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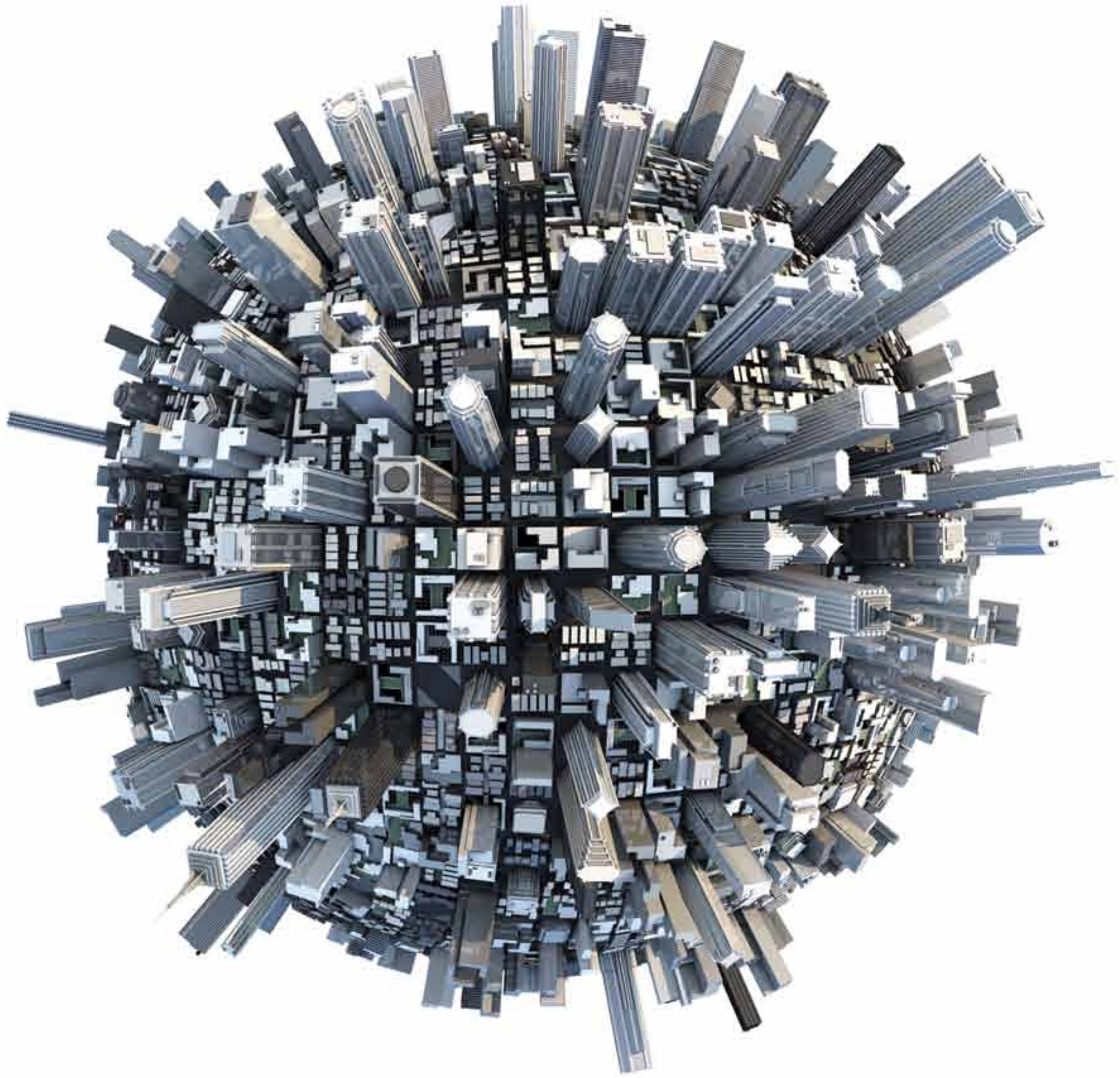


The Quarterly

INFORMATION & INSIGHT
INTO THE LEBANESE REAL ESTATE MARKET

This stagnation is actually good for the market, as the sector needed a respite from the extreme price hikes of the past six years.

RAJA MAKAREM
Founder & Managing Director

Letter from the founder

From start to finish, 2011 was not a very good year for Lebanese real estate. The year has ended on a note of uncertainty, not helped by the regional situation and consequently, the market is generally cautious.

