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

Q1 . 2012

The Quarterly

INFORMATION & INSIGHT
INTO THE LEBANESE REAL ESTATE MARKET

The future, all things being equal, seems to hold more of the same: 'a healthy sustained stability surrounded by rumors and false interpretations.'

KARIM R. MAKAREM
Partner & Director

Letter from the director



It has been an eventful year since our first edition of The Quarterly. The market has continued to outperform expectations and behave at odds with the general perception.

We are witnessing both demand and transactions for a variety of property types across the capital and beyond. Of course, while transaction figures are not on par with the sheer volumes witnessed in previous years, transactions continue to flow at a steady pace and across an array of budgetary levels, contrary to common perception.

The residential sector is not performing as it once did, as many developers would admit to, but it is performing nevertheless. Granted, budgets are not as large as they once were, but they are not as small as some would suggest. There is demand and there are transactions at varying levels with an obvious shift towards smaller typologies.

The retail sector is doing well, though overall demand is no longer blind to location weaknesses or over-inflated asking prices. Certain areas continue to attract retailers and their shoppers as well as F&B outlets and their consumers. Demand is sustained and transactions are taking place in a variety of areas but the sector is becoming more targeted and regions are forming very clearly defined target markets.

The office sector is witnessing renewed interest, though just how much room for growth remains is the big question. There is demand and there are transactions at varying levels and areas with an obvious bias for the well established office locations and well known office blocks.

While there are fewer and fewer lands, there is more and more demand for them. Developers, who are the most susceptible to high prices, are not the only ones buying. Developers are finding themselves more and more priced out by investors and speculators.

The future, all things being equal, seems to hold more of the same: 'a healthy sustained stability surrounded by rumors and false interpretations.'



Top Five Commercial Destinations in Ashrafieh

WHERE DO RETAILERS WANT TO BE?

Ashrafieh offers a diverse retail landscape. The area has several distinct commercial hubs, offering a wide variety of retailers, customers and rents. From luxury boutiques to a more eclectic range of avant-garde art and fashion stores, from gourmet restaurants to fast food outlets, Ashrafieh has something for everyone. It is as if Ashrafieh were made up of well spread out jigsaw puzzle pieces, which, when put together, form a comprehensive retail market that addresses the full range of consumer needs and budgets.



Top Five Commercial Destinations in Ashrafieh

WHERE DO RETAILERS WANT TO BE?

RANGE OF ESTIMATED RENTAL VALUES (USD/SQM/YEAR)

