

# CONCRETE AMBITION

THE LEBANESE REAL ESTATE SECTOR IS SLOWING DOWN BUT THE STIMULUS AND OPPORTUNITIES ARE STILL THERE *By Thomas Schellen*

Statistically, by almost all indicators available to EXECUTIVE, activity in the field of real estate development and building construction in Lebanon is in a slump. In the first nine months of 2013, the indicators of property transactions, construction permits, engineering insurance premiums and morale among construction managers concerning their businesses were down compared with the same period in 2012. The only exception is that cement deliveries were up.

Recorded property transactions were lower by 5.2 percent in volume and by 4.5 percent in value: with slightly fewer than 50,000 transactions from the start of the year until September 30, with a total value of \$6 billion. Within the overall contraction of deals, the share of property sales to non-Lebanese also exhibited continued weakness, regressing from 1.86 percent in 2012 to 1.81 percent in 2013.

The issuing of construction permits during the first nine months in the lower two thirds of Lebanon receded for the third year in a row, with 7.8 million square meters (sqm) licensed by end of September, a drop of 14 percent, a similar contraction to that witnessed between 2011-2012.

The Order of Engineers in North Lebanon allotted permits totaling 9.7 million sqm for the first nine months of 2013 compared with 10.7 million sqm in the same period in

2012, translating into a narrower contraction of 9.3 percent year-on-year.

Meanwhile, insurance premiums in the engineering industry fell 7 percent to \$8.2 million in cumulative revenue for the first three quarters in 2013, according to figures provided to EXECUTIVE by the Association des Compagnies d'Assurances au Liban (ACAL). In the third quarter of 2013, engineering premiums dropped to about \$1.75 million, the lowest quarterly amount since the fourth quarter of 2011.

Development activity shifted in 2013 to outlying areas of the capital and farther into the provinces where land and development costs are more compatible with end buyers' financial means. The Beirut governorate represented no more than 5 to 6 percent of building permit issuance in the year's first three quarters.

A slow year has contributed to an atmosphere of pessimism among many industry leaders.

In a second quarter survey conducted by Banque du Liban (BDL) in which enterprise managers were asked to assess the evolution of their businesses, the majority expressed that 2013 had been a year of decline rather than improvement.

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Moreover, the survey revealed that managers of enterprises dealing with construction and public works saw the most recent quarter as having reduced activity versus all 11 quarters between Q4 2010 and Q2 2013.

## A MANAGEABLE CHALLENGE

Statistics on cement deliveries — which are correlated during the middle and later implementation phases of construction projects — provided an exception to the downturn.

Cumulative deliveries of cement were up 7.2 percent from 3.4 million tons in the same period in 2012, according to BDL. However, the question remains how much the increase in volume says about the state of the industry. Cement deliveries during the first eight months of any of the past five years have been in a range of plus/minus 6 percent of 3.5 million tons.

While the stats point to a property market recession in Lebanon, the sentiments that developers shared with EXECUTIVE during the research for the 2013 sector review were not your expressions of the bust phase in a typical boom-and-bust cycle.

Approximately one third of the developers and intermediaries that EXECUTIVE talked to assessed 2013 as the worst year for their respective companies in years or even since they started doing business in Lebanon. Ramco, one of the most experienced intermediaries, up-market developer Premium Properties and Prime Consult — the property

firm best known for its association with Lebanon's soon-to-be tallest building, Sama Beirut — all expressed such sentiments.

However, while developers overwhelmingly said that the year was tough, they also insisted that it was a challenge that was manageable and not entirely unexpected. Whilst admitting the year in Beirut “was tough for everybody,” Ayad Nasser, chief executive of niche developer Loft Investments, argues that perceptions of a very bad year were shaped by the fact that the sector became accustomed to high growth and returns in the years 2008-2010. “But I can assure you the market is not dead. People are doing some transactions, we are still alive, and we are cool,” Nasser says.