Prices of apartments have remained stable for the past 12 to 18 months and long gone for now is the time when prices increased from one quarter to the next. The market is clearly in a phase of consolidation.

The current situation, however, is not unhealthy. On the contrary, this stagnation is actually good for the market, as the sector needed a respite from the extreme price hikes of the past six years.

Not surprisingly, the upper tier of the residential market has been the most affected, although small apartments have been out-performing the rest of the market. Whilst there is still very much a real demand for housing, the stability of prices does not encourage buyers to make a fast sales decision. Prospective buyers ask around more than usual, go for viewings, and negotiate with extreme zeal.

Developers, for their part, are not yet panicking. They continue to display staunch optimism despite the fact that a number of them have not sold anything since 2010. Their official stand is that they are not in a hurry to sell, as they are convinced that prices will not drop any lower. In reality, however, some are ready to adjust their rates rather quickly when a serious buyer comes along.

> *“The local situation comes at the perfect time to sober up the market. The price increases of the past few years are no longer on the agenda. A few exceptions notwithstanding, land prices should become coherent with the prices of the finished apartments. Unfortunately, land prices continue to be often unreasonably high, buoyed by scarcity of product and a sustained appetite in what is still seen as a safe investment alternative.”*

The outlook for the coming year remains foggy and is closely tied to the local and regional security situation. The accumulation of unsold stock should allow some buyers to benefit from a good deal on their prospective purchase, particularly if the owners of the property are eager to sell.

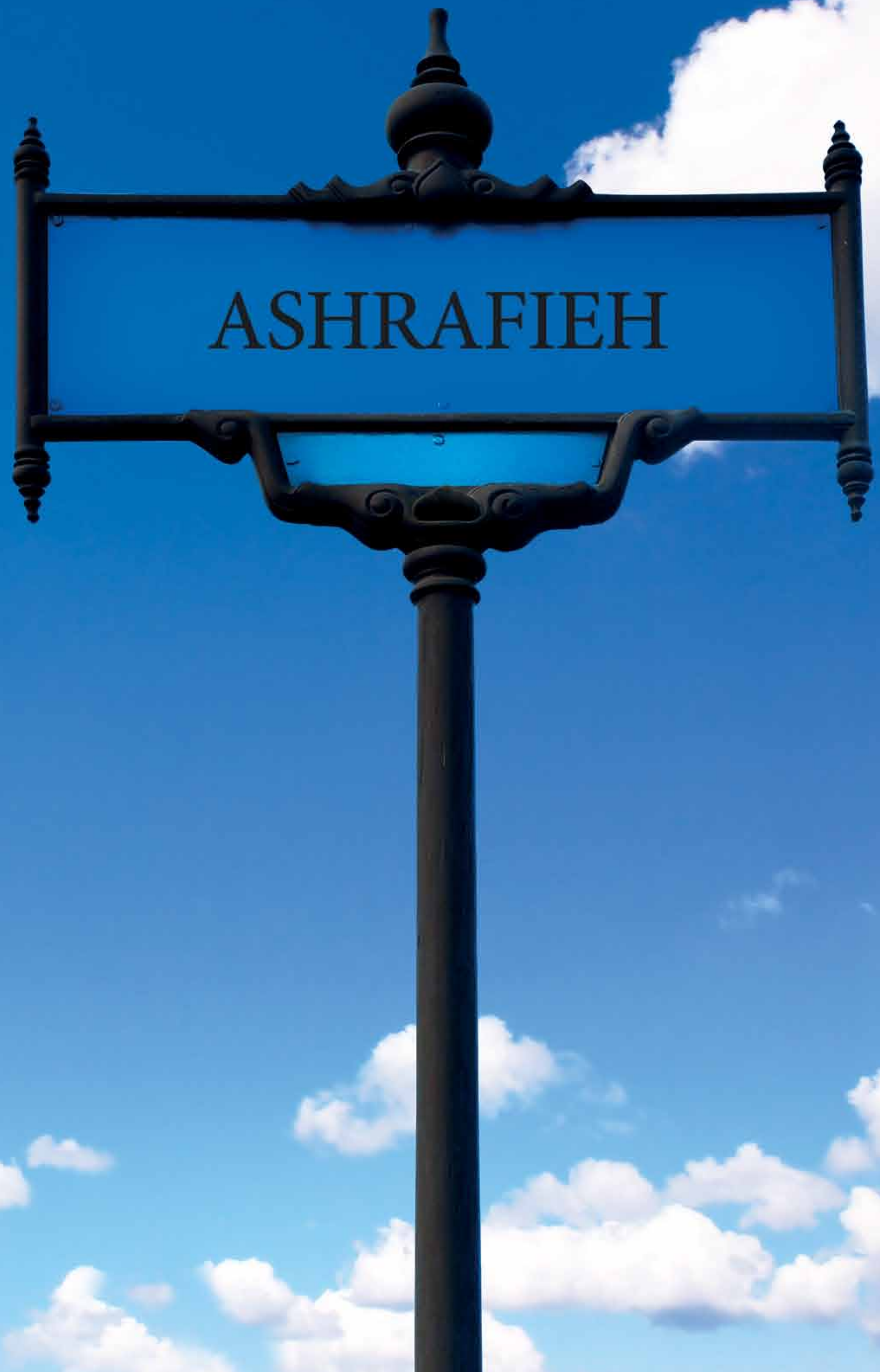
Top Five Most Expensive Streets in Ashrafieh

