

High returns propping up real estate prices

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BEIRUT: Real estate developers in Lebanon are making a high return on their investments, dismissing the need to reduce prices, said an industry expert. "Developers are making around 10 percent to 15 percent yearly profits on their projects which is higher than the interest rate offered by banks on deposits in Lebanese pounds," Raja Makarem, founding and managing director at RAMCO, told The Daily Star in an exclusive interview. "With such a profit rate, developers do not feel the urge to drop their prices," he said.

Makarem explained that the minute a developer sells 60 percent of his project he would be covering his cost. "Once developers cover their costs, they tend not to reduce their prices, hoping that the political situation in the country improves, which would allow them to generate their targeted revenues," he said.

However, he added, developers resort in some cases to offering margins of negotiations to be able to sell their units.

Makarem reported a slowdown in demand on real estate due to regional instability and the deteriorating political situation in Lebanon. However, he expressed optimism because local residents and expats are still keen to buy properties in Lebanon.

"I was expecting real estate transactions to stop completely with all the political chaos taking place in Lebanon and in the region but we are luckily still witnessing some demand by local residents and expats," he said.

He explained that Lebanon's real estate market has some very good fundamentals enabling it to attract buyers even in bad times.

"Around 5 percent of the 4 million Lebanese people are making fortunes on a daily basis and they are interested in buying real estate in Lebanon because they have businesses in the country and they are making good profits," he added.

Makarem said there are around 10 million Lebanese expats all over the world, which also helps in creating momentum for the sector. "If only 1 percent of these people are still attached to Lebanon, they will boost demand on residential units."

Bank Audi's Lebanon Weekly Monitor reported a rise in sales operations by 21 percent in the first month of 2016 relative to the same period last year. It said total property transactions rose by 15.5 percent over the period moving from 10,299 to 11,894. But, it added, sales to foreigners declined from 89 transactions in January 2015 to 76 in January 2016, equivalent to a yearly contraction of 14.6 percent.

Makarem said Lebanon's real estate market succeeded in proving its resilience over the years when other countries were facing fierce economic problems.

"Our real estate market is resilient and this can be reflected by the small number of projects that have stopped in Lebanon following the regional crises and complicated political situation locally," he said. "Only around five out of the 500 ongoing projects were halted and none of the developers went bankrupt," he added. "The halt of such a minimal number of projects is not a disaster."

But Makarem believes the sector's resilience will start fading away soon if no positive events take place in the country such as the election of a president. "If no improvements take place in the near future, the sector's resilience will be eaten up," he said.

Makarem denied media reports about Saudis attempting to sell their real estate as a result of deterioration in Lebanese Saudi diplomatic ties following Saudi Arabia's decision to suspend two grants worth a combined total of \$4 billion to the Lebanese Army and police over a political dispute.

"This will not have any impact on the real estate sector because Saudis have been already trying to get out of the Lebanese market since 10 years following the sharp hike in prices aiming to maximize their profits," he said. "But they could not sell because demand was too low."