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REAL ESTATE ADVISERS SINCE 1973



Q3 & Q4 . 2013

The Quarterly

INFORMATION & INSIGHT
INTO THE LEBANESE REAL ESTATE MARKET



Developers are financially solid and do not need to liquidate their assets at below their fair market value. The most optimistic among them are ready to wait out the slowdown, in view of a positive turn in events.

KARIM MAKAREM
Partner & Director

Letter from the director



This past year has confirmed the slowdown of the real estate market that began in 2011, as the systematic drop across all the main indicators goes to show. It is no surprise to anyone that the very poor local security and political situation and the quagmire of the Syrian conflict affect demand across all real estate segments – residential, office, and retail. A healthy stable market requires confidence in the economy, which for the moment is lacking.

Despite this gloomy portrait, the current situation cannot be described as a crisis. It is a phase of stagnation. Sale transactions take longer to be finalized and absorption ratios continue to drop but demand persists. It is natural for buyers to bide their time, as they know that prices cannot increase in the near future. On the contrary, they expect prices to drop further and hope to stumble upon the bargain of a lifetime!

Some real estate market segments have weathered the slowdown better than others. The hospitality and commercial segments have been the most badly hit. Many hotels have had to shut their doors and the number of vacant retail continues to grow. To hope to find new tenants, some boutiques should drop their asking rents by 20-40%!

While the sale of high-end products is almost at a standstill, residential studios between 70 and 80 SQM do not seem to have been much affected by the slowdown. They continue to sell well.

The past year was perhaps the year during which price drops were officially confirmed. We had been hearing rumors of price drops since 2011, but they didn't come into effect until recently. Even today, list prices have not dropped. Developers and property owners in general, however, are much more inclined to "negotiate" their prices, which was unheard of until about a year ago. Even under the current tight market conditions, discounts rarely exceed 10%.

Developers are financially solid and do not need to liquidate their assets at below their fair market value. The most optimistic among them are ready to wait out the slowdown, in view of a positive turn in events.

The land market continues to be impervious to the difficult economic and security conditions as land continues to be a safe investment option. The price of land in Beirut continues to climb and developers are still on a constant lookout for new opportunities, although they will only buy at fair market value.

Top Five Most Expensive Land Banks in Ashrafieh

WHICH STREETS TOP THE LIST?

Plots for sale in Ashrafieh are a rare product. Some areas have always had a special cachet, while others have developed an image over the past several years. The heart of prime Ashrafieh has traditionally been the area of Sursock, which now sits at the center of the area known as the "Golden Square." The scarcity of land in the surrounding areas has spilled into neighboring areas, including Abdel Wahab el Inglizi Street or Georges Haimari Street. Other streets are prized for different reasons: Charles Malek Avenue, for instance, is Ashrafieh's prime business center, while Georges Haddad Avenue has the advantage of sitting at the entrance to BCD. The highest land prices in Ashrafieh reach a value of around USD 2,500 per BUA.



Top Five Most Expensive Land Banks in Ashrafieh

WHICH STREETS TOP THE LIST?

CHARLES MALEK AVENUE

The business equivalent of Sursock Street, Charles Malek Avenue is the most prestigious commercial hub of Ashrafieh. With some of the most prime business centers of Beirut, the street has a very good image and is home to some of the leading businesses in town. Compared to building residential developments, the cost of building offices and retail is considerably lower.

SURSOCK STREET

The most prestigious residential street of Ashrafieh, Sursock Street carries the prestige and aura of one of the oldest families of Beirut. Lined with a few beautiful palaces, most notably the famed "Sursock Palace" and the Linda Sursock Museum, the street is quiet, green, and very pleasant.

