad Dar Justo in Marrakech, said that New Year's Eve 2011 was the first time in many years that all the hotels in Marrakech failed to reach full occupancy. Additionally, she said that recently, the five-star hotels have been desperate to attract guests and have been offering rooms for as little as \$75 USD a night. Furthermore, the repercussions of the terrorist bomb are being felt beyond Marrakech. According to the Centre for Aviation, Royal Air Maroc (RAM), Morocco's flag carrier, may be losing up to \$1.7 million USD a month, partly due to declining passenger numbers, which dropped 11% year-on-year in May after the April 2011 bombing.^{cxci}

2. Overheated Market

Another reason that FDI into Morocco's lodging real estate market is suffering is because investors want to avoid investing in an overheated market. Although Morocco was

relatively insulated from the global financial downturn,^{cxci} Morocco still felt the effect of the global economic slowdown and also experienced its own housing bubble burst.^{cxci}

Starting in 2003, foreign demand for second residences helped drive the surge in the luxury market, especially in Marrakech and Tangier. But, with the onslaught of the global financial crisis, foreign demand decreased significantly and Moroccan investors became more cautious. Many developers found themselves with unsold properties, and although some of the properties had been pre-sold, they had to decrease pricing and supplement financing with equity and debt in order to complete their projects. Others lost their financing completely.

The luxury housing market is closely tied to the hospitality market. Many of the Plan Azur developments require the development of luxury villas in addition to hotels and golf courses. Often times the luxury villas were pre-sold and helped finance the construction of the villas and the rest of the development. With the burst of the luxury housing market bubble in Morocco in 2008, it became much more difficult for developers to justify building the luxury villas required by the conventions when the demand was not present. As Youssef Benamour, CEO of Earth Properties said, “Colony Capital had Taghazout, the most appealing site in all of Morocco, to develop. But they didn’t pre-sell any villas and they didn’t inject the equity, and thus lost their contract.”^{cxci}

From 2003-2008, the supply grew in the luxury housing market at the expense of the low- and middle- income housing market. As the luxury bubble burst, many Moroccan developers, such as Alliance, Addoha, and Palmeraie, switched their focus and began developing low-income housing. A new policy for social housing was introduced in 2010 making it extremely easy for developers to achieve high margins while investing in a sector

where there is minimal commercial risk.^{cxcvi} As Benamour put it, “Social housing is the new sexy,” not luxury hotels and villas.

While the economic downturn has led to a revival of requests by the Ministry of Tourism for FDI in Morocco’s lodging real estate industry, many American firms are not willing to commit capital, even given the correction in the real estate market, following the bubble burst, because of the multiple other risks they perceive in the Moroccan real estate market.

a) Lack of Successful Precedents

In the Moroccan lodging real estate industry, there are few successful precedents that American developers can study, evaluate, and then improve upon for the development of their own resorts in Morocco. The challenge that Morocco provides attracts some developers, but developers looking for quick returns will look to other countries with less risks and barriers.

Despite poor occupancy numbers and tourist arrival figures, the Moroccan government still wants to increase the number of hotels and beds in the country, as evidenced by their endorsement of Vision 2020. It appears that they have the belief that “If you build it, they will come ” as they attempt to saturate the market with hotels and resorts now in hopes that the timing will perfectly correspond with a rebound in the tourism market following the global financial crisis.^{cxcvii}

The government took a similar bet with Plan Azur, and many developers discovered that they did not have the risk tolerance to continue to sit at the table. Many Plan Azur resorts, which are multi-phase projects given their nature and size, have not yet reached stable occupancy figures for their initial phases, yet the developers are being pressured by

the government, the signatory to the convention, to begin construction on subsequent phases. As one developer said, “the first phase needs to be financially viable before we go on and expand into future phases.” Yet the government is pressuring them to commence the second phase of the development now, when the resort is not financially viable, because they want to be able to publicize the successful completion of their objectives.^{cxviii} Unfortunately, the objectives of the Moroccan government regarding the development of the real estate lodging industry are not aligned with the objectives of capitalist developers. The government is mainly concerned with reducing unemployment as a means to decrease civil unrest and increase political and regional stability.

With Vision 2020, the Moroccan government is taking a bet, which the developer takes on an even greater scale as an equity partner, that Morocco will gain popularity as a holiday destination. The Moroccan government is saturating the market with hotels and resorts now in hopes that the timing will perfectly correspond with a rebound in the tourism market following the global financial crisis.^{cxix} This imbalance between supply and demand discourages lodging developers.

3. Political Instability, Frequent Elections

Following the Islamic government coming to power following the elections in Fall 2011, many international developers, including developers currently invested in Morocco, are sitting on the sidelines to observe the new government’s actions before they invest additional capital into the country. Investors from the GCC countries do not have similar concerns about an Islamist government as they have cultural and executive ties to Morocco that give them comfort.

