

ramco
REAL ESTATE ADVISERS SINCE 1973



The Quarterly

INFORMATION & INSIGHT
INTO THE LEBANESE REAL ESTATE MARKET



GEFINOR, BLOCK D, BEIRUT, LEBANON
Tel: +961 1 349 910 Fax: +961 1 753 573
www.ramcolb.com mail@ramcolb.com

Q4 . 2012



[...] in any other market, the prevailing social, economic, political, and security situation would be sufficient to create a real estate crisis – a crisis that is not happening in Lebanon, where buyers are still buying at 2010 prices and even at prices slightly higher.

RAJA MAKAREM
Founder & Managing Director

Letter from the founder



It is true that many Real Estate Registry indicators are dropping – number of transactions, cement deliveries, construction permits, etc. This market reality, however, is not surprising and certainly does not define a “crisis.”

All through 2008 to 2010, during a period of rapid growth, we had been warning that the market was overheating, and needed to slow down in order to absorb the price hikes of the previous years.

The current market slowdown is the result of a combination of factors: the security instability, the armed conflicts in Syria, the internal political stalemate, the general economic slowdown, both in Lebanon and internationally. Combined with the upcoming election year, these factors were bound to result in a drop in activity.

In fact, in any other market, the prevailing social, economic, political, and security situation would be sufficient to create a real estate crisis – a crisis that is not happening in Lebanon, where buyers are still buying at 2010 prices and even at prices slightly higher.

As an agency, the enquiries we receive from buyers by far exceed enquiries we receive from property owners eager to sell. This, in my opinion, is a definite sign of “no-crisis”!

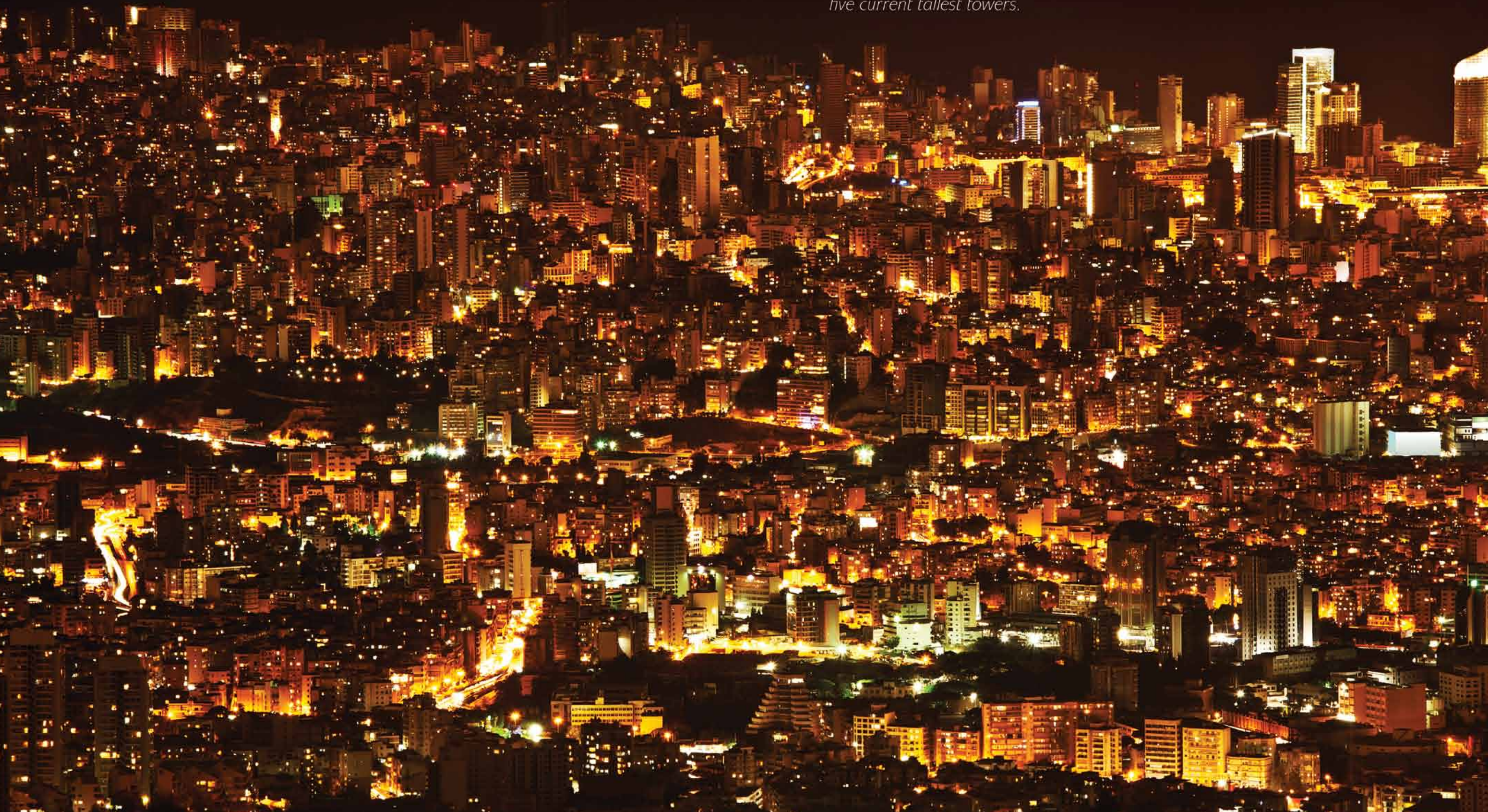
For the moment, the market still shows a number of healthy signs. Large-scale developers still easily find pools of investors to kick off new construction projects. There are a number of mega-investors currently looking to invest anywhere between USD 50 to USD 200 million in real estate projects in Lebanon, and RAMCO still has more trouble finding adequately-priced land than buyers.