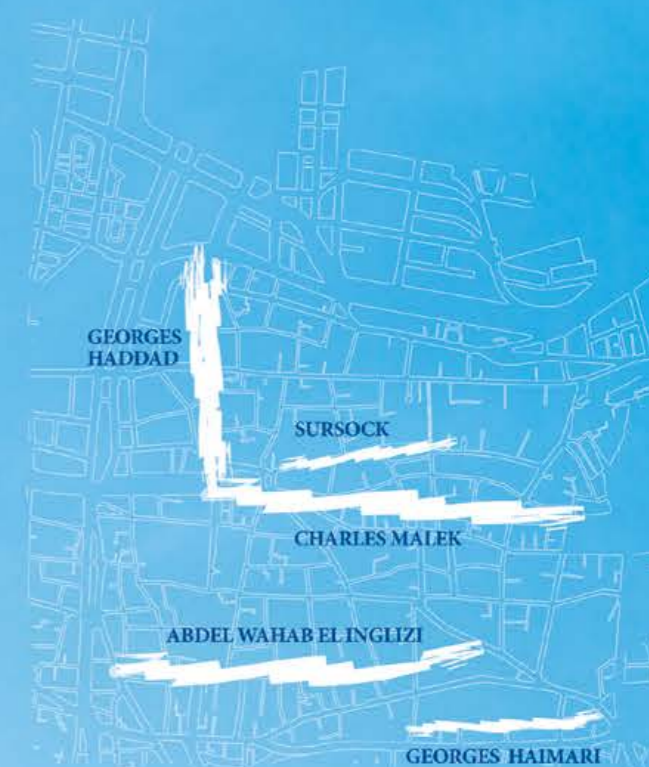
GEORGES HAIMARI STREET

The culminating point of Ashrafieh, this street has the tallest towers of the area. The rooftop of Ashrafieh is 40 floors from ground level. This ability to reach the clouds makes Georges Haimari Street a very lucrative investment to developers – prices usually go up by USD 100 per SQM per floor, so the 40th floor should sell at USD 4,000 more per SQM than the first floor. The only plots available are located on the southern side of the street. This is slightly less attractive than the northern side, which puts a slight downward pressure on prices.

STREET	LAND PRICE* (USD/BUA)
CHARLES MALEK	2,300 – 2,500 *
SURSOCK	2,250 – 2,400
GEORGES HAIMARI	2,100 – 2,300
ABDEL WAHAB EL INGLIZI	2,000 – 2,300
EASTERN GEORGES HADDAD	2,000 – 2,300

* PRICE OF BUILDABLE, SELLABLE AREA ALLOWED ON THE PLOT AS PER GOVERNING ZONING REGULATIONS.

SOURCE: RAMCO SARL SEPTEMBER 2013



EASTERN GEORGES HADDAD AVENUE

The area of Saifi is a mixed commercial and residential neighborhood, with either apartments or offices on the upper floors and retail on ground floor level. Although the area lacks a special cachet, land prices are boosted by one major consideration: its bordering of BCD and its proximity to Saifi Village. Saifi has the added advantage of not falling within the Solidere urban regulation zoning, and thus is not restricted by the building constraints of Solidere.

ABDEL WAHAB EL INGLIZI STREET

This prime residential street is within Ashrafieh's Golden Square. It caters to the upper-middle-class of Ashrafieh, with some of the capital's most impressive mega-developments. The fact that there is only limited high-end retail on ground level boosts the street's image and the price of apartments.



Focus Verdun Homes

Verdun is an established, prestigious residential address – from a quiet suburban neighborhood containing individual villas surrounded by gardens, it developed into a good quality residential neighborhood of Ras Beirut in the 1960s and early 1970s.

The southern part of Verdun, from Goodies toward Saeb Salam (Mazraa) Boulevard, is the most expensive. It is thus more dynamic as it enjoys affluent demand and has the most recent developments.

While the overall image of Verdun remains upscale, the new supply, particularly the one on Verdun Street, has become slightly less up-market. Still, the name of Verdun enjoys an excellent reputation and attracts sustained and stronger demand.