ABC Mall
1,500-1,800

Charles Malek Avenue
800-1,000

George Haddad Avenue
800-1,000

Sassine Square
600-900

Gouraud Street
600-700

SOURCE: RAMCO - MARCH 2012

ABC MALL

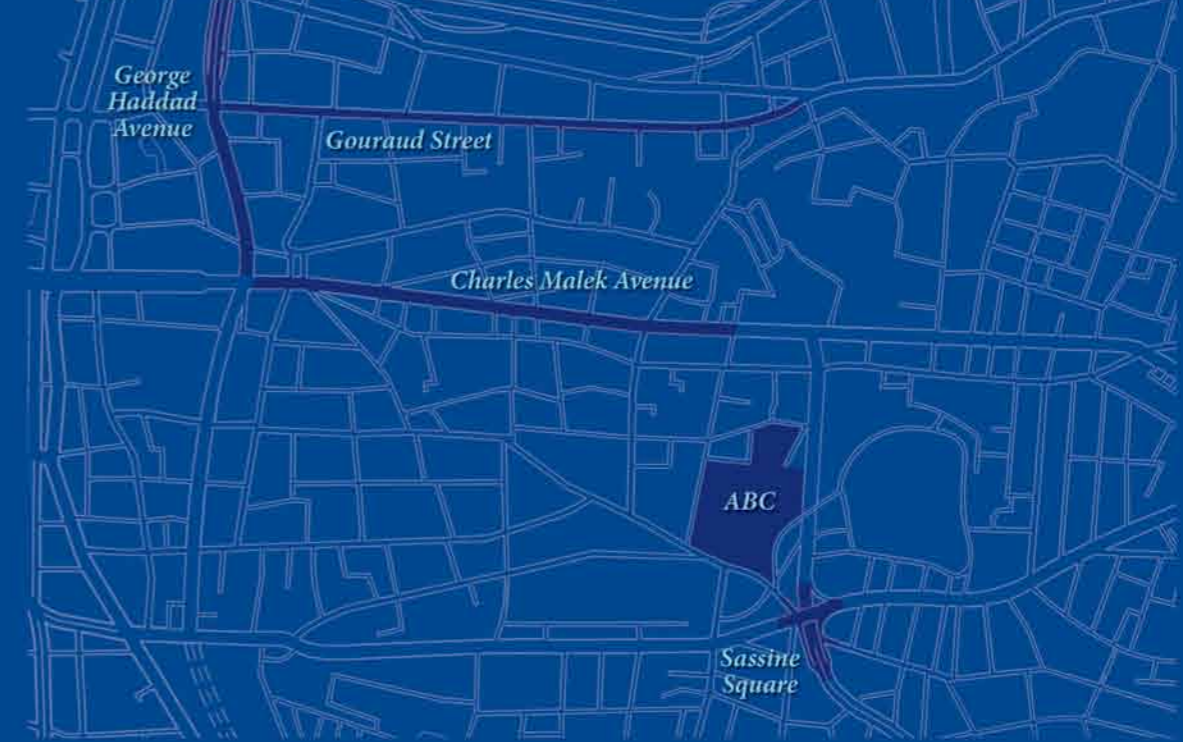
ABC Mall is the Number One shopping mall in Lebanon, asking and achieving the highest rents. Other than its location and head start, having been the first to arrive on the market, it has achieved its leading role amongst shopping centers through a holistic entertainment hub, with cinemas, an extensive F&B offering, and programmed activities.... Most importantly, it has set up a strong brand mix that ensures full occupancy and a long waiting list of prospective tenants, including some of the retail sector's giant brands. The footfall this all generates helps justify the high rental values.

RAMCO's estimated average rental value: USD 1,500-1,800 per SQM per year

CHARLES MALEK AVENUE

As the most prestigious business address of Ashrafieh, Charles Malek Avenue, a major traffic artery, attracts brands that want to be associated with the address, including banking institutions, home furnishing galleries, and a cluster of luxury items (from Persian carpets to international jewellery brands). Thanks to its heavy flow of traffic, the street offers excellent visibility. There are currently no availabilities along Charles Malek, but every new project introduces a retail component on the ground floor for the queue of eager tenants.

RAMCO's estimated average rental value: USD 800-1,000 per SQM per year



GEORGE HADDAD AVENUE

Defining the limit between Ashrafieh and Saifi Village in BCD, George Haddad Avenue is a wide, busy axis that offers excellent visibility. Prices are boosted by the success of Paul and the glitz of the other F&B brands: Da Giovanni, La Maison du Caviar, Café la Joie, and the soon to open Fauchon. The area currently has less than a dozen commercial units, but all new projects include retail units on the ground floor, which will help the street reach its full potential over the coming two to three years.

RAMCO's estimated average rental value: USD 800-1,000 per SQM per year

SASSINE SQUARE

Already an important attraction center of Ashrafieh, Sassine has greatly benefited from the proximity of ABC Mall. Over the years, it has specialized in Food & Beverage (F&B), with a number of cafés and fast food restaurants. The area's success has spilled into the streets leading off the square along Elias Sarkis Avenue, toward Saydeh, along Alfred Naccache Street, and down Furn el Hayek Street, where ABC Mall has one of its entrances. Despite the fact that most of the stock is relatively old, prices on Sassine Square are second only to those inside ABC Mall. The successive closures that took place over the past several years, however, show that prices have become too steep as compared to the location's potential for profit.

