What will it take for a Real Estate Revival in Lebanon?

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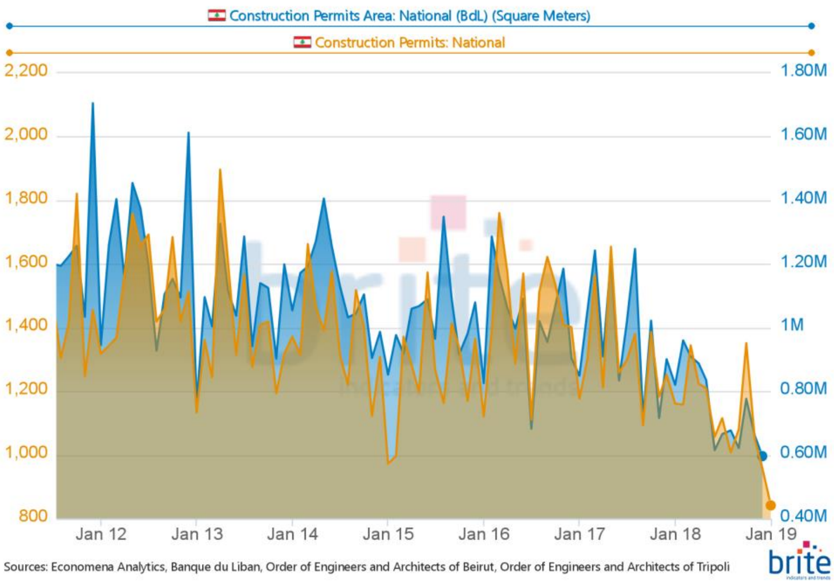
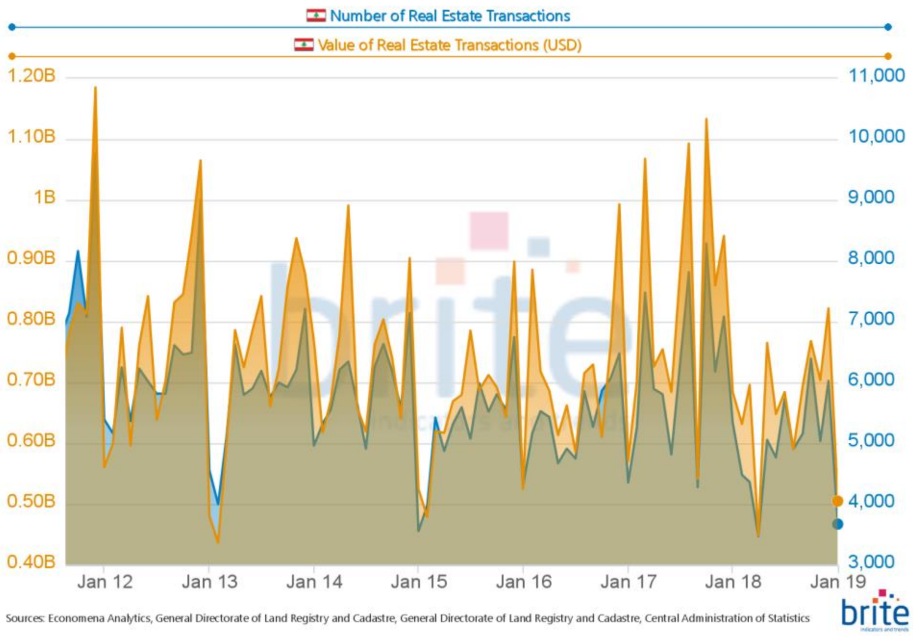
The slump in the Lebanese economy is no surprise. Real GDP growth is estimated to have recorded a meagre 1% in 2018. Private sector activity remained sluggish with the BLOM Lebanon PMI standing at 46.9 in February 2019 down from 47.3 in February 2018. The average inflation rate stood at 6.08% in 2018 on account of higher energy prices, while estimates of the overall unemployment rate stand at a high 20%. These figures indicate Lebanon is in a stagflation phase which is typically characterized by low growth, high inflation and high unemployment.

Real estate is at the core of the Lebanese economy. According to Lebanon's 2017 national accounts, real estate accounted for 15% of GDP in 2017; this share rises to 19% when construction activity is included. Real estate and construction are therefore the top contributing activity to GDP in Lebanon in 2017. Real estate is also a key investment sought after by resident and non-resident Lebanese alike. The value of housing loans granted in the financial sector reached $12.89 billion in 2018, constituting 60% of total individual loans. Moreover, according to IDAL, 70% of foreign direct investment (FDI) inflows to Lebanon constituted real estate acquisitions by the Lebanese diaspora.

The real estate and construction sectors inevitably mirrored the morose economic environment. The number of construction permits is far from the annual 18,000 seen in 2011 and settled at around 13,800 in 2018. The construction area authorized by permits also shrunk from the highs of 16.46 million square meters in 2011 to 9.02 million square meters in 2018. The number and value of real estate transactions also dwindled from 115,237 transactions worth $9.36 billion in 2011 to 60,714 transactions worth $8.13 billion in 2018.



- ''Construction permits'' national in the above graph refers to the "number of construction permits"



- The frequency for the two graphs above is monthly

The halt of subsidized loans in 2018 sent another negative jolt to the real estate market in Lebanon. The Central Bank of Lebanon was lending money at 1% to commercial banks (since 2013) and also exempting them from obligatory reserves so that they were able to offer housing loans in LBP at low rates. Banks partnered with the Housing Bank and the Public Corporation for Housing to conduct this mechanism and allowed both Lebanese residents and expatriates to own a home in Lebanon. In 2018, the subsidized housing scheme was halted as all funds were exhausted. However, through Circular 515, the Central Bank of Lebanon announced the allocation of 790 billion LBP ($524 million) in favor of subsidized housing loans. It is worth mentioning that of the 790 billion LBP, 490 billion LBP are destined to settle 2018's dues while the remaining 300 billion LBP are set to support 2019's loans.

The general economic conditions and the state of the real estate market are inextricably linked. According to Mr. Walid Moussa, President of the Real Estate Syndicate of Lebanon, "The recovery of the real estate sector is directly linked to that of the overall Lebanese economy. The recovery will be gradual and we cannot expect one event to trigger an overnight turnaround in the sector". The link between real estate and the economy is indeed very intuitive, especially since confidence is key when venturing into real estate and, in the current economic gloom, confidence is fragile.

Since real estate and the economic status of the country are tightly linked, it is no wonder that interest rates on the new wave of subsidized loans will be higher. Due to their prolonged nature, the lingering political deadlock along with the un-addressed structural imbalances, such as the chronic fiscal deficit that keep fueling unsustainable levels of debt that particularly shook confidence in 2018. Offering higher interest rates on the Lebanese Pound to account for the country's risk is therefore a natural consequence.

A lot of ink has been poured on what can be done to improve the Lebanese economy, but it is good to wonder if there are real-estate specific measures that can also help. According to Mr. Moussa, the government can take several measures to assist the sector such as "Reducing or cancelling registration fees for a certain period of time or paying the registration fees by installments, cutting taxes on real estate companies, easing transfer taxes on real estate assets being passed on through inheritance, having one centralized reference in the Ministry of Finance for real estate estimations and re-evaluating the methods used in the real estate estimations".

Improving the standing of Lebanon's economy and real estate sector is no overnight endeavor. The adjustments and reforms that need to be done, known by all for many years, entail a complete overhaul of the current status-quo. The process of change is lengthy but it is the only way by which confidence can truly be restored.

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