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ramco
REAL ESTATE ADVISERS SINCE 1973

The Quarterly

INFORMATION & INSIGHT
INTO THE LEBANESE REAL ESTATE MARKET

The market is indeed stagnant, but it is not on a downward slope, as many brokers and economic analysts have been "predicting" a sharp drop in prices.

KARIM MAKAREM
Partner & Director

Letter from the director

The summer is setting in. This is usually the busiest time of the year in our line of work. With the coming of vacationing expats and tourists, sales enquiries are traditionally at their peak levels.

Only for the past few years, the summers have been more than lukewarm due to an opaque political and security situation, which limits economic visibility. If there is anything investors and buyers loathe, it is uncertainty. Unfortunately, the future of the region, the country, and the economy is highly volatile.

Under such circumstances, it would not be surprising to make doomsday predictions. Yet, the reality is not all that disappointing. RAMCO sarl has launched a new research initiative recently, which yielded some surprising results.

In its ongoing quest to unravel the hidden intricacies of the Lebanese real estate market and in sharing information with as wide a general audience as possible, RAMCO sarl has decided to establish a price index for the residential stock under construction across Municipal Beirut. We hope to collect data at the same period every year, so that we have a yearly tracking of the evolution in the asking price of apartments in Beirut.

Our first exercise consisted of comparing the prices of buildings currently under construction. We have compared their prices at the end of 2013 to their prices at the end of 2014. We have found that the average asking price of apartments across the sample of 250 buildings that are under construction today and that were already on the market at the end of 2013 has dropped by less than 1%.

Although we have always been of the opinion that the market was stable and solid, we were surprised at this negligible drop. The market is indeed stagnant, but it is not on a downward slope, as many brokers and economic analysts have been "predicting" a sharp drop in prices. True, buyers have bigger margins of negotiation, but official list prices have remained relatively stable.

This is the first time that a fixed index is proposed to track changes in the prices of the upcoming residential buildings across Municipal Beirut. What this reliable indicator says about the residential market so far is encouraging indeed. It is with great anticipation that we look forward to the next set of data at the end of 2015!

Top Five Sharpest Price Increases in Ashrafieh

WHERE HAVE PRICES INCREASED THE MOST IN 2014?

The real estate market has been stagnating for the past three consecutive years. Prices have either remained stable or dropped slightly, particularly in the residential sector. RAMCO sarl has conducted a study to quantify the actual change in prices.

We looked at a panel of 250 buildings under construction across different residential neighborhoods in Beirut and we found that the starting price of apartments has dropped by less than 1% in 2014.

The interesting finding was that the price of apartments in some particularly dynamic neighborhoods in high demand were on the rise. The five fastest growing neighborhoods of Ashrafieh are all located on the town's northeastern rim: Mar Mikhael, Saydeh, Sagesse, Adlieh- Museum, and Saifi.

NEIGHBORHOOD	SALES PRICE* (USD/SQM)	PRICE INCREASE**
Mar Mikhael	3,500 – 4,500	21%
Saydeh	3,000 – 3,600	16%
Sagesse	3,500 – 3,800	14%
Adlieh/Museum	2,300 – 3,400	10%
Saifi	4,200 – 6,500	10%

** Asking sales price on the first floor*
*** Year-on-year between 2014 and 2013*

SOURCE: RAMCO SARL – MARCH 2015

Top Five
Sharpest Price Increases in Ashrafieh

WHERE HAVE PRICES INCREASED THE MOST IN 2014?

MAR MIKHAEL
21% INCREASE

The up and coming "bobo" neighborhood of Beirut, Mar Mikhael has been abuzz with activity and is in high demand by developers and buyers alike. The area posts one of the highest growths across Municipal Beirut. The reasons are dual: an increasing price of land and sustained demand. This trend goes in tandem with the boom of the F&B industry in the area. The wave of new cafés, restaurants, pubs, and art galleries has contributed to the renewed activity of Mar Mikhael, making it attractive to a young, trendy generation of first-time homeowners.
Asking sales prices lie between USD 3,500-4,500 per SQM on the first floor.

