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REAL ESTATE ADVISERS SINCE 1973

The Quarterly

INFORMATION & INSIGHT
INTO THE LEBANESE REAL ESTATE MARKET



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Thanks to the hard work and dedication of all its members, REAL is slowly but surely setting in place a common code that shall become the governing regulatory system of the real estate brokerage industry in Lebanon.

RAJA MAKAREM
Founder & Managing Director

Letter from the founder



Earlier in June, I had the great pleasure of speaking on behalf of the Real Estate Association of Lebanon when it presented 12 winners with the first Real Estate Awards Lebanon in recognition of the great and often courageous contribution that real estate developers are making to the urban landscape and economic growth of the country.

It was also a proud opportunity to take stock of REAL's accomplishments during its first year of activity. In retrospect, the association has acquitted itself exceedingly well.

Thanks to the hard work and dedication of all its members, REAL is slowly but surely setting in place a common code that shall become the governing regulatory system of the real estate brokerage industry in Lebanon.

The association's first accomplishment was to commit all its registered members to an informal "gentleman's" agreement to settle disputes among its members and between brokers and their customers, when such disputes should arise.

The association has also set up with the American University of Beirut (AUB) a program that specializes in brokerage and real estate consultancy. Dozens of association members have already signed up for the program and received competency certification.

REAL has opened communication channels with a network of similar regional and international associations in Europe and North America, such as NAR, FIABCI, MENRES, and the Real Estate Association of Kuwait. This step comes as recognition of its role and proficiency.

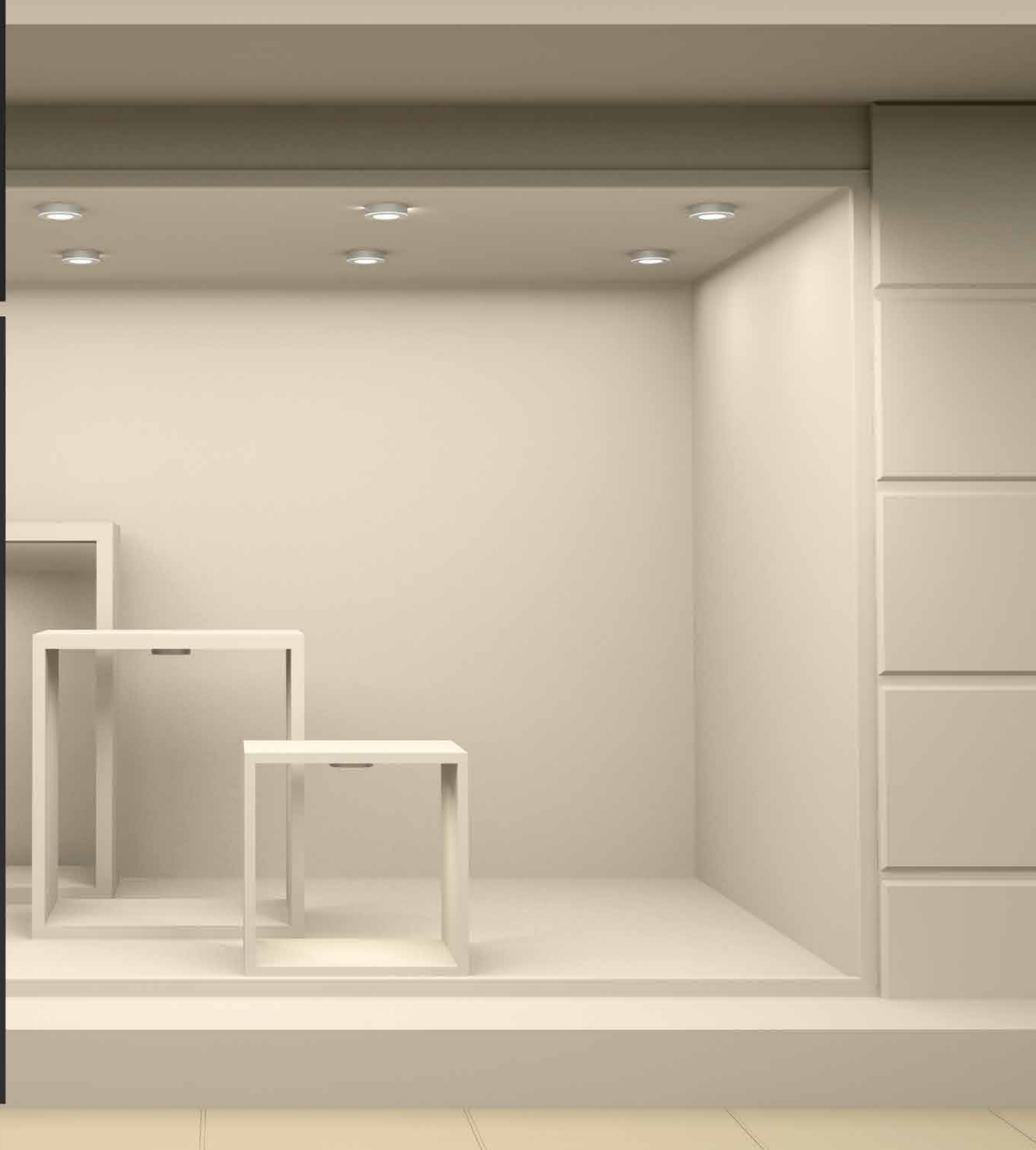
Our next goal is to upgrade REAL to the same rank as other free-trade associations in Lebanon. Such a unified body will then become the official voice of real estate brokers and advisers active in the country, which will give the industry bigger weight in issuing modern, comprehensive laws and regulations that define the association's framework of activities as well as its rights and obligations in protecting its members from unlicensed, "peddling" brokers – commonly known as "samasret shantah"!

