

# Lebanese property prices rising, but transactions down

by Lalaine Delmendo

During the year to end-Q1 2012, the average value per property sale rose in Lebanon by 11.8%, based on figures released by Bank Audi's Research Department. When adjusted for inflation, house prices increased by about 6.3% over the same period.

The Lebanese property market has experienced strong house price rises in recent years.

- In 2008, average property sales prices rose by 26.8% y-o-y (14.5% in real terms)
- In 2009, property prices rose by about 8.4% y-o-y (7.1% in real terms)
- In 2010, average property sales prices increased by 20.2% y-o-y (15.1% in real terms)
- In 2011, the average value per property sale rose by 5.9% y-o-y (0.9% in real terms)

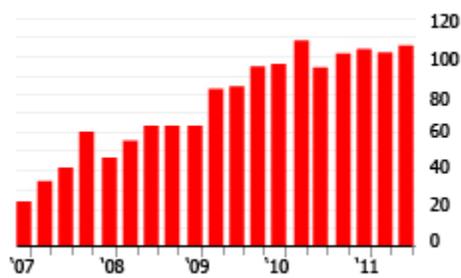
In Q1 2012, the average value per property sale was LBP175.25 million (US\$116,000), according to Bank Audi.

While house prices are still rising, property demand especially from foreigners is now falling due to domestic political bickering and regional unrest. New housing loans are falling. Construction activity is also down.

In 2011, real estate transactions fell by 11.9%, after increasing by 17% per year on average from 2006 to 2010. During the year to April 2012, real estate transactions dropped by 6%. In the capital, Beirut, property sales fell 4.1% y-o-y to Q1 2012.

Lebanese nationals account for more than 90% of total residential demand. Foreign demand, particularly from Arab nationals, accounts for the remaining 10%. However, foreign demand has been decreasing. In 2011, the number of property sales to foreigners dropped by 20.3%, after rising an average of 10% per year, during the previous five years.

Average Value Per Property Sale US\$1,000



Source: Bank Audi

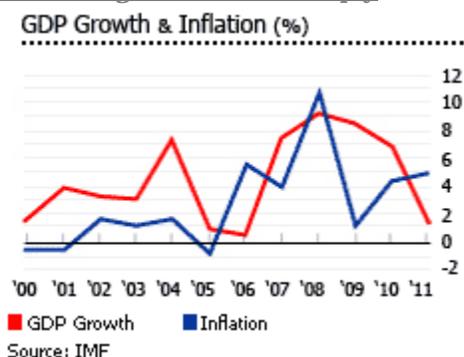
In 2011, total housing loans rose 33% to LBP9.04 trillion (US\$5.98 billion), but new housing loans dropped by 14% to LBP2.22 trillion (US\$1.47 billion), according to Banque du Liban.

Construction activity was also down 2.7% during the year to April 2012 (by area), after dropping 7% y-o-y in 2011. From 2006 to 2010, construction permits rose by an average of 19.3% per year.

Lebanese property prices are expected to remain flat in the foreseeable future, according to Bank Audi. In addition, real estate transactions are expected to fall further in 2012 due to the ongoing regional political stalemate. Worse, the proposed real estate sales tax hike, to raise government revenues in 2012, will exacerbate the situation.

For properties acquired prior to January 1, 2009, a capital gains tax of 4% was currently being proposed. On the other hand, a higher capital gains tax of 15% was proposed for properties held since January 1, 2009.

### **Economic growth slows sharply**



Economic growth slowed sharply with annual GDP growth rate of 1.5% in 2011, the slowest growth since 2006, according to Banque du Liban. In 2012, the economy is expected to grow by a modest 3%, according to the IMF.

Overall inflation rate was around 5% in 2011. The country's inflation rate is expected to be 4% in 2012, according to the IMF.

During the year to end-Q1 2012, balance of payments posted a deficit of LBP7.3 trillion (US\$4.8 billion), higher than US\$3.6 billion deficit during the same period last year.

Tourism is also falling, due to the on-going regional political turmoil. In the first quarter of 2012, tourist arrivals declined 7.9% y-o-y, as compared to the annual average growth of 28.7% during the boom period, 2007 to 2010.

Domestic political tensions brought down the government of Prime Minister Saad al-Hariri in January 2011. Saad al-Hariri was succeeded by Najib Mikati, whose government is now criticized for its inability to solve the country's economic and social problems. The domestic political problems that the country is facing have been exacerbated by the ongoing regional turmoil named as the Arab Spring (also called Arab Awakening) which started last December 2010.