Inquiries by people who called in search of a property were “rare” this year, concedes Mireille Korab, the head of sales and marketing at FFA Real Estate. She qualifies her remark with a note of optimism, however, by adding “but you still have people calling and they are more serious. People are not shopping around, they are serious and they know what they want. If you present them with the opportunity, they will buy.” Ramco director Karim Makaram similarly concedes that while

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business is down, there are still sales to be made, “even at the upper end of the market, which was the most negatively affected by the downturn.”

### STILL IN THE MIXER

Many developers who took note of regional changes and their ability to negatively impact Lebanon were prepared for the slump ahead of 2013, choosing not to embark on new projects whilst adjusting market strategies. Loft Investments' Nasser says he opted against new projects in anticipation of a slower market and Houssam Batal, chief executive of Premium Properties, says that his company put itself into “a position to be successful by off-loading most of our inventory.”

One unforeseen incident that greatly hindered the real estate sector was the collapse of the Mikati

government in March 2013 followed by consequent failures to establish a new cabinet.

In the view of Massaad Fares, chief executive of Prime Consult and head of the Real Estate Association of Lebanon (REAL), a lack of confidence was the decisive factor impeding the market [see interview page 124]. Samer Bissat, senior project manager of the Majd Al Futtaim (MAF) Waterfront City project in Dbayeh, argues that the detrimental impact of the domestic political impasse was more significant than that of crises in countries around Lebanon. “The political scenario affects the mood in the market, the mood of the investors, and it affects the foreigners more than the locals and the expatriates,” explains FFA's Korab.

While the political class is not everyone's darling, another part of the administration appears to have a solid fan base in developer circles: the central bank. “The incentives that the Central Bank Governor [Riad Salameh] provided did have a real positive effect and helped the property market not to stagnate despite the deteriorating political and security situation,” says Hassan Tajideen, chief executive officer of developer Tajco.

Central bank intervention could go a long way toward explaining why the dynamics of the Lebanese property market in 2013 were not exhibiting the marks of a bust phase. In focusing much of the 2013 economic stimulus package of \$1.46 billion — of which 56 percent was allocated to home finance support — on real estate, the central bank has pursued a policy to make real estate finance easier for families in the lower and middle income brackets. This stimulus policy was the opposite of the monetary tightening by which central banks conventionally respond to boom phases.

Having low-cost access to funding under the 2013 stimulus

Waterfront City is selling well despite the downturn



package, banks could lend money to home buyers at comparatively low rates of interest. The stimulus measure appears to have softened the pressure on the real estate sector which accounts for 13.8 percent of Lebanon's aggregate economic value, according to figures from the Central Administration for Statistics.

With the support of the stimulus package in 2013, one third of demand — the home buying of first-time owners and young families — was functioning rather normally while two other demand categories — up-graders and Lebanese expatriate and foreign buyers who want to invest — were subdued.

Fares sees the value split in the market as heavily skewed toward the two latter categories. "If the market is \$7 billion a year, they probably represent \$6 billion," he says.

"The young generation buys the smallest apartments and the least expensive ones," he adds.

## BUYER'S MARKET

For property buyers who had the cash, the confidence, the speculative bravado, or the absolute need to hunt for a new home in 2013, the market was to their advantage, at least relatively speaking. Newly constructed budget apartments that would have been available for significantly less than \$100,000 per unit eight or nine years ago will most likely never again be that affordable. But compared with 2010 or 2011, new units in this market segment were available to Lebanese buyers in the past year at stable or sometimes slightly reduced prices, with financing terms and loan rates

## BUYERS WHO HAD THE MEANS TO AIM FOR A MEDIUM TO HIGH-END PROPERTY HAD LEVERAGE TO NEGOTIATE FOR LOWER PRICES

that could be called affordable by emerging markets standards.

Buyers who had the means to aim for a medium to high-end property had leverage to negotiate for lower prices. Developers EXECUTIVE spoke to had different approaches — some insisted they had not and would not agree to bargain — but many readily admitted to having considered offers that were 10 percent or more below their asking prices, depending on the project and its demand experience. If they had the resolve to test the developers' pain threshold for prices by negotiating aggressively, end buyers could get 15 or sometimes 20 percent discounted on the asking prices, according to comments from various experts.