4. State-Owned Airline

Many American developers are frustrated by Morocco's state-owned airline, as the presence of RAM increases the risk of the investment and thus the return that developers aspire to achieve. One source who wished to be kept anonymous because he still held equity in the development, complained that because of RAM's dominance in the Canadian, U.S., and UK market, it is difficult to attract tourists to Morocco. Package vacation deals to Turkey or Spain, Morocco's biggest competitors when it comes to European clientele, are cheaper than package deals to Morocco because their airline component is cheaper. RAM refuses to reduce their airfare pricing, even for package deals, which sabotages the ability of resorts to attract European holidaymakers. In the current economic climate, families are price sensitive and thus, competitive pricing is important. Without an airline that is willing to price competitively, resorts in Morocco have a distinct disadvantage in attracting customers and Morocco has increased difficulty in attracting American investors.^{cc}

5. Insufficient Judiciary

Morocco's judicial system is perceived as flawed both domestically and abroad, with excessive bureaucratic red tape and a slow and often uncertain judicial process. The judicial system deters both local and foreign investment.^{cci, ccii} In 2009, the King called for an overhaul of the judicial system, and the new constitution pledges to bring fruition to some of the proposed reforms. The six main areas for reforms were: strengthen guarantees of judicial independence, modernize the regulatory framework, overhaul the structure and staffing, increase efficiency, enforce rules to prevent corruption and abuse of office, and optimally implement reforms.^{cciii}

Morocco's judicial shortcoming in the structure and staffing area, an area highlighted as necessitating reform, is largely mathematical. In 2009, "with only 150 judges in the entire commercial judiciary and close to 100,000 pending cases, Morocco's slow and often inept judicial system made international firms increasingly skittish about investments and business transactions."^{cciv} According to data from the Casablanca Commercial Court, the resolution of a commercial dispute on average takes 615 days. "The slow deliberation of courts and the subsequent difficulties in enforcing judgment leads international firms to undertake fewer investments and business transactions," says Abdallah Chater of Casablanca's Regional Investment Center.^{ccv} Additionally, more and more local and foreign firms are turning to Alternative Dispute Resolution (ADR) services in an effort to circumvent the long delays in the commercial dispute process. The General Federation of Moroccan Businesses has a mediation organization and encourages its members to use arbitration, and the Casablanca Chamber of Commerce also has an arbitration and mediation section.^{ccvi, ccvii}

The judicial system is also corrupt. Alaoui opined that the biggest problem in Morocco is judicial independence, as "the judiciary works on orders." He felt that this would not change, as the "monarchy cannot afford an independent judiciary. That would put an end to the enriching scheme that helps the King maintain his legitimacy and keep the armies and wealthy people on his side."^{ccviii} Favoritism and nepotism is evil in and of itself, but when it spreads to the judiciary, then it is difficult for those who have been wronged to find justice. As long as the Moroccan judicial system is understaffed and corrupt, American developers will be weary of committing capital to Morocco's lodging industry.

6. Antiquated Legislation

Legislation in Morocco needs to be updated in order to provide investors and developers access to investment vehicles, structuring techniques and increased legal protection. The profiles of investors looking to invest globally in today's real estate market are carry REITs and opportunistic funds.^{ccix, ccx} Carry REITs hold stable assets in their portfolios while opportunistic funds buy opportunistic assets with the hopes of selling them for a profit later. Unfortunately, the legislation and tax benefits that are necessary for such an investor to enter a market are lacking in Morocco.^{ccxi}

a) Lack of REIT Legislation

The complete lack of REIT legislation in Morocco severely limits Morocco's ability to attract foreign investment from Western countries where investors are used to the favorable tax environment provided by REITs. REITs were invented in the United States tax code in 1960.^{ccxii} In 1969 the first European REIT legislation was passed in The Netherlands, marking the beginning of the global spread of the REIT model.^{ccxiii} Due to the widespread use of REITs, Morocco's lack of REIT legislation is evident to real estate investors and discourages investment.

Due to the lack of favorable REIT legislation, capital investments in Morocco in the next three years will come from Moroccan investors.^{ccxiv} Once REIT legislation is passed in Morocco and the tax environment becomes more compelling, more investors will begin to enter the market.^{ccxv} Many of the initial investors in Moroccan REITs will be French, before expanding throughout the rest of Europe.^{ccxvi} European investors continue their search for premium and yields, which Morocco can provide once the legal environment is amended. Yet, even with the passage of such legislation, American capital will not pour into Moroccan

REITs as American investors prefer to invest in larger markets such as India, China and Brazil.

b) Attaining Proper Security (Deeds) in the Land

Developers are also discouraged by the difficulty in attaining proper security in land in Morocco. Having a proper deed is vital for landowners, yet is difficult to obtain due to the antiquated property law system. There are four main types of land in Morocco that a developer may want to purchase: Registered Land, Non-registered Land, Collected Land, and Islamic Land. Each type has a separate process that needs to occur before proper security in the land is achieved. The process can be long and arduous, as records are often missing or outdated. For example, for one of the Plan Azur developments, the clean title did not arrive until right before the resort was due to open, which was a couple years after construction commenced. In the United States and other Western countries, clean title is necessary to obtain financing. In Morocco, the bank had no problem financing the development, as the bank was owned by the state, a signatory to the Plan Azur convention for the development.^{ccxvii} Letting loose ends go for so long is contrary to Western business ideals and is a barrier to American FDI in Morocco.

V. Conclusion

Despite renewed efforts by Morocco to attract FDI to the lodging real estate industry, there is a lack of American development firms actively investing in Morocco. Notwithstanding good relations between the United States and Morocco, many American firms are reticent about investing in Morocco. During the due diligence process, a process

much more in-depth for U.S. developers due to their lack of familiarity and cultural proximity to Morocco, American firms are deterred by cultural differences which include a language barrier and a lack of individual freedoms inherent in democratic societies, corruption, a lack of political and judicial transparency, outdated legislation, and a market too small to offer economies of scale. With other emerging markets such as India, China and Brazil offering attractive FDI opportunities in a more Western-friendly business environment, American firms are deploying capital to these countries. France and the GCC countries will continue as the top FDI contributors to Morocco's lodging real estate industry due to their cultural and geographical proximity, although their capital contributions in the next ten years will likely not be enough for Morocco to achieve its Vision 2020 goals.