RAMCO's estimated average rental value: USD 600-900 per SQM per year

GOURAUD STREET

The F&B destination par excellence, Gouraud Street has the highest concentration of pubs and restaurants in Beirut. Ever since its revival in the mid-2000's, Gouraud Street enjoys very high occupancy rates and very fast take-up of vacated space. The area's success has not suffered from the arrival of several new attraction hubs. Neither Zaitunay Bay, Hamra, or Uruguay Street near the Samir Kassir Square has shaken Gouraud's popularity. The area now attracts some of the leading local and international F&B brands, keeping prices justifiably high.

RAMCO's estimated average rental value: USD 600-700 per SQM per year



Zoom Residential Corniche el Nahr

CORNICHE EL NAHR IN BRIEF

Number of projects	8
Number of units	871
Total BUA (SOM)	187,185
Average apartment size (SOM)	215
Average starting price (USD/SOM)	2500-3500
<small>* Prices on the first floor</small>	

SOURCE: RAMCO - MARCH 2012

AN AREA IN THE MAKING

A long-abandoned former industrial zone, Corniche el Nahr is the upcoming residential address with all the right buzz. Since the first projects started taking place there in 2009, the area has evolved from mass-market projects to more design-oriented buildings offering atypical apartments – open space lofts, double height ceilings, avant-garde designs, etc. The area is starting to attract renowned architects and a trendy boho clientele. Its growing popularity is starting to reflect in the asking prices, which now flirt with the USD 3,500 per SQM in the top end of the stock. Within a few years, Corniche el Nahr prices have become as high as those in the rest of Ashrafieh.



LOOKING BACK

Interest in the area began to emerge a few years ago, when the price of land in the main Ashrafieh neighborhoods sky-rocketed. It was no longer financially viable to sell finished apartments at prices that would be acceptable to the market. Developers started looking for cheaper alternatives further afield.

With an important stock of large plots of flat, empty land, at an interesting exploitation ratio (coefficient three over 70% of the plot's footprint surface), the area offered tremendous potential. Developers who came early on board benefited from extremely competitive land prices, as the former industrial zone was still mostly undervalued, and still overlooked by mainstream developers.

PRODUCT PROFILE

Because of the slightly negative image that was associated with its abandoned industrial plots, Corniche el Nahr seemed most suitable for mass market developments. The first buildings to come up in the area are indeed a cluster of very dense, high-rise towers, with a tendency for smaller sized apartments. This type of product has an asking price of about USD 2,500 per SOM.

With the growing interest in the area, however, Corniche el Nahr started attracting a more avant-garde set of developers, offering atypical products. Developers take advantage of these avant-garde design to attract an otherwise unwilling clientele. These more singular design products have an asking price that can be as high as USD 3,500 per SOM. By placing the area in the spotlight, developers have participated in the increase in the price of land there.

ATYPICAL CLIENTELE

Corniche el Nahr belongs to the cadastral area of Ashrafieh. It is therefore natural that developers market it as being located in Ashrafieh, with all the positive connotations that this identification carries.

The new projects cater mostly to an upcoming boho clientele of young, trendy professionals, who have lived abroad and are used to the idea of living in smaller spaces. Buyers in Corniche el Nahr are mostly drawn by the atypical designs, the double ceiling heights, the open floor plans – all design elements that are not found in the more traditional neighborhoods of Ashrafieh.

Snapshot

RAMLET EL BAIDA



Ramlet el Baida is an area of records: It boasts the highest prices of raw land and the highest prices of finished apartments. It is one of the most beautiful stretches of seafront land in Beirut, with exposure due west. Large plots and large roads mean high-rises with open views over the Mediterranean Sea. Since the mid-2000's, the area has witnessed a surge of new projects, which has rekindled the neighborhood's prestige. Overall, however, the area still carries the aura of its historical excellent reputation, which dates back to the late 1960's, despite the crumbling state of some of Ramlet el Baida's inner streets, the slightly negative image of the public beach and the neglected public garden. It remains true, though, that Ramlet el Baida offers a unique product, with a breathtaking view over the only stretch of sand beach left in Beirut.

