

ramco
REAL ESTATE ADVISERS SINCE 1973



The Quarterly

INFORMATION & INSIGHT
INTO THE LEBANESE REAL ESTATE MARKET



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Q1 . 2013



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always there.

RAJA MAKAREM
Founder & Managing Director

Letter from the founder



This year marks RAMCO's fortieth anniversary. Four decades that seem to have flitted by in the blink of an eye! Although brokering is one of the most challenging jobs to do anywhere in the world but especially in Lebanon, work has been a pleasure every day for the past 14,600 days.

The greatest pleasure I have personally derived from being a real estate agent in Lebanon is the strong personal ties I have built over the years with an extremely wide and varied profile of people – from large landlords to businessmen, visionary developers, sophisticated investors, savvy entrepreneurs, homebuyer families, young professionals looking for their first purchase....

Whether a shrewd land hunter or a trusting first-time home-owner, getting to know the story of each one of RAMCO's long list of clients, understanding the nuances of their individual needs, identifying the best match to address their expectations is an exciting challenge and a deep satisfaction every single time.

Over forty years, RAMCO has grown into a full line of real estate services company – from brokerage, to land acquisition and disposal, consultancy, valuation, project marketing and placement, sales and lettings, and research and publication.

RAMCO's staff has also grown, but it was able to retain employees who have accompanied it since its birth. This human capital, whether the one that has tracked the evolution of the market from the agency's first deal until today, thousands of deals later, or the young blood that joined over time, constitutes one of RAMCO's greatest assets.

And probably one of my greatest achievements, and a source of great personal pride, is the presence of two of my sons alongside me, ensuring continuity.

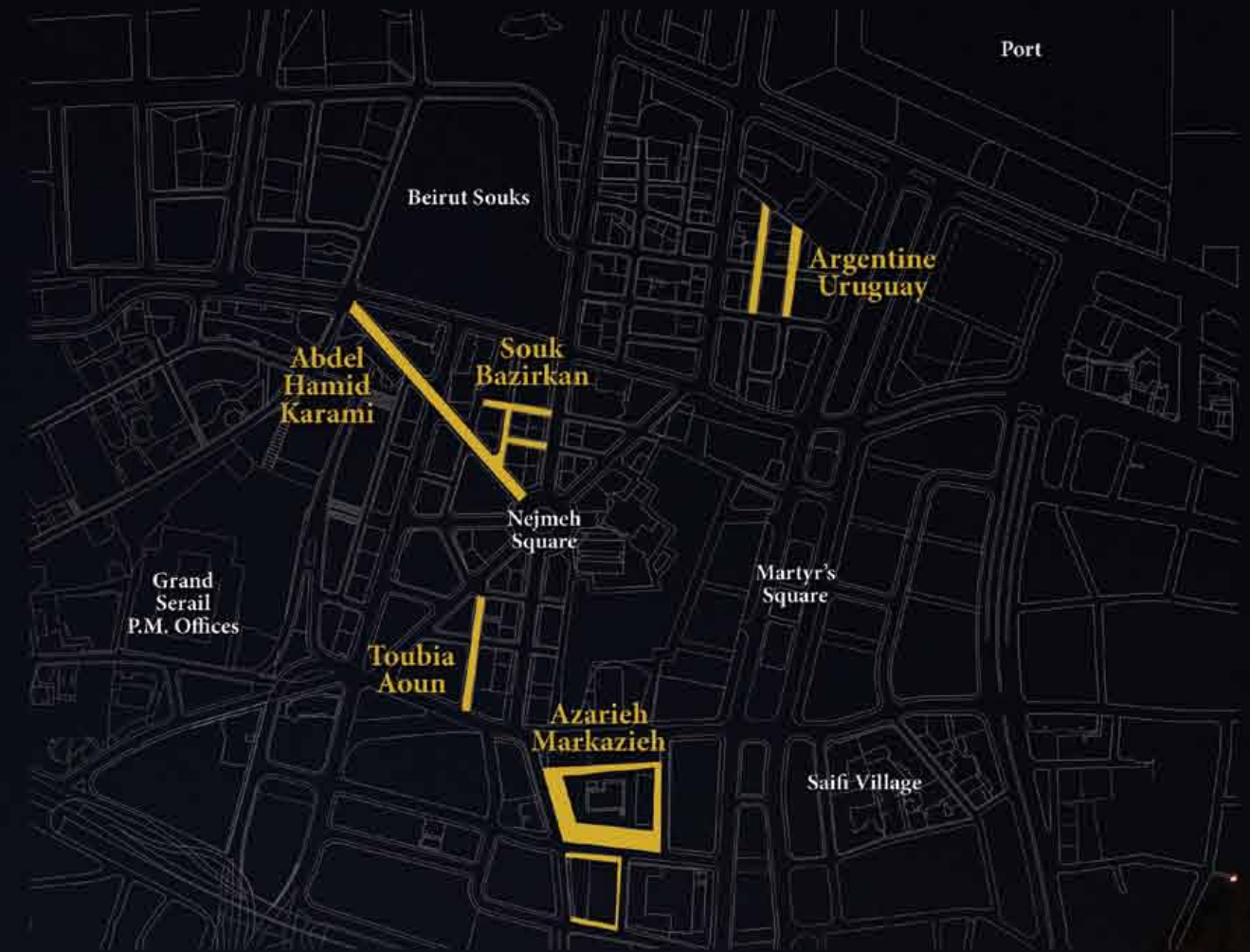
The forty years of RAMCO have been eventful: We've gone from times of great prosperity to wartime slumps and periods of great vitality and hope. What kept us going during the worst of times was a steadfast belief in Lebanon, our people, and our children.