VI. Endnotes

ⁱ See Oxford Business Group, *The Report: Morocco 2011*, at 12. (hereinafter OBG Morocco Report 2011).

ⁱⁱ See Jillian York, *Morocco – Culture Smart!: The Essential Guide to Customs and Culture*, Kuperad, 2006. (hereinafter York, Culture Smart).

ⁱⁱⁱ See U.S. Department of State, Background Note: Morocco. (March 12, 2012), available at <http://www.state.gov/r/pa/ei/bgn/5431.htm>. (hereinafter U.S. Dept. of State Background Note).

^{iv} York, Culture Smart, *supra* note 2.

^v *Id.*

^{vi} *Id.*

^{vii} U.S. Dept. of State Background Note, *supra* note 3.

^{viii} *Id.*

^{ix} *Id.*

^x York, Culture Smart, *supra* note 2.

^{xi} *Id.*

^{xii} *Id.*

^{xiii} *Id.*

^{xiv} *Id.*

^{xv} See CBRE Morocco, *Tourism and Real Estate Market Study: Analysis of the tourism and real estate markets in Marrakech, Tangier, Agadir and Essaouira*. Draft Report prepared by CB Richard Ellis Maroc for Orascom on December 17, 2009. (hereinafter CBRE, Draft Tourism Report).

^{xvi} See OBG Morocco Report 2011, *supra* note i, at 16.

^{xvii} See Souhail Karam, *Thousands of Moroccans Demand A New Morocco*, REUTERS (April 25, 2011), available at <http://uk.reuters.com/article/2011/04/25/uk-morocco-protest-idUKTRE73N14620110425>.

^{xviii} See *Morocco Adopts Anti-Corruption Plan: Official*, AGENCE FRANCE-PRESSE (AFP) (April 1, 2011), available at <http://www.google.com/hostednews/afp/article/ALeqM5joyfOpje9Q892BuvoqxrEOvqlgCQ?docId=CNG.1fd1c4853d22c9c6fd2476a783525b0d.eb1>.

^{xix} See *2011: Change, Challenges and Reform in Morocco*. Calvin Dark. December 30, 2011. <http://foreignpolicyblogs.com/2011/12/20/2011-change-challenges-and-reform-in-Morocco/>.

^{xx} The political forecast through 2015 is that the rule of King Mohammed VI will be generally stable. Protests, inspired by the Arab Spring events in Tunisia and Egypt, are likely to continue, but are expected to be targeted at the government rather than the monarchy. Parliament will remain weak, and there will be widespread disaffection with formal politics. Some Moroccans are expected to turn to Islamist movements, but only a small minority is likely to support violence. The contested territory of the Western Sahara will remain a major foreign policy issue, preventing an improvement in Morocco's regional

economic relations, but relations with the Gulf Arab monarchies will strengthen. *See* Morocco: Key Developments, EIU ViewsWire (June 17, 2011). (hereinafter Morocco: Key Developments).

xxi The Constitution states that “Morocco is a hereditary constitutional monarchy.” *See* Constitution of Morocco, available at <http://www.mission-maroc.ch/en/pages/260.html>.

xxii The Kingdom of Morocco has been a monarchy since it was founded 12 centuries ago. *See* Embassy of The Kingdom of Morocco, www.moroccoembassyin.org/monarchy.

xxiii *See National Integrity System Study, Overview, Morocco*. Transparency International. 2009. (hereinafter NIS Study 2009).

xxiv *See* CBRE, Draft Tourism Report, *supra* note 15.

xxv *See The Good Governance Challenge: Egypt, Lebanon, Morocco and Palestine*. Transparency International. 2010, at 8. (hereinafter Transparency International, *Good Governance Challenge 2010*).

xxvi *See* OBG Morocco Report 2011, *supra* note i, at 16.

xxvii *See* NIS Study 2009, *supra* note 23.

xxviii *See* GlobalLex Morocco, available at <http://www.nyulawglobal.org/globalex/Morocco.htm>. (hereinafter GlobalLex).

xxix *Id.*

xxx *See* OBG Morocco Report 2011, *supra* note i, at 16.

xxxi *See* Constitution of Morocco, available at <http://www.mission-maroc.ch/en/pages/260.html>.

xxxii *See* GlobalLex, *supra* note xxviii.

xxxiii *Id.*

xxxiv *See* OBG Morocco Report 2011, *supra* note i, at 12.

xxxv *See* CIA World Factbook, available at <https://www.cia.gov/library/publications/the-world-factbook/fields/2119.html>. (hereinafter CIA World Factbook).

xxxvi *See* International Monetary Fund, 2011 Economic Outlook, available at <http://www.imf.org/external/pubs/ft/weo/2011/01/pdf/text.pdf>.

xxxvii Morocco’s last two censuses were carried out in 1994 and 2004. Morocco’s 2004 population was approximately 30 million, with a growth rate of 2.7% between 1994 and 2004. *See* CIA World Factbook, *supra* note 34.

xxxviii *See Le Maroc en Chiffres, 2009*. Haut Commissariat Au Plan (HCP), Centre d’Etudes et de Recherches Demographiques (CERED), available at www.hcp.ma. (hereinafter Maroc in Numbers).

xxxix *Id.*

xl *See* York, Culture Smart, *supra* note ii.

xli *See* OBG Morocco Report 2011, *supra* note i, at 10.

xlii *See* OBG Morocco Report 2011, *supra* note i, at 12.

xliii *See* United Nations Educational, Scientific and Cultural Organization (UNESCO) and UNESCO/UIS (UNESCO Institute of Statistics), including the Education for All 2000 Assessment, available at http://www.unicef.org/infobycountry/morocco_statistics.html.

xliv *See* CBRE, Draft Tourism Report, *supra* note 15, at 11.

xlv *See* UNICEF Morocco Statistics, available at http://www.unicef.org/infobycountry/morocco_statistics.html.