An organized, legislated, regulated, and properly supervised body of real estate professionals is desirable for two reasons. First, it helps protect the rights of registered brokers and other real estate professionals. But more importantly, it helps protect the rights of customers, who can be easy targets to swindling, unofficial, unprofessional, so-called real estate "brokers."

Top Five Vacant Retail Hubs

WHICH RETAIL DESTINATIONS HAVE
THE MOST VACANCIES?

The economic slowdown and the unstable security and political environment obviously affect the retail real estate market. There has never been as many empty retail units across Beirut as there are today. "For Rent" signs dot the windows of the city's main shopping streets. Certain stores have been vacant for years. Rental values are too high compared to the potential returns that a tenant could hope to achieve. Still, many store owners refuse to drop their asking prices so that they are more in line with market reality. They do not realize that it is better – and more financially logical – to be satisfied with a smaller income than no income at all!





Top Five Vacant Retail Hubs

WHICH RETAIL DESTINATIONS HAVE
THE MOST VACANCIES?

BCD

The largest retail neighborhood of Beirut is also the most affected by the poor market conditions. Over the past few years, Beirut Central District has seen more and more retailers close shop, pack up, and leave. Very few units have found replacement tenants. Some streets are completely empty. The most badly affected areas are around Nijmeh Square, which is looking sadly empty after years of vibrant activity. Streets like Toubia Aoun, Maarad, or Omari Mosque are equally deserted. It is difficult to place a value on certain streets that are currently not attracting any tenants at all!

GEMMAYZE

The overwhelming F&B tidal wave that hit the area started between 2003 and 2004. Restaurants and pubs mushroomed over the next seven to eight years, skyrocketing rental values, which increased three to four folds within a few years. Then appeared cheaper and trendier Mar Mikhael – F&B operators moved there and customers followed. Gouraud Street has been steadily emptying since. Rental values were divided by two over the past few years.

MONNOT

The exodus of pubs and restaurants away from Monnot is not recent. It began with the boom of Gemmayze about a decade ago. Since then, Monnot's popularity has been waning. F&B operators have totally lost interest in the area and the street has been slow in finding new momentum. Prices are still relatively high at USD 250-300 per SQM per year.

HAMRA STREET

This regionally renowned commercial street is one of Beirut's major shopping arteries. The central stretch between Costa Café and Roadster Diner is the most dynamic, attracting the heaviest pedestrian flux and full occupancy. The two extremities have not been able to attract commercial drivers to generate heavy pedestrian flow. There are thus about a dozen vacant shops. Rental values at both ends of Hamra should be 30-40% cheaper than the middle of Hamra.

VERDUN STREET

Still a very popular commercial destination, Verdun Street attracts many franchise brand names. Vacancies are rare on street level. However, shopping galleries that were popular in the early and mid 2000's are no longer adapted to modern demand. Shops on basement or upper floor levels with no visibility from the street must offer sizeable discounts to attract potential tenants. They will be even more affected when ABC Verdun is launched in 2017.