We do not usually like to make market predictions. However, exceptionally at the close of this fiscal year, we feel it is safe enough to say that provided there are no major changes on the political and security scenes, 2013 will probably be a repeat performance of the past two years.

Top Five Tallest Towers of Beirut

WHERE ARE THE CAPITAL'S SKYSCRAPERS LOCATED?

Beirut is no exception to the world's infatuation with skyscrapers. While Beirut hasn't reached the record-breaking race to top the world's tallest towers of the Gulf area and Asia, no less than 50 towers will be higher than 100 meters by 2015. The race for higher floors is justified by the higher profits that come from the increasing price of the upper levels, but also by the possibility to offer views that cannot be obstructed – highly prized by buyers. Indeed, the higher the tower, the smaller is the footprint on the plot, and the larger the space that can be landscaped. Ashrafieh is the new high-rise hub, with four of the five current tallest towers.





Top Five Tallest Towers of Beirut

WHICH ONE IS THE TALLEST OF THEM ALL?



SAMA BEIRUT

Located in Sodeco, the highest tower of Beirut will count a total of 51 floors (including technical floors). Offering a mixture of residential units, offices, and retail space, Sama Beirut will be a self-contained development that not only claims the Lebanese record height, but that also boasts large green spaces and landscaped gardens. Residential units start at 194 SQM. The largest apartment is a 1,414 SQM duplex occupying the 50th and 51st floors. To boost sales, two years into the marketing process, the developer placed the smaller apartments on the lower residential floors, which start on the 10th floor onward. The project was designed by Erga Group.

Estimated height:
195 meters
Number of floors: 51

SKY GATE

With its 42 floors (including three technical floors), Sky Gate is the highest tower located off Sassine Square on Georges Haimari Street, a street renowned for its tall buildings: Tilal Tower, Atonium Towers, Abou Hamad, etc. Sitting atop Ashrafieh's skyline, the tower offers 360 degree views of the Golden Square, the Mediterranean Sea, and the mountains. The tower comprises 59 units varying from 359 to around 1,500 SQM. The smaller apartments, from 359 to 424 SQM are located between the first and 26th floors. Apartments between the 27th and 40th floors measure 785 SQM. A 1,506 SQM duplex occupies the two top-most floors. The tower due to its location atop the hill that is Ashrafieh, will be the highest tower from sea level. The project is signed by architect Nabil Gholam.