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- xlvi See World Bank Morocco Country Brief, available at <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/MENAEXT/MOROCCOEXTN/0,,menuPK:294549~pagePK:141132~piPK:141107~theSitePK:294540,00.html>.
- xlvii See OBG Morocco Report 2011, *supra* note i, at 19.
- xlviii See United Nations Conference on Trade and Development Handbook of Statistics 2011, at 336.
- xliv See CBRE, Draft Tourism Report, *supra* note 15, at 12.
- l See OBG Morocco Report 2011, *supra* note i, at 12.
- li *Id.*
- lii *Id.* at 18.
- liii See World Bank Data, available at <http://data.worldbank.org/indicator/BX.TRF.PWKR.CD>.
- liv *Id.*
- lv See Morocco: Key Developments, *supra* note 20.
- lvi See Foreign Affairs and International Trade Canada, available at <http://www.international.gc.ca/trade-agreements-accords-commerciaux/agr-acc/morocco-maroc.aspx?view=d>.
- lvii See Monetary Policy Report, prepared for the Bank Board. December 20, 2011. at 17-18.
- lviii See OBG Morocco Report 2011, *supra* note i.
- lix See CBRE, Draft Tourism Report, *supra* note 15, at 19.
- lx *Id.* at 14.
- lxi See Guardiagate Wikileaks from the U.S. Consulate in Casablanca (October 22, 2009), available at <http://leaks.hohesc.us/?view=09CASABLANCA198>.
- lxii See MOROCCO Legal and Judicial Sector Assessment. Legal Vice President, The World Bank (June 2003).
- lxiii See United Nations Conference on Trade and Development Handbook of Statistics, 2011 at 336.
- lxiv Egypt, Libya, Algeria, Sudan and Tunisia received \$6,386, \$3,833, \$2,291, \$1,600 and \$1,513 million USD of FDI, respectively. See United Nations Conference on Trade and Development Handbook of Statistics, 2011.
- lxv See United Nations Conference on Trade and Development Handbook of Statistics, 2011.
- lxvi See CBRE, Draft Tourism Report, *supra* note 15, at 16.
- lxvii *Id.*
- lxviii *Id.* at 17.
- lxix *Id.* at 16.
- lxx Received from Laouija Mouna of CBRE Morocco in an email dated March 27, 2012. Her source is the Office des Changes and estimations are from the housing observatory.
- lxxi See Ministry of Tourism. Excel spreadsheet. "Arrivees PF 2011" and "Arrivees PF 2010". Received February 2, 2012 at In Person Interview; See CBRE, Draft Tourism Report, *supra* note 15, at 23. *Note that 2009 figures were unavailable, and have been extrapolated as the average between 2008 and 2010 figures. 2011 figures are the months January through October 2011 annualized.
- lxxii See Ministry of Tourism. Excel spreadsheet. "Arrivees PF 2011." Received February 2, 2012 at In Person Interview.

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- lxxxiii The main destinations within the Marrakech-Tensift-Al Haouz region are the cities of Essaouira, Marrakech and Mogador. The main destinations in the Souss-Massa-Draa region are Agadir and Ouarzazate. See Ministry of Tourism. Excel spreadsheet. "Arrivees nuitees EHTC 2011." Received on February 2, 2012 at In Person Interview.
- lxxxiv See Ministry of Tourism. Excel spreadsheet. "Arrivees nuitees EHTC 2011." Received on February 2, 2012 at In Person Interview.
- lxxxv See *Marrakech café bomber Adel Othmani given death sentence*, BBC NEWS AFRICA, (October 28, 2011), available at <http://www.bbc.co.uk/news/world-africa-15500908>.
- lxxxvi See Ministry of Tourism. Excel spreadsheet. "Arrivees nuitees EHTC 2011." Received on February 2, 2012 at In Person Interview.
- lxxxvii See Ministry of Tourism. Excel spreadsheet. "'Capacite Heb 2010.'" Received on February 2, 2012 at In Person Interview.
- lxxxviii See Telephone Interview with Nawfal Bendefa. Managing Director, Actif Invest (May 16, 2012). (hereinafter Nawfal Bendefa Interview).
- lxxxix See Morocco Tourism, Moroccan Business News published by Centre Marocain de Conjoncture, available at <http://www.moroccobusinessnews.com/Sectors/Tourism.asp>.
- lxxx These figures include MRA, in addition to international visitors.
- lxxxii See CBRE, Draft Tourism Report, *supra* note 15, at 26.
- lxxxiii *Id.* at 28.
- lxxxiiii See Elan Properties, Vision 2010, available at <http://www.moroccoproperty1.com/morocco-vision-2010.php>.
- lxxxv See CBRE, Draft Tourism Report, *supra* note 15 at 30.
- lxxxvi *Id.* at 30.
- lxxxvii *Id.* at 30-31.
- lxxxviii *Id.* at 32.
- lxxxix See CBRE, Draft Tourism Report, *supra* note 15 at 32.
- lxxxix See In Person Interview with Karim Beqqali, Managing Director, CB Richard Ellis Maroc (March 22, 2012). (hereinafter Karim Beqqali, CBRE Interview).
- xc See Nawfal Bendefa Interview, *supra* note 78.
- xcii See CBRE, Draft Tourism Report, *supra* note 15 at 32.
- xciii See Karim Beqqali, CBRE Interview, *supra* note 89.
- xciv See Nawfal Bendefa Interview, *supra* note 78.
- xcv See CBRE, Draft Tourism Report, *supra* note 15, at 33.
- xcvi *Id.*
- xcvii See In Person Interview with Tim Brown, SVP of Development, Kerzner International (February 16, 2012). (hereinafter Tim Brown, Kerzner Interview). Request for the interview to be kept anonymous.
- xcviii See Nawfal Bendefa Interview, *supra* note 78.
- xcix *Id.*
- c *Id.*
- ci See Karim Beqqali, CBRE Interview, *supra* note 89.
- cii See Nawfal Bendefa Interview, *supra* note 78.
- ciii See CBRE, Draft Tourism Report, *supra* note 15 at 34.
- civ *Id.*

cv See Karim Beqqali, CBRE Interview, *supra* note 89.