SAYDEH - 16% INCREASE

Despite the sharp increase in prices, Saydeh is still one of the most affordable neighborhoods in Ashrafieh. Characteristically, the neighborhood caters to middle-income families but it is in the process of being gentrified. New developments have hiked the price of the area, although prices are not homogenous across new projects. One particular project has skewed prices upward by offering small units of 92, 100, and 128 SQM at a higher unit price – a new trend for Saydeh.
Asking sales prices lie between USD 3,000-3,600 per SQM on the first floor.

SAGESSE – 14% INCREASE

The neighbourhood has been in full development for the past several years. Located between Sagesse School and the St. Louis Tunnel, the area is a natural extension of Charles Malek Avenue and fully benefits from the avenue's solid reputation. Developers have exploited empty plots of land to launch new projects – four projects are currently under construction along the wide avenue. The main advantage of Sagesse lies in the fact that prices are between 15-20% lower than bordering neighborhoods, such as Geitawi, St. Louis, or Fassouh.
Asking sales prices lie between USD 3,500-3,800 per SQM on the first floor.

ADLIEH/MUSEUM – 10% INCREASE

This neighborhood comes as a surprise in the Top Five price increase list, as it is not a neighborhood in particularly strong demand. The area is crossed by several high-traffic axes, known for their office buildings and public institution headquarters. Yet, the study has revealed that prices in the residential sector located between the Palace of Justice and Ain el Romaneh have increased by about 10%. Despite these price hikes, the area of Adlieh/Museum is still much more affordable than the area around Our Lady of Annunciation Cathedral, where prices start at USD 3,400 per SQM on the first floor.
Asking sales prices lie between USD 2,300-3,400 per SQM on the first floor.

SAIFI – 10% INCREASE

Saifi is a heterogeneous neighborhood with contrasted geographical characteristics. Residential buildings are either arranged along wide traffic axes (Georges Haddad and Charles Helou avenues) or along pleasant, quiet residential streets, such as Al Arz Street. There is therefore a wide disparity in prices between projects. Three projects under construction have stable prices. However, three other upcoming projects, which offer modern architecture with unobstructed views of the Port of Beirut, have increased their prices between 4% and 13%. This explains the overall price increase of 10%.
Asking sales prices lie between USD 4,200-6,500 per SQM on the first floor.

Focus Geitawi

A Village in the City

The name of Geitawi has a negative connotation floating behind it, one of poor quality, low-mid market residential neighborhood. It is indeed one of the most reasonably priced areas of Ashrafieh. However, the neighborhood offers a number of advantages that should not be ignored, and that make it one of the most attractive residential areas in Ashrafieh.

AN UNDERESTIMATED NEIGHBORHOOD

Geitawi enjoys a very advantageous geographical location with several, easy points of access from different parts of town. It is within a very short distance from several of Ashrafieh's high interest hubs, such as Sassine Square and ABC Mall.

The neighborhood also enjoys good urban planning, with parallel, often one-way traffic streets, facilitating circulation. Geitawi also has a public garden. Although the garden is in a poor state of upkeep, it does offer green spaces and pleasant unobstructed views to the apartments surrounding it.

Geitawi's many narrow streets and alleys and its low-rise buildings give it the feel of a secluded community, clearly demarcated from the more generic, cosmopolitan atmosphere of the rest of the town. It is a quaint, self-contained residential area in the throbbing heart of Ashrafieh.

CONSTRUCTION BOOM

Despite its poor reputation, Geitawi still attracts developers, who recognize the tremendous potential of the area. Ten projects are currently under development in the area, offering a sizeable stock of around 22,550 SQM of residential space.

Projects are concentrated around three main centers of attraction: St. Georges Hospital, mainly along Rayes Street; around the Geitawi Public Garden, mainly along Moscow Street; and along perpendicular streets near Geitawi Hospital, mainly along Achou and Al Mahatta streets.