Focus

The Miracle of BDD!

Beirut Digital District

Current office space **7,500 SQM**

Current retail space **1,500 SQM**

Upcoming office space **6,000 SQM**

Number of gardens or green areas **6**

SOURCE: WWW.BEIRUTDIGITALDISTRICT.COM – JUNE 2014

From derelict no man's land to the up and coming high-tech hub of Beirut and – its creators hope – of the region, Bachoura has made a formidable transformation! A public-private partnership between a development company (ZRE), an incubator (Berytech), and the Ministry of Telecommunications is behind this achievement. Each member of the trio has pitched in with its special expertise – ZRE developing the concept and overseeing its construction, Berytech attracting IT startups, and the Ministry providing broadband internet and telephone infrastructure at preferential rates.

Since its launching in September 2012 with a nine-floor building, Beirut Digital District (BDD) currently has renovated three buildings and two more should be upcoming in 2014 and 2015, which offer approximately 7,500 SQM of office space and about 1,500 SQM of retail space. An additional 6,000 SQM are yet to come by 2017.

PROJECTING THE FUTURE

Like the industry it houses, BDD is a forward-looking project. It facilitates the development and growth of the IT industry by offering it a cohesive, well planned environment that promotes networking among different players in the industry. There are five development phases for BDD planned until 2023. The completed project is envisioned to include office and retail space, as well as a hospitality component to accommodate short-term visitors hosted by the companies located on the site.

INNOVATIVE CONCEPT

BDD is an innovative development venture that will modify the urban image of the area. Turning around Bachoura, which had slept on the margins of development ever since the end of the Civil War, bordered by disreputable Khandak el Ghamik and noisy Ring Road, was indeed a gamble. The concept rests on a fool-proof offer: good quality product at very competitive prices in a central location. BDD offers impeccable, modular, office space, high-speed fiber-optics internet, shared facilities (meeting rooms, lounge areas, cafeteria, etc.), conferencing facilities, excellent amenities, and plenty of parking spaces. Office spaces are flexible and can range from 50 to 1,500 SQM, depending on specific tenant needs. Located just across the street from Beirut Central District (BCD), Bachoura is a central location that is very easy to access from different parts of the capital thanks to a surrounding network of highways.

This specialized business hub offers office spaces interspersed with public passages, gardens, and green spaces. The development has managed to attract a number of IT and media companies from across the street in the prime office hub of BCD. The developer was thus spurred to acquire a mosaic of about two dozen plots of land, sprawling across three blocks between Bechara el Khoury Avenue and St. Georges Church.



TARGET TENANTS

BDD caters to a very specific niche clientele. It was planned as a regional IT hub, offering state-of-the-arts infrastructure and a support network specifically for the sector. The project has thus attracted IT companies and agencies active in related fields, such as advertising, media, telecom, etc. The BDD hub has currently attracted about 40 tenants, of which 29 are startups. BDD has also managed to attract some large, international brand names, such as international giants Huawei and Touch, as well as renowned local media agency, Cleartag. Within less than two years, BDD has managed to create an active hub that employs about 750 people.

WINNING COMBINATION

BDD combines good quality products with attractive prices. Probably the single most important element that secured the project's success has been its pricing strategy. At its launching, office spaces were being offered at around USD 200 per SQM per year. Today, the BDD official website posts asking rental values of USD 215 per SQM per year. At these rates, BDD is highly competitive vis-à-vis neighboring BCD, where prices of the old renovated stock starts at no less than USD 250 per SQM per year. Furthermore, rental values do not increase by floor levels, so that the upper floors are not penalized. Only one unit is offered for sale at an asking sales price of USD 3,700 per SQM. This is about 60% of the average sales price of USD 6,500 per SQM posted in BCD. BDD has another advantage over BCD: it does not get cut off to traffic every time there is a demonstration or parliamentary meeting and does not have the same stringent security constraints.

Snapshot

CLEMENCEAU



Clemenceau is a renowned residential address midway between Hamra and Beirut Central District (BCD). Despite being so centrally located, it is a rather shielded residential neighborhood, easy to access but that still offers quiet and privacy. Amidst a pleasant urban setting, Clemenceau has some palaces (Daouk, Joumblat, Ghandour) and a number of private gardens. The area is divided into three main distinct geographical zones. Each presents slightly different characteristics and thus different values.