VERDUN RESIDENTIAL MARKET

Number of projects under construction **7**

Total BUA under construction **67,779**

Number of apartment units under construction **205**

Average size of apartments under construction **330**

Starting asking sales prices* in southern Verdun (USD/SQM) **4,700 – 5,500**

Starting asking sales prices* in northern Verdun (USD/SQM) **3,600 – 4,500**

* On the first floor

SOURCE: RAMCO SARL – SEPTEMBER 2013

SUPPLY

There are currently seven projects taking place in the area of Verdun. Altogether, they offer a total residential area of around 68,000 SQM, or slightly more than 205 apartments. This reflects an average apartment size of around 330 SQM, which is a net decline from the large apartment sizes that formerly characterized the prime neighborhood of Verdun.

Overall, however, the better-quality projects under construction in Verdun are signed by some of the leading developers in the construction industry. In particular, two of the most recent projects under construction are mega-developments that offer all the amenities modern residential towers are expected to have.

The past several years have seen residential developments on Verdun Street (Rachid Karamah Street), which was shunned by developers during the 1980s and 1990s, when the street attracted strictly commercial (office and retail) projects.

DEMAND

Verdun has traditionally attracted the moneyed local elite, looking for a large family home as a primary residence. Over the past few years, however, demand has been changing.

First, demand is shifting from high-income households to the upper-middle market. This is reflected in the shrinking size of apartments, ideally around 250 SQM, to adapt to shrinking budgets, which currently range between USD 1 – 1.5 million.

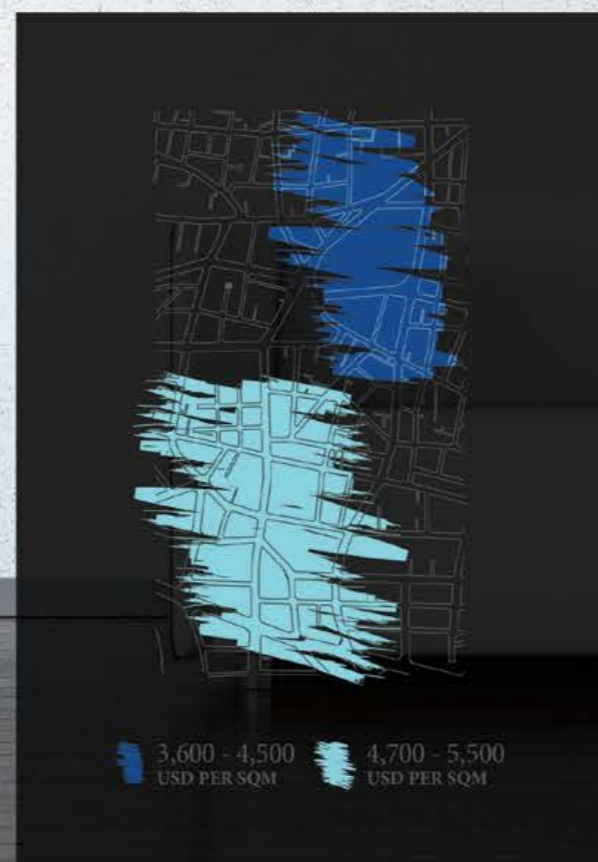
Today, demand is shifting from the local social Ras Beirut elite to the expatriate community, particularly the African Diaspora. Because many new buyers do not live permanently in Lebanon, demand is characterized by a small pied-à-terre in Beirut and not a primary residence, and by the growing number of investors buying to rent or sell.

Verdun's popularity remains intact, with an absorption rate of more than 55% across all new projects currently under construction in the area.

SALES PRICES

Despite the changing profile and budgets of the new Verdun buyers, the area remains among the highest priced in Ras Beirut, mainly due to its very strong positive image and high social standing.

Starting asking prices vary between USD 3,600 and USD 5,500 per SQM, depending mainly on the project's exact location. The internal streets of southern Verdun are the most prized, with starting asking prices ranging between USD 4,700-5,500 per SQM. These prices may be boosted by the arrival of ABC Verdun around the year 2020. Northern Verdun is less pleasant and has a lesser commercial cachet. Starting asking prices between the Verdun Police headquarters and the BLOM Bank headquarters stand around USD 3,600 and USD 4,500 per SQM.



