Lebanese Banks Loans to Construction and to Housing

![Bar chart showing bank loans to housing and construction from 2005 to 2010.](chart)

Source: Banque du Liban, Lebaense Real Estate Newsletter

Top Ten Locations in Africa and the Middle East

![Graph showing rental prices in selected malls in Lebanon.](chart)

<table>
<thead>
<tr>
<th>Mall</th>
<th>Estimated Rental Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>ABC Mall Ashrafieh</td>
<td>$1500 - 2000</td>
</tr>
<tr>
<td>Beirut Souks</td>
<td>$1200 - 1800</td>
</tr>
<tr>
<td>Le Mall Dbayeh (Under Construction)</td>
<td>$1000 - 1200</td>
</tr>
<tr>
<td>Le Mall Sin El Fil</td>
<td>$750 - 1000</td>
</tr>
<tr>
<td>Le Mall Saida</td>
<td>$400 - 500</td>
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</tbody>
</table>

Source: Acres Development, Ramco Real Estate Advisers, Executive Magazine

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Macroeconomic Overview of Real Estate Performance in 2011

Unsurprisingly, 2011 ended on an uncertain note for Lebanon. Amidst continuous regional political tensions and ongoing domestic political stains, the economy found no other way but to trail a down track. The real estate sector was one of the drivers with indicators pointing to slowdown in activity. The number of real estate transactions fell by 12.02% to 82,984 over the year, and the value of real estate transaction dropped $0.64 billion to $8.84 billion. The share of foreigners in real estate sales transactions plunged by 11% from 2.04% of total sales transactions in 2010 to 1.81%. The average real estate transaction value, however, stood at $106,533, 6.01% higher than in 2010. The average value per sales transaction in Beirut continued its down trend and fell from $462,704 as of end-November 2010, to $456,018 as of end December-2011. This reveals a shift in buyers’ interest from high-end residential to more affordable suburbs such as of Metn and Kessariani, while maintaining a significant demand - mostly end-user - for the sector.

Price Variation across Areas

Different types of real estate have all followed an upward trend for prices over the past few years and remained resilient to the downturn. Residential, retail, and corporate spaces followed the same trend whether offered for buy or rental. Yet while the upsurge in prices reached different areas within Lebanon and ranked Beirut 37th among the most expensive retail locations out of 63 countries and the most expensive among 10 Arab cities selected in the survey “Main streets across the world 2011” conducted by Cushman & Wakefield, each region followed a different pace of rise.

On the high end of the market, one square meter surged from between $3000 and $4000 six years ago, to $14,000 to $15,000 in 2010. Prime areas in Lebanon include Hamra, which embodies the city’s main economic and diplomatic centers. Land prices in that area range today between $1,800 and $2,200/square meter (sq.m.) The area has maintained its status as one of the most expensive regions in the country in spite of the several newly born hot spots as it enjoys several characteristics that help it sustain its high end standing. Hamra is the first pedestal destination in Lebanon, and it is highly frequented during day time and night time by different segments of the population, from students, to employees, to businessmen.

Other high standing areas include Verdun where prices have reached today $5000/sq.m. and above, and where smaller apartments of 250 to 300 sq.m. are on the rise to cope with demand. The area has achieved itself as a commercial and residential hub of high standing and was able to sustain its image despite the establishment of Beirut Souks.

Other areas that have witnessed a rise in price but remain within affordable budget, compared to other areas such as the ones cited above, include underdeveloped peripheral areas, such as Jnah and Corniche El Nahr, where land prices range between $800/sq.m. and $1,500/sq.m.

Rental Activity

Rental costs have subsequently been on the uprise. According to the study “Main streets across the world 2011”, conducted by Cushman & Wakefield, Lebanon embraces the third most expensive retail rents among 13 cities in the Middle East. The survey shows that ABC Centre in Achrafieh Beirut witnessed the strongest rental growth in the MENA region growing by 33.3% over the year to June 2011 to reach $2,000/sq.m./yr.. Beirut City Centre (BCD) has also seen a significant 13.3% rise in rental growth to $1,256/sq.m./yr.. Rental cost in Kaslik area grew by 7.1% to $1,500/sq.m./yr.. Yet in spite of growing rental services, signs show that supply is still limited. According to Ramco Real Estate Advisors, 95% of retail space in Hamra, Verdun, Achrafieh, and Gemmayzeh was occupied as of July 2011.

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1 According to the Executive article, “Big is getting bigger” published on February 6, 2012
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Drivers for Price Upsurge and Recent Slowdown

According to bankers and real estate experts, the rise in prices that cooled off recently reflects a correction that has been long overdue in the market. According to Raja Makarem, founder of Ramco, a real estate adviser, “asking prices that were way above fair market value have now dropped to more realistic prices”. This points to the fact that the rise in prices is fundamental rather than speculative and thus a deep plunge in prices will most likely be averted. The historical trend also reinforces that analysis as prices remained resilient amidst different episodes of political instability, falling for instance by just 2.3% during the war of summer of 2006.

The fundamental growth in prices of real estate is owed partly to the Central Bank’s effective policy in terms of preventing speculation. It consists of limiting loans for real estate from banks to 60% of a project’s value, while requiring collateral against such loans. Such policy helps limit leverage and force developers to finance the bulk of projects with equity. That said, developers find no pressure to sell and repay debt in tough times such as recently, limiting by that the downward pressure on prices.