Estimated height:
180 meters
Number of floors: 42

ABDEL WAHAB 618

Located in Furn el Hayek at the corner of Furn el Hayek and the easternmost (top) end of Abdel Wahab el Inglizi Street, from which it takes its name, the project is a huge construction site that counts five blocks. The principal tower rises 37 floors high. About 3,000 SQM of land will be landscaped green spaces. Abdel Wahab 618 will offer 79 units. Apartment sizes start at 300sqm, confirming the trend toward smaller apartments in the area. More than 50% of the project has already been sold.

Estimated height:
150 meters
Number of floors: 37

GEMMAYZEH VILLAGE

Located on a plot measuring around 7,000 SQM, and offering a total sellable area of more than 50,000 SQM, Gemmayzeh Village is one of the largest projects of Beirut. It has three façades on each of Gouraud Street, Pasteur Street, and Sainte Famille Street. Gemmayzeh Village consists of five blocks surrounding a central tower of 36 floors. The tower offers two apartments per floor, measuring 393 and 443 SQM respectively and dominating the Port of Beirut. Although marketing activities began end 2008, the project was delayed by the urban study to which the neighborhood of Gemmayzeh-Sursock was subjected and by ongoing archaeological digs.

Estimated height:
140 meters
Number of floors: 36

LA CITADELLE

Located in Ain el Mreisseh between Palm Beach and Vendome hotels, the project dominates the seashore with its 34 floors (including two technical floors). The highest tower of Ras Beirut has a French name, highly uncharacteristic of the area. La Citadelle offers two apartments per floor, for a total of 64 units measuring 685 SQM each. This is equivalent to a total residential area of 43,840 SQM. The marketing began in 2010, at a time when the high end market was already starting to slow down, giving the developers a tough challenge to overcome.

Estimated height:
140 meters
Number of floors: 34

TOWER	HEIGHT (meters)	NUMBER OF FLOORS	NUMBER OF APARTMENTS IN THE TOWER
Sama Beirut	195	51	81
Sky Gate	180	42	59
Abdel Wahab 618	150	37	79
Gemmayzeh Village	140	36	72
La Citadelle	140	34	64

SOURCE: RAMCO – December 2012



ZOOM Bliss Street

Number of purpose-built office buildings **3**

Office average Estimate Rental Value
(USD/SQM/Year) **200**

Retail average Estimate Rental Value
(USD/SQM/Year) **1,000 (up to 2,500 for kiosks)**

Residential projects under construction
(western extremity) **2**

Residential starting asking sales price (USD/SQM)
5,500 – 7,500

Minimum apartment size (SQM) **420**

Bliss Street is a crumbling address. It is an accumulation of low-end retail shops – accessory stores, neighborhood grocery stores, fast food joints... Some buildings will soon be demolished, three projects are under construction, and the rest of the street is made up of a number of old one- to three-floor buildings in a very poor state of repair. Yet, despite its run-down state, Bliss Street is still one of the busiest retail streets of Ras Beirut and a recognized residential address.

OFFICE MARKET

Over 1.5 km between AUB's medical gate and where it joins Charles de Gaulle Avenue, Bliss Street has only three office buildings, all located close to AUBMC. The office stock is of poor quality and badly maintained. Bliss Street is no longer a prime business address and does not attract developers with that purpose in mind, nor office tenants. This explains the low rental rates of the few available offices in the area, which stand around USD 200 per SQM per year, among the lowest in Hamra.

RETAIL MARKET

With a large student population, Bliss Street has become the "junk food" destination of Lebanon. The retail landscape offers juice shops, bakeries, snacks, hamburger joints, hotdog stalls, etc. Although the area caters predominately to the students of AUB, the street attracts a large clientele from all over Beirut. Double parking and long queues to order a shawarma sandwich or an ice cream cone are experiences that make up the special, almost "cult" cachet that characterize this street. The popularity of the street and the high traffic it attracts ensure close to full occupancy. There are very few vacancies anywhere on Bliss Street and any vacated space usually stays a very short while on the market before it finds new tenants. Bliss Street can therefore easily justify some of the highest rental values in Ras Beirut. Large spaces command an average rental value of about USD 1,000 per SQM per year. Kiosks and other areas smaller than 20 SQM can have an asking rental value of up to USD 2,500 per SQM per year.