Snapshot

MALLS IN GREATER BEIRUT



South-Eastern Periphery

The immediate, south-eastern periphery of Beirut is well-serviced in shopping malls: To the existing Beirut Mall and Le Mall Sin el Fil has just been added the largest shopping center of the area – City Center, supplementing the area's existing leasable area of 29,000 SQM with another 60,000 SQM of retail space. These three malls cater to the catchment area at the border of Municipal Beirut as well as some Beirut neighborhoods. Located on high-traffic, main thoroughfares and at strategic intersections (Tayyouneh Roundabout, Habtoor Roundabout, and Damascus Highway), they are easy to access for nearby residents as well as shoppers coming from further away. All three of these malls target a predominately low-mid-market clientele with mass market brands and fast food chains.

NAME	LEASABLE AREA (SQM)	OPENING DATE
Beirut City Centre	60,000	2013
CityMall	60,000	2005
ABC Dbayeh	45,000	1992*
Le Mall Dbayeh	24,000	2012
Beirut Mall	16,000	2006
Le Mall Sin el Fil	13,000	2008

205,000

* Fully renovated and relaunched in 2012.

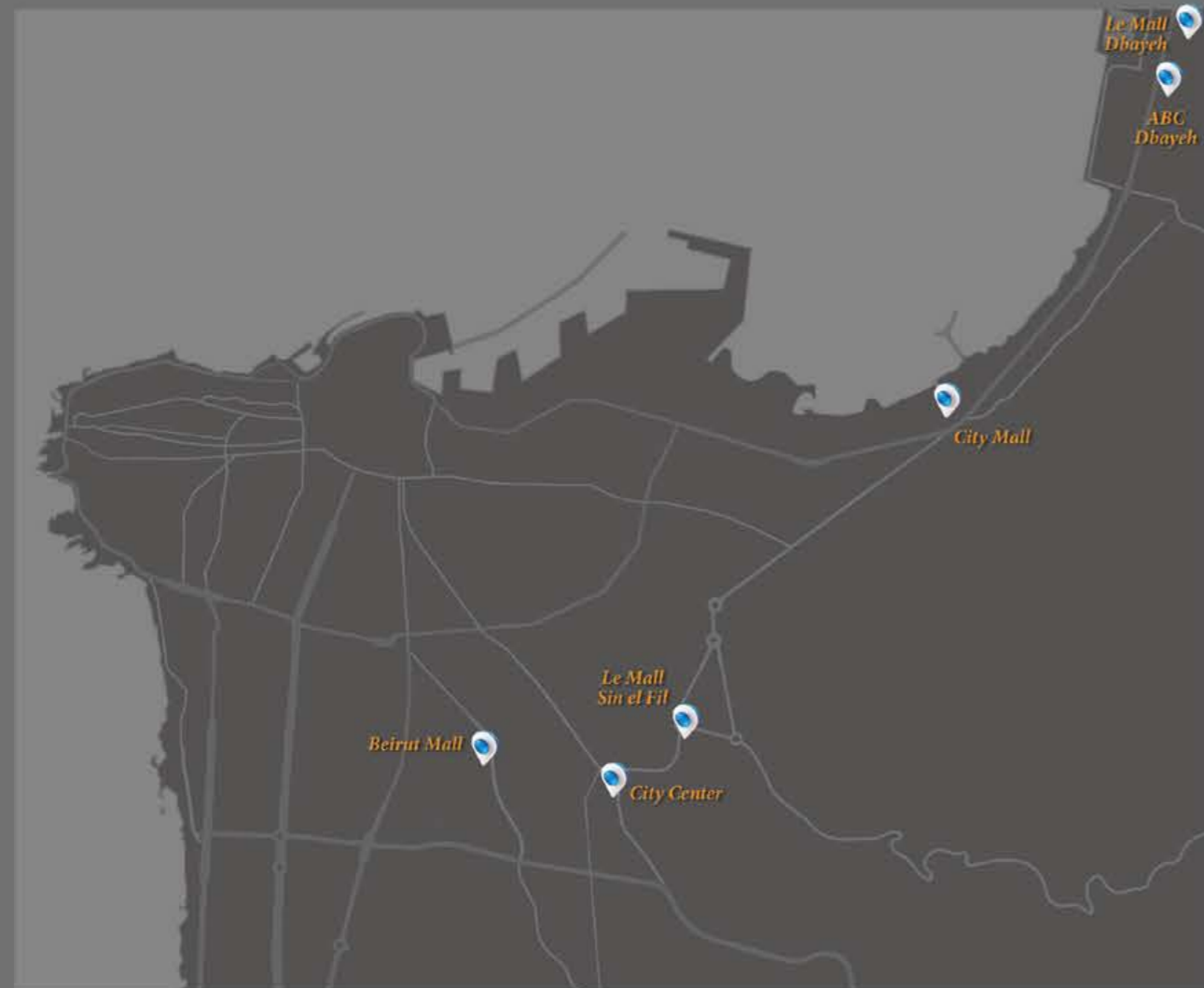
SOURCE: RAMCO SARL – SEPTEMBER 2013

Northern Suburbs

Three large shopping malls at the northern exit of Beirut offer a total of 116,000 SQM of retail space. Although City Mall no longer holds the leadership position as the largest mall in the country, it is at a tie with Beirut City Centre. ABC Dbayeh has recently finished its several-year renovation works to add more retail space, a movie complex, and a kid's play area. Le Mall Dbayeh has also launched its second brand right next door to ABC, increasing the attraction potential for shoppers toward the area in general. Located immediately on the main Dora and Dbayeh Highway, all three are extremely easy to access and very highly visible. They are located on one of Lebanon's busiest highways, with an estimated 150,000 cars commuting into and out of Beirut through there every day.

Southern Suburbs

The southern exit of Beirut, the near southern suburbs are a huge niche market with great potential. The exit highway from Beirut is the second busiest thoroughfare of the country, with tremendous commuting traffic. Many developers are actively looking for a good plot and location – easy to access from both sides of the highway, large enough to accommodate at least 50,000 SQM of leasable retail space. One mall is under construction In South Beirut: Spot C Mall in Shweifat, with 47,000 SQM of leasable area; and Airport Mall in Aramoun, with 60,000 SQM of leasable area is in the pipeline.