cvi See Nawfal Bendefa Interview, *supra* note 78.

cvii See CBRE, Draft Tourism Report, *supra* note 15, at 34.

cviii *Id.*

cix *Id.*

cx See CBRE MarketView Q4 2010, available at http://portal.cbre.eu/ma_en/research.

cxii See In Person Interview with Youssef Benamour, CEO and Founder, Earth Properties (January 31, 2012). (hereinafter Youssef Benamour, Earth Properties Interview).

cxiii See Mazagan Beach Resort website, available at

<http://www.fivestaralliance.com/luxury-hotels/casablanca/mazagan-beach-resort>.

cxiii *Id.*

cxiv See Youssef Benamour, Earth Properties Interview, *supra* note 111.

cxv See Tim Brown Kerzner Interview, *supra* note 97.

cxvi *Id.*

cxvii The Top 20 Tourist Destinations in the World for 2010 based on international tourist arrival figures were, in descending order: France, United States, China, Spain, Italy, United Kingdom, Turkey, Germany, Malaysia, Mexico, Austria, Ukraine, Russia, Hong Kong, Canada, Thailand, Greece, Egypt, Poland, and Macao. See UNWTO Tourism Highlights, 2011 Edition, World Tourism Organization, available at

http://mkt.unwto.org/sites/all/files/docpdf/unwtohighlights11enlr_3.pdf.

cxviii See Powerpoint file, received from Mohamed Dine, Chef de Pole Coordination et Suivi, at the Ministry of Tourism on February 2, 2012. Title of the presentation “A Strategic Vision for 2020 for Tourism Development.” Title of the file “Presentation M le ministry HICA”.

cxix *Id.*

cxx For the Ministry of Tourism, green and sustainable development is defined as valuing and preserving natural and rural resources and ensuring the social and cultural authenticity of host communities. See Powerpoint file, received from Mohamed Dine, Chef de Pole Coordination et Suivi, at the Ministry of Tourism on February 2, 2012. Title of the presentation “A Strategic Vision for 2020 for Tourism Development.” Title of the file “Presentation M le ministry HICA”.

cxxi The Souss-Sahara Atlantic region contains the cities Agadir, Tafraoute, Guelmim and Tan Tan. The objectives for this region by the year 2020 are to have 3.9 million visitors (compared to 1.2 million visitors in 2010), an additional bed capacity of 75,000 beds to reach 109,700 beds, the creation of 117,400 direct jobs, and an income of \$3,400 million USD from tourism (compared to \$957 million USD in 2010).

The Morocco Mediterranean region contains the cities Saidia, Cala Iris and Marchica. The objectives for this region by the year 2020 are to have 900,000 visitors (compared to 450,000 visitors in 2010), an additional bed capacity of 17,800 beds to reach 27,300 beds, the creation of 23,000 direct jobs, and an income of \$725 million USD from tourism (compared to \$273 million USD million in 2010). The Center Atlantic region contains the cities Rabat, Casablanca, and El Jadida. The objectives for this region by the year 2020 are to have 3.8 million visitors (compared to 2.8 million visitors in 2010), an additional bed capacity of 12,500 beds to reach 39,300 beds, the creation of 63,700 direct jobs, and an income of \$22 million USD from tourism (compared to \$1,620 million US in 2010).

The Marrakech Atlantic Region contains the cities Marrakech, Toubkal, and Essaouira. The objectives for this region by the year 2020 are to have 3.7 million visitors (compared to 1.9 million visitors in 2010), an additional bed capacity of 26,000 beds to reach 86,000 beds, the creation of 67,700 direct jobs, and an income of \$3,135 million USD from tourism (compared to \$1,620 million USD in 2010).

The Morocco Center region contains the cities Fez, Meknes & Volubilis, and Ifrane. The objectives for this region by the year 2020 are to have 2.8 million visitors (1.0 million visitors in 2010), an additional bed capacity of 20,700 beds to reach 36,300 beds, the creation of 74,500 direct jobs, and an income of \$2,300 million USD from tourism (compared to \$770 million USD in 2010).

The Northern Destination region contains the cities Tangier, Tetouan and Tamuda Bay, Chefchaouen, Asilah and Larache. The objectives for this region by the year 2020 are to have 2.8 million visitors (compared to 715,000 visitors in 2010), an additional bed capacity of 28,300 beds to reach 43,300 beds, the creation of 76,000 direct jobs, and an income of \$2,350 million USD from tourism (compared to \$735 million USD in 2010).

The Atlas & Valleys region contains the Haut Atlas, Ouarzazate, and numerous valleys and oases. The objectives for this region by the year 2020 are to have 1.8 million visitors (compared to 880,000 visitors in 2010), an additional bed capacity of 10,600 beds to reach 26,600 beds, the creation of 39,000 direct jobs, and an income of \$1,557 million USD from tourism (compared to \$690 million USD in 2010).

