

## Office towers on rise as residential demand fades

By Mohamad El Amin

BEIRUT: Real estate developers in Beirut are tapping into a largely underdeveloped office market as demand slows for high-end residential property, experts say.

A recent survey by real estate advisers RAMCO showed 32 projects were currently being constructed in the capital with a total office space of 147,871 square meters in the pipeline.

"Commercial projects became financially interesting to developers after the residential market entered a phase of slowdown," according to Karim Makarem, the director of RAMCO real estate advisory firm.

"In parallel, the price of offices increased due to the scarcity of new, modern office stock on the market. Demand for small offices is steady. It comes from doctors, lawyers and local companies," he adds.

RAMCO Research Director Soha Yammine told The Daily Star that developers had long neglected the office segment of the real estate market, lured by the greater profits margins in high-end residential developments.

"For many years, profit margins on residential developments – often reaching 30 or even 40 percent – were much higher than offices ... so that segment of the market was neglected by developers for many years.

"But today profit margins [in both markets] are around 10 to 15 percent, making office development attractive again," she added.

Eight of these office projects offer floors on the lower levels of residential towers, reflecting mixed-use offerings as developers diversify property portfolios, the report says.

Another trend the report highlights is that developers are moving into new areas outside of what was previously considered Beirut's office district.

Beirut Central District, the traditional business hub, only has four office projects in the pipeline, with a share of 25,073 square meters, or almost 17 percent of all new offerings.

And only two office buildings are underway in Hamra and Clemenceau, catering to demand for clinics in the proximity of American University Hospital, Clemenceau Medical Center and other medical centers.

The lion's share of offices under construction in the report are in Ashrafieh. Some 18 out of the 32 projects are being built in the Corniche al-Nahr, Adlieh and Badaro neighborhoods, representing 66 percent of the total number of offices to be put on the market.

"Corniche al-Nahr in particular is quickly turning into a new business destination, as it was one of the rare nonallotted, undeveloped neighborhoods. As a former industrial zone, it is not well-suited for residential developments, and quickly took on a commercial stamp," the report says.

Lower prices in those areas also help explain the shift, with average asking prices in Corniche al-Nahr, for instance, at around \$3,500 per square meter versus \$7,000 per square meter in BCD. Hamra's relatively limited supply also pulls up average prices to between \$5,000 and \$5,500 per square meter, the report adds.

Around 75 percent of the projects will be for rent rather than sale, the report adds.

Nadim Kazma, senior property consultant at PBM Real Estate, told The Daily Star that demand for new offices had been increasing recently, boosted by new businesses models such as shared offices, which provide a cheap, flexible alternative to the more traditional model.

He also said developers had been increasingly partnering with landowners on projects instead of opting to purchase land.

The scarcity of modern offices in Beirut is one of the many reasons they have remained among the most expensive in the world, despite a persistent economic slowdown and unfavorable political and security conditions over the past two years.

BCD was ranked third most expensive in the region and 24th in the world in terms of office rent costs, according to an annual report issued in early 2013 by U.S.-based real estate services firm Cushman & Wakefield.

Although interest from multinational companies supported demand for Beirut offices in 2012, the surrounding regional instability forced many businesses to either postpone their location decisions or opt to renew their leases annually, Cushman & Wakefield suggests. "Nevertheless, demand for high-quality space managed to hold up in 2012, and as a result prime rents in Beirut were unchanged in the duration of the year."

For Yammine, it is vital that developers keep a close eye on the market amid the current economic conditions. Developers, she said, need to offer exactly what investors want in order to avoid oversupplying the market.

"Approximately 150,000 square meters of new office space [in Beirut] is not a small number for an economy that is slowing down," she said.