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The Quarterly

INFORMATION & INSIGHT
INTO THE LEBANESE REAL ESTATE MARKET



A prolonged slowdown may make some investors nervous. Others, however, are aware that a downturn in a market is a good time to buy. Negotiation margins become wider and the pressure of making a quick decision abates.

RAJA MAKAREM
Founder & Managing Director

Letter from the founder



We are entering into the third stagnant year in a row. Starting at the end of 2010, prices have been hovering almost in place, with a minority of very shy increases here and there in the midst of a predominately stable market.

While this is a healthy pause after a period of over-heating, it has gone on too long and the market is starting to become wary. Buyers and sellers, landlords and tenants are all holding off their decisions as they are becoming more fearful.

While vigilance in real estate investments is always recommended, it should not hamper or indefinitely put off purchasing decisions because a steady market is an ideal buyer's market.

A prolonged slowdown may make some investors nervous. Others, however, are aware that a downturn in a market is a good time to buy. Negotiation margins become wider and the pressure of making a quick decision abates.

In a slow market, the pressure shifts to property owners, especially those in need of liquidating their assets. It is true that this is relatively rare on the Lebanese market, as landowners and developers have only limited recourse to leveraging. However, they are certainly not in a position to keep increasing their prices as was their habit when the market was booming.

But in a stable market, buyers must make sure they pay the fair market value for properties they purchase, especially if they are investors seeking income-generating property or if they want to resell their acquired property at a profit in the short to medium term.

Professional valuations are a must in these instances, particularly since the market is afflicted by misinformation and contradictory opinions. Although rumors are a normal occurrence on the Lebanese market, in times of stagnation such as these, misguided rumors can have a heavy financial cost.

The problem is exacerbated by non-professionals dispensing advice which is unfortunately often needed by family and acquaintances – every lawyer, notary public, banker, and of course barber has something to say about real estate prices! So our advice – at the risk of sounding self-serving – is to obtain professional advice from trusted real estate agencies.



Top Five Most Popular Office Hubs in Ras Beirut

WHICH AREAS ARE BOOMING?

Ras Beirut used to be the traditional prime business destination of the capital. The area is sub-divided into different office hubs that have different characteristics due to the type of stock available and the clientele to which it caters. While the majority of Ras Beirut no longer attracts business – mainly due to an aging stock and lack of parking spaces, some neighborhoods are still popular because of their proximity to important commercial hubs, Hamra and Verdun. The two main attraction poles in Ras Beirut at the moment are AUBMC and Gefinor Center.

Top Five Most Popular Office Hubs in Ras Beirut

WHICH AREAS ARE BOOMING?

CLEMENCEAU

Home to one of the best-known commercial landmarks of Lebanon – Gefinor Center, Clemenceau is the area of Ras Beirut that is witnessing the fastest growth and the most demand. Sitting astride Hamra and the AUBMC area, Gefinor Center is easy to access and well maintained. The center's renown makes it a highly recognizable and sought-after business address. Not surprisingly, at USD 350 per SQM per year, Gefinor has the highest asking rental rates of Ras Beirut, and boosts the surrounding area, where rental rates vary between USD 200-250 per SQM per year.

SOURATY STREET

Demand for Souraty Street and the surrounding streets is on the rise, mainly driven by the proximity of AUBMC. Despite being the most congested area of Hamra, it remains the first destination of the medical community of Beirut. The success of the clinics projects in the area is proof of a healthy demand for new products in the area. Sale prices range between USD 5,000-5,500 per SQM, while rental values vary between USD 200-250 per SQM per year, mainly because of the age of the existing stock.

VERDUN

With a stock that is aging badly, Verdun is not a prime office destination, despite projects dating back to the 1980s and 1990s. Some buildings dating back to the 2000s are acceptable. However, at similar budgets, businesses can opt for much more attractive locations. Overall rental values remain high because of the scarcity of new buildings that dot Verdun Street and a constant local demand. Rental values lie between USD 200-250 per SQM per year.

