

The Lebanese F&B Industry: Growth Prospects despite a Precarious Backdrop



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Overview of Real Estate Performance in 2013

Lebanon's real estate and construction activities were mired by local and regional challenges in 2013 directly affecting economic growth of the country. Given its vital role in propelling the expansion of the local economy, construction represented a 4% share of the Gross Domestic Product (GDP)¹ while real estate activities² accounted for 14% of GDP, ranking second after commercial trade and motor vehicles repairs that grasped 16% of total value added. Yet, estimates of a sluggish 2013 GDP at 1-2% reflect the slackening performance of real estate and construction sectors.

January 25, 2014

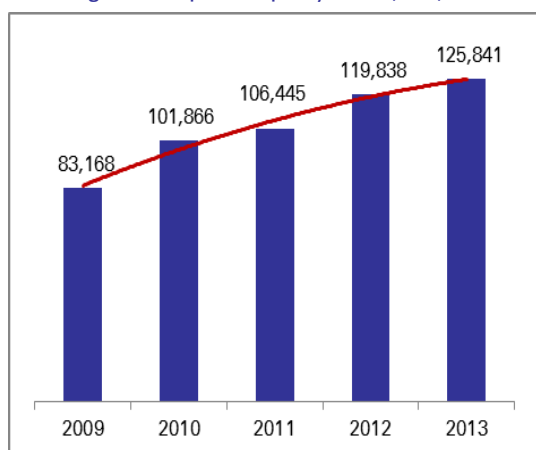
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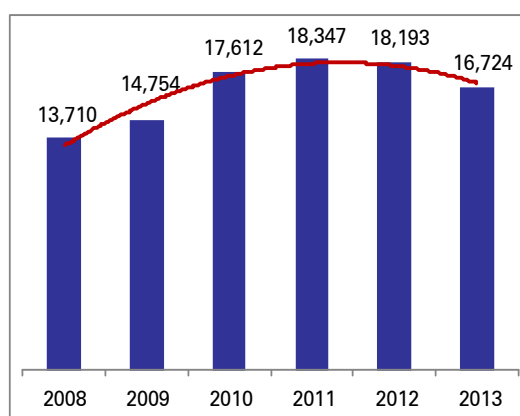
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Average Value per Property Sale (In \$)



Source: Cadastre

Yearly Number of Construction Permits



Source: Orders of Engineers in Beirut and the North

Real estate demand mainly faltered in 2013 as the economy remained under stress coupled with the fragile internal situation and the ongoing Syrian war spillovers. The lack of data in the sector undermines the estimation of real estate demand. The size of current local demand cannot be assessed accurately as updated income distribution and housing ownerships are not available, noting that remittances from the large Lebanese diaspora contribute substantially to the uphold of domestic demand as well as the growth potential for the real estate.

Domestic and regional uprisings severely hit the property sector demand since 2011. Real estate consultant, RAMCO, launched a study on Beirut residential projects completed in 2012 showing that, 18 projects (or 28%) out of 65 residential projects with an asking sale price at or above USD 2,800 per square meter (SQM) were completely sold out. According to data collected by the RAMCO's Research Team, 217 units in buildings completed during the course of 2012 remain on the market, representing a total of 71,361 SQM of built-up residential area.

¹ Central Administration of Statistics (CAS) 2011 National Accounts.

² Real Estate activities include housing services of owner-occupied dwellings, housing services for rented dwellings and other real estate activities. According to ISIC revision 4, Real estate activities "include acting as lessors, agents and/or brokers in one or more of the following: selling or buying real estate, renting real estate, providing other real estate services such as appraising real estate or acting as real estate escrow agents. Activities in this section may be carried out on own or leased property and may be done on a fee or contract basis. Also included is the building of structures, combined with maintaining ownership or leasing of such structures. This section includes real estate property managers."

Real estate and Construction Activities in 2013

Cement deliveries were unexpectedly higher by 13.5% after having recorded a decline of 10.9% in 2012. Total registries by October 2013 were 4,841,187 tons compared to 4,474,292 tons in 2012, pointing to an improving construction activity. This increase was partly due to public sector demand with the ongoing expansion project of the Port of Beirut and to illegal construction when, during the year, the Ministry of Interior declared that it's not responsible for the crackdown on illegal construction activity.

