

ramco
REAL ESTATE ADVISERS SINCE 1973



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The Quarterly

INFORMATION & INSIGHT
INTO THE LEBANESE REAL ESTATE MARKET

Q1 . 2014



The year 2013 closed on a low note with stagnating prices and sluggish demand. 2014 had an even slower start, weighed down by the political, security, and the resulting economic pressures by which the country and the neighboring region are plagued.

KARIM MAKAREM
Partner & Director

Letter from the director



The press has been full of bad news: dropping market indicators, slow transacting activity, dropping sales values, lower take-up ratios, fewer new projects on the market....

While all of the above is true, the reality is not all bleak. As a brokerage agency, we have of course perceived the decline in purchasing appetite, but this drop concerns certain types of customers and certain types of products.

We know, for instance, that the market has ejected “amateur” developers, who were lured into the market by the easy money of the boom years. Under such difficult market conditions as we are witnessing today, there is no room for mistakes.

This means that professional developers, those with long years of experience and well-studied projects, are still very much active and always on the lookout for new land to start their new project.

Our land brokerage department has a healthy, uninterrupted stream of requests for land from developers, investors, or retail groups. Budgets vary widely, from a few million US dollars to more than USD 30 million.

Developers must obviously keep working, so professional development and construction firms are always searching for the next project. Their interest is mostly focused on residential neighborhoods in demand, be it in the capital or in the suburban areas.

Investors, on the other hand, are interested in larger plots of land in areas that are not currently being developed. They look to purchase land at still attractive prices, which they can then resell at substantial profits a few years down the line.

Retail groups, particularly large local and international retailers with a multitude of brands, prefer to buy land on which to build their future locations according to their specifications.

These few examples clearly show that people – developers, investors, retailers, and the eventual buyers – are still optimistic about the long-term future of the country. Even a very slight improvement in the political and security situations will, I believe, have tremendous positive repercussions on the real estate market.

Top Five Largest Apartments in Ashrafieh

WHICH UPCOMING PROJECTS OFFER
THE BIGGEST FLATS?

Three of the largest five apartments in Ashrafieh are located in the Golden Square of Furn el Hayek, the most luxurious neighborhood East of Beirut Central District. Not surprising, as owning an apartment larger than 1,200 SQM is a rare luxury, reserved only for the most prime of the high-end residential projects. These large apartments usually take up the last floor or floors of luxury high-rises, with breathtaking views of the city. Simplexes, duplexes, or triplexes, they often have large terraces or hanging gardens and some unique features not to be found in standard apartments, even those of very high standing. These rare products are exclusively reserved to a privileged few.



Top Five Largest Apartments in Ashrafieh

WHICH UPCOMING PROJECTS OFFER
THE BIGGEST FLATS?

GEMMAYZE VILLAGE – 1,575 SQM

Occupying the 35th and 36th floors of the project's central block, this is the largest apartment in Ashrafieh. Located in the heart of Gemmayze, the apartment has an internal area of 1,425 SQM and a terrace of 150 SQM. Designed by Samir Khairallah & Partners Architects, Gemmayze Village sits on a 7,000-SQM plot and offers a total built-up area of more than 77,000 SQM and about 1,000-SQM spa, gym, and pool. The duplex is offered for sale at USD 11.9 million.

ABDEL WAHAB 618 – 1,450 SQM

This triplex occupies the 35th to 37th floors of the project located in the heart of Furn el Hayek, close to ABC Mall. Designed by Kevin Dash and Joseph Maroun Architects, it has an internal area of 1,200 SQM and a 250-SQM terrace. The project sits on a plot measuring about 5,000 SQM that offers about 60,000 SQM of built-up area, with about 3,000 SQM of landscaped green spaces, and a pool, gym, and health spa. The apartment is offered for sale at USD 11.5 million.