The Great South Atlantic region contains the site of Dakhla. The objectives for this region by the year 2020 are to have 114,000 visitors, an additional bed capacity of 3,200 beds to reach 3,800 beds, the creation of 4,260 direct jobs, and an income of 98 million USD from tourism (compared to \$13 million USD in 2010).

See Powerpoint file, received from Mohamed Dine, Chef de Pole Coordination et Suivi, at the Ministry of Tourism on February 2, 2012. Title of the presentation "A Strategic Vision for 2020 for Tourism Development." Title of the file "Presentation M le ministry HICA".

cxxiii *Id.*

cxxiv *Id.*

cxxv *Id.*

cxxvi See *Gulf SWFs back Morocco tourism fund*, REUTERS AFRICA (December 1, 2010), available at

<http://af.reuters.com/article/topNews/idAFJJOE6B00KY20101201?sp=true>.

cxxvii See SWF Institute, *Middle East Sovereign Funds Invest in Moroccan Tourism Industry* (November 28, 2011), available at <http://www.swfinstitute.org/swf-news/middle-east-sovereign-funds-invest-in-moroccan-tourism-industry/>.

cxxviii See Agence Marocaine de Presse (MAP), *Agreement Setting Up Morocco's Tourism Investment Fund Signed in Rabat* (November 24, 2011), available at <http://www.map.ma/en/activites-royales/agreement-setting-moroccos-tourism-investment-authority-signed-rabat>.

cxxix See *Gulf SWFs pledge billions in investment in Morocco*, REUTERS AFRICA (Nov 25, 2011), available at <http://www.emirates247.com/business/economy-finance/gulf-swfs-pledge-billions-in-investment-in-morocco-2011-11-25-1.430062>.

^{cxxx} See Kimberly Amadeo, *Gulf Cooperation Council*, available at <http://useconomy.about.com/od/worldconomy/p/gcc.htm>

^{cxxx} See *Welcome For Enlarged GCC That Would Include Morocco and Jordan*, THE NATIONAL, available at <http://www.thenational.ae/news/world/middle-east/welcome-for-enlarged-gcc-that-would-include-morocco-and-jordan>.

^{cxxxii} See In Person Interview with Amine Chafai Alaoui. Responsible for ACTION Project, Transparency Maroc (February 2, 2012). (hereinafter Amine Chafai Alaoui Interview).

^{cxxxiii} The United States has similar reasoning for its involvement. The U.S. Department of State describes Morocco as “a stable, comparatively moderate Arab Muslim nation [... that] is important to U.S. interests in the Middle East.” For the U.S., the engagement of third world countries in economic deals with the West is the new weapon in the war on terrorism. See U.S. Department of State, Background Note: Morocco. (March 12, 2012), available at <http://www.state.gov/r/pa/ei/bgn/5431.htm>.

^{cxxxiv} See In Person Interview with Jean-Philippe Oursin, Senior International Officer, Hines Middle East and North Africa, Hines (February 24, 2012). (hereinafter Jean-Philippe Oursin, Hines Interview).

^{cxxxv} *Id.*

^{cxxxvi} *Id.*

^{cxxxvii} *Id.*

^{cxxxviii} *Id.*

^{cxxxix} *Id.*

^{cxl} See In Person Interview with Allen L. Krause, Economic Officer, U.S. Consulate Morocco. (January 31, 2012). (hereinafter Allen Krause, U.S. Consulate Interview).

^{cxli} See Powerpoint file, received from Mohamed Dine, Chef de Pole Coordination et Suivi, at the Ministry of Tourism on February 2, 2012. Title of the presentation “A Strategic Vision for 2020 for Tourism Development.” Title of the file “Presentation M le ministry HICA”.

^{cxlii} See In Person Interview with Rabia El Alama, Managing Director, American Chamber of Commerce Morocco (February 1, 2012). (hereinafter Rabia El Alama, AmCham Interview).

^{cxliii} *Id.*

^{cxliv} See Interview with Nate Shanok, Managing Director, Tishman Speyer. (February 24, 2012). (hereinafter Nate Shanok, Tishman Interview). It is important to note that the interview was not the views of Tishman Speyer and was not an official Tishman Speyer authorized interview.

^{cxlv} Examples include the FMDT, Vision 2020, and the Constitutional reforms in 2011.

^{cxlvi} Nawfal Bendefa refers to the FDMT (See previous section titled Vision 2020) as “bullshit,” only consisting of a big announcement without an exchange of capital. Bendefa believes that the FDMT is just an example of Gulf politics and positioning and will not actually materialize. See Nawfal Bendefa Interview, *supra* note 78.

^{cxlvii} The one political party was set to fill the role was the Authenticity and Modernity Party (Parti Authenticité et Modernité, PAM), founded by former interior minister and the King’s long time friend, Fouad Ali El Himma. See In Person Interview with Amine Chafai Alaoui, *supra* note 132.

