Lebanon's Central Bank aims to real estate market

Published February 5th, 2013 - 11:18 GMT via SyndiGate.info

Central Bank package to revitalize real estate

FEATURED STORIES

GCC facing construction industry skilled labor shortage Bahrain property owners denied title deeds UAE mortgage rule confusion see housing market boom

RELATED ARTICLES

Lebanese government increases individual subsidized loans Central Bank of Jordan slashes interest rates Lebanon’s Central Bank publishes loan figures

The cheapest housing loan in the country,” reads one billboard ad by Bank Audi. “Here comes the new housing loan you’ve long waited for! 2.5 percent interest rate on LBP and 3.5 percent on USD up to 90 percent financing,”
reads another mobile text message by Bank of Beirut. The two ads surfaced this week as part of an anticipated advertising campaign aimed at promoting subsidized housing loans by the Central Bank.

Last month, the Central Bank announced that it would give LL2.2 trillion ($1.46 billion) in credit facilities to commercial banks at a 1 percent interest rate.

According to the Central Bank circular 313, this will allow commercial banks to provide subsidized loans targeting the real estate and productive sectors as well as eco friendly and renewable energy projects.

Bankers and economists told The Daily Star that the $1.46 billion stimulus package would help stir a stagnant economy in 2013, but its full impact wouldn’t materialize before 2014.

“The impact of the stimulus should take at least three to four months before it begins to materialize as banks have to book customer loans before submitting an approval request to the Central bank by Oct. 15,”
Bank of Beirut chief financial officer Roger Dagher told The Daily Star.

The stimulus targets the real estate sector with over 50 percent of loans reserved for housing with a ceiling of LL800 million ($530,700) per individual loan.

The focus on housing loans might be an attempt by the Central Bank to fend off any future liquidity problems that might face small developers amid stagnant real estate sales, Dagher said.

Real estate activity plunged in 2012 with the number of sales transactions declining by 9.9 percent, following an 11 percent drop in 2011, according to statistics published by the Directorate of Land Registry.

Sales to foreigners also registered a sharp decrease of 8.9 percent.

Dagher said a recovery in the real estate sector would spill over into other sectors and stimulate a broader recovery in economic activity.

“Boosting demand for real estate will provide developers with further liquidity to invest in other projects which will boost activity in other economic sectors,” Dagher explained.

Though the majority of small developers are not necessarily faced with bank over dues, head of economic research at Byblos Bank Nassib Ghobril told The Daily Star that some developers might be short on liquidity as they struggle to sell completed projects.

“People are adopting a cautious approach and steering away from illiquid assets such as real estate. The stimulus package is aimed at stopping the decline in demand for real estate amid low consumer confidence and negative investor sentiment,” he added.

Several real estate developers have told The Daily Star recently that demand for housing units has been gradually shifting from high-end luxury apartments in the capital toward smaller units (120-180 square meters) in Beirut suburbs.

Philippe Dauba-Pantanacce, senior economist at Standard Chartered, said that the real estate market has been going in contradictory directions in recent months depending on the segment. However, a good portion of the resident Lebanese population is still priced out of the market, “either by prices disconnected with the average domestic revenue levels or because of a difficult access to housing credit.”

While it is true that the banking sector in Lebanon enjoys excellent liquidity ratio, “access to credit has been very constrained at least compared to the potential,” Dauba-Pantanacce said.

“The loan-to-deposit ratio has traditionally been in the mid-30s, indicating that the conditions set by the Central Bank in this directive might help stimulate credit a little bit more while preserving somehow the banks’ margins.”

Since mid-June 2009, the Central Bank has been exempting banks on an annual basis from reserve requirements on certain types of loans, including mortgages, according to Ghobril, who said the stimulus package would compensate for depleted reserves for mortgage lending in Lebanese pounds.

However, Ghobril added that irrespective of lower mortgage costs, “there is a need for a certain level of confidence to encourage risk-taking through venturing into business startups or expansion,” a point of view echoed by Dauba-Pantanacce.

“Generally speaking, and at times when the economy is going under stress, I think that the Central Bank hopes to provide support and help boost sentiment especially in an economy highly dependent on confidence,” Dauba-Pantanacce said.

However, in a recently published report, Citigroup questioned whether access to finance is the main driver of the decline in the real estate sector, highlighting that it is not convinced that monetary policy can do much to stimulate further credit.

“Private sector loan growth has decelerated in recent months, but remains in double digits, which is relatively healthy by regional standards. Combined with continued deposit growth, Citi sees the banking sector as highly liquid,” the report argued.

The report highlighted that the real estate sector is suffering from wider economic uncertainties, mainly domestic political instability and the concerns of a spillover of the Syrian crisis into Lebanon.

Signaling negative investor sentiment, construction permits issued by the orders of Engineers in Beirut and Tripoli posted an average decline of 12.4 percent year-on-year during the first 11 months of 2012 across Lebanon.

“Once again, the banking sector is assuming tasks beyond its responsibilities to compensate for the lack of economic planning and policies by the government,” Ghobril said.