That faith remains intact even now, despite the very uncertain times our country is going through. We look forward to celebrating more milestone anniversaries for many more years to come, and we hope to find you, our faithful readers and valued customers, always there.

Top Five Most Affordable Retail Streets of BCD

WHY DO LOW PRICES STILL NOT ATTRACT RETAILERS?

Beirut Central District has some of the widest discrepancies in the rental values of retail units. While some areas and streets post among the highest prices on the market, some streets are extremely affordable, especially given the immaculate urban setting of BCD. The least frequented streets of BCD post retail rental values varying between USD 300-500 per SQM per year. Given the limited footfall and potential returns these areas generate, retail rental values should not exceed USD 200-250 per SQM per year. While some areas have had their ups and downs, others never caught on with retailers and shoppers, since the launching of the refurbished BCD. But these side alleys have not recovered from the slowdown caused by the turbulence which began in 2006. In our opinion, having a homogenized management in control might give renewed energy to these areas – following the model created in Uruguay St. at the Samir Kassir Square.



Top Five Most Affordable Retail Streets of BCD

WHAT IS THE LOWEST ENTRY TICKET INTO BCD RETAIL?

ABDEL HAMID KARAMI STREET

The street enjoys a heavy traffic flow. The supply offers great visibility. However, there is almost no pedestrian traffic and very little by way of parking availabilities. The area is close to the Parliament and suffers from the security measures undertaken in the surrounding streets. All of these drawbacks diminish the commercial potential and appeal to prospective retailers.

ARGENTINE-URUGUAY AREA

Even with the launching of the pubs and restaurants of Uruguay Square, the streets to the back of the Samir Kassir Square did not manage to pick up significantly. The only element driving the area is the popularity of Uruguay Square, which posts rental values around USD 1,000 per SQM per year. The southern area around Le Patio Boutique Hotel and the mosque remain neglected, despite a price drop of almost 60% from those of Uruguay Square.

SOUK BAZIRKAN

Set in a very pleasant urban environment, surrounded by renovated heritage buildings, a beautiful old mosque, and square, Souk Bazirkan has a succession of small shops, offered at very attractive prices. It is also close to the Atrium Building, a known business destination. Despite this setting, however, the area is occupied almost exclusively by just one restaurant! Following a brief period of relative prosperity, Souk Bazirkan's popularity has waned, and retailers have not had the courage to open shop again. The area has been touched by the decline of Omari Street, which is the entrance leading to Souk Bazirkan.

TOUBIA AOUN STREET

Parallel to the very popular Maarad Street, Toubia Aoun Street enjoys an excellent location and had started to revive around 2003 to 2005. It housed some of the leading brand names in F&B, such as Crepaway, Mémoires de Chine, and Sushi Express. Since the sit-ins of 2007, however, the area was emptied almost overnight. As the F&B business went elsewhere, the momentum was difficult to pick up. The proximity of the Parliament and the resulting heavy security measures have also played a role in deterring the return of retailers.

