

Beirut real estate boom makes buyers choose smaller apartments October 30, 2013 12:10
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A new building is being erected in Ras al-Nabaa area of Beirut.

When Fadia Srour's husband proposed 38 years ago, one of her conditions was an apartment of no less than 180 square meters in Beirut or suburbs, so she would have living space similar to her parents' house. Srour advised her two eldest daughters to do the same when they married more than a decade ago, when middle-income families in Lebanon could afford mortgages on such spacious homes. Now, Srour has one daughter left at home, and she knows she can't expect the same if her youngest marries.

"Things have changed and the younger generation would be lucky to live in a quarter of the space we live in," Srour, 58, said by telephone from the family home.

Beirut apartments more than tripled in value since 2006 as Lebanese expatriates spooked by the global financial crisis threw their money into real estate at home. The market stopped rising two years ago and new home lending declined more than 20 percent as war raged in neighboring Syria and the economy all but ground to a halt. Yet the reductions have continued with prices stuck close to records; people can no longer afford the kind of homes their parents were accustomed to.

A 210 square-meter three-bedroom apartment with balcony and living room a 10-minute walk from the national museum in Beirut would sell for about \$600,000, roughly the same as two years ago, according to realtors. It's up almost five-fold since it was purchased for \$110,000 less than a decade ago.

“What we’re having is a change in the culture that is forced by economic parameters,” said Salim Chahine, an adviser to Banque BEMO SAL, a Lebanese bank. “Prices became unaffordable for many of Lebanese.”

Should Srour’s youngest daughter marry, she will join the ranks of Lebanese seeking smaller homes while developers respond to the trend by building more of them.

Lebanese no longer feel the need for a “double salon,” or living room, and it’s no longer taboo to say one is living in a dwelling less than 100 square meters, said Chahe Yerevanian, who heads Sayfco Holding SAL, a real estate company.

“A small apartment has less of a price tag, less down payment,” Yerevanian said. “But you still sleep, you still go to the bathroom, you still eat your breakfast. Before it was, ‘Oh, my God, don’t talk about it.’ This mentality change is helping the market to be more European or American.”

Until 2006, residential property values were traditionally among the lowest in the Arab world partly because of the civil conflict through the 1980s. The slowdown in the real estate sector has been serious enough to spur the central bank to introduce stimulus measures to boost mortgage lending.

In January, Banque du Liban made 2.2 trillion Lebanese pounds (\$1.46 billion) available to banks for low-interest loans to boost property lending as well as credit for small- and medium-sized companies and renewable energy projects.

Housing loans still declined by \$84 million in the first six months of 2013 compared with a year earlier, while total real estate lending dropped by \$271 million, Central Bank Governor Riad Salameh said in an Aug. 16 interview. Construction also slowed, with permits down 17 percent in the first six months of 2013, Salameh said.

About 12,000 housing units are typically sold every year. Current sales are about a quarter of that, according to Massaad Fares, president of the Real Estate Syndicate of Lebanon.

New mortgages last year totaled \$1.32 billion, down 22 percent from \$1.7 billion in 2010, according to an October report on real estate by Ramy Saadeh, financial adviser at Banque BEMO. Real estate prices have stabilized at around the 2010 levels, said Chahine, also of BEMO.

“We’re still at high levels and this is why you are observing this change in the culture of acquiring small apartments,” Chahine said.

The trend accelerated after an economic slowdown resulting from the 31-month crisis in Syria next door, a drop in tourism from Gulf countries and political deadlock at home that has paralyzed the country’s institutions.

Gross domestic product will rise 2 percent this year, up from a rate of 1.5 percent in each of the previous two years, though below 7 percent in 2010, according to a forecast in the International Monetary Fund's April World Economic Outlook.

On top of that, Lebanon is a country a quarter of the size of Switzerland, with mountains and valleys not suitable for development and large parcels of land owned by religious establishments.

That's left a dearth of plots. "There are very few plots left in the capital," according to Fares. "It's normal in a capital city anywhere in the world not to have raw land" to build on, he said. He estimates that more than half of Lebanon's 10,452 square-kilometer area cannot be developed.

Political and economic upheaval in the region has driven Gulf Arabs, Lebanese expatriates and Lebanese who want to upgrade their apartments or buy homes for their children to largely put their plans on hold. One area that hasn't been much affected is the one Fares calls the "needy" part of the market, consisting mostly of young couples who plan to get married.

They typically make a combined average of \$4,000 a month and can afford monthly mortgage payments of about \$1,000, he said. This group is also the one seeking the smaller units with budgets not exceeding \$500,000, he said.

"This is the most secure and sustainable sector of the market," Fares said. "For them, an apartment is a necessity."

Fares, whose company Prime Consult is handling financial, marketing and administrative management of the Sama Beirut development, a luxury, 50-floor apartment building that will be Lebanon's tallest tower once it's completed in 2015, said about half of the tower's units will be reduced in size to 250 to 300 square meters, from 400 to 500 square meters.

Srour, who lives in Dikwaneh, a Beirut suburb, would like her youngest daughter installed in a large apartment when she marries, but a "120-square-meter one is no longer a problem," she said. "The important thing is for them to be happy."

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