Seafront plots

Only eight more plots of land can be developed on the Rafic Hariri Avenue, immediately along the seashore. Strictly residential and with open views over the Mediterranean and facing full West, thus receiving plenty of sunlight, some of these plots can be more expensive than the best plots of the new Beirut Waterfront District of BCD. Aware of the unique qualities of their property, owners place their expectations very high – the area has the most expensive land in Lebanon. Although it is true that seafront plots of land are rare, such prices are too high as the general urban environment does not compare with the carefully planned urban setting of BCD.

Asking sales prices lie at around USD 5,000 per BUA of land.

Inland plots

Farid Trad Street is divided between an aging northern part – that lacks charm and includes a military zone – and a brand new southern part. Less than 10 empty plots remain along the avenue, which tends to inflate prices. Plots along Farid Trad Avenue are indeed just about 20% cheaper than non-seafront plots in BCD, while apartments are about 35% cheaper than those of BCD. Developers compensate the unreasonably high price of land by offering lower quality construction. They have also started including retail space on street level in another attempt at compensating for the high price of land.

Asking sales prices lie at around USD 2,750-3,000 per BUA of land.



A blurred background image of an office desk. In the foreground, there is a silver laptop, a black notebook with a pen resting on it, and a white coffee cup. The background shows a window with blinds and some green plants.

Focus Offices in Hazmieh

Thanks to a brand new highway network, expected to be completed within a year, Hazmieh will become an ever closer suburb of Beirut, just a few minutes' drive from BCD. Avoiding the heavy congestions going into Municipal Beirut, Hazmieh has the added advantage of offering excellent visibility along one of the busiest highways of Lebanon. Some neighborhoods are starting to attract leading local and international groups looking to build headquarter offices in the immediate periphery of Beirut.

HAZMIEH OFFICE HUBS

AREA	DESCRIPTION	ASKING ERV (USD/SGM/YEAR)
Damascus Highway	Very easy accessibility and excellent visibility, the area is undergoing a development and rejuvenation boom.	200-275
Jisr el Bacha	A diverse collection of relatively old purpose-built office buildings and a large number of modern, high-quality private headquarter office buildings.	200-250
Sayyad	Some modern stock accessible from Damascus Highway, but a majority of old stock slightly off the main highway.	175-250
Brazilia	Limited stock of old but good quality office buildings, with very few availabilities.	175-225

Focus Offices in Hazmieh

GEOGRAPHICAL CONCENTRATIONS

Hazmieh counts a number of separate geographical hubs. Sayyad is the historical focal point of the area's business activity. The road works taking place around Sayyad should alleviate the huge traffic jams that the roundabout used to create. Damascus Highway leading out of Beirut from Sayyad is also witnessing a tremendous spur of activity. Many new projects are taking place along both sides of the highway, including some major brands locating their head offices or new mega-outlets. A third geographical hub is located slightly to the north of Jisr el Bacha. A number of companies have elected to set up their headquarters in that area, among them several insurance companies.

SUPPLY

The area is under development. Supply of new stock is still rather limited. Only one relatively new, purpose-built office building exists in the Sayyad area. Three other buildings are currently under construction along the section of Damascus Highway lying in Hazmieh. The majority of the buildings in the area around Jisr el Bacha are private headquarters with limited office space to offer on the market. Only one project has some office units placed on the market.

DEMAND

Despite the relatively limited stock of offices in Hazmieh, there is sustained demand for office space. The area is in demand by local companies looking for small offices at lower prices than in more central areas in Beirut (such as Ashrafieh or BCD). Larger companies often opt to purchase land and build their own head offices, as this is by far cheaper than renting large areas in existing modern office buildings. Foreign companies are also interested in the area as many of them try to avoid the congestion and potential security risks associated with more central locations, particularly BCD.