The suburban areas of Greater Beirut count a total of six malls. Three malls are located within the first peripheral circle outside Municipal Beirut, and three in the far northern suburbs of Dora and Dbayeh. Together, these malls offer more than 650 brands. This is quite natural, as the Greater Beirut area is home to more than two-thirds of the capital's inhabitants. The southern suburbs of Beirut are still not serviced in modern, large shopping centers. The entire area from Jnah to Khaldeh does not have a single adequate shopping center within less than a 30-minute drive from Beirut. Malls cater to commuters returning home from work or to people looking for an entertainment destination.

ZOOM

BCD Beirut's Business Central District

BCD is the prime office hub of Beirut – impeccable urban planning, high concentration of dedicated office BUA, stock of good quality, and excellent amenities are all advantages that very few other areas can claim, and certainly none on such a large scale. These many advantages make BCD one of the most expensive office stocks in town, which post some of the highest occupancy rates in Beirut. BCD, however, also has some major drawbacks that hamper its further development, such as the presence of a number of high-security institutions (the Parliament, a number of ministries, the UN House, the Embassy Complex, etc.), and a higher sensitivity to any security or political upheavals.



ZOOM

BCD Beirut's Business Central District

SUPPLY

A total of about 430,000 SQM of office space already exists in the Solidere-managed area of BCD. An additional 35,000 SQM are currently under construction.

Stock is made up of three different types of office profiles:

- A large chunk of the stock is constituted of renovated old buildings, which are poorly laid-out, partitioned into small rooms, have minimal common services and maintenance, and no underground parking facilities.
- Some renovated old stock is of very high-end quality. Although they do not offer parking spaces and have only basic common area facilities and amenities, they do offer an open floor plan that conforms to modern office standards. Their high ceilings and large bay windows make them very pleasant working environments and highly prized by businesses in search of a unique brand image.
- New stock in BCD is the most modern, high-end office stock in the country, which conforms to the highest international standards – large open spaces, state-of-the-art amenities and services, underground parking, excellent maintenance...