Geitawi has thus witnessed a new wave of activity and many of its streets are being rejuvenated with new projects with modern architecture and amenities. Some of the projects currently under construction occupy vacant plots but several are replacing existing derelict constructions with no particular architectural or heritage interest.

SMALL APARTMENTS

The average size of apartments currently under construction in Geitawi stands at 145 SQM. This is one of the lowest averages in Ashrafieh. The standard apartment offers 3 small bedrooms and a small living and dining area – including a glazed balcony, giving rather confined living spaces. Some developers have tried introducing a new typology: A few projects offer one-bedroom apartments totaling 60 SQM or 100-SQM two-bedroom apartments. Such small apartments then have enough space for an American-style kitchen and just one bathroom.

Offering small apartments is a new strategy that attempts to cater to households with limited budgets. By shrinking the size of their apartments, developers make Geitawi accessible to buyers with budgets as low as USD 200,000 and USD 300,000.

MID-RANGE PRICES

Geitawi is among the most affordable neighborhoods of Ashrafieh. The average starting asking sales price of apartments in projects currently under construction stands at USD 2,957 per SQM. Geitawi is thus within the reach of middle-income households with young children.

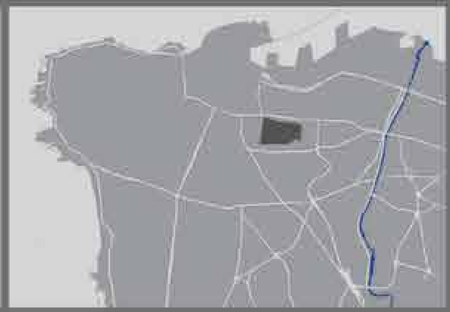
Prices vary across projects, depending on the quality of the construction and finishing. Good quality products in a good location post a starting sales price of USD 3,000-3,300 per SQM on the first floor. Medium quality products located on secondary, narrow streets post starting asking sales prices of USD 2,700-3,000 per SQM on the first floor.