WHAT DOES LIVING IN PRIME ASHRAFIEH COST?

PRICE RANGES OF FIRST-FLOOR APARTMENTS
(USD/SQM)

1	George Haimari Street	5,250-5,500
2	Sursock Street	5,000-5,500
3	Abdel Wahab el Inglizi Street	4,500-4,750
4	George Haddad Street	4,500-4,750
5	Wadih Naim Street	4,250-4,500

SOURCE: RAMCO - DECEMBER 2011



Top Five Most Expensive Streets in Ashrafieh

WHAT DOES LIVING IN PRIME ASHRAFIEH COST?

The gap is shrinking between the upper tier of the residential market of Ashrafieh and the market price leader, Beirut Central District (BCD). The highest prices to be found in Ashrafieh have been slowly approaching the minimum starting prices of BCD, which currently stand at around USD 6,000 per SQM. As all other high-end products elsewhere, luxurious apartments in prime Ashrafieh locations have been affected by the stability of the market. Prices have been standing still for the past two years. This has not discouraged developers, however, who continue to grab every new opportunity that comes their way.

GEORGE HAIMARI STREET

This is the culminating point of Ashrafieh's luxury residential market. Prestigious buildings, built on large plots of land offer large apartments that benefit from unobstructed views. Another strong selling point is the street's proximity to ABC Mall. A relatively secluded and very pleasant street, Haimari Street is home to some of Ashrafieh's most luxurious towers. Skygate beats all the records on that street, with more than 30,000 SQM of residential space and 42 floors.
RAMCO's estimated starting sales price (first floor): USD 5,250-5,500 per SQM

SURSOCK STREET

Arguably the most prestigious and mundane address of Ashrafieh, Sursock is an exceptional urban setting near the Sursock Museum and the Sursock and Feghali palaces. Highly prized by the local social elite, the address enjoys an excellent reputation that has attracted a large number of developments. More than 60,000 SQM are currently under construction in Sursock. As a result of the new construction regulations, many projects offer between 25 and 27 floors.
RAMCO's estimated starting sales price (first floor): USD 5,000-5,500 per SQM

ABDEL WAHAB EL INGLIZI STREET

One of the best known streets of Furn el Hayek, Abdel Wahab el Inglizi offers a very pleasant urban setting: vintage buildings, private gardens, etc. These characteristics attract buyers, who enjoy the solid reputation of the street even though it doesn't offer particularly spectacular views. The area's charm, however, may also be to its disadvantage – the proliferation of new projects is threatening the destruction of the heritage buildings that make the street what it is.
RAMCO's estimated starting sales price (first floor): USD 4,500-4,750 per SQM