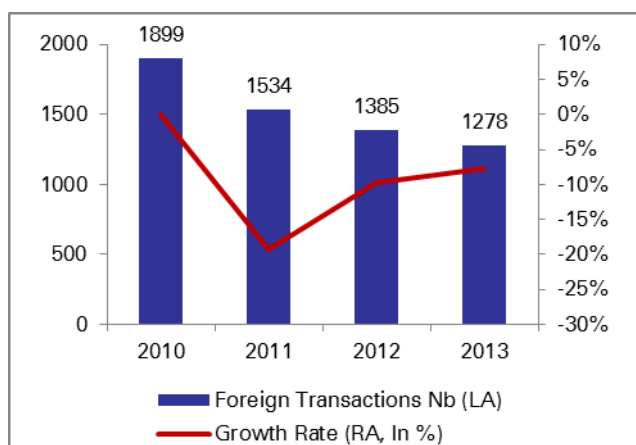
Construction loans also went up by 14.7% year-on-year (y-o-y) to \$9.15B in November 2013. This increase was mainly the direct result of Banque du Liban (BDL) and the financial sector's stimuli to boost demand and consecutively economic growth.

In terms of dealing with construction permits, Lebanon ranked 179 among the 189 listed countries according to the "Doing Business 2014" report. Procedures' number stood at 20 with 246 days needed when it should be less than 10 showing the complicated and costly (352.5% of income per capita) system. The latter will push investors to proceed without a permit or to cut their projects.

By looking at the number of issued construction permits during 2013, which reflects the investors' expectations of real estate activity in the coming 6 months, a considerable 8.1% yearly decrease to 16,724 permits is observed. However, the Construction area Authorized by Permit (CAP) plummeted by 12.8% to 12.82M sqm in 2013 following a 10.8% fall in 2012. This would imply the spreading of projects over lower sized investments, and the shift of supply to serve a more selective demand. Accordingly, the average area per permit has decreased by 5.1% to 765.40 sqm/permit in 2013 compared to 806.78 sqm/permit recorded a year earlier.

The Lebanese market mimicked local investors' concerns and recorded a 7.2% lower number of transactions amounting to 69,198 in 2013, compared to 74,569 transactions in 2012. Total value of property sales transactions retreated by 2.6% y-o-y from \$8.94B in 2012 to reach \$8.71B by December 2013. The number of transactions also edged down, however at a faster pace than transactions' value sending the average value of a real estate transaction higher to \$125,841 by December 2013 compared to \$119,838 in the year 2012.

Foreign Sales Evolution



Source: Cadastre

Foreign demand had a predictable declining trend in 2013. Sales to foreigners registered a sharp decrease of 9.0% in the volume of sales following repeated warnings from GCC governments calling their citizens to avoid Lebanon due to the high degree of political uncertainty and security developments. Yet, the Syrian crisis has cast a multitude of consequences on the Lebanese real estate sector, as citizens fleeing their country were looking for purchases or rents thus helping to maintain prices.

Regarding property taxes, they witnessed a 2.2% y-o-y drop to amount for \$568.49M by September 2013, down by 25.1% since December 2012. Over the period Jan-Sep 2013, real estate registration fees (that accounts for 68% of total property taxes) shed 5.2% y-o-y to reach \$387.40M. This means that the value and number of sold properties retreated during the first nine months of 2013 revealing the decreasing demand in the real estate market, especially over high end apartments.

The housing sector performance is also a core indicator of real estate demand in 2013. BDL launched in early 2013 an incentive program³ in hope of expanding lending and revitalizing demand with a special focus on housing loans (56% of total placement). This strategy came as a continuity of BDL's series of stimulation packages that started in 2012 to ease real estate finance for low and medium income households. In this context, banks profited of low-cost funding thus lending at lower interest rates. BDL latest data showed that housing loans reached \$8.39B by November 2013, up by a yearly 16.7%.