PROJECT	AREA	DEVELOPER	SIZE (SQM)	FLOOR	PRICE (USD MILLION)
GEMMAYZE VILLAGE	GEMMAYZE	CGI	1,575	35-36	11.9
ABDEL WAHAB 618	FURN EL HAYEK	CGI	1,450	35-36-37	11.5
SAMA BEIRUT	SODECO	ANTONIOS PROJECTS	1,414	50-51	23.3
FAL TOWERS	FURN EL HAYEK	TABET & PARTNERS	1,266	21-22	SOLD
ASHRAFIEH 20 30	FURN EL HAYEK	JAMIL SAAB & CO	1,200	29-30	SOLD

SOURCE: RAMCO SARL - MARCH 2014

SAMA BEIRUT – 1,414 SQM

The third runner up duplex holds a different record: It is the highest apartment in Beirut, occupying the 50th and 51st floors of one of the tallest buildings currently under construction in Lebanon. It sits at 190 meters above street level and offers 1,267-SQM internal area and a 147-SQM terrace. At an asking price of USD 23.3 million, it is also the most expensive apartment under construction available in Beirut. The apartment also has some other attractions including a private elevator and a pool on the 51st floor. Designed by ERGA, Sama Beirut is due for delivery end of 2015.

FAL TOWERS – 1,266 SQM

This duplex occupies the 21st and 22nd floors of Block B of FAL Towers. The project is located in the heart of Furn el Hayek, on Ghandour el Saad Street. Designed by Tabet Atelier D'Architecture (TAA), the project offers a total of 22,000 SQM of built-up area.

ASHRAFIEH 20|30 – 1,200 SQM

This duplex with a private pool occupies the 29th and 30th floors of Block A, the taller of the two towers – made up of 30 floors, as the name of the project indicates. The project's architecture is the creation of Italian architect Marcello Lo Mauro and its landscaped area was designed by Vladimir Djurovic.

Focus The Comeback of Badaro!

Badaro witnessed its glory decades during the 1960s and 1970s. Badaro Street was a renowned address with some mythic names, such as Badaro Inn – the last vestige of that past era shut its doors only a few years ago. During the long years of the Civil War and for a couple of decades afterwards, the commercial landscape of Badaro was in decline. The commercial structure that remains today is a hodgepodge mix of rundown grocery stores and outmoded neighborhood service stores (the local hairdresser, pharmacy, clothing store, or bank). Lately, a change has been set in motion. Badaro Street has been entirely refurbished and repaved and there is more and more demand for retail on Badaro Street.

BADARO RETAIL MARKET*

Rental Values (USD/SQM/Year) 250 – 350

Sale Prices (USD/SQM) 5,000 – 6,000

** Retail units on street level*

SOURCE: RAMCO SARL – MARCH 2014

THE GEOGRAPHICAL AND HISTORICAL CONTEXTS

Badaro is a very pleasant residential neighborhood that is within easy reach of the main attraction hubs of Beirut, a few minutes' drive from Ashrafieh, and close to a vibrant hub: Saint Joseph University, the French Embassy, the Palace of Justice, the National Museum, and a number of other official offices and business centers, particularly along Sami Solh Avenue.

This central location makes Badaro a convenient destination. The area is surrounded by a belt of wide highway networks, making it very easily accessible from all parts of town – Sami Solh Avenue, Omar Beyhum Street, Museum Street, and Corniche Pierre Gemayel, as well as from Adlieh and Tayyouni roundabouts. The comeback of Badaro also coincides with a residential boom. A dozen residential projects are currently under way or in the pipeline in the neighborhood. Some of them offer very modern, cutting edge architecture and amenities.