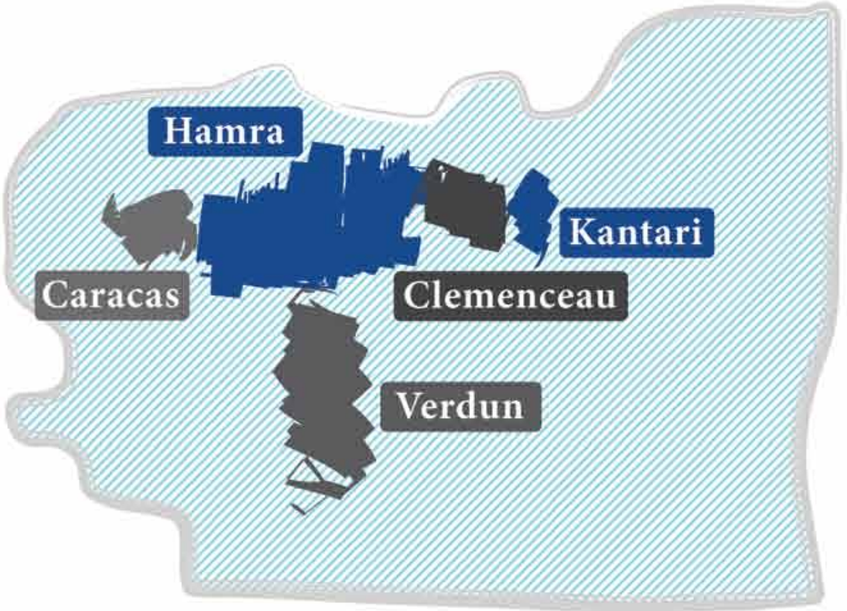
GEORGE HADDAD STREET

Although neither as well-planned nor as harmonious as the urban setting of BCD, the street is still attractive because of its proximity to BCD and Saifi Village. This is the main marketing advantage used to promote projects in the area. George Haddad offers some advantages that other locations of Ashrafieh do not have: easy access, a central location, and proximity to the F&B and entertainment hubs of Gemmayzeh. Some apartments even offer unobstructed views over BCD and the Port of Beirut.
RAMCO's estimated starting sales price (first floor): USD 4,500-4,750 per SQM

WADIH NAIM STREET

Better known as Trabaud Street, Wadih Naim Street lies at the heart of the Furn el Hayek area. The street is charming, with a few buildings dating back to the early twentieth century. Narrower and quiet compared to neighboring Abdel Wahab el Inglizi, the street is more exclusively residential, has less retail and therefore less traffic. The views, however, are rather limited – only the higher floors offer partially open views.
RAMCO's estimated starting sales price (first floor): USD 4,250-4,500 per SQM

Zoom Land in Ras Beirut



The number of prime plots of land in Ras Beirut is dwindling. Developers and speculative investors have taken up the best plots, while the owners of many parking lots and plots with interesting development potential are not offering their property on the market. The scarcity of land is putting upward pressure on prices and generating offers and counter-offers, which is misleading landowners and making them mistrust actual land values. Developers are thus turning to land in non-prime areas. The fact that there are very few listed buildings in Ras Beirut makes their task easier.

HAMRA

The main street is the most highly prized in the area, particularly for its commercial potential. Although no plot along Hamra Street is large enough to house a shopping mall, all can have a mixed-use building, either office or hotel building with retail on street level. Plots around AUBMC are particularly well suited for medical clinics, which are in very high demand, driving the price of BUA in those areas close to those found on Hamra Street, at around USD 2,000-2,500 per BUA.

VERDUN

Prices of land vary widely depending on the development potential of each plot. While large plots, with a strong potential to be developed into shopping malls command a value nearing USD 3,000 per BUA, plots more suitable for residential developments with retail on the ground floor have a BUA value of around USD 2,250-2,500.

CLEMENCEAU

The area has primarily strong residential potential, with some commercial potential for plots located immediately on the main Clemenceau Street. However, including retail space on the ground floor of a residential tower can reflect negatively on the prestige of the building. Depending on the location of the plot (whether along a main street or in an alley or dead-end street), prices per BUA vary between USD 1,750-2,500. Several plots are currently on the market in the area.

OTHER LOCATIONS WITH GOOD POTENTIAL

Two neighborhoods still have a few empty plots, or plots with old buildings that can be torn down: Caracas and Kantari. Chiha and Spears streets in Kantari have strong potential for mixed-use developments including offices and residential units. The ground floor could be suited for retail. The high visibility offered by the area justifies a BUA price of USD 2,000-2,250. Caracas is still not appreciated to its full potential and transactions are limited because landowners are not willing to negotiate their prices down. The area, however, has strong residential potential and plots with partial sea views have asking prices as high as USD 2,250-2,500 per BUA. Prices of land-locked plots that do not offer any seaviews drop to USD 1,750-2,000 per BUA.