Geitawi Residential Market

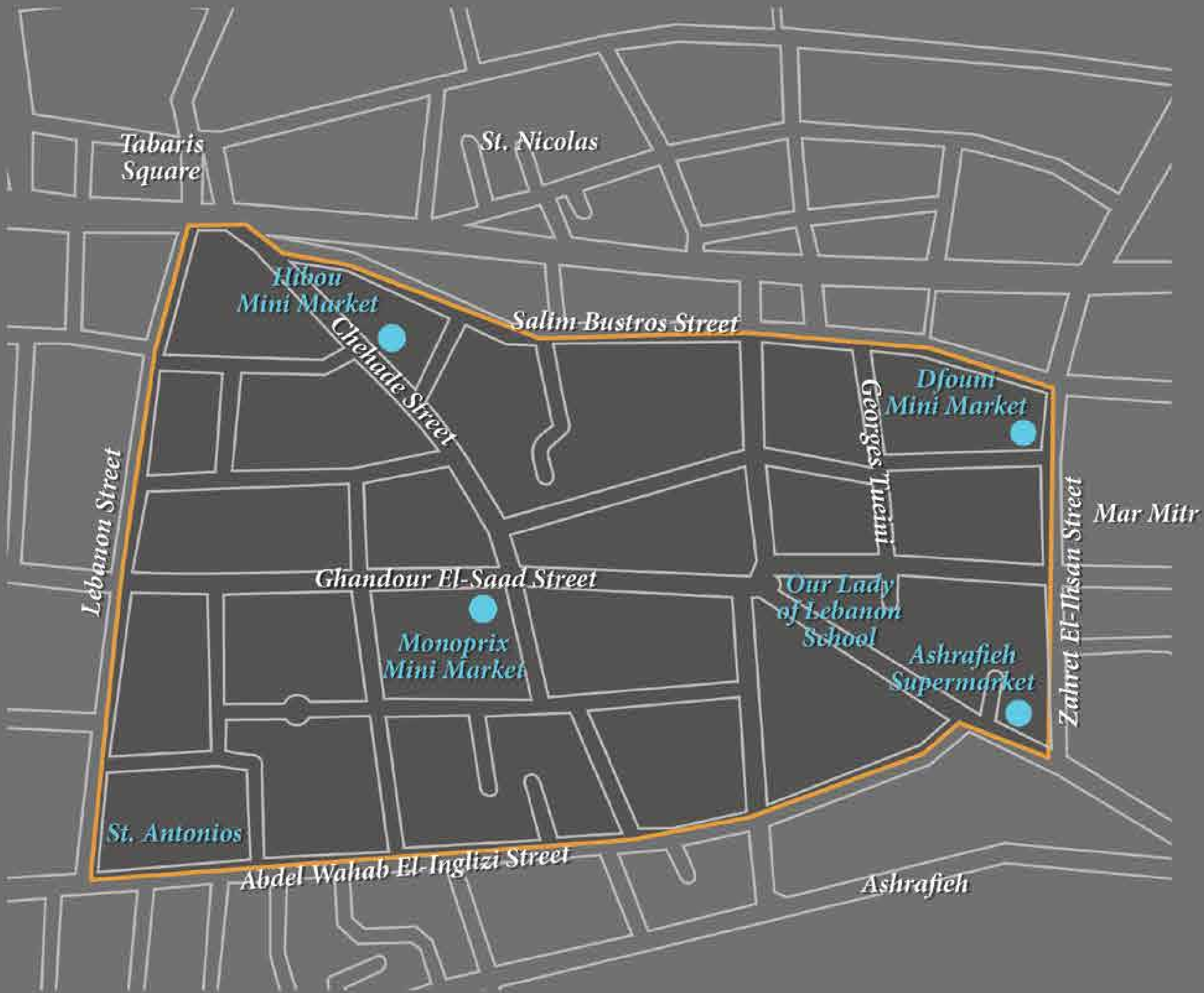
Number of projects under construction **10**
Number of residential units under construction **155**
Total area under construction (SQM) **22,550**
Average apartment size (SQM) **145**
Average starting asking sales price (USD/SQM) **2,957**

SOURCE: RAMCO SARL – MARCH 2015

Snapshot
/ FURN EL HAYEK



Furn el Hayek is a predominately residential area, well reputed for its high quality living. Yet, a retail network has developed along several streets: Selim Bustros, Lebanon, Chehadeh, Abdel Wahab el Inglizi, Georges Tueni, and Zahrat el Ihsan are relatively dynamic. Commercial activity, however, remains limited under the shadow of ABC Mall. Retail units contracted under the old rental law have a much better chance of surviving financially than do newly rented units.



Market Drivers

The retail market is driven by neighborhood service supply: grocery stores, personal care boutiques, and small F&B concepts. International brands are not interested in locations on small residential streets with limited footfall – they much prefer being located inside shopping malls or along main shopping axes. Similarly, banks look for locations on wide, busy traffic avenues.