RESIDENTIAL MARKET

The western end of Bliss Street from Edison Center to the former lighthouse (Manara) is becoming a luxury residential destination. Apartments along the street offer beautiful views of the large green spaces and red roofs of the AUB campus and the Mediterranean sea. The neighborhood is very pleasant, relatively quiet, and counts a number of high-end buildings. The area is thus attracting a social elite with the means to buy there. This clientele looks for large apartments, no smaller than 420 SQM. Despite its many advantages, the area does not quite justify some of the highest asking sales prices of Ras Beirut, ranging between USD 5,500 and 7,500 per SQM, depending on the project. These prices are higher than asking prices found in BCD, the best groomed and most up-market location in Beirut and traditionally the market's price leader.

Snapshot

SAIFI-GAMMAYZEH



The area of Saifi-Gamayzeh is made up of three parallel axes: Charles Helou Avenue, Arz-Pasteur streets, and Gouraud Street. The area counts a total of about 30 office buildings, which tend to be grouped into two main geographical centres. The office stock varies widely, with a few modern buildings and a majority of old stock that is not ageing well. The area's equidistance to BCD and Ashrafieh ensures its popularity and bodes well for its future development.



Pasteur Street

This is the area's office showcase window. The stretch between St. Antoine Church and the Sisters of the Rosary Hospital has become an attractive business hub. There is a mixture of good quality office buildings as well as low-end buildings and offices located in converted residential apartments. Pasteur Street is wide and easy to access, and stock that offers parking facilities are easy to rent. Those without parking have more trouble finding takers, particularly the larger ones, as it is a serious logistical dilemma to rent a large office housing a dozen or more employees, who can't park their cars. One project is under construction on Pasteur Street, with delivery date at the end of 2012.

RAMCO's estimated rental values lie at around USD 225-275 per SQM per year.

Charles Helou Avenue & Arz Street

Immediately across the street (George Haddad Avenue) from BCD, this area enjoys a central location. Charles Helou Avenue is the northern entrance and exit of Beirut and overlooks the Port of Beirut. Arz Street has a large number of office buildings, but they constitute an ageing stock. The area's potential is assured, however – several old constructions could be torn down and replaced by new business centers.

RAMCO's estimated rental values lie at around USD 175-250 per SQM per year.

Gouraud Street

Gouraud Street and all its offshoot perpendicular streets count only four office buildings. The street was never a business address, and the current evolution of its urban development confirms that trend. The architectural cachet of Gouraud Street is indeed not well adapted to a business environment. Not a single developer has invested in an office project on or off Gouraud Street over the past decade and a half. The future potential of the street remains dominated by the residential, hospitality, and F&B sectors.

RAMCO's estimated rental values lie at around USD 175-200 per SQM per year.

Focus Shopping in Verdun



Verdun Street still enjoys a good reputation. With several shopping galleries (Concorde Square, Verdun 730, Verdun 732, Dunes...), Verdun Street is one of the principal shopping destinations of Beirut. Several large retail groups also help boost the market by setting up their brands there: Azadea with the likes of Zara, Mango, Massimo Dutti; HST with GS and Timberland; and Bestsellers with Vero Moda and Jack & Jones. Verdun groups three geographical sectors. At the northern end, retail is grouped around Concorde Square. The southernmost end of the street is grouped around Mandarin Restaurant. The busiest stretch is located between Goodies and Dunes. During the past few months, however, Verdun has started showing signs of slowdown. Some locations remain vacant for several weeks, even months, and prices have not moved for some time. Competition is indeed stiff with three newcomers on the retail scene: Beirut Souks in BCD, Le Mall Dbayeh, and the upcoming City Center in Hazmieh. The future prospect of a mall would give Verdun a much-needed boost.





