

Executive

Surviving a slow market

Lebanon's real estate market has remained stagnant since 2011



Greg Demarque / Executive

Without a radical improvement in the political and security climates, Lebanon's real estate market is unlikely to pick up. The market thus continues to stagnate as the economic, political and security situations continue to deteriorate. The picture may look gloomy, but it is not desperate. Demand may have slowed but it exists, with professional developers still launching new projects and prospecting for new plots of land. The rental market, meanwhile, is still active, particularly during the summer months just before schools resume.

Stringent market conditions, however, do have repercussions for market players on both the supply and demand sides of the equation. Surviving a slow market requires tight maneuvering and a keen understanding of market dynamics, in particular what buyers are looking for. What apartment size do they want? Do they want a maid's room? Do they want a family/TV room? Do they want two or three bedrooms? What budgets do they have available?

Developing new projects in the current climate is risky

Development mistakes

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Developing new projects in the current climate is risky. In difficult markets, no mistakes are allowed, whether in terms of budgeting, development or marketing. Developers must offer apartments of the right sizes, with the right layouts and amenities to remain within buyers' available budgets, and, as always, in the appropriate location.

Developers must understand that maximizing the use of internal spaces is crucial, as is minimizing common and service areas — such as staircases, hallways and lobbies, elevator and service shafts — because buyers pay the same price for these as they do for internal carpet areas. Under current market conditions, for instance, buyers refuse to buy an apartment in which common areas account for more than 20 percent of the internal sellable area. Buildings with such a “loss” of space find it difficult to convince buyers to pay the same price for areas from which they do not benefit directly. Developers must also decide on which amenities to include in the project to keep common charges reasonable — pools, gardens, gyms and playground spaces have a maintenance cost that may become too burdensome on future tenants.

Projects are typically delivered at least three to four years from the date developers acquire the land and start work on architectural drawings. Developers must therefore cater to existing market conditions — through pre-sales and sales made at the launching of the project — but also have an understanding of market trends to address the needs of future demand, which involves those buying at a later stage in the construction process or at completion. Current trends go in favor of smaller apartments costing between \$500,000 and \$1 million. However, buyers want layouts that maximize the usage of space — fitting in a maid's room or offering en suite bedrooms in an apartment as small as 125 square meters.

Lucrative investments

A stagnant market is an ideal playground for investors. Prices are at or very near their lowest values and are stable, giving prospective buyers solid bargaining clout. The main consideration for potential buyers is to acquire property at its fair market value. The property must also have income generation potential.

Land is traditionally a sure long term investment. If acquired at the right price, land in neighborhoods in Beirut that are in high demand can be sold at a profit in a relatively short period of time. However, profit margins have shrunk recently, as land prices have also stabilized. In the boom years between 2005 and 2008, land prices were skyrocketing, in tandem with a growth in demand for finished apartments. Today, the evolution in land prices follows a slower curve that reflects a stagnating market.

Investors have a range of property choices that will be easy to place on the rental market as income generating investments, such as small apartments in neighborhoods in high demand, including Mar Mikhael, Sassine in Ashrafieh and Hamra.

There are thousands of good quality properties on the market and competition is tough

Proper presentation

There are thousands of good quality properties (apartments, offices and shops) on the market and competition is tough. To increase the chances of finding a buyer or tenant for their properties, owners must differentiate their property from the rest of the market.

Most importantly, the property must be listed at its fair market value. The value of apartments and offices must be competitive vis-à-vis the rest of the market, while the value of shops must be in line with the potential returns that the unit can generate for its future operator.

Properties must also be well presented to attract the attention of prospective buyers: it must be clean and tidy to give a positive first impression.

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Happy buyers

Stressed markets are a plus for potential buyers. Prices are standing still, giving buyers plenty of time to look around, compare products and prices, and bargain mercilessly. They should be careful not to hesitate too long, however, as the smallest improvement in the political situation of the country may bring about another bout of price increases.