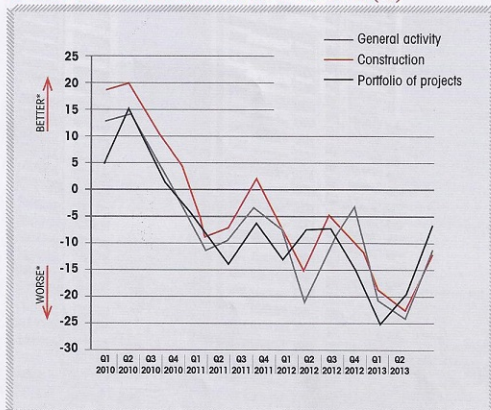
According to property experts, these discounts may still be found in 2014 but most developers expect the strong buyers' market to taper out in the course of next year. Makram Zard, chief executive of Zardman, says discounts were stronger in Beirut's Ashrafieh district than in the Metn region. "I am guessing that these discounts won't be there anymore in the middle or second half of 2014 as the market will pick up and the developers will be in a stronger position."

Talking of better days to come, the tapering or durability of discounts will of course chiefly depend on market trends and here developers expressed optimism. REAL's Fares predicts that in 2014, "the real estate market will start the up cycle. I think by January/February we will hit the real bottom and we will start going up from the beginning of spring. If the political situation is stable and clearer, this will give an added push."

## SLEEPING GIANTS

Batal of Premium Projects says that his company hopes for the political situation to clear up but emphasizes that they will be working on new projects in 2014 regardless of

## NET BALANCE OF OPINION AMONG MANAGERS (%)



Source: BDL  
\* From a year prior



## DESIGNING URBAN SPACE

Is Beirut a city in which the Lebanese people are sacrificing their history, health, quality of living, social fabric, heritage and environment? The question begs debate every year when attention turns to the latest "achievements" in urban design in the Lebanese capital.

In 2013, it was the Fouad Boutros "highway", as the project was dubbed by its detractors, in the Ashrafieh district that ignited a harsh debate over urban planning, traffic needs, and the structure and heritage of neighborhoods. The controversy led EXECUTIVE to research both sides of the issue.

In 2012, it was the demolishing of an antique Phoenician port that led to outcries of indignation. And increasingly every year, even the real estate developers who profit greatly from making Beirut's cityscape ever denser will lament the lack of heritage protection and urban planning and how bad the state of infrastructure is for their businesses and for their own quality of life as citizens of Beirut. Are these merely crocodile tears?

The UN Habitat Global Report on Human Settlements 2013 estimates that Lebanon's urbanization level will increase from 87.1 percent in 2010 to 89.3 percent in 2030, a rate far higher than what most other territorial states have to cope with. Beirut, already home to more than half of Lebanon's urban population and to 47.5 percent of the total population, according to the report, has an urgent need for action.

The body's Report on the State of the World's Cities 2012/13 cites the Beirut of today as a "metaphor for brutal real estate speculation" in the context of a survey in which 80 percent of local experts in Lebanon see "economic development and related urban activities as having detrimental effects on the environment."

In further results from the survey, local experts consider Lebanese policy makers to have very little concern for social equity and the report thirdly indicated weak civil society in Beirut as a significant barrier against providing equity. These perceptions are ever more worrying because Lebanon's high urbanization rate entwines the country's future inextricably with the ability to enhance Beirut's urban prosperity.

The capital's streets are lined with over a century's worth of buildings that were put up with only the developer's or the owner's idea behind them. In this sense, the ever present individualism of today's residential and office projects can be regarded as continuations of the cacophonous but intriguing story of Beirut as a city, where architecture and chaos play in the same orchestra. The danger for urban prosperity is that the projects are wreaking irreversible damage on their neighborhoods and there is no authority that will rein them in.