Focus Shopping in Verdun

SUPPLY

The retail offer is a mixture of boutiques located on the ground floors of residential or office buildings, shopping galleries (mainly Verdun 730 and 732, Verdun Plaza 1 & 2), and a mini shopping mall, Dunes. Since the 1990's, galleries have evolved: While at the end of the 1990's, Verdun Plaza 1 & 2 were labyrinthine with narrow circulation areas, the 2000's saw U-shaped shopping galleries on three levels, open to the street. This structure, however, is currently losing its glitz compared to modern shopping malls that include open spaces, around a central patio and high ceilings. Verdun's galleries have become outdated.

PRICES

Since the turn of the 2000's, rental rates have been relatively stable in Verdun. Estimated Rental Values (ERVs) vary between USD 800 and USD 1,200 per SQM per year along Verdun Street. The different sectors, however, post slightly different ERVs, depending on the retail offer and on the footfall the stretch of road generates. The highest ERVs are found on the central stretch of road near Verdun 730 & 732 and Dunes. At both ends of Verdun Street, ERVs drop by about 20%. Prices drop noticeably on the first floors and at basement levels of the galleries. Owners post asking rates of USD 700 per SQM per year, but as there are no takers at this price, ERVs should lie between USD 500-600 per SQM per year.

OCCUPANCY

Retail units on the ground floor operate at an occupancy rate near 90%. The few vacant units are those that are posted at an unjustifiably high price by their owners. Retailers are not willing to pay for overpriced products. On the other hand, a total fiasco reigns over boutiques located on the first floors or at basement levels of Verdun's shopping galleries, where turnover is very high and dozens of shops have stood vacant for years.

PROSPECTS

The future of Verdun is closely linked to Verdun 5, a shopping mall project located on a land of more than 18,000 SQM (the site of the former Carmel Saint Joseph School). With more than 30,000 SQM of net leasable commercial area, offering boutiques, restaurants, leisure areas, and cinemas, the project will compete with existing Beirut malls on equal footing and will undoubtedly give a great boost to the whole area. Demand is sure to be high, as both retailers and the shoppers of Ras Beirut have been avidly awaiting such a project. The prospect of having a mall in Ras Beirut is made even more pressing by the heavy competition coming from the malls that are sprouting all around the periphery of Beirut City.

LOCATION ON VERDUN STREET (USD/SQM/YEAR)

Around Concorde Square 800 – 1,000

From Goodies to Dunes 1,000 – 1,200

Around the Russian Cultural Center 800 – 1,000

SOURCE: RAMCO – December 2012



BCD Special

SOUTHERN PERIPHERY

EMPTY PLOTS OF LAND **13**

EMPTY PLOTS OF LAND
OWNED BY SOLIDERE **7**

NUMBER OF PROJECTS
UNDER CONSTRUCTION **6**

RETAIL ERV IN THE AREA OF
SAIFI VILLAGE
(USD/SQM/YEAR) **800-900**

OFFICE SALES PRICE IN THE
AREA OF BACHOURA
(USD/SQM) **6,000**

RESIDENTIAL SALES PRICE IN
THE AREAS OF ZOKAK EL
BLATT & SAIFI VILLAGE
(USD/SQM) **5,600-6000**

SOURCE: RAMCO - DECEMBER 2012

Some fifteen years after the development of Solidere, the southernmost strip of BCD counts 13 vacant plots near the Ring Road (Fouad Chehab Boulevard). The area's sagging popularity is in clear contrast with the residential boom of Wadi Abou Jmil or Minet el Hosn, where several projects are currently taking place and many others have been completed. On the contrary, only six projects are under way in southern BCD, five of which are located in the area of Saifi Village and one in Zokak el Blatt. That it should be lagging behind other areas of BCD is not surprising, as Southern BCD sits across a very busy, noisy, polluted highway that separates it from some of the poorest residential neighborhoods of Beirut, such as Bachoura and Zokak el Blatt. Once the rest of BCD is fully developed, the Southern strip will have its turn.

SAIFI VILLAGE

This eastern end of southern BCD is probably the best known. It has a well-established residential cachet and a very distinctive identity. Five projects are currently taking place in the neighborhood. Two of these are located within the former Beirut Gate project, and three are on the border with Saifi Village. These projects, however, are too close to the Ring Road – it will be a challenge to match the charm and tranquility of the residential buildings within Saifi Village. They do have a very interesting commercial potential, and good prospects for retail on the ground floor.