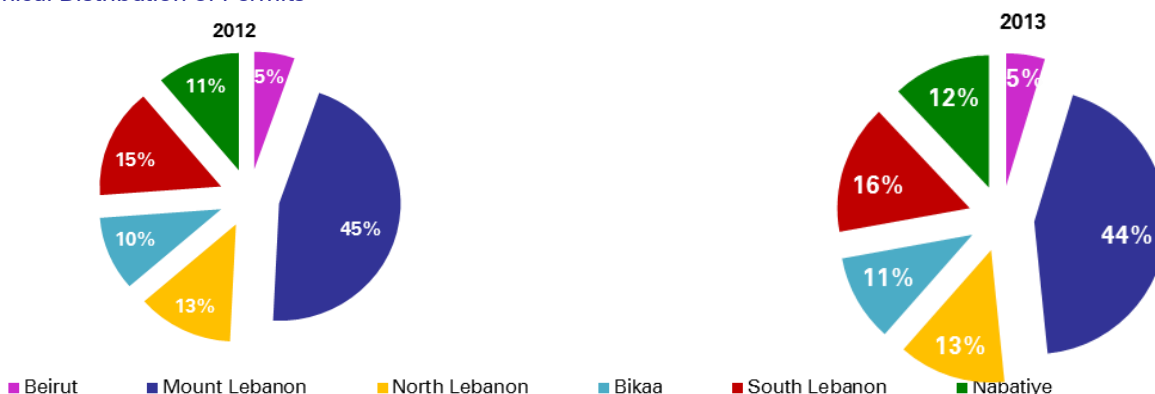
This jump in housing loans resulted in an increase of life insurance premiums as the latter constitutes a major condition for banks to grant loans especially housing loans. According to the Association des Compagnies d'Assurances au Liban (ACAL), total premiums for life insurance increased by 8.3% y-o-y to reach \$200.85M as of June 2013.

On a different note, ACAL reported that insurance premiums within the engineering industry declined over the first 3 quarters of 2013 by 7% to amount for \$8.2M with Q3 2013 posting the steepest collected amount since Q4 2011.

Construction Permits Distribution across Areas

The Orders of Engineers in Beirut and the North data revealed that Mount Lebanon kept on appearing as the top location for new constructions in 2013 capturing 43.1% of total activity in terms of projects number, while the lowest was Beirut reporting 4.7% of total projects. However, Mount Lebanon and Beirut shares of new projects slightly retreated in 2013 in favor of Nabatiyeh, South Lebanon, and Bekaa that showed respective stakes of 11.9%, 15.6% and 10.5% by the end of 2013. As for the projects yearly variation, all regions except for Nabatiyeh saw declines in construction permits with the steepest falls in Beirut (-19.1%) and Mount Lebanon (-11.6%) to 790 and 7,302 projects, respectively, mainly due to the scarcity of land.

Geographical Distribution of Permits



Source: Orders of Engineers in Beirut and the North

³ BDL placed \$1.46B at the disposal of banks at 1% interest so commercial banks can increase loans to institutions and households at reduced interest.

Real Estate Strengths and Challenges

Lebanon's real estate market is characterized by its ability to shape its system of assessment besides the international norms. Sustainable⁴ buildings and cities are capturing real-estate developers' interest lately. According to Jones Lang LaSalle report, 25 projects were certified by LEED⁵ in Lebanon. Several Lebanese LEED-certified projects were established in the past few years with diverse usages and purposes. Lebanon became the 5th country to implement the LEED for Neighborhood development through the District //S project at Saifi, Beirut.

Yet, investors faced in 2013 several challenges clarifying the dwindling demand for properties in 2013. Developers are facing the scarcity in land, volatility in workforce availability, lower demand from the GCC residents who switched to more secure areas, financial sustainability concerns, legal and logistic delays in delivery, and construction material price sensitivity

When compared to other countries, Lebanon's real estate sector suffers also of slow administrative procedures. The "Doing Business 2014" report showed that Lebanon ranked 112 out of 189 countries in terms of registering properties. In details, the number of procedures (8) required for the registration of a property was almost 4 times higher than that of "good practice" economies. As for the time needed to register a property in Lebanon (25 days), it was relatively stretched compared to the "good practice" economies (less than 10 days).