JUSTINIEN/SPEARS AREA

Clustered around the Justinien and Spears crossing, there are a few office buildings that make up a micro-commercial hub. The stock, which mostly dates back to between the 1950s and 1970s, is of acceptable quality, although of no particular architectural interest. The Central Bank also is a major attraction factor. As the area is at the very edge of Hamra, it avoids the traffic of Hamra Street. Rental values vary between USD 175-250 per SQM per year.

HAMRA

With the sole exception of Hamra Square, the vast majority of the stock in Hamra is of very poor quality. Buildings date back to the 1950s and 1960s and most of them are in a state of disrepair. Offices are small and offer minimal amenities. Paradoxically, Hamra Street is the best-known address of Beirut, but demand is driven away by the lack of parking spaces and the constant congestions. Rental values range between USD 150-200 per SQM per year.

AREA	AVERAGE ERV* (USD/SQM/yr)	CURRENT GROWTH TREND
CLEMENCEAU	200 – 250**	↗
SOURATY	200 – 250	↗
VERDUN	200 – 250	→
JUSTINIEN-SPEARS	175 – 250	↘
HAMRA	150 – 200	↘

* AS PER RAMCO'S ESTIMATES

** RENTAL VALUES PEAK AT USD 350 PER SQM PER YEAR AT GEFINOR CENTER

SOURCE: RAMCO JUNE 2013

ZOOM

Sassine Square

The launching of ABC Mall in 2004 rejuvenated the entire area around Sassine Square. Although, with more than 50,000 SQM of global leasable area (GLA) and around 200 retail units, the mall dominates the market and attracts the most important local and international brands, it has revitalized the entire neighborhood. Sassine Square, which had been an aging market growing slightly dilapidated, found its place again on the retail map of Beirut. ABC Mall plays an important role in attracting footfall to Sassine Square, although it retains the monopoly of the star-brands. Sassine Square has specialized in less glamorous shops but that rely on a high turnover of customers.

Rental values (USD/SQM/Year)

Sassine Square **800 – 900**

Slightly inclined streets **500 – 600**

Steeply inclined streets **400 – 500**

Sales values (USD/SQM) **5,500 – 12,500**

SOURCE: RAMCO - JUNE 2013

UNIFORM SUPPLY

Retail on and around Sassine Square is quite homogeneous. It is made up of three main offers: local and international fast food chains and coffee shops, local sweets shops, Lebanese fast food, clothing stores, and financial institutions.

ABC's layout helps in generating footfall into the surrounding area, thanks to its numerous accesses to different street levels around Ashrafieh. The main entrance to the mall is indeed just a few meters' away from Sassine Square itself. The fact that the surrounding streets are a natural extension of the mall encourages traffic between the mall and the broader neighborhood. Slightly secondary areas around Sassine Square (along parallel or perpendicular streets), offer a large supply of mid-market clothing stores, a number of local brands that carry a varied collection of imported clothes. Another sector that is very heavily represented on Sassine Square is the financial sector. A large number of banks have either branches (on ground floor level) or offices (on the first or second floors of buildings). This is a relic of the 1980s, the decade during which Sassine Square was at its zenith. There is a small number of dispersed retail, mostly old rental contracts still carrying old fashioned grocery stores, stationary shops, a few butcher shops, etc. This is a very run-down stock, the tenants of which are keeping their businesses going while they await an indemnity to vacate the premises.