The good news in the urban issues — highways, parks, and even stairwells — debated in 2013 was that Lebanon's civil society grew and became more visible and vocal. But nonetheless, while debates over heritage and social equity are absolutely needed in the city and, with increasing civil society involvement, may even bring a win for citizens every now and then, the central problem remains the axle. For the wheel of urban prosperity to turn in Beirut, the problems of absent development codes and incapacitated political institutions need to be tackled relentlessly, every day in 2014 and in the future.

political currents. "I have a feeling that we are almost at the end of this tough period," says Loft Investments' Nasser. Chahé Yerevanian, chairman and chief executive of Sayfco, also strikes a positive note. "I foresee a general improvement in the market starting in the summer," he says.

There certainly are enough projects on the drawing board by which developers are seeking to reignite a new profits cycle, and naturally they hope to rouse the market out of its current slumber, the earlier the better. The central bank has already said it will help

with another, albeit smaller, stimulus package. On the other hand the meager estimates of the coming year's real GDP growth — the World Bank is talking 1.5 percent — and the many vagaries of the regional situation serve as a reminder to keep realistic.

On the balance, undertones of caution contextualize any optimism and no one is expecting a jolly ride to profits in 2014. MAF Waterfront's Bissat, who does not expect to see large changes in the market in 2014 compared with 2013, emphasizes that developers will need to demonstrate staying power and keep their ear to the ground in researching customer demand.

## BUILDING THE FUTURE

Developers will also need to have new ideas, of this FFA's Korab is sure. "The whole issue about coming

## DEVELOPERS WILL NEED TO DEMONSTRATE STAYING POWER AND KEEP THEIR EAR TO THE GROUND IN RESEARCHING CUSTOMER DEMAND

up with a successful project is that the markets are changing very fast and we need to be up to speed. To succeed in this market, you need a new type of product; you need a smart product," she says.

Beyond that, she is sure of one more thing: there is no alternative to having a positive outlook. "We don't believe in stopping. Lebanese don't stop and we don't nag. At this point we are positive and we should always be positive. What should happen? We have been through war, through bombs, through everything and the market in Lebanon proved to be a really solid and mature market. If something unforeseen happens in 2014, it will be the same as this year perhaps; it can't be worse."

# Coping with the crunch

SOME IN THE REAL ESTATE SECTOR EXPRESS QUIET OPTIMISM GOING INTO 2014. OTHERS ARE NOT QUITE SO SURE *By Thomas Schellen*



“BUYERS STILL HAVE INTEREST IN BUYING LAND. THE PROBLEM LIES IN FINDING ADEQUATELY PRICED PLOTS OF LAND — THE MAJORITY OF PLOTS ARE STILL PRICED UNREASONABLY HIGH RELATIVE TO THE POTENTIAL OF THE MARKET”

*KARIM MAKAREM, managing director, RAMCO Real Estate Advisors*



“THERE WAS GROWTH IN SUPPLY BUT THIS GROWTH [IS STOPPING] BECAUSE DEVELOPERS AND OTHER BUILDERS ARE EXITING THE MARKET AND NOT DEVELOPING ANYTHING NEW. THUS, BECAUSE NO MORE MAJOR OR LARGE AMOUNTS OF DEVELOPMENTS ARE COMING, I DON'T THINK THAT THE SITUATION IN 2014 WILL BE MUCH WORSE”

*HOUSSAM BATAL, chief executive officer, Premium Properties*



“AS A DEVELOPER, YOU HAVE TO GO AND FIND THE CLIENT AND OFFER HIM SOMETHING THAT HE NEEDS. EVERY SINGLE COMPANY, DEVELOPER OR BROKER NEEDS TO HAVE A RESEARCH DEPARTMENT THESE DAYS”

*MIREILLE KORAB, head of sales and marketing, FFA Real Estate*



“I HAVE A FEELING THAT WE ARE ALMOST AT THE END OF THIS TOUGH PERIOD. BUT I HOPE THAT NOBODY WILL DO NEW DEVELOPMENTS BECAUSE PEOPLE NEED TO BREATHE A LITTLE BIT. IT IS NOW THE MARKET FOR PEOPLE TO TAKE TIME, TO THINK, AND I WOULD LIKE PEOPLE TO SIT AND FOCUS ON URBAN PLANNING, TO TAKE CARE OF THIS JUNGLE”

*AYAD NASSER, chief executive officer, Loft Investments*