

[Executive]

Misleading law on measurements

Reform would enhance market transparency

June 2014 by *Karim Makarem*



Construction work in Ashrafieh

Lebanon has witnessed an upheaval in recent months over the new law liberating old rental contracts. Inflamed, people took to the streets, some for — some against. While the rental law reopened the public debate over the implications of real estate legislation on social equity, the need for fair and adequate property legislation is hardly limited to the issue of rents.

A different real estate law is, in our opinion, very misleading to potential homebuyers and should be revised: the law on accounting for the metric size of a residential unit.

The homebuyer ends up receiving two different sizes for the apartment: the official size mentioned on the property deed and the size communicated by the developer. The official size on the property deed only accounts for the gross inner living area including shafts, the thickness of the walls, planters and flower beds, and the size of the balconies. Developers, however, add to this the common areas (staircases, landings, elevators, fire escapes etc.). Of course, every square centimeter of built-up area communicated by the developer gets billed at the going market rates.

Walk Through the numbers

At the moment, a two-bedroom apartment — the minimum requirement for a young couple buying their first home — counts at least 120 square meters. Despite developers' attempts to maximize living spaces, much of the space sold goes to areas other than net living space (i.e. carpet area). Regardless of the total final size of the apartment, homebuyers are always forced to pay for space that they will never actually use.

[Executive]

An example of a project currently under construction in an Ashrafieh neighborhood illustrates the problem well. The developer communicates apartments in this project as measuring 260 sqm. Of that total area, the net living space — including the thickness of the inner walls and balconies, which can then be closed — effectively measures 163 sqm.

The difference is staggering: about 37 percent of the space sold to homebuyers is unusable. These 97 sqm are divided among the different non-living spaces: the staircases, elevators, flower beds, fire escape, shafts and exterior walls.

Based on the developer's listed value of \$3,700 per sqm and the "official" size of 260 sqm, buying the apartment requires a total budget of \$962,000. Effectively, however, the new owner of this apartment would be paying a whopping \$81,400 just for the shafts — a perfectly empty space.

Who gets the shaft?

It is unfair and misleading to sell homebuyers square meters that they will not see or utilize in order to give buyers the impression that they are provided with a valuable property that posts a lower cost per square meter than what they actually end up paying. This highlights a legal loophole where the current law allows for discrepancies between the size of an apartment recorded on the property deed and the size at which the unit is advertised. Such discrepancies make it more difficult to eliminate the potential for fraud in real estate sales. Even in the standard case of honest transactions, this legal provision does not serve the interests of either homebuyers or the real estate market.

The Lebanese law on the metric size of residential units should mandate developers and property sellers to be much more transparent. Homebuyers have the right to know exactly how much carpet area they are buying. This has been done elsewhere; France adopted the Carrez Law in 1996 to specifically address this issue, protecting property buyers' right to accurate information.

Such a law does not change the total price of an apartment or make living in Beirut more affordable. It will increase the value per square meter attributed to the carpet area being sold.

If such a measurement law were to be applied to our Ashrafieh apartment example, prices would take on a different appearance. The apartment would still be sold at the same total price of \$962,000. However, this would only be applicable to the 163 sqm of living space. This means that the effective unit sales price would be of \$5,902 per sqm instead of \$3,700.

A new measurement law would naturally boost the price of the inhabitable square meter. After adjustment, prices in many neighborhoods of Beirut would probably list higher than in some districts in Paris. This would more accurately reflect the value of property in the Lebanese capital. And that's a better deal for everyone.