Omar Daouk Street

This is the area's most prestigious street. It is lined by large plots of land, on which it is possible to build high-rise towers. The street thus offers good development opportunities for large projects, offering residential units measuring 350 SQM or more. All the buildings recently developed along Omar Daouk Street offer large landscaped gardens, beautiful entrances and sumptuous lobbies. The plots are large enough to allow wide setbacks, giving apartments privacy and unobstructed views.

The land value on Omar Daouk Street is between USD 2,250-2,500 per BUA.

Clemenceau Street

This is the main axis of traffic out of Hamra and Ras Beirut, giving the area its name. However, Clemenceau Street is often congested and can be quite noisy. Because of the regular traffic flux, however, plots along the street offer interesting mixed-use development options, with residential units on the upper floors and retail space on street level. Although there is limited demand for retail space on Clemenceau Street, retail units are still lucrative to developers, as they are less costly to build than residential units and can be sold for a higher unit price. The western end of the street offers interesting commercial potential, as the presence of Clemenceau Medical Center can attract clinics or office buildings.

The land value on Clemenceau Street is between USD 2,000-2,250 per BUA.

Inner Clemenceau

Three main streets make up the heart of the Clemenceau neighborhood: May Ziade, America, and Mexico. Along these main axes of traffic, available plots of land offer exclusively residential potential. The streets are relatively quiet and secluded from the hustle and bustle of the main traffic arteries. They have very limited, local car and pedestrian traffic, restricting their commercial potential. Plots in these inner roads are ideal for building small apartments varying between 175-250 SQM.

The land value in inner Clemenceau is between USD 1,750-2,000 per BUA.



ZOOM

The Transformation of Ras el Nabeh

Ras el Nabeh at a Glance

Average apartment size **207 SQM**

Average number of floors by project **11.5**

Average asking selling price (1st floor)

USD 2,887 per SQM

Average price increase per floor

USD 63 per SQM

SOURCE: RAMCO SARL - JUNE 2014

The area of Ras el Nabeh is a near perfect right triangle delimited by three major highways: Abdallah Yafi (formerly called Fouad I), Bechara el Khoury, and Damascus. Ras el Nabeh is a central residential neighborhood that is located almost midway between western and eastern Beirut.

The northernmost tip of the triangle is less than 350 meters from the southern border of BCD, making it a very short walk from the trendiest, most prestigious, and best planned urban environment in the capital.

Thanks to the surrounding traffic axes, Ras el Nabeh is easy to access, while its inner streets are quiet, insulated from the surrounding traffic – and its noise. This island-like quality has confirmed Ras el Nabeh as one of the city's most sought-after residential neighborhoods. Since 2005, the area has been undergoing a surge of activity – construction sites are counted by the dozens. Sales ratios seem to indicate that the area's popularity is likely to endure in the face of the current general stagnation.

ZOOM

The Transformation of Ras el Nabeh

SOMETHING FOR EVERYONE

The residential market of Ras el Nabeh has a wide range of prices that cater to a varied profile of clientele. Prices vary widely depending on the project's exact location within the triangle – whether it looks North or South, whether it is along a main traffic axis or on one of the smaller inner roads, whether it has unobstructed views or looks onto other buildings, etc.

The area has such a high concentration of new projects throughout all its network of roads that it has something to offer to every size of budget.

The vast majority of the projects currently under construction in the area post selling prices that range between USD 2,500 and USD 3,000 per SQM for apartments that vary between 150 and 250 SQM.

The average size of an apartment in Ras el Nabeh is 207 SQM. The average price of an apartment on the 6th floor is USD 662,000. This is the asking selling price, which benefits from slight reductions after negotiation.

Ras el Nabeh is thus an ideal destination for families with medium-sized budgets looking for a middle-market home in Beirut.

NORTH IS NORMAL

The northern section of the triangle is the most affordable. That part of Ras el Nabeh is the least attractive, with closely packed buildings, and narrow streets, giving the impression of a very high population density.

Despite being literally meters away from BCD, northern Ras el Nabeh has no views of the city center and does not truly benefit from this proximity.

This is what explains the quality of the products found at that end of the neighborhood and their prices. Projects are indeed of relatively poor quality and post asking prices between USD 2,500-3,000 per SQM on the first floor.