LAND PRICES IN RAS BEIRUT

NEIGHBORHOOD	PRICE* (USD/BUA)
HAMRA	2,000-2,500
VERDUN	2,250-3,000
CLEMENCEAU	1,750-2,500
KANTARI	2,000-2,250
CARACAS	1,750-2,500

* PRICES ARE AS PER RAMCO'S ESTIMATE
SOURCE: RAMCO - DECEMBER 2011

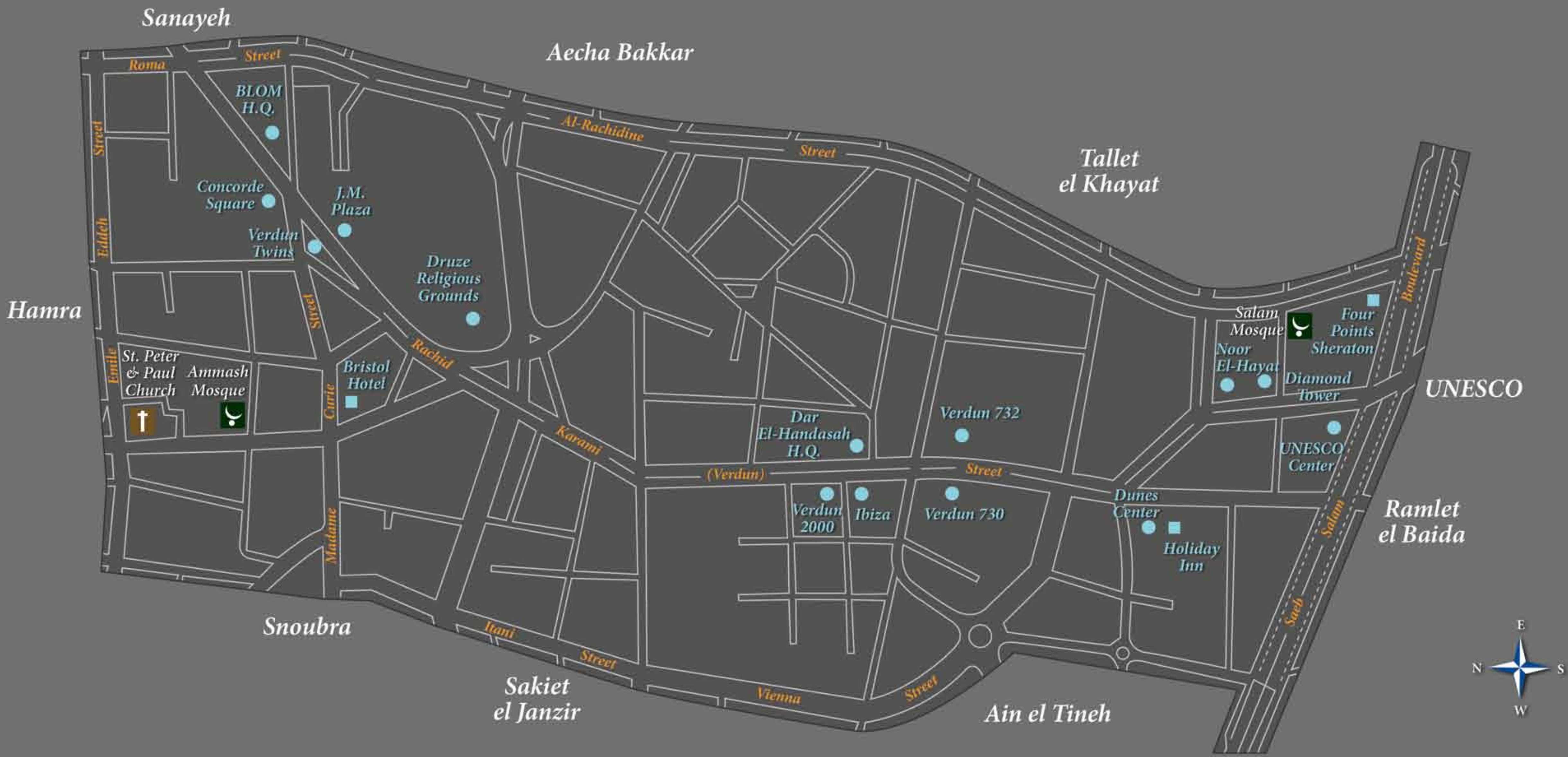
Snapshot

VERDUN

Verdun has around 20 office buildings, the most modern office stock of Ras Beirut, located along Rachid Karami Street (better known as Verdun Street). The area benefits from Hamra's aging stock to almost monopolise new local demand.

