

Lebanese housing bubble

The **Lebanese housing bubble** is an [economic bubble](#) affecting almost all of Lebanon, where property prices have risen exponentially since 2005 (an average 5-fold increase as of February 2010), while the GDP has risen only around 52% during the same period.

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Current status of the bubble [Edit](#)

The Lebanese GDP per capita is around US\$10,000 (after taxes) while Lebanese working abroad make on average around \$30,000 /year (after taxes). A decent housing far away from Beirut can cost around \$150,000, a decent housing in the suburbs of Beirut can easily cost 4 times that amount, while a decent housing in the Beirut Central District can cost millions (note that most people who buy in the BCD are Arab Investors). Since home prices are rising constantly, many Lebanese and other investors are buying (through a mortgage) houses in order to resell them later (to other potential investors) at inflated prices. This strategy, as well as other deceptive strategies by the real estate agents left many Lebanese, both inside and outside Lebanon, unable to buy property in Lebanon anymore. Additionally, the inflated home prices are leading to an increase in rental prices, further increasing inflation and decreasing the real income of the Lebanese living in Lebanon. Other Lebanese who are end-buyers (e.g. not thinking of reselling their home) are committing to long term and risky loans in order to repay their mortgage. Since the banks only give 60% of the price of the house,^[2] the banking system in Lebanon can sustain a decrease of 40% of home prices in case of a bubble burst, this will increase the effect of the bubble burst on the buyer, as sometimes the 40% can constitute one's life savings (as well as his family's).

House prices in decent areas have increased so much that they're currently much more than in luxurious cities in countries enjoying political stability and a much higher GDP per capita. Although the governor of the Banque du Liban claims that the demand is 'real', there does not seem to be a real logic behind the continuous sharp increase in home prices.

Counter argument Edit

Despite slowing local demand, high real estate prices are sustained for several reasons. First, Lebanon's real estate sector faces currently real demand and not much speculative demand. In fact, Lebanese residents account for the largest portion of demand for property. Hence, Lebanon's real estate sector does not encompass high-risk associated with speculative pressure that has been witnessed in other countries during the global financial crisis. This explains the stickiness in property prices, which did not adjust downward, given the continued momentum in demand by end-users despite the slowing overall real estate market. Second, the scarcity of land and mounting construction of luxurious residences exert upward pressure on property prices. Third, the increase in real estate demand by displaced Syrian nationals is playing an important role in compensating for reduced local demand, hence contributing to further stickiness in real estate prices. In order to understand the discrepancy in trend evolution of real estate demand, it is important to study the evolution of average value per real estate transaction. This value has gradually increased over the period 2008-2013. The highest increment was recorded in Metn region, where the average value increased by 107.3% over the six-year period to reach USD 213,584 in 2013. Concurrently, the average value per transaction in Beirut region rose by 69.5% in the same reporting period reaching USD 499,948 in 2013. Baabda and Kesserwan also witnessed rises in average value per real estate transactions, which reached USD 121,913 and USD 144,711 respectively. However, while the average selling price per real estate transaction continued to rise in most regions during 2014, Metn and Kesserwan regions witnessed year-on-year declines in average value per transaction each reaching USD 194,807 and USD 127,614 in 2014. This is attributed to a combination of factors including price adjustment to falling demand and the shift towards smaller-sized property, which lowers the value per transactions

Lack of data Edit

A [speculative bubble](#) reflects a situation in which asset prices are consistently trading at considerably higher values than intrinsic values. The determination that there is a speculative bubble is therefore contingent on the availability of reliable price data and a model to determine intrinsic values.

There are no official and reliable statistics in Lebanon to allow for such an objective determination. While GDP numbers are widely available - US\$13,200 (2009 est.) -, there is no reliable real estate price index. There is also no current survey of quality of housing in Lebanon, which could be used to determine intrinsic values for houses. The lack of reliable data shows up in discussions of

house prices in the Lebanese press, where in the same article different price increases are cited.

Thus, discussion of the "Lebanese housing bubble" relies on subjective evaluations of the evolution of observed real estate prices relative to their intrinsic values.

In addition, there is no reliable data to estimate the average income of the Lebanese working abroad, complicating the analysis of likely reasons for a possible housing bubble.