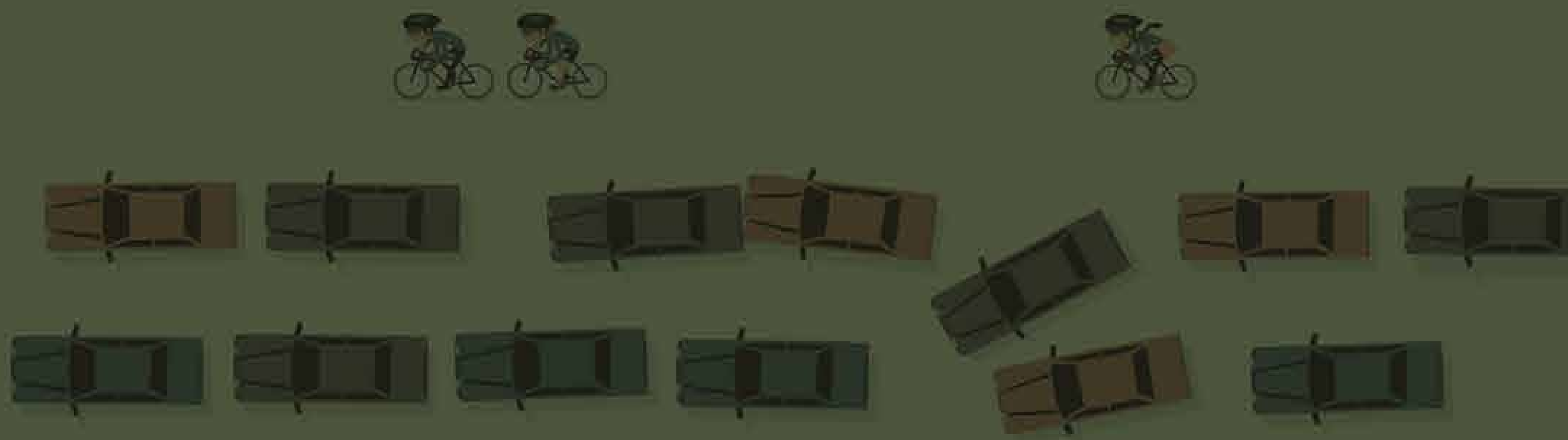
This leaves room for small local retailers that cater to the local residents. The F&B fad is petering out. Several small restaurants have shut down, such as Les Vilains, Roomers, Noa, Yazhou…, and their locations are still vacant. The local hairdresser, beauty institute, nail spa still perform well, like in every other neighborhood of Beirut. A newcomer on the scene is the modern grocery store, such as Monop' or Hibou, that are slowly replacing the old-fashioned neighborhood grocery stores in exploiting a market with a high purchasing power.

Rental Values

The two streets that link Tabaris to Sodeco (Lebanon Street) and to Trabaud (Chehadeh Street) enjoy regular, heavy traffic and have a supply of good quality retail units. They manage to attract some strong brand names in diverse industries (jewelery, furniture shops, pastry shops, clothing…) that become fixed destinations with a loyal clientele. As the natural extension of ABC Mall, Abdel Wahab el Inglizi Street is relatively flat and straight, making it an attractive retail destination.

The area has many vacant spaces. Activity is hampered by a difficult economic context, but also by the lack of interest of F&B operators, who are the main market drivers, and disproportionately high rental values. Rental values are estimated to vary between USD 250-450 per SQM per year.

ZOOM
The Lost Glory of Hamra Street



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There was a time when having one's business located on Hamra Street was a necessity. It was the place to be to showcase a strong brand image. Today, Hamra Street is shunned by businesses. A badly aging stock, difficult access due to congested streets, and a sore lack of parking facilities are strong deterrents.

If Hamra remains one of the busiest and most sought after commercial streets by retailers and F&B operators, it is much less attractive to businesses. The street is stuck on a downward spiral: Very limited demand has caused a drop in rental values and much availability, leaving the stock to deteriorate without motivating landowners to renovate existing stock or new developers to invest in the area.

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ZOOM
The Lost Glory of Hamra Street

OFFICES ON HAMRA STREET

NUMBER OF OFFICE BUILDINGS **24**

NUMBER OF MIXED-USE BUILDINGS (RESIDENTIAL & OFFICE) **11**

ASKING RENTAL VALUES (USD PER SQM PER YEAR) **140 - 225**

ESTIMATED AVERAGE SALES PRICE (USD PER SQM) **3000 - 3,500**

SOURCE: RAMCO SARL - MARCH 2015

LARGE STOCK

There are 24 dedicated office buildings on Hamra Street. Buildings such as Eldorado, Piccadilly, Saroulla, Farah Center, or Strand were glorious names that made the fame of Hamra Street in the early 1970s.

The bulk of this stock is located on the central stretch of the street, between Costa Café and ABC. Broadway, Rasamny, Piccadilly, Hamra Square, El Mizan, Safieddine, Asseily, or Modca buildings are all located in the heart of Hamra Street.