Apartment sizes are small, usually between 150 and 200 SQM, thus targeting budgets as low as USD 375,000. These are among the most affordable new apartments that can be found anywhere in the capital.



SOUTH IS SEDUCTIVE

The southern part of Ras el Nabeh overlooks the Hippodrome, the residence of the French ambassador, the young pine forest, and the French Embassy grounds. It has beautiful open views and it catches the best southern light.

Projects along Abdallah Yafi Avenue are the most expensive. Prices start at USD 3,500 per SQM on the first floor. This is the entry ticket to enjoy the unobstructed, green views. From the 15th floor upward, prices can reach USD 5,000 per SQM. With apartment areas varying between 300-400 SQM, minimum target budgets stand at slightly above USD 1 million.

The area immediately behind the French Embassy is in full swing. It is being modernized apace with the emergence of new projects. It is a very pleasant neighborhood with wide, quiet, strictly residential streets, and mostly brand new buildings of good construction quality.

Because it has slightly more obstructed views, prices drop to around USD 3,000 per SQM. Apartment sizes vary between 200-250 SQM, targeting budgets starting at USD 600,000.

RAVENOUS GROWTH

The popularity of Ras el Nabeh is a two-edged sword. The area is undergoing development at the cost of tremendous transformation in its urban fabric. As there are very few vacant plots ready for development, new projects are being built on the ruins of old buildings.

Anything that dates back to before the 1960s is being torn down to be replaced by new stock. Growth in the area is eating up the old urban structure of Ras el Nabeh. The neighborhood is certainly in the process of being gentrified, but its previous tenants (particularly old tenants) no longer have room in their childhood neighborhood.

BCD Special

AHMAD CHAOUKI STREET

ALONG AHMAD CHAOUKI STREET

Total number of plots **17**
Number of hotels **1**
Number of office buildings **1**
Abandoned buildings **2**
Projects under construction (all residential) **3**
Completed projects (all residential) **8**
Empty plots **2**

SOURCE: RAMCO SARL – JUNE 2014

In its heyday, Ahmad Chaouki Street, which turns into the Avenue des Français at its eastern end, was reminiscent of the Promenade des Anglais on the French Riviera in Nice. It has since been renamed (Ahmed Chaouqi Street). This wide avenue, one of the widest in Beirut Central District, used to lounge the Mediterranean back in the 1960s and was a favorite haunt of the idle strollers, going around the St. George's Bay.

Since the landfill of the former Normandy – re-named Beirut Waterfront District, the street no longer has a seafront façade. However, some of the tall towers dotting its length do have views of the Mediterranean. The area surrounding Ahmad Chaouki Street is a mixed landscape that includes two hotels, Monroe and the Grand Hyatt (temporarily on hold), several residential towers, offices (Starco and New Starco), and retail spaces along street level.



RESIDENTIAL VOCATION

Three residential projects are currently taking place on Ahmad Chaouki Street. Two of them are mega-developments that will change the skyline of Beirut (Beirut Terraces and Venus Towers). The total upcoming supply is of 120,573 SQM of residential space, divided into 284 units averaging about 424 SQM each.

This stock comes to complement an existing residential supply: The Platinum Tower, Beirut Tower, Bay Tower, Eden Gardens are large landmark projects that helped reshape the residential supply of BCD.

Although they are not directly on the seafront, some of these projects enjoy open sea views from the upper levels. The large plots of land also ensure that towers have sufficient setbacks to provide pleasant open spaces for good natural light and ventilation.

NEW POTENTIAL?

In Solidere's original Master Plan, the area around Ahmad Chaouki Street was designated as a hospitality sector. It was then converted into a residential neighborhood. However, although all the projects currently taking place there are strictly residential, two plots are yet to be developed. Given the current poor performance of the residential sector and the massive supply that will be soon entering the market, it might be a smart strategy to reallocate the usage of these remaining plots.

The neighborhood around Ahmad Chaouki Street is close enough to highly renowned office landmarks to potentially attract office developments. Starco and New Starco are halfway down the block, while perpendicular Park Avenue leads to the likes of Berytus Parks, Audi Plaza, Stratum, and the M1 Building. An office supply on Ahmad Chaouki will provide added momentum to the neighborhood and will help interweave the flow of traffic across the different areas of BCD by mingling the type of supply each area offers.