DEMAND PROFILE

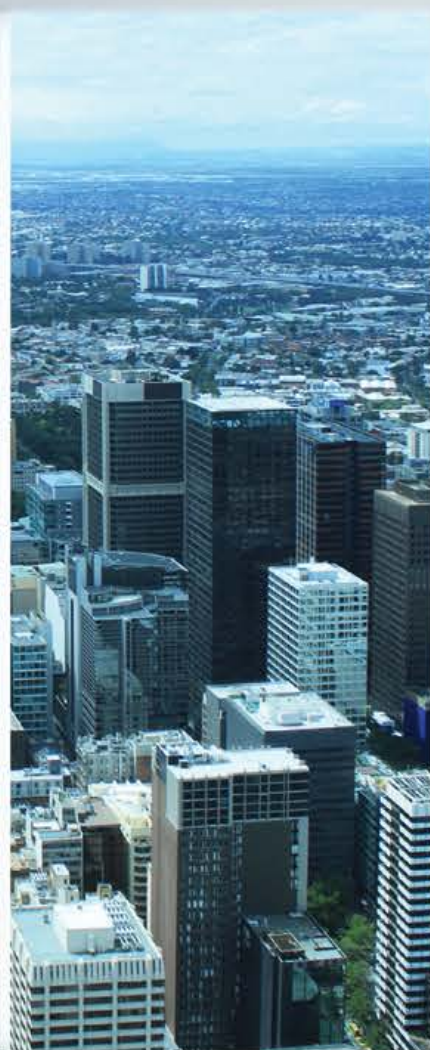
A shy demand started looking into Badaro a few years ago, mostly for clean, modern grocery stores. The local target market is potentially huge, and the current grocery supply is antiquated and totally unfit to answer the requirements of contemporary urban shoppers. During recent months, international franchises with sleek concepts and designs of grocery outlets have been showing much interest for Badaro, an untapped market with an interesting population density. There is also demand from mid-market restaurant, pub, and café operators. It might at first glance seem surprising but finally logical, as Badaro is a virgin destination, with an potentially large target audience/market, and almost no competition.

RENTING & BUYING IN BADARO

The attractive rental values still posted in Badaro play a major role in reviving interest in the area. At retail rental values varying between USD 250 and USD 350 per SQM per year, Badaro is among the most competitive commercial streets of Beirut. While rental values have skyrocketed in other parts of town (such as Mar Mikhael), Badaro becomes a very attractive, viable alternative. Given its brand new look and pleasant general environment – tree-lined streets, low-rise buildings often dating back to the 1950s and 1960s, clusters of pine trees, and wide streets with pavements, Badaro Street is a natural commercial destination. Badaro is also one of the rare completely flat areas of Beirut, which is a very strong advantage. In our opinion, sales values of retail space on ground level should lie between USD 5,000-6,000 per SQM.

FUTURE OUTLOOK

Is Badaro then set to be the next nightlife destination? Competing destinations in eastern Beirut are performing poorly: Monnot Street was abandoned a few years ago; Gemmayze's popularity is waning; Mar Mikhael has become unreasonably expensive.... Badaro, in comparison, looks very attractive. Rental values are still very reasonable, the area has a large catchment area, and several retail units are available. Logically, all the ingredients are there to make it work. Today, there is keen interest predominately by certain players in the F&B industry. The hype is starting to build around the neighborhood and word is getting around among industry professionals. It remains to be seen whether Badaro can manage to attract a wider variety of retail supply, or whether it is destined to follow the same pattern previously taken by Monnot, Gemmayze, and Mar Mikhael.