In its heyday, Hamra Street used to count a number of residential buildings as well. Over time, and as the area become more and more congested and noise pollution became difficult to bear, many residential apartments were taken over as office spaces. The result is about 11 mixed-use buildings that house company offices along with a few old residential rents.

A few companies have opted to retain or to elect Hamra Street for their headquarter offices. Among them are a few leading names in the local business community, such as Fransabank, Ramco Contracting, InfoPro (publishers of Lebanon Opportunities Magazine), BA United Holding, and Dareen International (local brand owners of Starbucks, Mothercare, MAC, H&M...).

AGING STOCK

Hamra 1711 was built just a few years ago. It is the newest office building on Hamra Street, home to the headquarter offices of BA United Holding and Dareen International.

Before Hamra 1711, the most recent stock to have been placed on the market dates back to the late 1990s, with Crowne Plaza and Hamra Square. Otherwise, Hamra Street flagrantly lacks new, modern office stock. The overwhelming majority of office buildings date back to the 1960s and 1970s.

This old stock is aging badly. Most office buildings are in a deplorable state of maintenance, with dilapidated lobbies and shabby common areas. They are uninviting to any potential new tenants, however rare these may be.

Two underlying factors explain this poor state of supply. Many office buildings are owned by non-Lebanese nationals, who fled the country during the long years of civil war, often never to return. They have completely lost interest in their properties in Lebanon. On the other hand, buildings owned by Lebanese nationals have a majority of old rental contracts at very low rents. Landowners glean meager incomes from their properties, and thus have no incentive and limited financial means to invest in renovation or maintenance cost.

STAGNANT DEMAND AND DROPPING VALUES

Rental values of office spaces on Hamra Street vary according to the quality of the stock. The lowest values range between USD 140-175 per SQM per year for low-middle market products. The value of this profile of supply has lost about 10% since 2014. Newer and better maintained stock that offers parking facilities posts rental values between USD 200-225 per SQM per year.

Demand, however, is limited. Certain offices have been on the market for months. Available stock has great difficulty finding new tenants. Not surprisingly, international or large local companies prefer to showcase their brand in the more glamorous areas of BCD or Charles Malek. Demand for Hamra Street is thus limited to small, local companies, in search of offices between 75 and 150 SQM.

There are very few offices offered for sale on Hamra Street. There are therefore few transactions upon which to base a fair office market value. However, the scarcity of stock for sale should not artificially boost sales prices. The value of the office space should be determined by the state of the building, the state of the internal office spaces, and the yield, which should be of 5% per year. In our estimate, average office sales prices on Hamra Street should be around USD 3,000 - 3,500 per SQM.

BCD Special

HIGH-END OFFICES

Beirut Central District (BCD) is the prime office destination in Lebanon. The area that falls within the perimeter of Solidere counts around 150 dedicated office buildings, making it a business hub with the largest concentration of office buildings in the country.
The majority of the stock, however, is made up of renovated old buildings, such as the ones found in the Foch-Allenby and the Nejmeh Square areas. Modern, high-end office centers are thus a thin minority – a dozen or so at most. It is therefore logical that the most prime of office stock also be the most expensive. Not only do they offer a better quality product, but they are also rare.

High-End Offices
Asking rental values (USD/SQM/Year) **350 – 425**
Asking selling prices (USD/SQM) **5,500 – 7,500**

SOURCE: RAMCO SARL – MARCH 2015

LIMITED GRADE A SUPPLY

Grade A office buildings must offer an impeccable standard: They must be of excellent construction quality, offer a minimum number of parking per leasable BUA (the law stipulates one parking space for every 60 SQM of office space, but good quality buildings might offer even more parking facilities than the strict requirement), an immaculately kept lobby, an elegant architecture and internal design, clear signage, presentable security and concierge agents…. The common areas must be immaculate and the building must offer excellent services in terms of 24-hour electricity supply, high-speed internet, etc.
The above criteria eliminate the majority of buildings from a Grade A classification. Old buildings, even if perfectly well renovated, cannot be classified as Grade A, because they lack parking spaces. Grade A buildings are thus limited to those built in the last 15 years. Unfortunately, even brand new buildings that were placed on the market during the last decade and a half sometimes are below Grade A standards. Some building managers and owners are not rigorous in their upkeep of the building.