The Verdun office market is focused around two main areas, one at each end of Verdun Street. The southern end of Verdun, around Verdun 730 and 732 and Dunes Center, is the busiest part of Verdun, with the largest number of leading local company offices and headquarters. The northern end, close to Concorde Square, is less glamorous and notably less in demand.

One new project is in the pipeline (V Verdun), offering 1,900 SQM of office space. The current asking sales price stands at USD 5,000 per SQM, about 30% cheaper than prices in BCD.



Northern end

Mostly known for Concorde Square, the northern part of Verdun is close to Hamra and is home to some very well known destination addresses, such as Bristol Hotel, Zara and TSC Plus. The area is also the headquarters of BLOM Bank (along with daughter company Arope) and Alico. However, the area has a very limited stock of prime, modern office space with the one exception being Verdun Twins.
Asking rental prices of Grade A offices currently lie at around USD 225-275 per SQM per year.

Southern end

The area between Verdun 2000 and UNESCO Center is the most dynamic part of Verdun, partly thanks to the existence of shopping galleries and the proximity of Dunes Center and a number of renowned brands. The area houses a number of well-known buildings: Verdun 2000, Ibiza, Verdun 730 and 732, Diamond Tower, Noor al Hayat, and UNESCO Center.
Asking rental prices of Grade A offices currently lie at around USD 250-300 per SQM per year.
Asking rental prices of offices without parking spaces lie at around USD 200-250 per SQM per year.

Focus
Shopping
Malls

Focus Shopping Malls

For an agglomeration of about 1.5 million people, Greater Beirut counts only six shopping malls and five shopping galleries, making up a total Gross Leasable Area (GLA) of about 240,000 SQM. This is not enough to cover effectively all the indoor retail needs of the full potential market. Four malls are currently under construction, which should help service new parts of the city. Overall, however, the indoor retail landscape is quite sophisticated and performing exceedingly well.

MALLS IN GREATER BEIRUT & SUBURBS

Total number of shopping malls	6
Total number of stores in malls	720
Total GLA in malls (SQM)	197,000
Average occupancy rate in malls	85-95%
Average rental value in malls (USD/SQM/year)	1,000-1,500

SOURCE: RAMCO - DECEMBER 2011

COVERED RETAIL SPACE IN BEIRUT (GLA)

Existing shopping malls	197,000
Existing shopping galleries	42,000
Shopping malls under construction	127,000
Total GLA	**366,000**

SOURCE: RAMCO - DECEMBER 2011

MALLS UNDER CONSTRUCTION

NAME	LOCATION	OPENING DATE
Le Mall	Dbayeh	2011
Beirut Souks (North Side)	BCD	2012
City Center	Hazmieh	2013
Landmark	BCD	2014

SOURCE: RAMCO - DECEMBER 2011

SUPPLY

The Greater Beirut area and its near suburbs count six shopping malls (ABC Dbayeh and Ashrafieh, CityMall, Beirut Mall, Le Mall Sin el Fil, and Beirut Souks) and about five shopping galleries, such as Verdun 730 and 732, Sodeco Square, Dunes, and Galaxy. The four malls currently under construction will add nearly another 130,000 SQM. This total supply of prime indoor shopping space is estimated at roughly 366,000 SQM of Gross Leasable Area (GLA). The geographical location of malls depends on accessibility and proximity to an important catchment area. With the exception of Beirut Souks and ABC Ashrafieh, malls are located at the peripheries of Beirut, along major axes to the eastern and northern exits of the city.

DEMAND

Malls cater primarily to a middle- to upper-middle-end clientele. They tend therefore to attract the higher tier of local brands and mid-market international brands, which take precedence at locations as anchor tenants. Malls are traditionally not a good destination for luxury brands. Beirut Souks has proven to be the exception, as it has become the luxury shopping address of the city, carrying some of the world's most glamorous brand names though these are at the periphery and not inside the Souks themselves.