RENTAL AND SALES VALUES

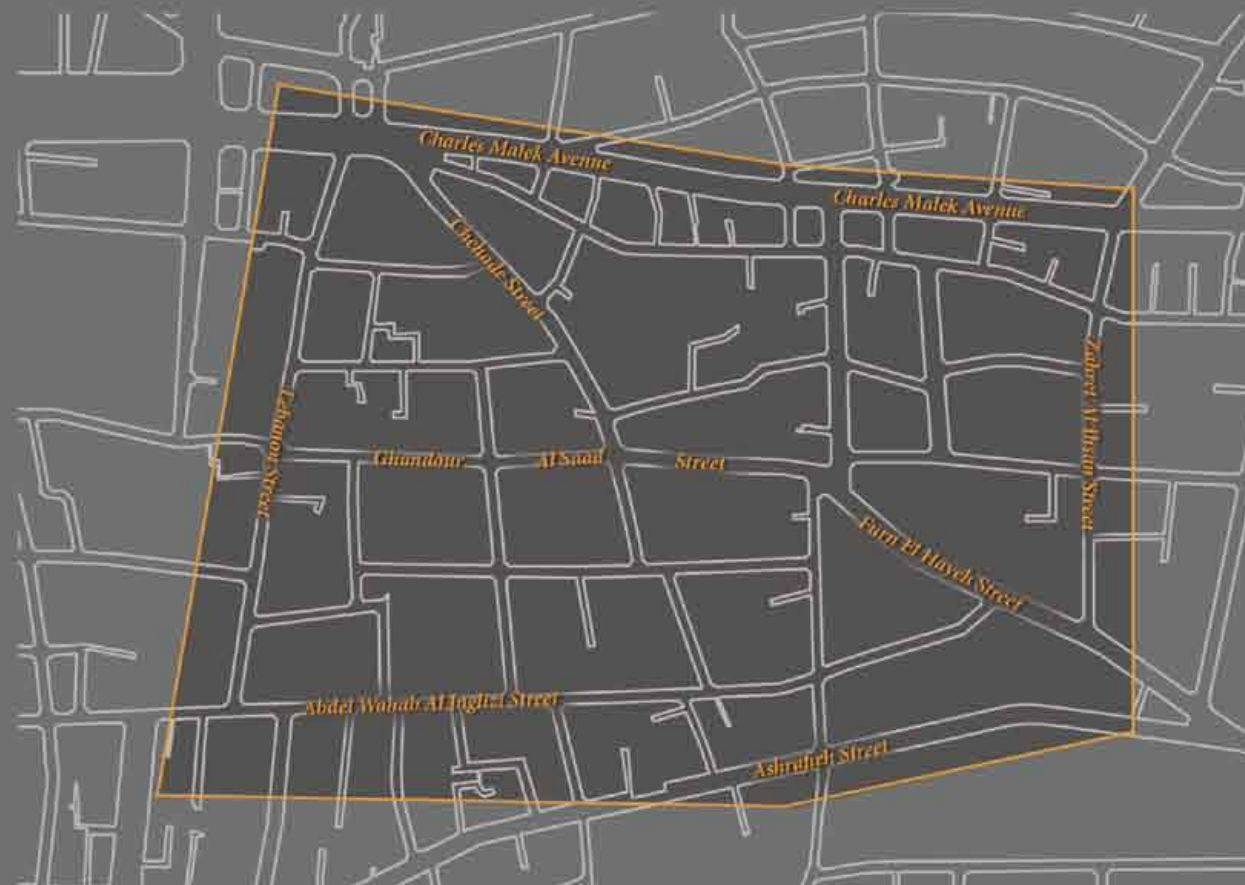
The rental values of retail units on and around Sassine Square depend on the topography of the land. Sassine Square is the most expensive market, as it is relatively flat, wide, and is the most highly recognized address in the area. Driven by sustained F&B demand, the rare retail units that are available immediately on Sassine Square post asking rental rates between USD 800-900 per SQM per year. Prices drop the further away from Sassine Square the units are located. As the topography of the area slopes away from Sassine Square, the steeper the slope, the further rental values drop. Thus, retail units located on the near slopes immediately off Sassine Square are about 30% cheaper than prime locations on Sassine Square. Rental values down towards Saydeh Church, or AUST University lie between USD 500-600 per SQM per year. Further downhill, prices drop by another 20% approximately, to reach USD 400-500 per SQM per year. Locations that are not easy to reach on foot, such as the area down from Saydeh Church or Spinneys (Mar Mitr), no longer attract pedestrians and must rely strictly on passing traffic. As parking in front of the store is usually difficult due to the congestion typical of Ashrafieh, the commercial potential of these units is greatly reduced, thus affecting prices. At the moment, there are no retail units offered for sale on or immediately around Sassine Square. The sale price must therefore be deduced from rental values. Applying a yield of 7% (which is the average yield currently achieved by retail units in Beirut), sales prices can be estimated at around USD 5,500-12,500 per SQM on the first floor.

