

TRENDS

The international magazine on Arab affairs

PAKISTAN

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IRAN/US

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Lebanon real estate

Property is hot, politics is not one year on from the war

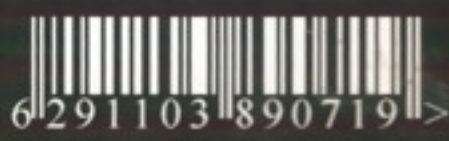


Supply wars

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DUAL LANE MARKET

Last year's war has wrought changes in Beirut's real estate business. The high-end segment has slowed to a crawl, but demand for midprice houses has accelerated.

By Nathalie Bontems Beirut

On a crowded corner in Ashrafiyeh – the Christian side of Beirut – the Bilbao apartments are rising rapidly from the ground. A few meters away, fresh paint is being applied to the ABC mall facade, blackened by a huge bomb that shook the neighborhood a few weeks ago. Remarkably, all the Bilbao apartments have sold briskly, and at satisfying prices.

That Lebanese resilience is more than a cliché is shown by the immediate and sustained demand in real estate that began as soon as last summer's war ended. Despite the open-ended political crisis, the bombings and the uncertainty, demand for new housing has

been more buoyant than was expected and has even increased for specific niches such as medium-sized apartments in central Beirut and suburbs.

Purchasers hoping to buy low in the current unstable atmosphere in Lebanon, according to the old adage "Buy in wartime and sell in peacetime," will be disappointed. The Hezbollah-Israel war brought price rises to a brief stop, but since the beginning of this year prices have risen again, though confined mostly to specific districts. Globally, the market has been rising by 5 percent for the past three months but in some attractive areas, it's climbing by 20 to 30 percent and up to 40 per-

cent in some districts such as the "golden triangle" of Ashrafiyeh (from \$1,400 per square meter in 2005 to \$1,900 today). This paradox has several explanations.

There's the surge in demand, of course, but another factor lies in a global trend not linked to Lebanese specifics. "If the price increase [trend] has stabilized itself during the immediate aftermath of the 2006 war, developers have stopped since January 2007 absorbing the increase of building materials costs, such as iron (which price has more than tripled in five years) and cement. It induced a 7-10 percent increase in property prices



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in just a few weeks," says Guillaume Boudisseau, a real-estate consultant with Ramco, a major agency in Beirut. "Besides, hiring Syrian workers, who used to form the bulk of the construction workforce in Lebanon, got more difficult as many have left Lebanon, and more expensive, with their daily fees climbing from \$10 per day to \$15 per day," adds Sami Georges Maroun, a developer in Lebanon and the UAE.

The market also bears the impact of the appreciation of the euro, which has contributed to an increase in property prices, since most heating and sanitary appliances are imported from Europe.

Lastly, all too many owners keep bumping up the value of their properties, some of which have been on sale for months without a buyer being found.

Lack of land. Another of the major drivers of real estate price increases lies in the rising price of land: an amazing 20-60 percent, according to the area, for the past two years. Confident that the timing is right for investment, developers keep buying land, as the transaction records well show: Saradar Bank paid about \$18 million for a large parcel in Ashrafiyeh and the Jamil Ibrahim company paid \$25 million for a 4,200 square meter parking lot in the suburb in order to build a 30-story residential building. "One major bank has also sold one of the most attractive parcels in West Beirut where another local developer has bought one of the most expensive lands outside of the downtown district perimeter," says Boudisseau, who believes that these

few examples show how developers are positioning themselves in the market through high-potential investments. The land is bought, but construction will wait until quieter and safer times.

Still, about 200 new projects, most of which were launched before the war, are under construction in Beirut and the capital is close to saturation. "Good spots are scarce and getting more expensive at an average \$4,000 per square meter," says Christian Baz, who owns the Baz real estate agency in Ashrafiyeh. Empty spots have been raided since 2001 and developers are now forced to buy old buildings that are still inhabited, pay indemnities to get people out (which is a time-consuming and costly procedure) and demolish everything to start from scratch. That, of course, also has a severe impact on the final selling price.

The most obvious change in the Lebanese real estate market is that



demand for average price houses now far exceeds medium-plus to top-end apartments and villas. Arab buyers are now the only ones who can still afford to buy in the high end – the 150-1,500 square meter apartments that go for between \$2 million and \$10 million. Except they're not. The Arab investors who formed the bulk of real-estate buyers just 18 months ago have largely abandoned the Lebanese market.

In parallel, the demand from the Lebanese financial elite – who are buying in the price bracket of between \$700,000 and \$1 million – has also slowed down as customers can afford to wait for better times and good opportunities, or focus on very specific areas. "In the Faraya Mzaar mountains, the square meter price jumped from \$1,200 to \$1,800 in three or four years, with continuous demand," says Maroun.

On hold. Such dramatic shifts have hit some developers hard. "Some luxury

property developers have sold close to nothing for more than a year," says Boudisseau. Solidere, the giant landowner of much of Beirut's downtown district, had announced various big-ticket projects last year before the war, but nothing in 2007. Some projects have even been stopped after excavation work finished, the developers waiting for better times to get the construction license. "Most major developers are finishing projects that they had started before the war as they cannot put them on even a temporary halt, but they are not initiating new ones, waiting for the country to stabilize," says Claudine Badaro.

On the other hand, those who target the \$200,000-\$300,000 bracket could do well as long as they stay out of the high-end districts. "Asking for \$2,000-\$2,800 per square meter as some developers do in high-end areas means that they target a very specific customer

who may afford this kind of budget but who will rather be looking for larger spaces," says Boudisseau.