AZARIEH-MARKAZIEH AREA

The retail units of the southernmost tip of BCD, on the ground floor of Azarieh Center or around Markazieh, have never truly picked up since the reconstruction of BCD. Even at the height of BCD, the area performed poorly mainly because southern BCD is completely cut off from the pedestrian streets of northern BCD, which tend to attract the bulk of visitors and tourists. The great success of Maarad Street momentarily flooded the façade of Azarieh, which saw a surge in occupancy between 2005 and 2006. The inner units have stood empty since the refurbishment of Azarieh. The area, however, never recovered from the 2007 sit-ins, which drove away pedestrian traffic and slowly emptied retail. The supply is made of small units, varying between 30 and 50 SQM, located in old buildings that have been renovated.



ZOOM Spears



The main eastern exit of Hamra, Spears has remained on the fringes of the development boom of earlier years. It is only in 2012 that developers started looking at Spears as an alternative destination to more traditional neighborhoods such as Clemenceau, Kantari, Sanayeh, or Zarif that had become over-exploited and hence over-priced. Thanks to its many advantages, however, Spears is in full swing now, and is likely to be for some time to come.

AREA CHARACTERISTICS

Spears encompasses Spears Street and Salim Boustany Street. As the main exit from Hamra, Spears is a one-way street that enjoys a central location, easy access, and tremendous traffic flux. Spears is also one of the very rare neighborhoods that still offer green spaces, with the neighboring René Mouawad Garden (aka Sanayeh Garden) and the garden of the Takieddine Solh Palace. It is home to a number of heritage buildings, several of which have been recently renovated, and a number of landmark institutions, such as the emblematic Zico House, Union Building, and the Future TV headquarters.

SHRINKING APARTMENT SIZES

Because developments in Spears are very recent, they follow the latest market trends. About 40% of nearly 350 apartments currently under construction measure 200 SQM or less, which post take-up rates between 40% and 80% for apartments smaller than 200 SQM. Two large-scale projects are currently under construction on Spears Street, offering about 275 apartments and roughly 60,000 SQM of built-up residential area. On average, apartments sizes stand at around 215 SQM. Only one project offers apartments larger than 215 SQM. This project was originally planning to build 375 SQM apartments. A few months into marketing, however, the blue prints were changed and apartment sizes were cut almost by half. Along Salim Boustany Street, three smaller projects are currently under way, offering an aggregate built-up area of about 13,500 SQM. Average apartment sizes here drop to about 175 SQM.

TARGET MARKET

Spears caters primarily to young families with a limited budget or to expatriate Lebanese looking for a pied-à-terre close to BCD.

While demand is mostly generated by end-users, the relatively small apartments are easy enough to rent and popular with foreigners, students, or young professionals because they are within walking distance from Hamra.

Investors can thus place their property on the rental market at attractive yields. Early buyers who took advantage of launching prices can expect lucrative returns.

PRICES

Prices in Spears are almost as high as areas most in demand in Ras Beirut, such as Hamra, Clemenceau, or Kantari. They currently stand at between USD 3,800 and USD 4,500 per SQM (on the first floor), translating into budgets varying between USD 500,000 and USD 900,000.