^{cxlviii} *Id.*

^{cxlix} *Id.*

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- ^{cl} In 1970, the sociologist Robin Williams identified what he believed were ten core American values. They included equal opportunity (this refers to American's perception of fairness and having the same rules for everyone), democracy and enterprise (this refers to American democratic principles of individual rights to pursue personal and business enterprises which cannot be overridden by government), and freedom (this refers to favoring individual initiative over collective conformity). See John J. Macionis, 2005. *Sociology*. 10th ed. Upper Saddle River, New Jersey: Pearson Prentice Hal, at 66.
- ^{cli} See Transparency International, *Good Governance Challenge 2010*, *supra* note 25.
- ^{clii} As one researcher noted, "The essence of Western civilization is the Magna Carta, not the Magna Mac. The fact that non-Westerners may bite into the latter has no implications for their accepting the former." See S.P. Huntington, *The Clast of Civilizations and the Remaking of World Order*, New York: Simon & Shuster, (1996), at 58.
- ^{cliii} As Oursin stated, "When a country has a democratic agenda, that country has a business development agenda. But the Arab world does not want to be Westernized in terms of business. The Arabs are historically traders and have not evolved into being investors. Hines is invested in Brazil, Mexico, India and China. All three countries have similar business environments. Mexico and Brazil have completely Westernized business models. China, although a socialist country, wants to be Westernized in terms of business. India also wants a business framework based on European values." See Jean-Philippe Oursin, Hines Interview, *supra* note 134.
- ^{cliv} See Jean-Philippe Oursin, Hines Interview, *supra* note 134.
- ^{clv} See Nate Shanok, Tishman Interview, *supra* note 144.
- ^{clvi} Webster's Dictionary defines culture as "the set of shared attitudes, values, goals, and practices that characterizes an institution or organization." See <http://www.merriam-webster.com/dictionary/culture>.
- ^{clvii} When GCC countries do business in Morocco, business is conducted in Arabic.
- ^{clviii} See Jean-Philippe Oursin, Hines Interview, *supra* note 134.
- ^{clix} See Allen Krause, U.S. Consulate Interview, *supra* note 140.
- ^{clx} Abbas J. Ali, Decision-Making Style, Individualism, and Attitudes toward Risk of Arab Executives. *International Studies of Management & Organization*, Vol. 23, No. 3. Management and Its Environment in the Middle East (Fall, 1993), pp. 53-73.
- ^{clxi} *Id.*
- ^{clxii} The study was conducted via questionnaires distributed at the Arab Gulf Management Development Conference in November 1986. Of the 180 questionnaires that were distributed, 117 were returned. A majority of the subjects were Saudis. Among the subjects, 62 percent are middle managers and over 85 percent are between the ages of 30 and 49. About 90 percent have a college or graduate degree. Of the subjects, 76 percent work in firms employing 251 employees or more, and 19 percent work in the private sector.
- ^{clxiii} See Youssef Benamour, Earth Properties Interview, *supra* note 111.
- ^{clxiv} See Karim Beqqali, CBRE Interview, *supra* note 89.
- ^{clxv} *Id.*
- ^{clxvi} See In Person Interview with Ahmed Yassine Foukara, Directeur du Pole Strategie et Etudes, ICPC (February 2, 2012).

clxvii The 2009 Global Corruption Barometer revealed that 60 percent of Moroccan households reported paying bribes in the year preceding the survey. *See* NIS Study 2009, *supra* note xxiii, at 20-21.

clxviii An Inter Press Service (IPS) article stated, “the going joke in Morocco is that it has been spared weapons of mass destruction, but it is being destroyed by weapons of mass corruption.”^{clxviii} In the IPS article, economist Mustapha Antra said that “although corruption has a strong history in Morocco, the reasons for corruption in Morocco today are more than just historical, such as ‘domination by the culture of fear, under-developed social relations, illiteracy and ignorance, and a population culture which finds justifications for corruptions.’” *See* Abderrahim El Quali, *Corruption-Morocco: Worries Rise With It*, IPS CORRESPONDENTS (February 21, 2006), *available at* <http://ipsnews.net/2006/02/corruption-morocco-worries-rise-with-it/>.

clxix *See* NIS Study 2009, *supra* note xxiii, at 21.

clxx *Id.*

clxxi *See* Ian Black, *WikiLeaks cables accuse Moroccan royals of corruption*, THE GUARDIAN (December 6, 2010), *available at* <http://www.guardian.co.uk/world/2010/dec/06/wikileaks-cables-morocco-royals-corruption>.

clxxii *See* Allen Krause, U.S. Consulate Interview, *supra* note 140.

clxxiii *See* Foreign Corrupt Practices Act Antibribery Provisions, The Foreign Corrupt Practices Act of 1977, as amended, 15 U.S.C. §§ 78dd-1, *available at* <http://www.justice.gov/criminal/fraud/fcpa/docs/lay-persons-guide.pdf>.

clxxiv Following the passage of the FCPA, Congress was concerned that now American firms were at a disadvantage compared to foreign firms who continued to pay bribes to facilitate business. In 1997, the United States and thirty-three other countries signed the Organization of Economic Cooperation and Development (OECD) Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. Morocco is not a signatory to this convention, although Morocco does participate in OECD dialogues. *See* Middle East and North Africa. *Initiative on Governance and Investment for Development*, OECD website, *available at* http://www.oecd.org/document/49/0,3746,en_34645207_34645555_47739569_1_1_1_1_00.html. (hereinafter OECD MENA Initiative).

clxxv The Department of Justice is the chief enforcement agency, with a coordinate role played by the Securities and Exchange Commission (SEC).

clxxvi *See* Allen Krause, U.S. Consulate Interview, *supra* note 140.

clxxvii *See* Allen Krause, U.S. Consulate Interview, *supra* note 140.

clxxviii *See* Jean-Philippe Oursin, Hines Interview, *supra* note 134.

clxxix *Id.*

clxxx *See* OECD MENA Initiative, *supra* note 174.

clxxxi Bureaucracy is a government with many bureaus, administrators, and petty officials. *See* <http://www.merriam-webster.com/dictionary/>.

clxxxii *See* *The Report: Morocco 2007*. Oxford Business Group, *An Attractive Option: OBG talks to Thomas J. Barrack*, at 141. (hereinafter OBG Morocco Report 2007).