BACHOURA

Since the restoration of BCD began in 1994, not one plot has been developed between the ESCWA garden and the Bechara el Khoury Bridge. Solidere still owns several plots there between Riad el Solh Square and the Ring Road. Only one project has been recently put in motion by Solidere: The House of Art and Culture. Mandarin Hotel is also being planned for the area. Yet, Bachoura could be an interesting business address in continuity with the Beirut Digital District (BDD) project recently launched on the other side of Bechara el Khoury Boulevard. The area is definitely more suited for commercial developments (offices, retail, and hotels) as the highway is too noisy and polluted. The potential of the area is tied into the existing office stock of BCD; it will have to wait until the existing stock is absorbed in order to attract new office developments.

ZOKAK EL BLATT

This is the area that lies between Burj el Murr and Mouawad Museum. Although plots immediately border the Ring Road, noise pollution is lessened by the tunnel and the new public garden. The area has a mixed potential for residential and office development. This strong potential is confirmed by the boom currently taking place in the area of Zokak el Blatt that falls outside Solidere. Three residential projects are now under construction, posting starting asking sales prices of USD 4,000-4,500 per SQM. Their best marketing argument is that they have a view of Solidere. It is the high cost of the BUA within BCD that is holding back the development, as apartments in the BCD sector of Zokak el Blatt will cost about 50% more.

WHAT WE WROTE IN L'ORIENT LE JOUR

Despite the fact that prices of land have finally started to stabilize as a result of the slowdown in the residential market, demand for land persists and the majority of plots in Beirut have a cost per BUA that lies between USD 1,300 and USD 2,000 (26 October 2012). The retail rental market is slowing down although rental rates are still not adjusting to the reality of a stable market, resulting in longer and longer vacancy periods (3 October 2012). The slowdown has had some positive effects. A slow market is a buyer's market. Apartments can now be purchased at their fair market value, and so far there are no signs for a future crunch in prices (13 November 2012). The office market in Beirut is attracting developers. Ashrafieh alone counts 15 office buildings under construction, representing about 78,500 SQM of office space that will be sold at prices ranging between USD 3,000 to USD 3,500 per SQM (14 December 2012). We have also commented on Cushman & Wakefield's November report that listed some very misleading figures (30 November 2012).

WHAT WE SAID

"The decision to increase taxes on real estate will be very destructive and will further slow down an already slow market."

Real estate investors and developers are against tax increases – Al Mustaqbal, 1 October 2012

"The government is at least six years too late on imposing new real estate taxes. If these taxes had been imposed when the market was growing, they would have been absorbed without being felt. Today, any new taxation will reflect negatively on the market."

The real estate market is under threat – Al Joumhouria, October 2012

"Despite the poor security situation, real estate is still an interesting investment option. However, there are no incentives targeting investors to place their money in that sector, given the hindering bureaucracy and the discussions around imposing additional taxes on the sector instead of decreasing them. The government could try to obtain other sources of income without burdening the real estate sector."

9.5% drop in real estate transactions in the first eight months of the year – Annahar, 11 October 2012

"The real estate sector does not rely on daily [security and political] developments because real estate projects take place over a period of four to five years."

How do business people read the current security and political situation – Annahar, 22 October 2012

"The real estate market in Lebanon has proven its solidity and stability despite all the wars and internal disputes that the country faced by still being one of the best markets for investments in the region."

The real estate market has escaped unscathed from the political crises – Anadole, 21 November 2012

"After years of growth, it was only natural for the market to slow down. [...] The current market stability is a healthy period of respite."

A stable healthy market – B'Here Lebanon 2012 Annual Review

WHERE WE APPEARED

Raja Makarem was interviewed on 30 November 2012 by Dubai-based CNBC Arabia at the occasion of a forum on the real estate market organized by Al Iktissad Wal Aamal Group in Beirut, where he also sat on a panel discussing the real estate development sector. Raja also gave a talk on "the new risks of the real estate industry" during a conference organized by Data Investment Consult Lebanon on 18 December 2012 at the Crowne Plaza Hotel in Beirut.