HOMOGENOUS GEOGRAPHICAL DISTRIBUTION

The few high-end office buildings are concentrated in a few select geographical locations. The majority of Grade A buildings are located in Minet el Hosn. With its wide, flat avenues (Omar Daouk Avenue, Park Avenue, and the former French Avenue), and empty plots, the area lends itself readily to such large-scale developments. It is also the area that had the least old office buildings dating back to before the Civil War. Minet el Hosn is thus the prime business hub of BCD.
The remaining Grade A office buildings are dispersed across BCD, mainly around Beirut Souks and along Weygand Street. Upcoming developments are setting a new trend: The most recent office buildings to be launched on the market are located on the southeastern border of BCD. Developers are looking at creating a new hub for Grade A offices in less prestigious but more affordable areas than Minet el Hosn, such as Ring Road and George Haddad Avenue.

DROPPING RENTAL VALUES

BCD has been the traditional market leader in terms of pricing. It sets the lead that other markets try to follow and against which good-quality office stock in other parts of Beirut is measured. Since 2014, however, rental values have been on a slight downward curve. Posted at USD 350-425 per SQM per year, prospecting tenants can now hope to negotiate office spaces down to between USD 325-375 per SQM per year.
These waning prices are not surprising, considering the political and security uncertainties and a stagnating economy, which all halt an already reticent demand. Local businesses are holding off new investments in the market until it offers better visibility, while international firms shun the country entirely.

WIDE SELLING PRICE BRACKET

The office stock available for sale in BCD is mainly that located in buildings currently under construction. Stock that still remains unsold in completed projects means that there is a problem – usually an unjustifiably high asking price. Around 43,500 SQM of office space are currently under construction in BCD. Some of this stock will be offered on the rental market, which leaves about 35,800 SQM of office space available on the sales market, the bulk of which will be delivered between 2016 and 2017.
Asking sales prices currently vary between USD 5,500-7,500 per SQM. The disparities are so wide because the price depends on the exact location of the project and the quality of the construction and amenities. However, all the new office stock is offered core and shell (clean concrete finishing), to be furbished by the buyer or tenant according to specific needs.

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WHAT WE WROTE

In l'Orient le Jour

The year 2015 started out on a very slow note, just as 2014 had ended, with many indicators either stagnant or in slight drop (10 January 2015). The market has reacted to this stagnation on several fronts. Developers, particularly with completed projects that still post availabilities, are more willing to negotiate their prices, giving a discount between 7-10% (10 January 2015). Some developers have invested in better-priced areas, where the price of land is still reasonable enough to offer finished apartments within the reach of middle-income families, such as Beddawi in Ashrafieh (2 February 2015). Developers have suspended the race of the skyscrapers, opting out of the high-rise buildings (24 February 2015). On the other hand, the wave of cold and snow revived the slumping market of Kfardebian (21 March 2015).

WHAT WE SAID

"The situation of the real estate market is better than the political and the security situations in Lebanon. There are still people who believe in investing in [the country]."
Gulf nationals sell their properties and the most notable buyers are locally residing and expatriate Lebanese nationals – Addiyar Newspaper, 17 February 2015

"We are surprised that there is demand for land in the poor conditions that Lebanon is going through. Any positive change in the political landscape will have a positive impact on the economy."
"Hurry up" and buy an apartment before 2015 – Lebanon 24, 17 February 2015

"There is continued activity [on the real estate market], which has forced some developers to decrease their prices to boost sales, especially as competition between developers is stiff – developers are plentiful, while buyers are few."
Quiet real estate market awaits presidential elections – Al Moustaqbal, 4 April 2015

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