

## **Irrational exuberance in Marrakech - Morocco Real Estate**

*By Karim Zouiyen for Morocco Newsline*

*Dated: Jul 15, 2008*

*The playground for the rich and famous for many years, Marrakech, seems to have fallen victim to its own success. The tell-tale signs, inflation is at an all time high, real estate prices have skyrocketed...*

The king's speech at the 2001 Conference on Tourism held in Marrakech marked a turning point in policy. The government presented Vision 2010 as Morocco's national strategy in the tourism sector. The main objectives were to attract five times as many visitors in 2010 as in 2002 and create 600.000 new jobs in the hospitality and tourism sector. In 2002, Marrakech benefited from a 200 million Dirhams (27.4 Million USD) endowment established by the King of Morocco. The red city became the jet-set capital of Africa. Building on its momentum, Marrakech has capitalized on its competitor's unfavorable environment. The surge in terrorism activity in Egypt in 2002, the bird flue scare in Turkey and terrorist threats from Kurd separatists against tourist sites have all favorably benefited tourism in Morocco.

For many years, Marrakech followed the strategic development path of the hospitality and tourism sector, it was its industry of choice. Thanks to its rich culture, its exotic landscapes and proximity to Europe, a mere three hour flight away from all major European capital, Marrakech attracted more than two million tourists in 2007.

After September 11, many investors from the Middle East faced with increasing difficulties when investing in the US and Europe saw in Morocco a friendly Islamic country with great investment potential. Marrakech has attracted major foreign investors. Today the investments are in excess of 161 Billion Dirhams (in dollars).

Can't have your cake and eat it to

From an economic standpoint, Marrakech has undeniably benefited. The flipside, local official seem to overlook is that there is activity without external diseconomies.

According to the Haut Commissariat au Plan (HCP), Marrakech is today, by far, the most expensive city in Morocco. And the economy at large was impacted. The upswing of prices has been remarkable in Marrakech. However, this label does not sit well with the consumers, tourists and locals alike.

Local officials have been trying to shed off this image. Abdellatif Kabbaj, "the myth of the expensive city is false, categorically false". This statement contradicts the numbers advanced by the Haut Commissariat au Plan, HCP, (High Commission of Planning.) The cost of living index for the first 5 months of 2008 is higher than the national average by 2.7 points. It has reached 184.9.

A few years ago, Marrakech was seen as a tourist destination where life was simple and affordable. Between 2003 and 2007 the price of land doubled. Fueled by real-estate speculators and wealthy clients looking for state of the art construction, not to mention soaring gas prices, prices of raw materials are soaring. In the Financial Times, a few weeks ago, a real-estate agency was advertising a 1500 square meter house in Marrakech for 6.8 million dollars. The same agency is advertising a 1000 square meter villa for sale in St Tropez outskirts for a mere 4.25 Million dollars.

This euphoria has enthralled various sectors of the local economy. Tourists who are able to afford higher prices drive retailers to raise prices of existing products and stock more expensive ones. Everybody bears

the brunt of steeper prices. Ironically, retailers themselves, being able to sell their goods at higher prices are asked to shell more for their rents. They end up passing along the cost to customer. Both local consumers and tourists have been victimized by the sticker shock sting. Consumers have been outraged by some eye-popping price increases. These inflationary tensions have spilled over other sectors of the Moroccan economy and contributed to a rise in the general inflation. The local consumers well being and quality of life has being impacted by this "irrational exuberance." Tithe price increase of the basic goods are rising faster the general inflation.

This euphoria in Marrakech has spawned a policy of "business opportunism" that may, sooner or later, negatively impact the local economy. Some unscrupulous taxi drivers, restaurateurs and small shops owners, have been charging unjustifiably high prices.

Regulations have been implemented to deter taxi drivers and restaurants owners from inflating their prices. Local public officials argue that, in a free market economy, there is not much government can do to fight excessive pricing. The issue is enforcement, the regulations aiming at curbing abusive pricing lack teeth because they are difficult to enforce, therefore their possible deterrent effect remains minimal. It all amounts to window dressing and falls short in its effort to satisfy and reassure the international public opinion.

#### Economic overdependency

In Marrakech the sources of income are not diversified. Tourism is the only major industry. The choice is not between "Manufacturing and Tourism", but rather "Tourism or unemployment".

The numbers speak for themselves. Between 2003 and 2007, investments in Marrakech reached over 158 Billion Dirhams. The tourism sector claiming the lion share of 72%, 27% went to the real-estate and less than 1% was shared among commerce, agriculture, the craft industry and services combined. The land and labor gobbled up by the hospitality and tourism industry have an opportunity cost that has often been overlooked. The country has started a long overdue alternative economic development.

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