Residential projects under construction 5

Residential projects in the pipeline 1

Total BUA 71,727

Total residential units (across 6 projects) 349

Average apartment size (SQM) 205

Apartments 200 SQM or smaller 134

Sales price (USD/SQM) 3,800 – 4,500

SOURCE: RAMCO – MARCH 2013

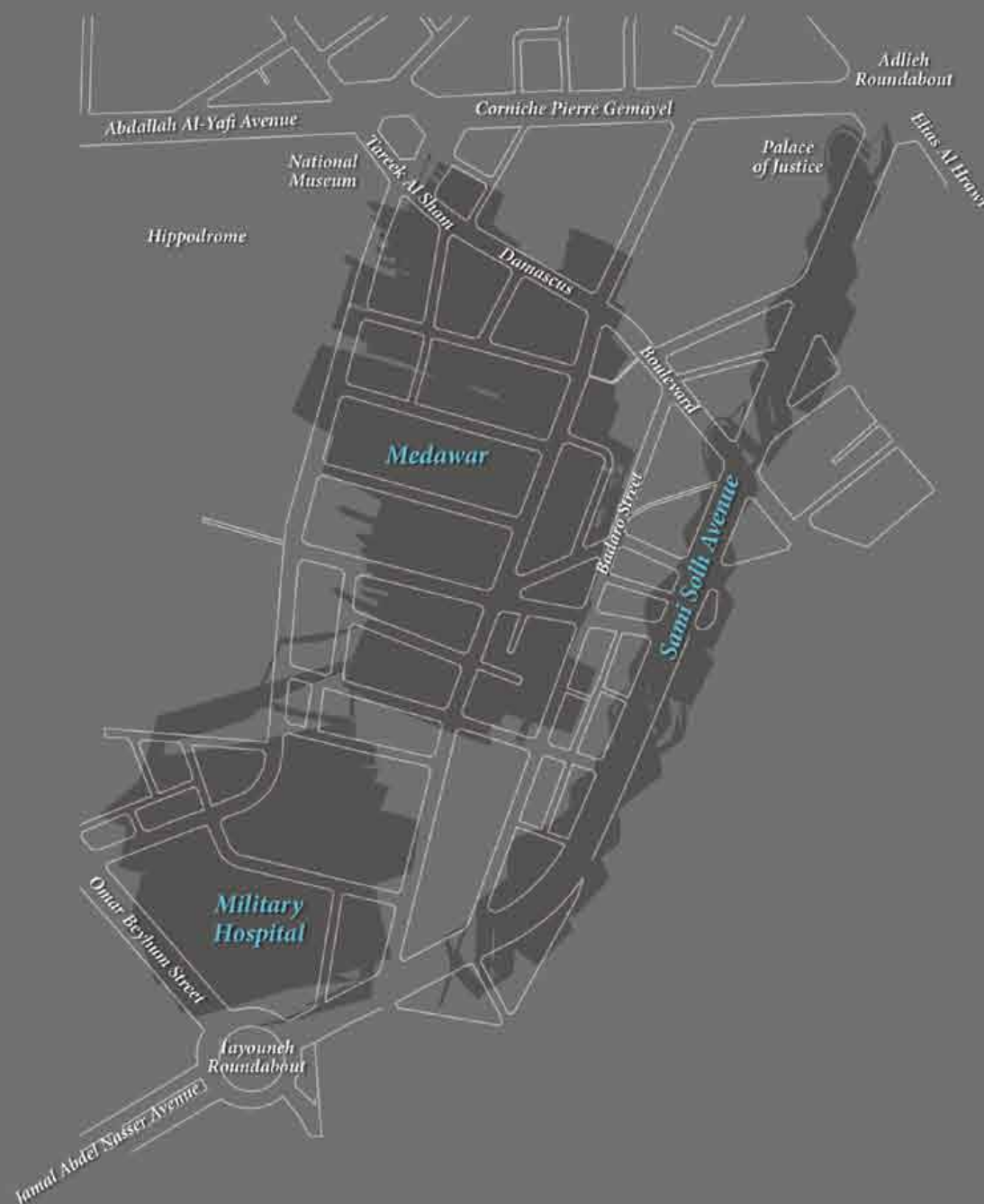


Snapshot

BADARO



This highly central residential location is in high demand because sales prices are still relatively attractive. Despite a low exploitation ratio (of 2.5 in a Zone 5 area), which results in a high cost of BUA (the weight of the cost of land makes a big chunk of the overall cost of construction), prices are kept reasonable by building middle-market products. Badaro is made up of three main neighborhoods with varying land prices, due to the specific characteristics and usage of each.



Sami Solh Avenue

A wide thoroughfare that has a very heavy flow of traffic, Sami Solh Avenue and the surrounding grid of streets is dominated by commercial demand. The proximity of the Palace of Justice boosts demand for small offices by independent lawyers and law firms. There are several other governmental and large institutions (Internal Security Forces, the French Embassy, etc.) that make Sami Solh a very attractive and convenient commercial location. The avenue's high visibility also attracts commercial retail on the ground floor level. This high commercial return combined with the limited availability of empty plots ready for development translate into high prices of land.

RAMCO's estimated land sale values lie at around USD 1,500 per BUA.