Snapshot

FURN EL HAYEK



Furn el Hayek is the heart of Ashrafiyah's Golden Square. With about ten projects currently taking place in the center of Furn el Hayek, the area is becoming saturated. New developments are pushing closer to the edges and even beyond. The process is gentrifying the entire surrounding area, which is witnessing a boom mirroring the surge of activity that took place in Furn el Hayek during that past half decade. Overall, 19 projects are under construction on roughly 125,000 SQM between Ashrafiyah Street, Zahret al Ihsan Street, Charles Malek Avenue, and Lebanon Street.



Central Furn el Hayek

Abdel Wahab el Inglizi, Trabaud, Ghandour al Saad, Chahadeh streets form the heart of the Golden Square, the most prime residential neighborhood of Ashrafiyah. It is home to the cream of the crop of the local social elite. Enjoying a pleasant setting within a traditional neighborhood, gardens and flowering trees, the area has an excellent reputation. Old buildings date back to the 1950s and 1960s, and they are among the most interesting architectural examples of their period. As the area caters to high-end demand, projects already completed or currently under construction are mega-developments occupying large plots with landscaped gardens, signed by renowned architects, and built by some of the leading developers in town. Contrary to trends in other areas, projects offer apartments as large as 600 or 700 SQM because this is a niche product, which, until recently at least, has been in demand.

Developers' starting asking sale prices: USD 5,000-6,000 per SQM (on the first floor).

Western & Eastern Ends

Moving away from the prime heart of Furn el Hayek, the western end (near Mar Mitr) and the eastern end (by Monnot) are two new neighborhoods that were bolstered by the growth of Ashrafiyah's Golden Square. Developers are offering homebuyers the option to own property at the doorstep of one of the most prized locations in Ashrafiyah at 10-25% lower prices. Surfing on the renown of Furn el Hayek, these two areas offer apartments with basic amenities in small-scale projects, on plots often no larger than 300 SQM, with no or very limited green areas, obstructed views, and a noticeably poorer construction quality. Demand, however, follows as the offer is interesting to buyers looking for a foothold at this address at an accessible budget.

Developers' starting asking sale prices: USD 3,500-4,500 per SQM (on the first floor).

Focus Hamra the Golden Land

Hamra is the historical center of Ras Beirut – the most cosmopolitan neighborhood of the capital and a sure investment value. Hamra has been booming for more than a couple of years, and continues to be in great demand by developers – who follow the market trend. Hamra is a collection of three different geographical entities: the area around Hamra Street is the heart of the neighborhood, then the eastern and western ends. Each geographical area caters to a special niche market and offers different development potentials. These differences are reflected in the price of the BUA. While land is becoming extremely rare in the heart of Beirut, Hamra still offers some golden development opportunities.

HAMRA STREET

Probably the most renowned street of Lebanon and one that attracts the heaviest footfall in Beirut, Hamra Street is the throbbing heart of the capital. It attracts a broad mix of people, from the local student community to artists, expats, western and Arab tourists, professionals across all imaginable fields, street peddlers, or simple café-sitters and people-watchers.