clxxxiii For perspective, the United States is ranked 17th globally as it requires 15 procedures, takes 26 days on average, and costs 12.8% of income per capita. See *Doing Business in Morocco, 2012 Report*, at 114 and 135.

clxxxiv See *Doing Business in Morocco, 2012 Report*, at 114 and 135, available at <http://www.doingbusiness.org/reports/global-reports/doing-business-2012>.

clxxxv *Id.*

clxxxvi See Tim Brown, Kerzner, *supra* note 97.

clxxxvii Nepotism is defined as patronage bestowed or favoritism shown on the basis of family relationship. Cronyism is the practice of favoring one's close friends, especially in political appointments. Wikipedia defines clientelism as a term used to describe the exchange of goods and services for political support. See <http://www.merriam-webster.com/dictionary> and <http://en.wikipedia.org/wiki/Clientelism>.

clxxxviii See Ibrahim Kalin, *Democracy, deep state and crony capitalism in the Arab world*, TODAY'S ZAMAN (January 18, 2012), available at <http://www.todayszaman.com/columnist-268959-democracy-deep-state-and-crony-capitalism-in-the-arab-world.html>.

clxxxix "National Integrity System" is the name given by Transparency International for the key institutions and actors which shape how a country is governed, including the executive, legislature, judiciary, and the public oversight institutions of the government, as well as non-state actors, such as the media, civil society and the business sector.

cx^c She is the granddaughter of Haj Ahmed Belqih, a wealthy businessman who dominated the tea trade in Morocco. She is also the wife of Aziz Akhannouch, Minister of Agriculture and Fisheries. In addition to his position as minister, Aziz Akhannouch holds the title of CEO of Akwa, Morocco's largest energy company. See Samia Errazzouki, *The Morocco Mall: Luxury for the Masses?*, AL AKHBAR ENGLISH (December 8, 2011), available at <http://english.al-akhbar.com/content/morocco-mall-luxury-masses>.

cxci *Id.*

cxcii See DefenseWeb, *Royal Air Maroc Cuts Staff and Adds New Aircraft to Counter Losses* (September 12, 2011), available at <http://morocoworldnews.com/2011/09/royal-air-maroc-cuts-staff-and-adds-new-aircraft-to-counter-losses/9287>.

cxciii Most of the financing for its housing market comes from Moroccan banks and thus their exposure to European and United States banks was extremely low. See *The Report: Morocco 2009*. Oxford Business Group. at 113. (hereinafter OBG Morocco Report 2009).

cxciv *Id.* at 113.

cxcv See Youssef Benamour, *Earth Properties Interview*, *supra* note 111.

cxcvi See CBRE MarketView Q4 2010, available at http://portal.cbre.eu/ma_en/research.

cxcvii *Field of Dreams* movie quote. See Universal Pictures, *Field of Dreams*, 1989.

cxcviii See Tim Brown, Kerzner, *supra* note 97.

cxcix See Karim Beqqali, *CBRE Interview*, *supra* note 89.

cc See Tim Brown, Kerzner, *supra* note 97.

cci See *Doing Business in Morocco, 2012 Report*, *supra* note 184.

ccii The 2009 Global Corruption Barometer surveys showed that Moroccan respondents consider the following sectors to be the most corrupt, in descending order: the judiciary, the police, political parties, and health services. See NIS Study 2009, *supra* note xxiii, at 20-21.

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- cciii See Siham Ali, *King Mohammed VI Calls for Overhaul of Judicial System*, MAGHAREBIA (August 24, 2009), available at http://www.magharebia.com/cocoon/awi/xhtml1/en_GB/features/awi/features/2009/08/24/feature-01.
- cciv See Guardiagate Wikileak from the U.S. Consulate in Casablanca (October 22, 2009), available at <http://leaks.hohesc.us/?view=09CASABLANCA198>.
- ccv *Id.*
- ccvi *Id.*
- ccvii While the article referenced was written in 2009, there is no evidence to show that this is no longer the case.
- ccviii See Guardiagate Wikileak from the U.S. Consulate in Casablanca (October 22, 2009), available at <http://leaks.hohesc.us/?view=09CASABLANCA198>.
- ccix See Nawfal Bendefa Interview, *supra* note 78.
- ccx A real estate investment trust, or REIT, is a company that owns and, in most cases, operates income-producing real estate. The shares of many REITs are traded on major stock exchanges. To qualify as a REIT in the United States, a company must have most of its assets and income tied to real estate investment and must distribute at least 90 percent of its taxable income to shareholders annually in the form of dividends. A company that qualifies as a REIT is permitted to deduct dividends paid to its shareholders from its corporate taxable income. As a result, most REITs remit at least 100 percent of their taxable income to their shareholders and owe no corporate tax. Most states honor this federal tax treatment and do not require REITs to pay state income tax. REITs are basically a creation by tax legislators in order to encourage real estate investment by offering favorable tax terms. See REIT.com, *What is a REIT?*, available at <http://www.reit.com/REIT101/WhatisaREIT.aspx>.
- ccxi See Nawfal Bendefa Interview, *supra* note 78.
- ccxii President Eisenhower signed into law the REIT Act title contained in the Cigar Excise Tax Extension of 1960. See REIT.com, *Timeline*, available at <http://www.reit.com/timeline/timeline.php>.
- ccxiii *Id.*
- ccxiv See Nawfal Bendefa Interview, *supra* note 78.
- ccxv Nawfal Bendefa, Managing Director of Actif Invest, has drafted and is currently trying to pass REIT legislation in Morocco in order to make the tax environment more compelling for investors. See Nawfal Bendefa Interview, *supra* note 78.
- ccxvi *Id.*
- ccxvii See Tim Brown, Kerzner, *supra* note 97.