Medawar

This is an exclusively residential neighborhood with very limited availability of empty plots of land. To make room for new buildings, old constructions must be destroyed and replaced. The urban setting, however, is extremely pleasant, giving the area a special charm, particularly as this part of Badaro is calm and still relatively green. Because of the limited visibility due to strictly localized traffic, projects cannot offer retail units on the ground floor to optimize returns, which pulls land prices slightly down.

RAMCO's estimated land sale values lie at around USD 1,250-1,500 per BUA.

Military Hospital Area

Located at the southern end of Badaro, the area around the Military Hospital is strictly residential. A tier-two market, the area compensates for the high cost of land with low construction costs. There are still a number of empty properties that could be potentially developed. These are mostly large plots, however, that require a significant investment.

RAMCO's estimated land sale values lie at around USD 1,250 per BUA.



Focus

Clinics,
office
market
drivers

More than 20 office projects are currently under way in Beirut. This is more than the total number of new office projects that took place across Beirut during the past decade – with the exception of the reconstruction surge in BCD in the early 1990's. The office stock in Ras Beirut and Ashrafieh is aging and in dire need of replacement.

An office niche is taking shape in neighborhoods close to hospitals and medical centers: Clinics. Of the dozen office projects in Municipal Beirut, four are located near medical hubs (AUBMC in Hamra or Hotel Dieu de France in Ashrafieh) – a new supply that seems to have ready takers.

Focus Clinics, office market drivers



SUPPLY & DEMAND

This new supply of clinics comes in response to existing demand. A new wave of medical practitioners are looking for new, modern space to locate their external clinics. They are predominately interested in small sized units.

New clinics therefore measure between 59 and 93 SQM (including common areas, such as stairs, elevators, shafts, etc.). Clinics follow an open space floor plan layout, giving doctors the option to modulate the space into a reception area and waiting room, and one or two examination rooms. On average, each clinic is offered one underground parking space. Other amenities, however, include brand new architecture, modern spaces, modular units, plenty of natural light, wide lobbies, clear signage, and 24-hour security.

PRICES

Asking prices for clinics are among the highest in the office sector, partly because they are in high demand and because smaller sizes can afford to list higher asking prices than larger offices. Prices vary between USD 3,000 and USD 5,600 per SQM. This discrepancy in prices depends on each project's location, as the price reflects the cost of land in each area. It is therefore normal that prices of clinics around AUBMC in Ras Beirut should be higher than those located near Hotel Dieu in Ashrafieh, as the price of the land in Ras Beirut exceeds that of Ashrafieh.

CLINICS MARKET OVERVIEW

Number of projects offering clinics 4

Total volume of clinics under construction (SQM) 19,439

Asking sales price 3,000* - 5,600 (*Core & Shell)


SOURCE: RAMCO – March 2013

THE FUTURE OF CLINICS

The excellent sales ratios posted by the two projects taking place around AUBMC are proof that the performance of the clinics niche is still strong. A third project offering clinics could probably still find takers in Ras Beirut, thanks to the proximity of an important medical hub, comprised of AUMBC, CMC, Najjar, Bekhazi, and Trad hospitals.

The same should apply to the area around Hotel Dieu in Ashrafieh, particularly on Alfred Naccache Avenue. The neighborhoods of St. Georges Orthodox Hospital or Rizk Hospital, for instance still have not seen their share of nearby clinics. The same is true for other hospitals across Beirut.

The market for clinics is far from being fully satisfied, and the sector still offers tremendous growth and development potential. Developers must only keep an eye on the evolution of the price of land, as this is the main factor that could potentially hinder the growth of the clinics sector.



Beirut's Waterfront District is the future of BCD, with development planned on several stages over the next 20 to 30 years. The reclaimed land is a brand new area of 73 hectares, with a 1.3 km long seafront promenade and a huge development potential of about 1.7 million SQM. Development is planned for only about 29 hectares, while 60% of the Waterfront District will be reserved for parks and public spaces such as the 78,000-SQM public garden, which will be Beirut's largest. This new seafront stretch is an exceptional development that will offer mixed-use projects – residential, office buildings, hotels, and two marinas. The area is already hosting a number of entertainment and cultural events at the Beirut Exhibition Center, BIEL, Beirut by Bike and some temporary or future structures, such as the upcoming Kidz Mondo. The entire area will command breathtaking views of the Mediterranean Sea and the Metn Mountains.