### **Land price variations**



In Beirut's prime areas, land prices currently ranged from LBP3 million (US\$2,000) to LBP7.6 million (US\$5,000) per square meter (sq. m.) of built-up area (BUA), according to Ramco Real Estate Advisers.

- The Central Business District (CBD) has the most expensive land in Beirut. Land prices ranged from LBP5.3 million (US\$3,500) to LBP7.6 million (US\$5,000) per sq. m.
- In Hamra, one of Beirut's main economic and diplomatic hubs, land prices ranged between LBP2.73 million (US\$1,800) and LBP3.33 million (US\$2,200) per sq. m.
- In Furn el Hayek, which is in high demand from the local social elite, land prices vary from LBP2.73 million (US\$1,800) and LBP3.03 million (US\$2,000) per sq. m.

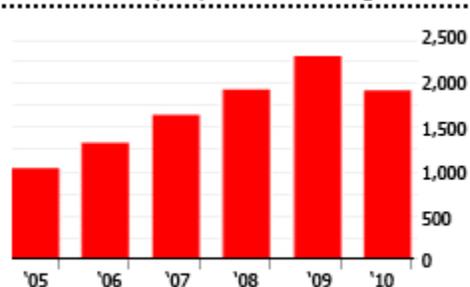
On the other hand, in underdeveloped peripheral areas, land prices vary between LBP1.2 million (US\$800) and LBP2.3 million (US\$1,500) per sq. m. of BUA.

- In Jnah, an underdeveloped area in the capital, land prices ranged between LBP1.8 million (US\$1,200) to LBP2.3 million (US\$1,500) per sq. m.
- In Comiche El Nahr, land prices ranged between LBP1.2 million (US\$800) to LBP2.1 million (US\$1,400) per sq. m.

#### **Property sales falling**

In the year to end-Q3 2011, the total number of property sales in Lebanon fell by 16.5% to 57,976 units from the same period last year, according to Bank Audi. The total number of property sales rose by 13% y-o-y in 2010 but dropped by 18% in 2009.

**Number Of Property Sales To Foreigners**



Source: Real Estate Registry

Likewise, the total value of property sales plunged by 13.4% to LBP9.14 trillion (US\$6.03 billion) over the year to Q3 2011, according to data released by the Real Estate Registry. From 2005 to 2010, total property sales value increased by an average of 23.5% per year.

The regional political unrest is negatively affecting property investments by foreigners and other Arab nationals. As of May 2011, property sales to foreigners plunged by 32.1% from the same period of the previous year, according to the Real Estate Registry. In 2010, the number of property sales to foreigners dropped by 17% y-o-y, after an average annual growth of 22% from 2006 to 2009.

As of October 2011, foreign homebuyers represent just about 2.02% of sales transactions in Lebanon, down from 2.04% in 2010 and 2.53% in 2009.

#### **Construction activity declining**



Source: Order of Engineers, Banque du Liban, Bank Audi

New construction permits, an indicator of construction activity and future supply, are now falling after having increased by an average of 16.4% annually from 2005 to 2010.

As of November 2011, newly issued construction permits were 6.2% down to 14.72 million sq. m. compared to the same period in the previous year, according to the Order of Engineers in Beirut and Tripoli.

However, cement deliveries, also a gauge of the state of the construction sector, increased 7.7% to 4.16 million tons during the year to end-Q3 2011.

Some of the major residential developments in Lebanon:

#### BeitMisk

BeitMisk is a huge \$800 million residential community project in the mountainous Northern Metn region, covering more than 655,000 sq. m., and expected to house around 15,000 residents. Announced in mid-2009, BeitMisk offers apartment units, villas and penthouses to homebuyers. It also offers a country club, gardens, recreational areas, and retail stores.

#### Beirut

The Beirut Towers is a US\$125 million luxury residential development in Beirut launched by Plus Properties, a Dubai-based developer. Still under construction, it consists of two 23-storey towers, named Verdun and Ashrafieh—two of the most prestigious residential neighborhoods in the city. The two towers offer studio, one and two-bedroom apartments on single or duplex floors.

#### Venus Towers

This US\$500 million residential development was launched last September 2009 by Venus Real Estate Development Co. It stretches over 7,510 metres in Marina, Solidere in Beirut. The development is surrounded by 3,500 sq. m of gardens, jogging tracks and playgrounds. Venus Towers has 3 luxurious residential buildings—Bloc A-30-storey; Bloc B-26-storey; and Bloc C-20-storey. Apartments range from 250 sq. m to 650 sq. m. Amenities include a swimming pool, gymnasium, guest parking spaces, a commercial area and a security.