DEMAND

Demand for offices in BCD comes from local service companies – media agencies, telecom firms, financial companies, real estate agencies, engineering and architecture firms, contracting agencies, etc. – that require a high profile brand image because they receive customers to their offices. Some large local companies also like to establish their headquarters in the most luxurious business centers of Beirut. Multinational companies were also a traditional source of demand for BCD offices because of the image of the area and the quality of the stock it offers. Lately, however, and due to the strict security measures and the hyper-sensitivity of BCD to any political developments in the country, many multinationals prefer to be located outside BCD. Demand is strongest for northern BCD, around Bab Idriss, the Foch-Allenby area, and around Uruguay Street. Other parts of BCD are less attractive because they never recovered from the protracted sit-ins between 2006 and 2008 and the more recent sit-ins near the UN House. Conversely, Park Avenue or Minet el Hosn, are attractive because of their easy access and modern stock.

OCCUPANCY RATES

By the end of 2012, offices in BCD posted an occupancy rate of around 80% across the different types and grades of offices. This rate has not changed during 2013, although new transactions have been scarce in recent months. Grade A, modern office space, however, posts nearly full occupancy rate. This is a record high occupancy rate for BCD. However, it is dragged downward by a number of factors:

- Many buildings are offered in their entirety on the sale or rental market, which has obviously made it difficult to find buyers or tenants.
- A number of old renovated buildings are in a deplorable state of maintenance and do not attract tenants.

Office Stock in BCD

Number of office buildings **142**

Total existing office BUA* (SQM) **430,000**

Occupancy rate **80%**

Office buildings under construction **5**

Office BUA under construction (SQM) **35,000**

SOURCE: RAMCO SARL – SEPTEMBER 2013

SALES PRICES & ERV

BCD remains one of the most expensive office stocks in town. This is justified by a perfect urban setting, impeccable public maintenance (roads, sidewalks, street lights, gardens, public benches, etc.), and a high concentration of prime office centers.

Rental values vary between a low of USD 200 per SQM per year for the least attractive, least well-maintained stock of old renovated buildings, without parking, to a high of USD 400 per SQM per year in the most luxurious and most modern business centers, with wide open spaces, top-of-the-line maintenance and amenities, and underground parking spaces.

These rental values reflect sales prices of USD 6,000-7,000 per SQM for core and shell stock. Old stock without parking facilities post sales prices that vary between USD 4,500 and USD 6,000 per SQM for the first floor, depending on the quality of the building and its state of maintenance.



BCD Special

RARE GEMS

The Beirut Central District (BCD) has defined itself from the earliest days of its reconstruction as the leading prime real estate address of the capital. Its developments follow the highest international design and construction standards, its buildings adhere to the strictest norms, and it has the most perfected Master Urban Plan of any other neighborhood in Beirut.

DUPLEXES, TRIPLEXES & PENTHOUSES...

BCD counts about a dozen residential units larger than 1,000 SQM. The largest is roughly 3,000 SQM! These are rare products even in this most prime of luxurious residential neighborhoods of Beirut. A few residential projects offer such large homes as simplexes taking up the whole building footprint. One unit measuring 1,900 SQM, for instance, occupies the entire floor of a tower.

In a city where apartment sizes are shrinking year on year, owning such a large apartment in the most prime neighborhood of Beirut, within an impeccably laid out urban setting, in the only region of the capital that has a modern Master Plan, is indeed a luxury.

Large apartments represent less than 5% of the total residential stock of BCD and their scarcity makes them very highly prized by members of the restricted club of the local moneyed elite.

Many of these large apartments are duplexes or triplexes, very often reserved for the top-most floors of the impressive towers of BCD. Some buildings offer stunning penthouses, with swimming pools, huge terraces, and breathtaking views of BCD, the Mediterranean, and the mountains beyond – over and above the top-of-the-line amenities and finishing.