BCD Special

BEIRUT WATERFRONT DISTRICT

TOTAL SIZE (SQM) **730,000**

TOTAL ALLOWABLE
DEVELOPMENT (BUA)
1,700,000

TOTAL GREEN/PUBLIC SPACES
(SQM) **78,000**

TOTAL RATIO OF GREEN
AREA (PARKS, PUBLIC
GARDENS, PUBLIC SPACES)
60%

COST OF LAND (USD/BUA)
4,000 – 5,000

SOURCE: RAMCO – March 2013

ZAITUNAY BAY

Launched at the end of 2011, Zaitunay Bay is the only fully completed and functioning venture of Beirut Waterfront District. The project offers 16 restaurants and specialty boutiques in a very unique environment. One year after its initial launching, however, a few restaurants have already put the key under the mat. This failure ratio is due to a number of factors. The most important among them are a poor economic and touristic environment combined with high rental rates.

LAND MARKET

For the time being, a single project is under way in BWD. The entire area is still the playground of land investors, where large local and foreign real estate groups are only involved in the purchase and sale of land. At prices varying between USD 4,000 and USD 5,000 per BUA, plots of land, measuring at least 2,000 SQM or more, have a minimum entry ticket of about USD 50 million. These budgets automatically eliminate small developers and are only accessible to the largest development professionals in town and internationally. Prices of land in BWD are not the highest of Beirut. Some plots along the seafront between Ain el Mreisseh and Ramlet el Baida post higher asking prices. This is surprising, as the urban planning in these areas does not come close to the perfectly planned environment of BCD. However, the plots are usually much smaller and allow for a much lower construction cost (as developers are not bound by the strict construction norms imposed by Solidere).

BEIRUT WATERFRONT

The only project currently taking place in BWD is a residential development named after the area. The project offers 45 units, some of which have been placed on the sale market. At an asking price above the bar of USD 20,000 per SQM, this is the most expensive unit price in Lebanon. Such high prices are in line with the elitist profile of BWD, which caters to the cream of the crop of the local, expatriate, and foreign elite. With immaculate urban planning and state of the art installations, BWD takes development in Beirut to the highest international standards.



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WHAT WE WROTE IN L'ORIENT LE JOUR

The coming year is expected to be a continuation of the previous year, where prices were stable, serious demand sustained, and landlords reasonable with their pricing (5 January 2013). A stable market is offering prospecting buyers the opportunity to find a few "good buys" here and there, after careful house hunting (9 February 2013). While the general residential market remains stable, other niche markets have either boomed or have been more seriously damaged by the slowdown in the real estate market. One niche market that was negatively affected is the Kfarzebian chalet market (24 January 2013), as buyers are reluctant to pay prices similar to some of the prime locations in Beirut for a chalet or secondary house. Other markets are doing very well, such as the clinic niche in Hamra (7 March 2013). The retail market of Verdun will also see renewed dynamism thanks to the arrival of ABC Verdun projected for 2017 (23 February 2013).

WHAT WE SAID

"The year 2012 underwent a price correction, which is a good basis to expect 2013 to perform better. Any stability in Syria will undoubtedly reflect positively on Lebanese real estate."

"Posi-negative" Real Estate Expectations for 2013 – Al Mustaqbal, 4 January 2013

"The slowdown [in the real estate market] is not problematic and developers have sold 40% of their [ongoing] projects."

[Raja] Makarem to Annahar – Annahar, 18 January 2013

"Any improvement in the security situation on the local or regional level and a dialogue among Lebanese will reflect positively on the real estate sector and the economy overall."

Kawalees al Iqarat, February 2013

"[...] There are several sectors and options from which [the government] could secure incoming funds instead of the real estate sector, which is going through a very slow period at the moment."

Developers' Uncertainty Causes Prejudice against the Government – Al Akhbar, 4 March 2013

WHERE WE APPEARED

RAMCO Founder and Managing Director, Raja Makarem, appeared on Sunday 31 March 2013 in an episode on real estate on Tahqiq with Claude Abi Nader-Hindi on MTV (shot on Friday 18 January 2013).