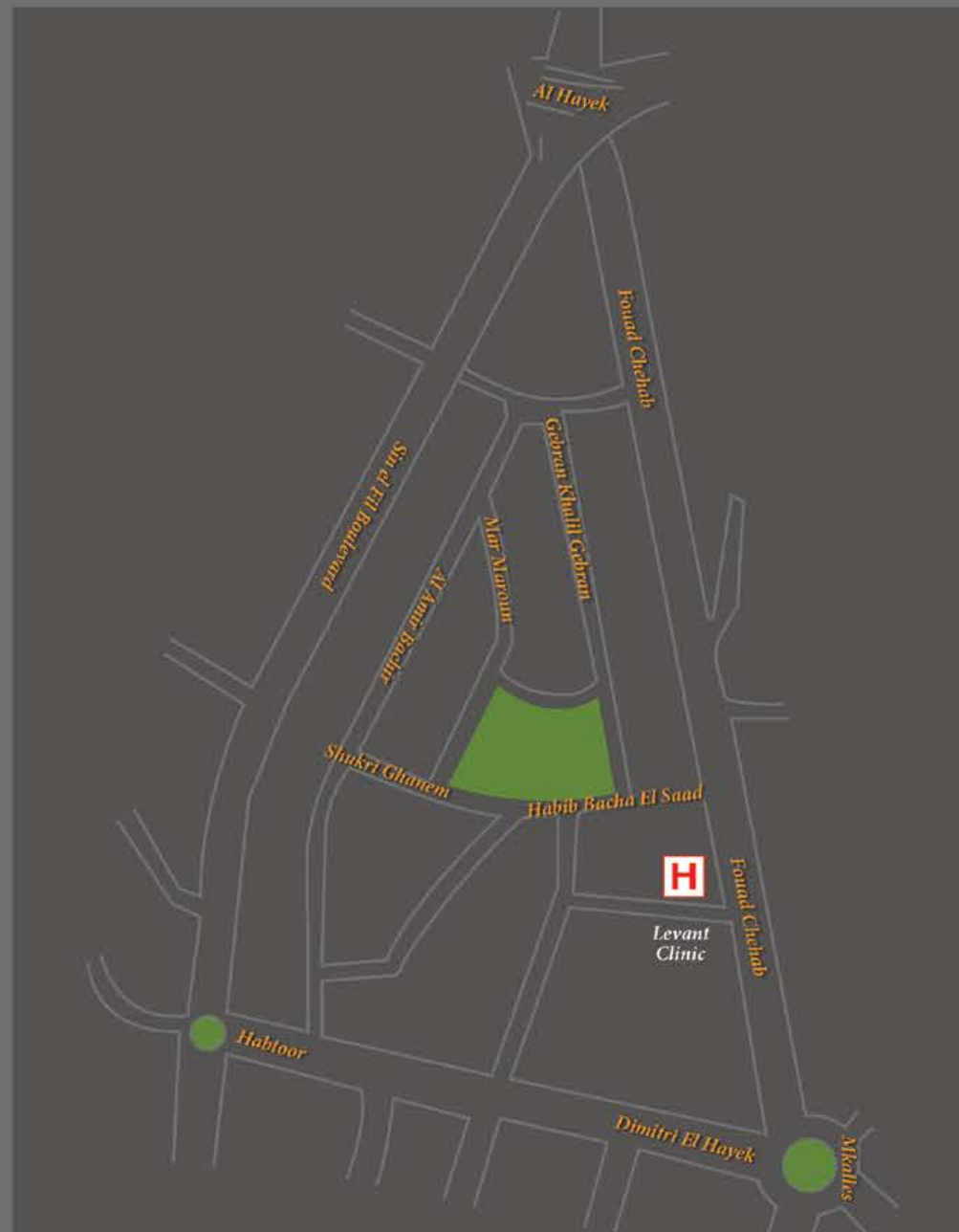
Snapshot

SIN EL FIL OFFICES



Sin el Fil is a central location on the immediate outskirts of Beirut – within as short a commute from Beirut Central District (BCD) as it is from Ashrafieh or the northern suburbs thanks to a network of major traffic axes. The area is thus an ideal destination for businesses that want to avoid the congested streets of inner Beirut. It is easy to access for employees and customers residing anywhere in the Greater Beirut area.

The office stock in Sin el Fil had been aging, but the launching of several brand new projects during the last decade has boosted the neighborhood's image, and increased demand. All the activity currently taking place in Sin el Fil is located outside the triangle that actually defines Sin el Fil, as the inner area of the triangle is fully developed.



Hayek-Habtoor-Mkalles Triangle

Sin el Fil Boulevard, Fouad Chehab Avenue, and Dimitri el Hayek Street meet at three strategic intersections – Hayek Junction and the Habtoor and Mkalles roundabouts – to enclose a triangle slightly less than 300,000 SQM. All these three highways are major traffic arteries that are too noisy and too crowded for residential projects. They have traditionally attracted commercial developments: office buildings and retail units on street level.

Sin el Fil has thus always been a major business hub in the extension of other nearby commercial destinations, such as Mirna Chalouhi, Salome, and Mkalles. With the introduction of good-quality, modern business centers, pleasant architecture (some projects are absolutely stunning!), elegant lobbies, underground parking spaces, and good quality amenities, Sin el Fil is an attractive business destination.