PRICES

The few new office units available for sale in Hazmieh are located along Damascus Highway, which explains the high asking prices, varying between USD 2,500-3,500 per SQM. Some prices are as high as some offices found in Ashrafieh or even BCD. ERV of new, modern, purpose-built office stock usually varies between USD 175-250 per SQM per year. In older buildings that are not as well kept and do not offer as high a level of service, ERV can drop to between USD 125-175 per SQM per year.

OPPORTUNITIES

Once the new highway system is completed, Hazmieh will be very easily accessible and will probably no longer suffer from the heavy congestions at its main entry points. Damascus Highway obviously offers excellent development opportunities. Other areas in Hazmieh could also be good potential office hubs: The new Jisr el Bacha area, Brazilia (off Damascus Highway towards Baabda), and some plots along Said Freyha Street could be interesting to prospecting businesses.



- 1 Damascus Highway
- 2 Jisr el Bacha
- 3 Sayyad
- 4 Brazilia

OCCUPANCY RATES

The combination of sustained demand and limited supply results in very high occupancy rates across Hazmieh. Very few buildings post any vacancies, even older buildings that have very little charm and that are badly managed. Most buildings operate at between 90-95% occupancy.

F&B in BCD

The Beirut Central District (BCD) was conceived as and has succeeded in becoming the shopping and tourism window of Lebanon. The area has witnessed some turbulent times over the last few years but has continued to attract local, expatriate, and foreign visitors thanks to its unique urban landscape and diverse retail and food and beverage mix. The F&B offer has continued to grow, becoming the most dynamic sector of activity. In response to the emerging and established F&B hot spots of Hamra, Gemmayze, and Mar Mikhael, BCD can count several new establishments. Further buoyed by the F&B arm of Solidere which introduces high-end international names, BCD has become a principal player on the national scene, with five F&B hubs and 102 individual outlets.

ZAITUNAY BAY

This is BCD's trump card, a joint venture development between STOWE and Solidere. It is the latest introduction to the F&B landscape of BCD and is an elegant and unique destination that offers a wide selection of gourmet restaurants, bistros, a hamburger joint, ice cream parlors and cafes with a sprinkle of retail boutiques. With 17 leading F&B brands, some of them among the most exclusive in the city, Zaitunay Bay is a strictly pedestrian destination along the Saint George Bay, directly on the Marina, offering a unique waterfront promenade. Located at walking distance from Beirut's prime hotel district, it is sure to become a principal tourist attraction and F&B center. Due to the limited units on offer, operators must count on an entry price tag for a space in this restricted club of about USD 1,000 per SQM per year for inside area and terrace.

BEIRUT SOUKS

The first phase of Beirut Souks includes only a limited number of F&B outlets, as it is Phase II that is expected to house the bulk of F&B attractions and foodcourts. Beirut Souks caters predominately to a middle to upper socio economic clientele, housing leading brands such as H&M, Zara, Mango and Vero Moda, etc. as well as more up-market international and local brands and a large selection of jewellers. The few F&B brands that do operate in Phase I of Beirut Souks have been very successful and diverse. There is also a wide selection catering to a variety of tastes and budgets, yet also at the middle to upper range of prices. The F&B scene in the Beirut Souks can only be fully analyzed once the second phase becomes operational. Only then will it become clear where it stands on the F&B ladder.

URUGUAY-ARGENTINA SQUARE

The area lying between Annahar Building and Foch Street has undergone a few years of decline, with closures following one after the other. Last summer, however, the F&B arm of Solidere rented a string of retail units in the former annex building to the Municipality of Beirut (the one just behind Samir Kassir Square). They created a uniform exterior design and concept and then sub-rented them to a few carefully selected brands. This strategy has allowed Solidere to control the tenant mix and create a buzz. The area immediately picked up, attracting young executives, who go there to unwind after work, intelligently detaching itself from the predominately student clientele of Makdessi Street and the much younger crowd of Gouraud Street.