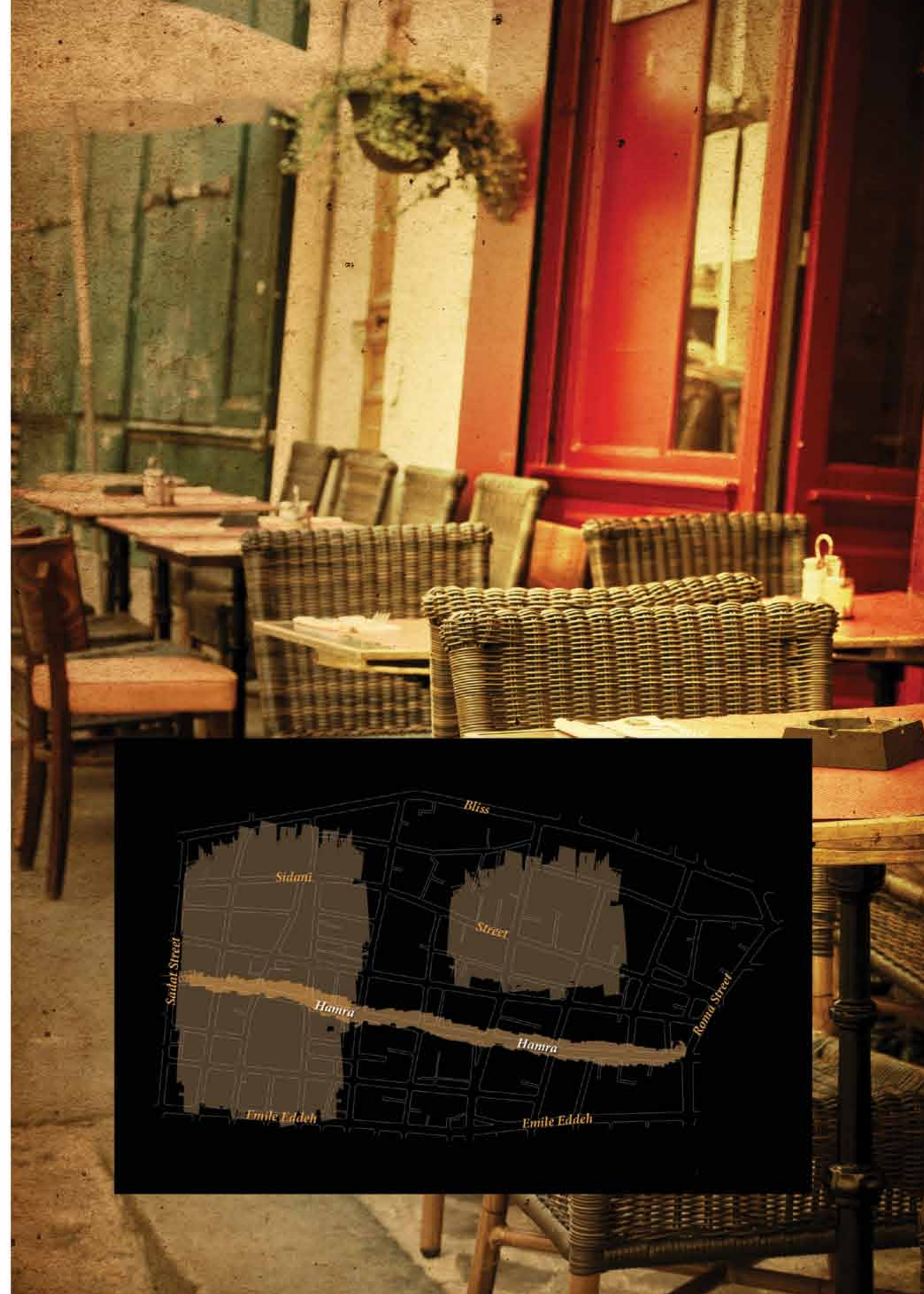
There are only four vacant plots of land on all of Hamra Street: three of them are currently being used as parking lots, and one is simply abandoned. Owning land on Hamra Street is like owning a rare gem.