Sizes & Prices

Recent and upcoming supply of offices in Sin el Fil is dominated by units varying between 75-100 SQM. Such a type of supply caters to demand from small, local companies. Larger areas are rare, except for very specific demand for company headquarters or main offices.

The activity that the area has witnessed lately has boosted the price of modern stock. Rental values of new offices vary between USD 250-300 per SQM per year – which is comparable to rental values in BCD! Rental values of the older stock, which is of much poorer quality and often has very limited parking facilities, drop to USD 150-200 per SQM per year.

New stock that is currently on the market also posts relatively high sales prices between USD 3,500-4,000 per SQM. These are the same prices that are being asked for the new office projects taking place on Corniche el Nahr in Ashrafieh.

ZOOM

Karantina – Investors' Playground

Price of Land in Karantina (USD/BUA)*

Northeastern area

500 – 800

Western & central areas

800 – 1,200

Southern area (Charles Helou Avenue)

1,200 – 1,400

* As per RAMCO's estimate

SOURCE: RAMCO SARL – MARCH 2014

The area of Karantina may no longer be the official quarantine of the Port of Beirut, but it is still stigmatized by its former reputation. Over the past few decades, several new addenda to the area have further deteriorated its image. Karantina is still closely associated with the refugee camp and "Arab el Maslakh" slums.

It is also home to a number of polluting industries – the slaughterhouse, the Sukleen main dumpsite, and recycling plant. Karantina has an army barracks, a fire department, and several industrial sites – mainly large steel warehouses. The area, however, has several advantages playing in its favor. It is one of the largest potential land banks in Beirut. It is also a flat strip of land, very easy to re-allot and develop, and centrally located, immediately South of the main basin of the Port of Beirut, with very easy access from one of Beirut's main traffic arteries.

For all these reasons, Karantina is currently the preferred playground of heavyweight real estate investors, who juggle property portfolios with purely speculative motives. The price of buildable BUA currently varies between USD 500-1,400, depending on plots' location.

ZOOM

Karantina – Investors’ Playground

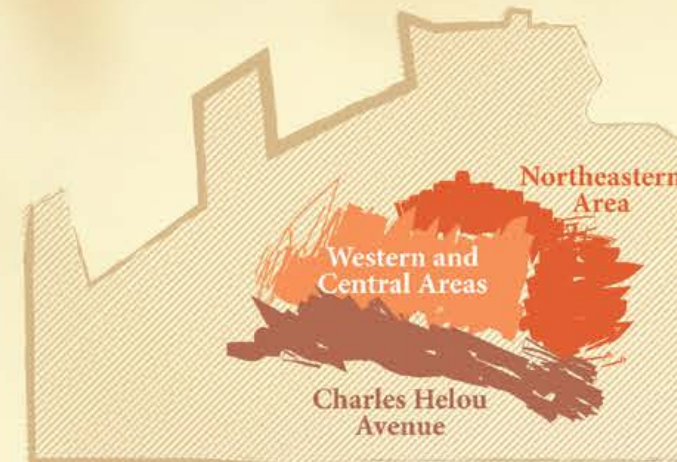
NORTHEASTERN END

Caught between Beirut River and the Port of Beirut, this northeastern tip of Karantina does not have a particularly good image and risks to remain long on the margins of development. The area has a general degraded and dirty image, with no particular charm. The majority of the steel storing sites are located in this area of Karantina. Loaded six-wheel trucks often clog the narrow streets. This negative image and the presence of the army camps limit land transactions in that part of Karantina. The few land sales that do take place are purely speculative, by investors betting on the potential that the area could offer in the future. Before the northeastern tip of Karantina catches on with the development market, new alignment plans must first be put in place – new roads and re-allotments, which might then change the image of the area and attract developers into a cleaner environment.

ALONG CHARLES HELOU AVENUE

Lined by industrial sites (Sehnaoui Group, Omar Fahl warehouses, etc.) and the fire department, most of Karantina’s façade on Charles Helou Avenue is not currently exploited optimally.