Owning such a rare type of product in BCD comes at a starting price of around USD 10,000 per SQM (core & shell).

BCD is the country's real estate trend setter and currently claims the country's records in height, in luxury, in services, in amenities, in design, and in urban planning. BCD also offers some of the country's most unique and most prestigious architectural gems: mega, ultra-modern apartments and exquisite private palaces and villas.

PRIVATE VILLAS & PALACES

Most luxurious of all real estate luxuries in Beirut are the private villas and palaces of BCD. Already a very rare product in Municipal Beirut and a source of pride to its owners in the Greater Beirut area, stand-alone villas surrounded by a garden are the rarest gems of all.

Their advantages are innumerable: They are in very limited supply, making them extremely exclusive; they are located in the most prestigious urban environment in Beirut; they are close to the capital's leading business, shopping, and leisure centers; and they are often associated with a long history and exquisite architecture.

There are no more than 15 private villas and palaces across BCD, located for the most part in the area of Wadi Abou Jmil.

They belong to the local social elite. It is such a privilege to own a private property in the heart of Beirut that putting a value on these properties is a near impossibility.

Their value depends on a large number of criteria, such as the villa's age, the level of privacy it offers, its state of maintenance, its historical relevance, etc.... Values also depend on the amenities they offer, such as the size of the garden and how sheltered it is from public gaze, particularly the surrounding high-rises.

Officially, none of these properties are for sale. However, unofficially, they are all potentially on the market – at a minimum price tag of USD 50 million or anywhere between USD 15,000 and USD 20,000 per SQM.



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WHAT WE WROTE

In l'Orient le Jour

Despite the bad performance of the main real estate indicators, the number of projects under construction in Municipal Beirut is the highest it has ever been (25 May 2013) and although the market is affected by the degraded political and security situations in Syria and in several geographical pockets in Lebanon, activity is still healthy but at fair market values (11 June 2013). Because of these market conditions, however, we predicted a sedate summer, but also the ideal conditions for a buyer's market (29 June 2013). The high asking sales prices of offices in BCD are the reason behind the slow activity on the commercial sale market (12 July 2013).

In The Executive

Our Special Report for the month of July 2013 focused on the potential for developing affordable housing within a 25-kilometer belt of the center of Beirut City to middle-income households. With minimal infrastructural support (proper roads and adequate public transportation system), the 25-kilometer belt around Beirut could become the next real estate boom, offering homes starting at less than USD 100,000.

WHAT WE SAID

"Syrian nationals have invested heavily in Lebanese real estate during the past 20 years but we have not felt a surge of investment in Lebanon since the Syrian crisis began, as Syrian nationals have preferred to own property in Cyprus or Dubai for security reasons."

Syrian nationals have chosen to own property in Cyprus or Dubai instead of Lebanon – Al Joumhouriah, 17 July 2013

"Despite the generally troubled situation, the price of land continues to climb. [...] Money laundering contributes much to the increase in the price of land."

Political crises slow down real estate development and as soon as they are over, prices will rise again – Al Mustaqbal, 25 July 2013

"The price resiliency [is] a healthy market sign, signaling that Lebanon would not see a real estate bubble bursting like Dubai did in 2009."

Demand for real estate down but prices not budging – The Daily Star, 5 August 2013

"A real estate boom is to be expected during the coming three years, driven primarily by the Lebanese expatriate community, which represents about 99% of demand for real estate in Lebanon."

Makarem: The Lebanese have invested in real estate – Al Khaleej, August 2013

WHERE WE APPEARED

RAMCO Founder and Managing Director Raja Makarem appeared on Al Jazeera TV on 28 August 2013. He was also interviewed by Rana Riachi on Voice of Lebanon on 19 August 2013 to give his opinion on the prevailing market conditions. He was on Future News with Khaled Daher on 23 September 2013 and appeared in an exclusive feature article in al Kowaleh on 3 and 19 September 2013.