Development options are therefore mostly restricted to destroying buildings dating back to the 1950s and 1960s, even if this entails all the hassle of compensating old tenants.

Development options, however, are relatively limited. Developing residential projects on Hamra Street is not possible because of the noise pollution. Businesses shun Hamra Street because of its notorious congestions. Hamra Street is too far from the medical hub of Ras Beirut to allow the development of clinics.

The most obvious and lucrative development options are for hospitality projects, either as hotels or furnished apartments. Offering retail on street level goes without saying, as Hamra is the number one shopping street in Lebanon.

The tremendous popularity of Hamra Street is reflected in a price of land ranging between USD 2,500 and USD 2,750 per BUA (the weight of the cost of land on the total buildable and salable area allowed).





Focus Hamra the Golden Land

AROUND AUBMC AND GEFINOR CENTER

Located at the eastern end of the district of Hamra, the area surrounding AUBMC and Gefinor Center is the real commercial center of the neighborhood. Gefinor Center is one of the most important business landmarks of Beirut.

The bulk of commercial activity is centered around the medical community. Two new buildings currently taking place in the area offer clinics, catering to doctors who want to open independent practices near the many hospitals: AUBMC, CMC, Najjar, Khoury, Bekhazi, and Trad further East.

There are slightly more than a dozen plots (parking lots and empty plots) that could be potentially developed at this end of Hamra. However, as development is practically limited to clinics, the absorption of such a prospective huge supply could become difficult. The area's retail potential is also limited as there is little pedestrian traffic.

Plots close to AUBMC can be developed as commercial projects containing office, clinics, and retail. Plots further away from AUBMC can be developed into residential projects offering small apartments. The price of the BUA of land drops to between USD 2,000-2,500 per buildable SQM.

THE WESTERN FRONTIER

Between Jeanne d'Arc and Sadat streets to the South and North of Hamra Street, the western end of the neighborhood is almost strictly residential. Still, developers include retail on the ground floor to amortize the cost of land on the overall construction cost. Retail has a very limited potential, as pedestrian flux is limited to local residents.

The main target market is constituted of the population connected with the nearby universities and medical centers: students, professors, doctors, or expats looking for a temporary residence. Developments are therefore restricted to residential apartments measuring between 150-200 SQM at most.

Combined with the largest stock of land that can be potentially developed (either parking lots or plots containing old buildings that can be torn down), the area offers the lowest price of land in Hamra. Prices do not drop tremendously, however, because investing in Hamra (in land or in development) carries almost zero risk. The price of the BUA still stands at USD 2,000-2,250 per buildable SQM.

PRICE OF LAND IN HAMRA (USD/BUA*)

Hamra Street 2,500 – 3,000

Eastern End (around Gefinor & AUBMC) 2,000 – 2,500

Western End (West of Jeanne d'Arc Street) 2,000 – 2,250

* Price of the buildable SQM

SOURCE: RAMCO – JUNE 2013



BCD Special

SMALL APARTMENTS

As prices of residential apartments soared, developers reacted by offering smaller apartments to remain within reasonable entry-level budgets. BCD, which was an early pioneer of small apartments in Saifi Village, but which later moved to large luxury apartments, has moved back into the new market trend of smaller apartments. BCD, however, caters to a specific niche clientele, different from the rest of the projects offering small apartments across Municipal Beirut.

TARGET MARKET

By setting aside a certain share of the overall project to small apartments, developers broaden their target market base, by creating a new product that caters to a niche clientele. Small apartments cater predominately to foreigners, mostly Gulf Arabs looking for a small weekend or vacationing apartment. They also attract Lebanese expatriates looking for a pied-a-terre in Beirut. Finally, small apartments attract investors in view of income-generating rental products.