However, the very heavy traffic flow on the main artery leading into Beirut from the North and eastern suburbs makes this strip of Karantina ideal for commercial developments. The excellent visibility on street level and the very easy access are highly attractive to potential retailers. Karantina’s southern façade boasts several other advantages. It is at the gateway to Beirut, within a five-minute drive from Beirut Central District. It also sits on a wide highway that offers unobstructed clearances towards Mar Mikhael. With one project already taking place after the fire department, some activity has started to take place in the commercial market. The future is obviously bright for this part of Karantina, although it might take a few more years before developers and investors make their appearance.



WESTERN AND CENTRAL AREAS

The central neighborhood of Karantina is situated around a pleasant public garden and a well-planned network of picturesque, inner roads. The western end of Karantina is located near the main entrance to the Port of Beirut. Thus, both these areas have tremendous potential for multiple usage developments. The central and western parts of Karantina still have a number of undeveloped, empty land, which could be ideal for future construction sites. One large transaction has taken place in the neighborhood in 2013, which goes to prove that the market is starting to be active, albeit very timidly. It would be enough to launch a couple of pioneering projects to draw the attention of developers towards Karantina. Even though developers are awaiting the opportunity to revamp the image of Karantina by introducing new projects, they still face a sizeable challenge: convincing Lebanese to live and work in Karantina will be a long-term game of persuasion.

LAND PRICES

The price of land in Karantina is relatively high because investors are betting on the area’s future potential rather than its current reality. Prices vary depending on the area within Karantina and the exact location of the plot. The northeastern neighborhood of Karantina is the least attractive and still the most affordable. The price of the buildable square meter (BUA) should vary between USD 500-800 per BUA. Prices are higher in the western and central parts of the neighborhood, particularly around the public garden, where they vary between USD 800-1,200 per BUA. Unsurprisingly, the highest prices are for plots on Charles Helou Avenue, where they range between USD 1,200-1,400 per BUA.

BCD Special

BEIRUT SOUKS

BEIRUT SOUKS – LAUNCHING

Project	Date Launched	Total Area (SQM)
Phase I	2010	71,903
Entertainment Complex (14 cinemas)	2013	19,225
Phase II (Department Store)	n/a	26,370

SOURCE: SOLIDERE ANNUAL REPORT – MARCH 2014



Solidere inaugurated Beirut Souks to great pomp at the end of 2010. Even though it is still early to judge the center's performance three years after its launching, it is undeniable that the Souks have become the leading luxury address in Lebanon, in continuity with leading international brand names already established in the Foch-Allenby area. The jewelry corner with some of the most exclusive high-end names make Beirut Souks a highly select destination that seduces the local and expatriate moneyed elite.

ARCHITECTURAL & OTHER ATTRACTIONS

Regardless of the political and social criticism that Beirut Souks may attract, the project is a novel architectural attraction that combines traditional architectural elements with fresh modern lines and that weaves an attractive pattern of open and enclosed alleys. Beirut Souks were built to the highest architectural standards with state-of-the-art materials – from roof tiles to cladding materials, floor tiles.... It has also integrated several archaeological sites and artworks into its layout. Unfortunately, however, these gems often go unnoticed by passing shoppers. Beirut Souks has recently inaugurated its cinema complex offering 14 movie theatres, which adds to the diversity of the center's offering and boosts its attraction potential.

EXCLUSIVE NICHE CATCHMENT AREA

The launching of Beirut Souks in 2010 has not modified the ranking of the existing supply of shopping malls in Beirut. The Souks cater to a very specific niche market, without directly competing with the market share of existing malls. Beirut Souks does not compete with ABC Ashrafieh, CityMall, or Beirut City Center. The Souks' main catchment area is Ras Beirut and BCD and it caters predominately to the moneyed local and expatriate elite, while existing malls cater to a middle- to upper-middle market clientele. The opening of ABC Verdun, planned for 2017, may change this, however, as it will target specifically the Souks' main Beiruti customer base.