EMBRYONIC RETAIL STRUCTURE

Apart from Balthus and, more recently, Yabani and L'Avenue, there are very few prestigious retail brand names along Ahmad Chaouki Street. There is a bank and a clothing boutique. The remaining stores are empty and up for rent or sale.

However, the neighborhood is still a construction site and has very limited traffic. The shops are also too large, eliciting little interest from potential retailers. The street receives rough competition from nearby Park Avenue and Wafic Sinno Street, which is wider and a much busier traffic axis that offers excellent visibility for high-end retail.

With the large supply of additional retail that will come from the buildings currently under construction, retail space might be in even greater oversupply. As it is surrounded by busier main traffic thoroughfares, such as Omar Daouk Street, the main passage into Ras Beirut, or Wafic Sinno Avenue that leads to Zaitunay Bay, Ahmad Chaouki still needs some time to establish itself as a retail destination.

OVERPRICED, UNDERVALUED

Residential units start at asking prices of USD 6,500 to USD 7,300 per SQM on the first floor. After the obligatory discount, this means that selling prices on Ahmad Chaouki Street revolve around USD 6,000 per SQM on the first floor. These selling prices translate into a rental value around USD 200 per SQM per year for a high-end apartment. Sea view can be obtained at an additional 30-40%.

Retail space is posted at an asking rental value of USD 1,000-1,200 per SQM per year. These rates have attracted very few retailers to an area that is still in the making with very limited car traffic and no pedestrian flux, despite being, in our opinion, about 20-30% lower than what the area could be achieving.

Ahmad Chaouki Street is therefore currently overpriced. However, such a wide, flat, and eventually beautifully landscaped street has the potential to becoming one of the capital's most prestigious residential and shopping arteries – but in due time!



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WHAT WE WROTE

In l'Orient le Jour

Established F&B and retail destinations (Hamra, Verdun, Mar Elias, Mar Mikhael, BCD...) are dwindling because rental values have become too steep (27 March 2014 & 31 May 2014). On the contrary, Badaro, still very attractively priced, could be turning into the next F&B hub of Beirut (7 March 2014). Despite USD 437 million's worth of unsold new apartments in 2013 (26 April 2014), the residential market still looks stable with more than 430 buildings under construction in Municipal Beirut (12 April 2014). The Real Estate Association of Lebanon (REAL) expressed appreciation for the constructive economic role of the professionals of the real estate industry by distributing 12 awards to leading projects across the country (17 June 2014). The second quarter closed on a slight growth in the market (21 June 2014) but the industry has much room for improvement, including new regulations on official measurements of residential apartments (17 May 2014).

In The Executive

Our April opinion piece wondered whether the cancellation of Bella Casa on Corniche el Nahr is an isolated case or the first in a chain. In June, we expressed our concerns about the misleading law on the measurement of residential apartments – and proposed possible solutions.

WHAT WE SAID

"The land market of Ashrafieh does not wane, regardless of the local and regional security situation."

Charles Malek is the most expensive street of Ashrafieh – Le Commerce du Levant, March 2014

"The average price of an apartment in Beirut is currently very high."

Real estate sector in Lebanon holding steady – Ekaruna, April-May 2014

"The last three years were sufficient to correct prices down to their fair market levels. Price increases are also more reasonable at between 5-10% per year, compared to 15-20% annually between 2007 and 2010."

Real estate indicators post growth – Al Joumhouria, 6 June 2014

"It cannot be said that real estate brokers play a role in boosting the real estate sector but the presence of a real estate association [REAL] helps in regulating the market."

Real estate indicators post growth – Al Joumhouria, 6 June 2014

"Market stagnation is partly due to some buyers' expectations for a drop in prices. However, since prices will not drop, I expect a return to normality and I advise buyers who are still hesitating to buy now because time is not on their side."

The real estate sector is relatively stable while it awaits presidential elections – Annahar, 10 June 2014

"There is still a large number of allotted plots of land for sale and demand is high [...] particularly in Beirut."

Landlords: buy property before it is too late – Loubnan 24, 10 June 2014

WHERE WE APPEARED

Raja Makarem, Founder and Managing Director of RAMCO – The Real Estate Advisers, was hosted by Raed el Khatib's Business Mag on Future TV on 2 June 2014.



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