The boom, of course, is in the middle segment, where the shift in the living arrangements the Lebanese are choosing for themselves is most evident. The demand is for small to medium apartments that still answer Lebanese requirements such as a room for a maid, a large reception room and a bathroom for each bedroom.

Developers haven't caught up, persisting in offering large size apartments. "Developers consider that going to more popular districts is not good for their business image," says Boudisseau. "Some areas are full of empty stands and parking lots, but they're not considered trendy enough. Developers simply refuse to go there."

As a consequence, it's now getting harder and harder to find new housing that lies in the \$200,000-\$250,000



The growing number of expatriates has become the main target of the new projects now being built

bracket. Due to the surge in demand and their relative scarceness, prices of small and medium-sized apartments rose between 20 and 30 percent in some cases. A 250 square meter apartment now costs as much as a 300 square meter one did in 2004.

New kind of consumer. Nevertheless, the market is starting to change. Twenty-seven percent of the 55 projects under construction in Ashrafiyeh now

include 100 to 200 square meter apartments. "We were the first developers to focus on this segment so that's why we benefit from a sustained demand," says Cherif Aoun from MAC, a real estate developer specialized in small and medium sized apartments. "The average budget revolves around \$300,000 for 200 square meter apartments and we also work a lot on 150 square meter apartments at \$250,000."

Still too expensive for the middle class, these smaller apartments have proved attractive to Lebanese expatriates. "There are two kinds of expatriate buyers," says Maroun. "Those who see this purchase as an investment and those who want at least a foothold [in their country]. And it must also be taken into consideration that more often than not, parents living abroad help locals buy here."

Aoun has sold 40 percent of the Bilbao apartments to Lebanese living abroad, 40 percent to single independent women and 20 percent to newly weds, at an average \$1,200 per square meter. "Expatriates also see this purchase as an investment as they know they can rent the place later on if needed," he says. "Our other target is the independent women segment, as in Lebanon, because of the civil war, there's a demographic disequilibrium between men and women in favor of the latter. There are many working, cultured women – executives who can afford this kind of apartment. That's why we propose a different way of life in our buildings, including lofts with high ceilings and with a designer's touch."

Aoun's approach is unusual among Lebanese developers, who prefer to cater to expatriates. With the number of Lebanese living abroad on the rise, this category of buyers has become the main target of the new residential projects that are now under construction.

Expatriate buyers have everything to attract developers, explains Baz: "They're the ideal client: expatriates are serious, they have the money, they want professional feedback and service, and they make fast decisions because they usually come to Lebanon specifically to buy. Locals can keep us waiting for months. Many must wait for housing loan approval and most don't buy after seeing the plans; they want to see the finished building before making a decision." Besides, expatriates have the means to widen their budget if need be. "Expatriates are ready to pay 30-40 percent more than their initial budget to get a bigger place or one that really seduces them, especially those living in Europe and who are favored by the euro cur-

MATERIALS

Since the summer war the cost of raw materials, such as iron and cement has risen dramatically

LABOR

Labor is now more expensive, as many Syrians, the mainstay of the workforce, have left

EURO

Property prices have been warped by the strength of the euro, because of import costs



'Expatriates are not worried by political tremors, and they have this amazing way of falling back on their feet'

rency," says Badaro. "They are aware that for the same amount they would have spent for a studio in Europe, they can get a vast apartment here."

Fact is that figures vary from 50-70 percent of the market currently resting on Lebanese expatriates' demand, mainly married couples who are on the lookout for a \$500,000 apartment.

"Expatriates are not worried by political tremors and they have this amazing way of falling back on their feet," says Baz, whose website was visited 70,000 times in July.

An estimated 60,000 Lebanese have traveled to the Gulf region seeking jobs since the 2006 war, and very significantly, more and more Lebanese banks offer specific housing loans to Lebanese

living in the Gulf. But there are also those who have gone to Europe, Africa and North America. All now drive the market for medium and the occasional higher-end properties.

"For instance, Lebanese Shi'ites from Africa – mostly Senegal, Nigeria and Ivory Coast – are obsessed with the southern suburb of Jnah," says a real estate consultant. "Despite the fact that it's quite expensive, at least \$2,000 per square meter, they absolutely refuse to look elsewhere. That's the perfect prototype of the expatriates' district, developed through a tight personal contacts network: one businessman who has a wide net of acquaintances handles the whole operation and organizes what's called table rounds: very specific poten-

tial buyers are invited and the project is sold in advance through word of mouth. At least 20 new projects are being developed in Jnah that way."

Among the expatriates living in the West, a small elite is ready to spend \$2,000- \$2,500 per square meter; the Mena Tower project in the luxurious Sursock area has not even started construction, but it has already been completely sold, mainly to Lebanese expatriates in the US, at \$3,000-\$5,000 per square meter.

Against all odds, the Lebanese real estate market is far from moribund. "We are aware of the current security issues, but in the medium term, buying real estate in Lebanon remains a sound investment in high-potential areas near the traditionally attractive districts. It's a calculated risk and a smart move," says Boudisseau.

And in the medium term, Lebanese developers haven't lost hope in a return of Arab investors, as discreet but unmistakable hints show may be underway: the Ashrafiyeh Tower project – which was the first of its kind to include very large apartments (560 square meters), has just been sold to Gulf investors. In good times or bad, the Lebanese market never ceases to exert some kind of attraction over investors, whether they live in or out of Lebanon. ■

OVERVALUATION

Owners routinely bump up the value of their property even in the teeth of declining sales

LAND

Land is already scarce, yet developers and speculators buy up without building

DEVELOPERS

Developers are behind the times, and are still building the wrong kind of residences