

Bella Casa suspension: real estate on the edge?

Decision to discontinue major project has some developers worrying

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The Bella Casa project was designed to appeal to Lebanese expats

According to a report in French-language magazine *Le Commerce du Levant*, prominent Lebanese developer MENA Capital recently decided to discontinue a major residential project. This is the first time in years that a well-known company with great experience in mega developments has officially pulled the plug on a flagship project. The official reason: the very low sales ratio.

When it was announced in May 2012, the Bella Casa residential project in the Corniche el Nahr area stood out by combining a large project size with relatively small unit sizes. The project's three towers (22, 24 and 28 floors) were to entail over 180 apartments and lofts, with apartment sizes of 120 to 264 square meters. Besides offering units that were described as affordable and convenient in size when compared with other projects in the capital, Bella Casa was to become "a gated community," in easy reach of two of the city's main business districts — downtown and Ashrafieh.

<http://www.executive-magazine.com/business-finance/real-estate/bella-casa-cancellation-real-estate-edge-2014>

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Almost two years after launching Bella Casa, the developer has declared that the project had managed to sell no more than 20 percent of its stock. This was despite an aggressive advertising campaign and a recent 15 percent reduction of the original launching price, which placed the starting sales price at \$2,800 per square meter — among the lowest in the project's neighborhood on the eastern periphery of the Ashrafieh district.

One explanation put forth by the developer is that the project catered mainly to the Lebanese expatriate community. Given the ongoing security crisis and the resulting economic stagnation, Lebanese living abroad are reluctant to invest back home.

Obviously, the decision has a financial cost to the developer — the expenses incurred in developing the architectural plans, obtaining construction permits and of course launching a full-blaze advertising campaign. The land, of course, retains its value and the developer can always resell it — at a profit.

A struggling market

Yet, this public acknowledgment of defeat, particularly by a large development company in Lebanon, with a very solid track record and some of the capital's most noteworthy landmark projects, is a worrying sign for the rest of the industry.

Is this an isolated incident, the result of the specific strategies and design choices of a particular development company, or is it a sign of general malaise in the real estate market?

The market has been stagnating since the end of 2010. It started showing signs of decline when the first price drops were recorded toward the middle of 2012. Real estate indicators are in the red across the board: cement deliveries, new construction permits, volume and value of sales transactions, number of unsold apartments, sales ratios, etc.

Market data also points in that direction. Sales ratios in new residential projects have dropped over the past few years, affecting project financing, as residential projects normally obtain the bulk of their financing through pre-sales. In boom years, anything from 20 to 30 percent of a project used to be sold off-plan before the project broke ground.

The case of the suspended Bella Casa development is only one example among many that point to a sharp drop in the number of pre-sales. As these pre-sales finance the launching construction works of new residential projects, dropping pre-sales ratios will certainly have a negative effect on the launching of new projects.

Combined with waning demand, new projects are few on today's market. For instance, not a single new project has been launched in the Beirut Central District during the past 12 months.

The relatively low sales ratios of projects currently under construction might not cause more market exits of new projects, as construction is already at advanced stages. But only established developers with an assured niche target market are embarking on new projects under such difficult market conditions.

The most probable scenario is that projects currently under way that do not cater to a specific niche clientele will continue to experience difficulties in selling their stock. New projects will most likely be slower coming onto the market.

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For the moment, this one cancellation of a major development, although unseen before, remains an isolated fact. Demand for land is still healthy. Developers still seek new opportunities to purchase land to build. They are keenly aware, however, that they cannot make any development mistakes.