Price Ranges and Real estate Segments

Real estate price trends have been following cyclical increases followed by periods of stability with the scarcity of land remaining the first price influence. Despite the economic slowdown and the complications on the Syrian front that weakened investors' confidence in 2013, property prices remained resilient in Lebanon.

Selected World's Most Expensive Cities

Ranking	Country	Buying Price (In \$/sqm)	Price/Rent ratio (In x)	Rent per month (In \$)
1	Monaco	53,026	53x	10,099
8	France, Paris	15,161	28x	5,501
18	Taiwan, Taipei	7,112	64x	1,117
45	Lebanon, Beirut	3,591	28x	1,623
93	Egypt, Cairo	831	11x	977

Source: Global Property Guide

In a recent report⁶, Beirut residential streets revealed variation in the prices of SQMs depending on the location. Prices averaged \$3250-\$3,500 per SQM hitting \$7,500 at the sea front. According to Global Property Guide's survey, Lebanon stood at the 45th place among 94 countries with a buying price of \$3,591/SQM for an apartment of 150 SQM. As for the Price/Rent ratio, it reached 28 times which means that a 150 SQM apartment in Lebanon is priced around \$538,650, while its rent per year is \$19,238. It means that rental prices in Lebanon are low compared to other countries where the price reaches 17 to 20 times the yearly rental value.

RAMCO declared that the slowdown in the residential market pushed investors towards commercial projects that are more income appealing given the shortage in stock within the market. Cushman & Wakefield annual report showed that retail rents in the main Lebanese locations ranged around \$79 - \$186

⁴ Sustainability takes into consideration 3 different dimensions: economic (Efficiency, lower prices and better quality services), social (CSR, health and safety) and environmental (water, energy and waste management).

⁵ Leadership in Energy and Environment Design (LEED, U.S system) that evaluates buildings' performance in the sustainability conception.

⁶ Le commerce du Levant in collaboration with RAMCO.

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per SQ.FT/Year. ABC Centre Achrafieh was 2013 most expensive retail location in Lebanon (\$186 per SQ.FT/Year) ranking 37th among 64 countries. The Lebanese mall stood just after Biblioteksgatan - Stockholm (\$202 per SQ.FT/Year) and Dubai Shopping Centre (\$191 per SQ.FT/Year). ABC Achrafieh rental was higher than the Grand Rue – Luxembourg (\$181 per SQ.FT/Year) and Downtown Santiago (\$168 per SQ.FT/Year).

The office stock currently under construction in Beirut was covered through a research publication covered by RAMCO late 2013. The survey showed that 32 office projects are actually taking place in Beirut totaling 147,871 Square Meters (SQM). Out of those projects, 8 are residential towers offering office floors on the lower levels. Ashrafieh captured the bulk with 18 projects of 97,491 SQM with new offices selling prices estimated at \$3,500 per SQM in average. Ras Beirut followed with 10 office projects representing a total of 25,307 SQM with a supply average price between \$5,000 and \$ 5,500 per SQM. Beirut Central District (BCD) came in the third place with 4 projects of 25,073 SQM with the majority of projects to be offered on the rental market. Worth noting that, the average sales price stands actually around \$7,000 per SQM for a first floor core and shell.

Lebanon grasped the 3rd place in terms of office rent costs for 2013 amongst countries within the MENA region, according to Cushman & Wakefield annual report. The country was only surpassed by Istanbul's downtown and Abu Dhabi's downtown areas.

Real estate and construction struggled in 2013 to preserve their leading positions as core sectors in the Lebanese economy. Following 2008-2009 booming period, real estate demand was hindered starting late 2011 by pressures from the war in Syria and the fragile domestic situation. However, the strong fundamentals of the sector managed to slow down the retreat in activity. Property supply followed the same sluggish path. As for prices, listed ones stabilized in 2013 but those at which the deals were closed appear to have declined when compared to 2012, particularly for high end properties. The only positive energy in this stalling performance springs from the fact that new projects though slow, were not stationary.

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