Unceasing Expansion of Real Estate Supply

The cool off of real estate transactions did not however brought along a weakening in construction activity. Cement deliveries were up 6.2% y-o-y in 2011 to reach 5.5 million tons as the former represents ongoing construction activity for which permits have been issued in the past, most probably before the eruption of the Arab Spring. What is helping boost further up development projects is the cheaper construction material made available today through increased competition, and the firming Chinese industry that is offering comparable high standards products for lower costs. Statistically, a block of marble that would normally be bought from Italy at $80-$90/sq.m. can now be purchased for $15-$20/sq.m.

Another incentive helping boost up the supply of real estate is the expanding mortgage market. While historically housing loans have only been available to developers of new properties and homebuyers find no other way to purchase apartments but through cash, several banks today started to offer mortgage loans directly to homebuyers. The mortgage market grew to 11.5% of GDP in 2010, up from an average of 4.9% from 2004 to 2007. It is also expected that home lending in 2012 will target all income categories, creating more opportunities and boosting up activities of the sector.

Ongoing residential and commercial projects are expected to exceed $10 billion in value in 2012. Among new developments is the Beirut Seafront, which expands from Ain el Mreisseh to Ramlet el Baida, and which has witnessed the construction of 22 high-end residential buildings with an average of 18 floors per project and 200 apartments for sale at an aggregate value of $850 million. Among the projects, the “Plaza Residence”, adjacent to La Marina Dbayeh and offering three residential buildings surrounding a large community plaza. Apartments have different sizes to suit all buyers. The project is developed in partnership with Majid Al Futtaim Properties, Dubai based. Also, Beirut Central District is home to five new mega-projects with 580 apartments and 215,000 sq.m. of residential space, expected to start delivery in 2014; in addition to the new commercial projects with pubs and restaurants stretching along Uruguay streets.

According to “Lebanon Real Estate Newsletter” issued by Hayek Group published in January 2012

According to Global Property Price article, titled “Lebanese property market slowing amidst political uncertainty” published on February 7 2012

Mortgage loans are usually targeting those with a bracket of $1,000-$3,000

According to “Lebanon Real Estate Newsletter” issued by Hayek Group on January 2012
Verdun is seeing another major residential development project, Beirut Towers, with a value of $125 million. Other projects include BeirutMisk, an $800 million residential community projects in the mountainous Northern Metn region, Venus Towers; a $500 million residential project stretched over 7,510 meters in Marina Solidere in Beirut, Marina Towers; a residential complex being built near the Beirut Marina, Sama Beirut, a 200 meter skyscraper set to become the tallest building in the country; and Platinum Towers, a $200 million building stretching along the Marina in Beirut, completed in 2008. Also, the real estate sector is booming in the South as construction activities are being allowed based on Municipality’s approval and without the issuance of permits. Small and Medium Size Enterprises (SMEs) in the real estate and construction business are also growing. In 2012 SMEs will be building 70 sq.m. to 90 sq.m. apartments.

Retail real estate is also on the uprise. New mall operators are under planning and construction. Hazmieh area will be home to the country’s largest mall stretched over 60,000 sq.m. of Gross Leasable Area, developed this year by Dubai-based mall developer Majid Al Futtaim Properties this year. The rising activities in this retail sector is pushing up competition, and putting retailers under pressure to upgrade their services and price offers, pushing out by that low performers. “At renewal time, some tenants are asked to leave because there’s a waiting list; and malls want to improve their tenant mix” asserted by Michel Abchee, the builder of City Mall in Dora and the parent company of retailers BHV and Monoprix. Verdun 730 and 732 have for instance a waiting list of around 10 companies with rents starting at around $700/sq.m\(^7\).

Aside from residential and retail, corporate real estate is also on the upsurge. 15 corporate projects are being undergone in Beirut, creating around 80,000 sq.m. of offices in the next couple of years most of which will be offered for sale. The area around Starco has high potential for high-end products with prices going from $6,500 to $7,000 per sq.m.. Half of the projects are taking place in Acharfeh, in the neighborhood of Saifi, Gemmayze, and Badaro. Prices are in the range of $3,250 to $5,000 per sq.m., depending on the location.

While growing construction activities seem promising, construction permits, which echo the level of upcoming supply in the construction sector, plunged by a sharp 8.3% over 2011, impacted by regional political chaos and taming by that the hectic prospects for real estate. From a geographical distribution perspective, construction permits in 2011 were mostly issued for the Mount Lebanon region with a total of 8,482 thousand sq.m. (the equivalent of 61%), followed by the South with 1,638 thousand sq.m. (the equivalent of 11.8%), Beirut with 1,332 thousand sq.m. (the equivalent of 9.6%), the Bekaa with 1,209 thousand sq.m. (the equivalent of 8.6%), Nabatiyeh with 1,065 thousand sq.m. (the equivalent of 7.8%), and the North with 163 thousand sq.m. (the equivalent of 1.2%).

The performance of real estate in Lebanon relies on healthy drivers and the current slowdown is thus unlikely to turn into a severe stoppage of activities regardless of downside risks. However, a more peaceful regional environment and secure internal stability would definitely help boost up the performance of the sector in terms of activities. On the prices front, the rise in the past few years is perceived as fundamental and thus the current deceleration is not expected to change into a fall.

\(^7\) As stated in the Executive article, titled “Big is getting bigger” published on February 6, 2012
\(^8\) According to the owners and managers of the centers and as stated in the executive article, titled “Big is getting bigger” published on February 6, 2012
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