SALES PRICES AND NET VALUE

The interest of offering small apartments in BCD is to lower the entry budget into the most prime residential neighborhood of Beirut. At asking sales prices starting at USD 6,000 per SQM on the first floor, the smallest apartments cater to budgets below USD 1 million. It should be noted, however, that small apartments located in towers can lose up to 35% of their area in common areas (elevators, staircases, fire escapes, shafts, pillars, etc.). The net carpet (or living) area can thus be tiny. An 80-SQM apartment located in a tower will offer an effective net living area of just 52 SQM! Still, these products target a very small niche clientele.

TOTAL PROJECTS UNDER CONSTRUCTION **23**
PROJECTS UNDER CONSTRUCTION OFFERING APARTMENTS
BETWEEN 80-190 SQM **10**
STARTING ASKING SALES PRICES (USD/SQM) **6,000**
RATIO OF PROJECTS WITH SMALL APARTMENTS (%) **40**
SPACE LOST TO COMMON AREAS ETC. (%) **20-35**

SOURCE: RAMCO – JUNE 2013

HISTORICAL EVOLUTION

At the end of the 1990s, Saifi Village was among the first projects in Beirut to offer apartments smaller than 200 SQM. Then the real estate boom that took place between 2000 and 2010 drove developers to build larger apartments to satisfy a wealthier demand. By 2010, prices spiked to such a degree, however, that developers were forced to decrease the size of their apartments in order to remain within reasonable overall budgets. Currently, out of the 23 projects taking place in BCD, 10 offer apartments between 80 and 190 SQM. This represents about 40% of the total number of projects under construction.

SUPPLY

A new niche of European-type studios offers an open plan living and kitchen area, one en-suite master bedroom, and a guest toilet. This is the smallest option on the market. Other products offer one or two en-suite bedrooms in 100 to 120 SQM.



WHAT WE WROTE

In l'Orient le Jour

It is still possible to own a small home – no larger than 100 SQM – at a budget of USD 300,000 in Ashrafieh but on the area's eastern, southern, or northern margins (23 March 2013). Another area on the northern border of Ashrafieh could present interesting future options, although developers and prospective buyers are still reluctant to set foot in Karantina (4 April 2013). With current prices of land standing at around USD 1,000 and USD 1,200 per BUA, it would be possible to sell a 100-120 SQM apartment at between USD 250,000-300,000. Commercial properties are starting to suffer. While retail units take longer to rent except on the streets in most demand (20 April 2013), offices have seen their prices stagnate, particularly if they do not offer parking or are not in an excellent state of maintenance (10 May 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

"Since 2006, the market witnessed a desire by Gulf Arab owners to liquidate their real estate assets, and this trend accelerated with the international financial crisis in 2008, which drove Gulf Arabs to sell their properties at high returns."

Gulf Arabs violated the virginity of Lebanese real estate and hyped prices – Al Akhbar, 13 March 2013

"Even in times of growth, there is a bargaining margin of about 15% [...]. Be assured that if you are a serious buyer, the developer will not let you walk away without buying."

Should one buy, sell, or rent an apartment? – L'Hebdo Magazine, 27 March 2013

"The continued activity in land sales is a sign that the real estate sector is still a safe haven for investment."

The residential market is slow but prices are stable – Al Joumhouria, 9 April 2013

"A minimum budget to buy an apartment will be around USD 600,000 [...]. Incomes are limited so the big question is if people can afford the down payment."

BDL lends a hand – The Executive, April 2013

"The choices are ample. Prices [of residential units] are stable. It is a buyer's market and people who can take advantage of best-available financing this year have a great window to use their options wisely."

BDL lends a hand – The Executive, April 2013

"Owning an apartment is a problem the world over, not just in Lebanon. Owning an apartment in any capital city has become the main problem people face. This is true in Paris and London and Washington."

The real estate market is slow but not at a standstill – Lebanon & Gulf Investment, 9 April 2013