PRICES

Because of the high traffic they generate, malls are in very high demand. They can thus easily justify prices lying at the top segment of the retail rental values of Beirut. Due to the stiff competition among malls, obtaining exact price cards for the major malls is nigh impossible. However, estimates can be made from collecting market information from tenants. Rental values within malls average across Beirut at between USD 1,000-1,500 per SQM per year. Mall managers, however, discount their prices to attract highly desirable tenants, such as anchor brands that are known to generate high footfall or franchise owners who open a string of shops at once. Some malls even go so far as to entice a desirable brand away from another mall by offering a location at a discounted rental value for several years.

OCCUPANCY RATES

Malls boast near full occupancy rates of between 90 and 95%. Turnover is relatively high, however-much higher than that of shopping high streets. Since they are such an attraction pole and ensure high footfall to tenants, there is always a long list of prospective tenants awaiting the chance to be the next to fill a vacated space.

OPPORTUNITIES

A number of opportunities exist in niche neighborhoods in Beirut, which are underserved in planned indoor shopping space. The Ras Beirut area is clearly lacking in modern, indoor shopping space. One project that has been in the pipeline for the Verdun area would help service that area. From experience, malls have not reached saturation point, as the opening of new malls has not drained from the catchment area of existing malls. Instead, each has found its market and its specific clientele. It is safe to say that there is still enough room for more growth: Ras Beirut and Verdun; Jnah; and the southern exit from Beirut towards Khaldeh.

BCD special

The area around Foch and Allenby streets is the display window of Downtown Beirut and arguably the most dynamic part of BCD. The region is best known for its urban charm: mainly renovated buildings dating back to the French Mandate period, modern buildings following the same architectural spirit of older constructions, and pedestrian streets. The area counts 46 buildings – three residential, one hotel, four exclusively used for retail (of which one is a department store), 38 office buildings, eight of which are vacant.

OFFICE BUILDINGS

The area is known principally as a business neighborhood with charm – low-rise heritage buildings, pedestrian streets, luxury boutiques, in contrast to more impersonal modern business areas. The area counts a number of headquarter buildings (Transmed, World Bank, Averda) and Solidere occupies about 10 buildings. Still eight office buildings stand empty, as either they are offered for sale in their entirety or their asking prices are too high. Rental rates vary between USD 250-325 per SQM per year. Sales prices are estimated at around USD 6,500 per SQM for new products with parking spaces, while older stock with no parking facilities sell at around USD 5,500 per SQM.

RETAIL BUILDINGS

Allenby Street is the Beirut equivalent to Paris' Avenue Montaigne. It is the most sought after commercial destination of BCD, with a number of prestigious international brands, such as Louis Vuitton, Rolex, and Armani. It forms a continuity with the Beirut Souks and the Fakhry Bey Street, which is also home to a number of luxury brands – Chloé, YSL, Louboutin… The area is strongly monopolized by the Tony Salameh Group (TSG), which has exclusive rights to a dozen brands all located along the same street. This gives the group full control over its environment but that could be dangerous for the area if the group decides for some reason to pull out of the location. High-end international brands cluster along the main streets and leave secondary arteries to local brands.The main streets, such as Allenby, Moutran, or Malek Street, are in very high demand and offer very few vacancies, while inner secondary streets (Tijara, Y. Rami, or Azmi) accumulate closures. Rental values in the main streets vary between USD 1,200-1,500 per SQM per year.

RESIDENTIAL BUILDINGS

The area has only three residential buildings along the northern façade of the neighborhood, taking advantage of the sea / port views. However, these views could potentially become blocked by future developments along Chafic Wazzan Street. Apartment sizes vary between 250-350 SQM with asking sales prices starting at USD 6,500 per SQM.