A FEW CLOUDS IN BEIRUT SOUKS' BLUE SKY

The overall occupancy rate is very satisfactory. In our estimate, it revolves around 90%. Not all the shopping axes have the same footfall, however. Pedestrian flux is mostly concentrated along the wide shopping avenues, while the smaller side alleys are much less visited. During the first several months after Beirut Souks' launching, several boutiques, particularly on these secondary alleys, had to shut down. This is not uncommon in new malls the world over. Vacated locales on the main traffic axes were quickly taken up again, but the less popular side alleys are slower to attract new tenants. Another, darker blot is the limited F&B supply. Beirut Souks indeed count 16 F&B outlets, which represent roughly 10% of the total available supply. This ratio is much lower than that found at other malls and shopping centers in town.

RENTAL VALUES: THE BIG UNKNOWN

Rental values at Beirut Souks are a very well kept secret! The Souks' price grid is measured against the pedigree of the brand. It is no surprise that large retail groups that carry tens or hundreds of brands – the likes of TSG with Aizone, Camper, Chloe, etc. or Azadea Group with tremendous footfall generators like Zara, Massimo Dutti, or Gap, are greatly courted and pampered by Solidere. Together, these two groups operate more than 25 boutiques, so any disagreement would have disastrous repercussions on Beirut Souks. Rental values are thus tailor-made to the size and clout of the customer. They are highly confidential and very jealously guarded by Solidere and Beirut Souks tenants alike. A very rough estimate places the average rental value at around USD 1,000 per SQM per year – a purely indicative figure.

BEIRUT SOUKS – AT A GLANCE

Total number of outlets (excluding F&B) **154**
 Number of F&B outlets **16**
 Clothing & fashion boutiques (men, women, and children) **86**
 Watches & Jewelry & Accessories boutiques **55**
 Health & Beauty **6**
 Other (home ware, books, multi-media...) **7**

SOURCE: BEIRUT SOUKS OFFICIAL WEBSITE – MARCH 2014

WHAT WE WROTE

In l'Orient le Jour

Our two articles assessing the performance of 2013 and the shaky beginnings of 2014 dress up a general negative picture with pockets of healthy activity in some specific niche markets, where supply adequately corresponds to existing demand (20 December 2013 and 21 January 2014). While Gemmayze's star as a prime F&B destination is waning – to the benefit perhaps of a more diversified retail landscape (21 February 2014), Badaro is in full growth, attracting F&B professionals by its highly competitive prices, pleasant environment, and vacancies (7 March 2014).

In The Executive

In our January Opinion Article that appeared on The Executive's newly revamped website, we deemed the performance of 2013 to be poor but less dramatic than generally portrayed in the press, especially in the face of tremendous political and security upheavals.

WHAT WE SAID

"[...] Developers are willing to offer payment facilities and discounts [...] up to about 10%, but they will rarely offer a higher discount."

The real estate market in Lebanon is solid and it's a good time to search, negotiate... and buy – Annahar, 11 January 2014

"The BCD (Beirut Central District) has suffered more than any other area because of the political situation, yet in my opinion, it has the best future."

The real estate market in Lebanon is solid and it's a good time to search, negotiate... and buy – Annahar, 11 January 2014

"[...] Sassine and ABC [Mall] complement each other. The many entrances of ABC reinforce this interaction and Sassine [Square] becomes in a way an extension of ABC."

USD 7 billion real estate market in 2013 – Al Joumhouria, 27 January 2014

"There are no signs of "crisis" in the real estate market or a danger of collapse, as this is one of the economic sectors to have resisted in the face of the multiple security crises of the past year."

Lebanon: The real estate market has slowed down but is not in crisis and there are no price drops – Al Hayat, 17 February 2014

"[The Cypriot real estate market] is not an option to replace Lebanon, but represents a second opportunity to make profits and seek shelter in case of crises."

Cyprus attracts Lebanese real estate investors – Al Shorfa, 18 March 2014

WHERE WE APPEARED

The Founder and Managing Director of RAMCO – The Real Estate Advisers made several appearances on local and regional economic TV shows to discuss the state of Lebanon's real estate market. He was interviewed by Ghada Ballout on Hiya Arab Women TV on 7 January 2014 and appeared on Al Ghad al Arabi TV on 6 February 2014 and al Mustaqbal TV on 19 March 2014.



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