MAARAD STREET

This is the first touristic destination of BCD: A wide and pedestrian, relatively short street, with a pleasant environment of renovated heritage buildings, Maarad Street has tremendous retail potential. Over the years, however, it has developed into a mono-functional, mass-market destination, serving mostly Lebanese fast food and narguile. Although snubbed by the local clientele, the area is a favorite touristic destination.

PARK AVENUE/BAB IDRIS

Up until very recently, the area was a large construction site. Now, the area of Park Avenue/Bab Idriss has seen the opening of a handful of high-end restaurants that cater primarily to an elite circle of business people during the day as it is located right in the middle of the leading business center of Beirut, which groups some of the glitziest commercial buildings in BCD. During the night, it turns into the new hip destination of Beirut. Despite the limited number of restaurants, the area has become a prime F&B destination thanks to the excellent reputes of its brands.

F&B OUTLETS IN BCD

ZAITUNAY BAY	17
BEIRUT SOUKS (PHASE I)	15
FOCH-ALLENBY AREA (INCLUDING URUGUAY-ARGENTINA SQUARE)	23
NEJMEH SQUARE (INCLUDING MAARAD STREET)	39
MINET EL HOSN (INCLUDING PARK AVENUE/BAB IDRIS)	8
AVERAGE ERV (USD/SQM/YEAR)	1,000
SOURCE: RAMCO - MARCH 2012	





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WHAT WE WROTE IN L'ORIENT LE JOUR

The uncertainties caused by the volatile security situation in neighboring countries, particularly Syria, and the political bickering taking place at home, have caused 2011 to be a transitional period and make 2012 difficult to predict (22 December 2011 and 10 January 2012). Despite these uncertainties, prices have not dropped dramatically, but were rather corrected to their real fair market value. And although a slight slowdown has been noted, certain pockets of activity are still performing exceedingly well. Badaro, for one, is a pleasant neighborhood catering to families looking for larger houses at reasonable prices (10 December 2011). The office market is booming, both within Municipal Beirut and in the city's first peripheral ring: Sin el Fil, Hazmieh, the Damascus Highway between Sayyad and Fayadieh, and Zalka-Dbayeh Highway. With about 25,000 SQM on the market, BCD still has the largest office stock (25 February 2012). F&B is a sector in full bloom, capable of shaping the face of an entire area (11 February 2012). Overall, there is no reason to panic (9 March 2012)!

WHAT WE SAID

"Out of almost 400 residential projects currently under construction in Beirut, only a few developers offer apartments between 50 and 85 SQM."

The new market niche of studios - Le Commerce du Levant, 2 December 2011

"...If you're selling the right size in the right area, there is still demand."

Business Talk - The Executive, December 2011

"Prices of residential apartments are stable despite the slowdown in the market and the price of land continues to increase."

Political dissensions slow down growth in real estate - Al Mustaqbal, 10 December 2011

"It is generally known that current prices are between 15-20% higher than fair market values, and that will be the average drop in prices in 2012."

Current prices are not fair - Al Akhbar Newspaper, 13 January 2012

"The market [...] would have absorbed real estate transaction taxes [during the past five years], whereas today, [...] the negative effects will outweigh any positive returns."

No Syrian invasion of Lebanese properties... and prices are stable - Al Joumhouria, 13 February 2012

"The new [rental] law could encourage developers to increase investments into buildings targeting low income families. [...] Many tenants [could] reach agreements with landlords on new leases that slowly adjust rents to the market."

Trouble ahead as Parliament mulls rent law reform - The Daily Star, 18 February 2012

WHERE WE APPEARED

Raja Makarem was interviewed by MTV in January 2012 and LBC in February 2012 to offer his opinion on the real estate sector in Beirut during the evening news section. He also appeared on Manar TV in a special report on government owned land, aired on 27 February 2012.