ALLENBY / FOCH AREA

TOTAL NUMBER OF BUILDINGS 46

RESIDENTIAL BUILDINGS 3

HOTEL 1

EXCLUSIVELY FOR RETAIL 4

OFFICE BUILDINGS 38 (8 VACANT)

OFFICE RENTAL VALUES 250-325 (USD/SQM/year)

RETAIL RENTAL VALUES 1200-1500 (USD/SQM/year)

OFFICE SALES PRICES 5,500-6,500 (USD/SQM/year)

RESIDENTIAL STARTING SALES PRICES 6,500 (USD/SQM/year)

SOURCE: RAMCO - DECEMBER 2011

ramco in the news

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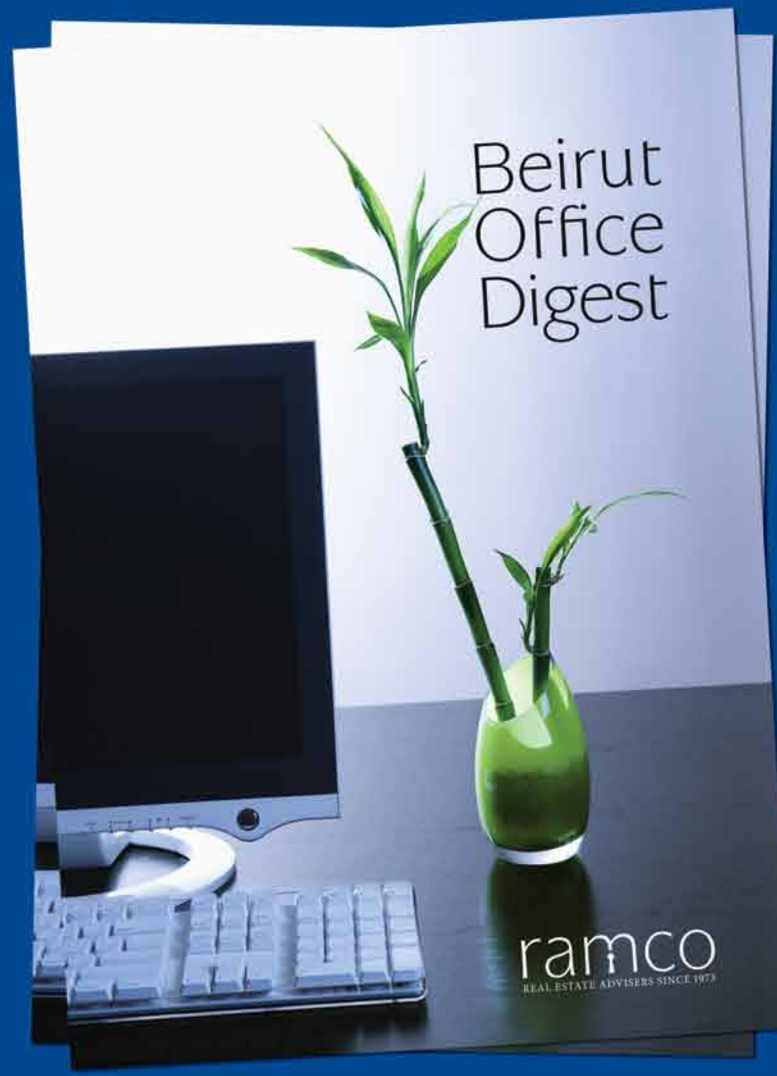
WHAT WE WROTE

IN L'ORIENT LE JOUR

Despite the current market stagnation, land prices are still on the rise, albeit at a slower rate than before (8 October 2011). Land prices increased by an average of 125% betweem 2007 and 2011, which drove developers to look for land in previously neglected areas, such as Kantari, Beddawi, Mar Mikhael, or Corniche el Nahr (25 October 2011). About 80,000 SQM of new offices are coming on the market, after long years of heavy investment in a residential market performing at double-digit growth (10 November 2011). More than 38,000 SQM is located in BCD, which is witnessing a revival and re-emerging as a serious market competitor to Hamra and Ashrafieh, with the opening of several pubs around the Samir Kassir Square as well as a new luxurious F&B destination at the new Zaitunay Bay (24 November 2011). Real estate remains a lucrative investment, particularly the rental market as a steady income flow. Small apartments near attraction hubs (universities, hospitals, F&B and entertainment destinations) or small clinics, for instance, rent easily (24 September 2011).

WHERE WE APPEARED

Raja Makarem appeared on Dubai TV in the financial program "Bil Darham" on 23 September 2011 and gave a lecture on the general state of the real estate market and prospects for the sector during a conference organized by Al-Iktissad Wal-Aamal Group in November 2011. He also gave a lecture on possible strategies to give access to housing at reasonable prices at the UN World Habitat Day National Conference, held on 7 October 2011.



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