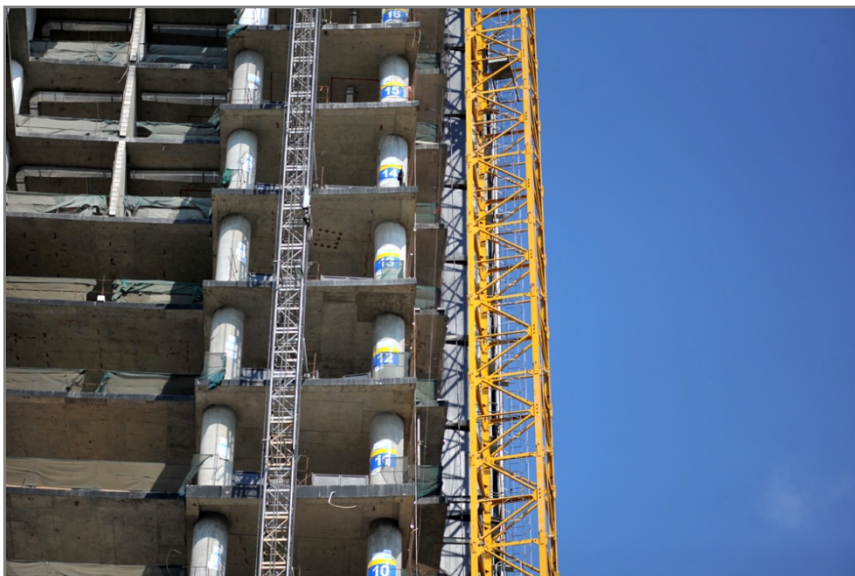


[Executive]

High price madness

Price increments per floor should be a function of the quality of the neighborhood and the view

by Karim Makarem



Residential development trends are catchy. Companies in Lebanon very often adopt whatever seems to be working best or whatever is applied most on the residential market. Why reinvent the wheel, indeed? While this maxim may hold true in many instances and certainly simplifies life, the underlying reason behind a particular strategy may be diluted or entirely lost in the mechanical process of copy-pasting.

This is true for the strategy applied to price increments per floor in recently built residential buildings. Most developers in Beirut now follow a standard formula: increase the square meter asking price by \$50–\$100 per floor. In some exceptional cases, price increments can range from as low as \$25 all the way up to \$200 per square meter per floor.

Lower floor, lower prices

It is understandable that the first two floors of a building should have the lowest selling prices as they sit just above the noise and dust of the street and have very constricted views, poor ventilation and less natural light. But what exactly determines price increments for the subsequent floors?

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Some very general patterns can be discerned. For instance, the poorer the quality of the area in which the residential building is located, the lower the increment. Asking sales prices in projects in middle market areas such as Bachoura, Tariq al-Jdideh or Fassouh usually increase by \$25–\$50 per square meter per floor.

On the other hand, some residential towers in prime, highly prized areas, such as Beirut Central District or along the Ain al-Mreisseh Corniche, increase their prices by \$100–\$200 per square meter per floor.

Unreasonable prices

The main drawback of systematically increasing prices by a fixed amount per floor starting from the first floor is that the upper floors become exorbitantly expensive. If prices increase by \$100 per square meter per floor, then the per square meter sales price of an 11th floor apartment is \$1,000 more expensive than the sales price of the first floor apartment.

The problem is that sometimes this difference in prices is not justified. It is true that the upper floors of some buildings offer better quality and unobstructed views. However, if the difference in quality is not substantial, then an additional expense of \$1,000 per square meter is unreasonably steep to the potential buyer.

An increase of \$100 per square meter translates into a total of \$15,000 for a standard 150 square meter apartment. Supposing that the apartment in this example is listed at a sales price of \$2,200 per square meter, then this additional \$15,000 would be almost equivalent to the registration fees of 5 percent — not a negligible amount.

More rational calculations

Price increments per floor level should instead follow a methodological reasoning. In the first place, the increase in prices must be justified by two basic premises: the improvement in the quality of the view from the upper floors and the quality of the neighborhood.

A more rational strategy would be to group floor levels together based on the quality of the view they offer and increase prices from one group to the next instead of increasing them from one floor to the next. For instance, if the view on the 6th floor is of the rooftop of the buildings across the street, but the 7th floor has an unobstructed view of the sea, then the 2nd to the 6th floors should have the same selling price and an increment should be applied between the 6th and 7th floors only.

Increments must also be coherent with the general state of the neighborhood. Regardless of the improvement in the views at the upper floors of a residential tower in a low end neighbourhood, for instance, an increment of \$100 per square meter per floor can never be justified. With the resulting large budgets on the upper floors, buyers could purchase a less expensive property in a neighborhood of much better quality.

By systematically applying a fixed price increment per floor, developers place their upper-floor apartments out of the financial reach of customers buying in a specific area. And such overpriced apartments risk remaining vacant for years.

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