#### Marina Towers

The Marina Towers, completed in 2007, is a residential complex near the Beirut Marina. The development consists of the Marina Tower, Marina Court, and Marina Garden. The Marina Tower is the highest among the three buildings, at 150-m height built on over 7,000 sq. m land. On the other hand, the Marina Garden, surrounded by over 3,000 sq. m gardens, and the Marina Court, offers relatively smaller apartment units.

#### Sama Beirut

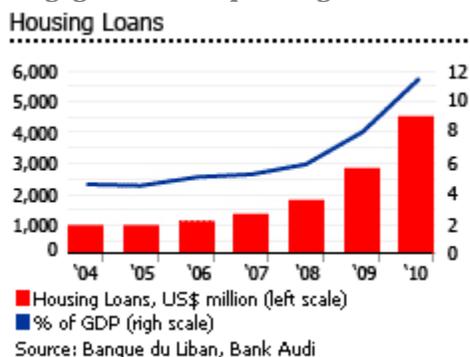
Launched in August 2009 by Antonios Projects, Sama Beirut is a 50-storey mixed use project located in Ashrafieh, near downtown Beirut, set to be fully-operational by 2014.

Its 200-m skyscraper, set to become the tallest building in the country, will have residential, commercial and retail space. It offers residential apartments, with sizes ranging from 300 sq. m to 1,500 sq. m. In addition, the tower will also feature six commercial shops and office spaces.

#### Platinum Towers

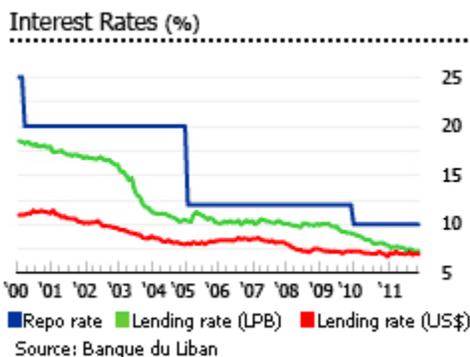
Platinum Towers, at 153-metres, is currently Lebanon's tallest residential building. The US\$200 million building, completed in 2008, is in the heart of Beirut's dynamic central district, along the Beirut Marina. Platinum Towers is only a few minutes away from the Beirut International Airport.

### Mortgage market expanding



In Lebanon, buyers have traditionally paid cash, or benefited from pre-selling schemes. Homebuyers purchase an apartment unit during the construction phase, put a down payment and make monthly installments until the project is completed.

Housing loans have traditionally only been available to the developers of new properties. Yet today, several banks have begun offering mortgage loans directly to homebuyers. The Lebanese mortgage market grew to 11.5% of GDP in 2010, from an average of 4.9% from 2004 to 2007.



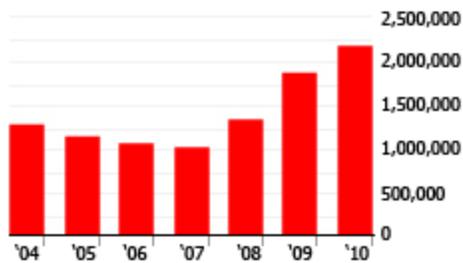
Outstanding housing loans soared 61% to LBP6.83 trillion (US\$4.51 billion) in 2010 from a year earlier, according to the Banque du Liban. Then in March 2011, total outstanding housing loans rose again by 7% q-o-q to LBP7.27 trillion (US\$4.8 billion).

The repo rate is currently at 10%, unchanged since December 2009.

Interest rates for housing loans are usually tied to the US prime rate or LIBOR, with a fixed percentage added. The loan-to-value (LTV) ratio ranges from 50% to 85% of the appraised value or actual purchase price of the property, whichever is lower. The term period is usually from 20 to 30 years. Lebanese banks require both life and house insurance from loan applicants.

### The biggest risk - falling rental yields

## Number Of Tourists



Source: Bank Audi

Gross rental yields in Beirut have again dropped in 2011. Gross rental yields on Beirut apartments now range from 2.7% to 3.5%, very significantly down from an average of 10% to 11% six years ago.

In October 2011, the average monthly rents in Beirut ranged from LBP2.84 million (US\$1,872) for 150 sq. m. apartments, to LBP8.74 million (US\$5,769) for 450 sq. m. apartments, according to the Global Property Guide's research.

Average rents for the market as a whole are lowered by the survival of many pre-1992 contracts, creating a class of sitting tenants paying low rents, who cannot be evicted except at great cost (see Lebanon's Landlord and Tenant Law). However this law does not affect post-1992 contracts, which are equally balanced between landlord and tenant. (The Global Property Guide's research only covers current offers for sale and offers to rent, not pre-existing contracts).

In Beirut, the average occupancy rate is about 60%, according to Ramco Real Estate Advisers.

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