



March 2, 2018

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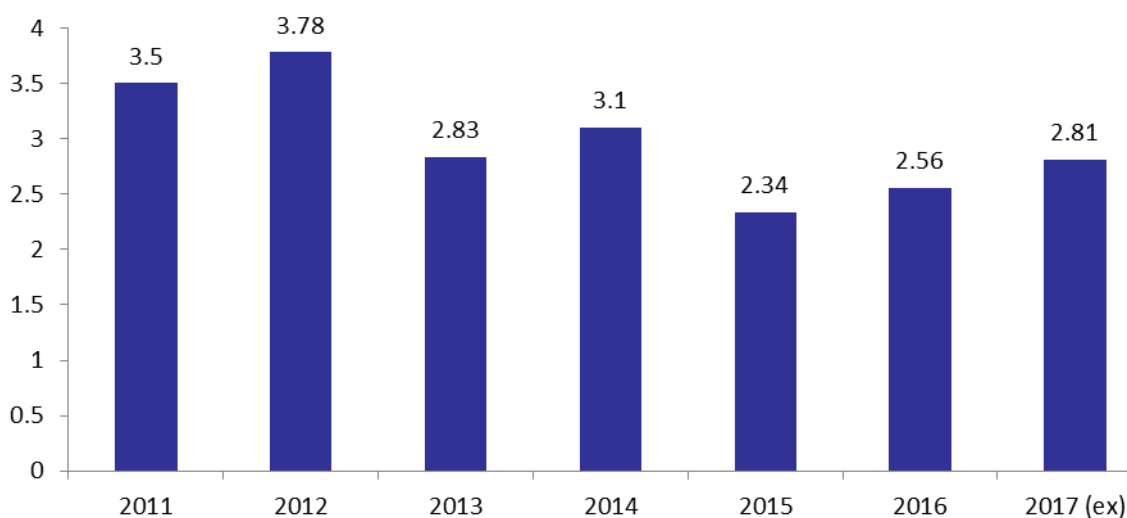
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Despite the political breakthroughs witnessed at the end of the year 2016 with the election of a Lebanese President, Michel Aoun, and the formation of the government, the real estate sector's performance witnessed mild improvement in the beginning of 2017, but has debilitated amid new tax reforms and political shocks, in the last quarter of the year. The subsidies introduced by BDL for supporting the real estate sector and circular No. 427, intended for property speculators, only succeeded in slowing down the decline but failed in reviving the sector from the stalemates that have existed for the past several years. Moreover, the budget draft of 2017, included new taxes that may have a negative impact on the struggling sector.

During the period 2007-2010, Lebanon's real estate sector has become one of the most prosperous sectors in the country, benefiting from the tough global economic environment. Interest rates as well as financial sector stability led to robust inflows of capital into the market. Consequently, Foreign Direct investments (FDIs) surged, with 60% allocated to the demand sector. However, domestic and regional political turmoil after 2011 hit the demand side and resulted in the slowdown of the sector.

**Yearly FDI Inflows (\$B)**



Source: IDAL, IIF

Nonetheless, BDL counter reacted to the plunge in demand by creating stimulus packages aimed at boosting the sector after the 2012 Syrian war. During the year 2017, demand for housing loans substantially grew as a result of considerable cuts in interest rates on subsidized loans from a previous 5% to 3%, for loans granted by the Banque de L’Habitat (Housing Bank). Moreover, the Central Bank reduced interest rates on subsidized housing loans granted by commercial banks from 5.14% to 3.8%. Not only did BDL cut interest rates, but also injected an additional \$500M to the existing \$1B stimulus package. Moreover, BDL and the Ministry of foreign affairs are reaching out to Lebanese expatriates with high purchasing power by introducing a housing loan tailored specifically to them, which allows Lebanese residing outside the country to borrow at a 2 percent fixed rate for up to 30 years.

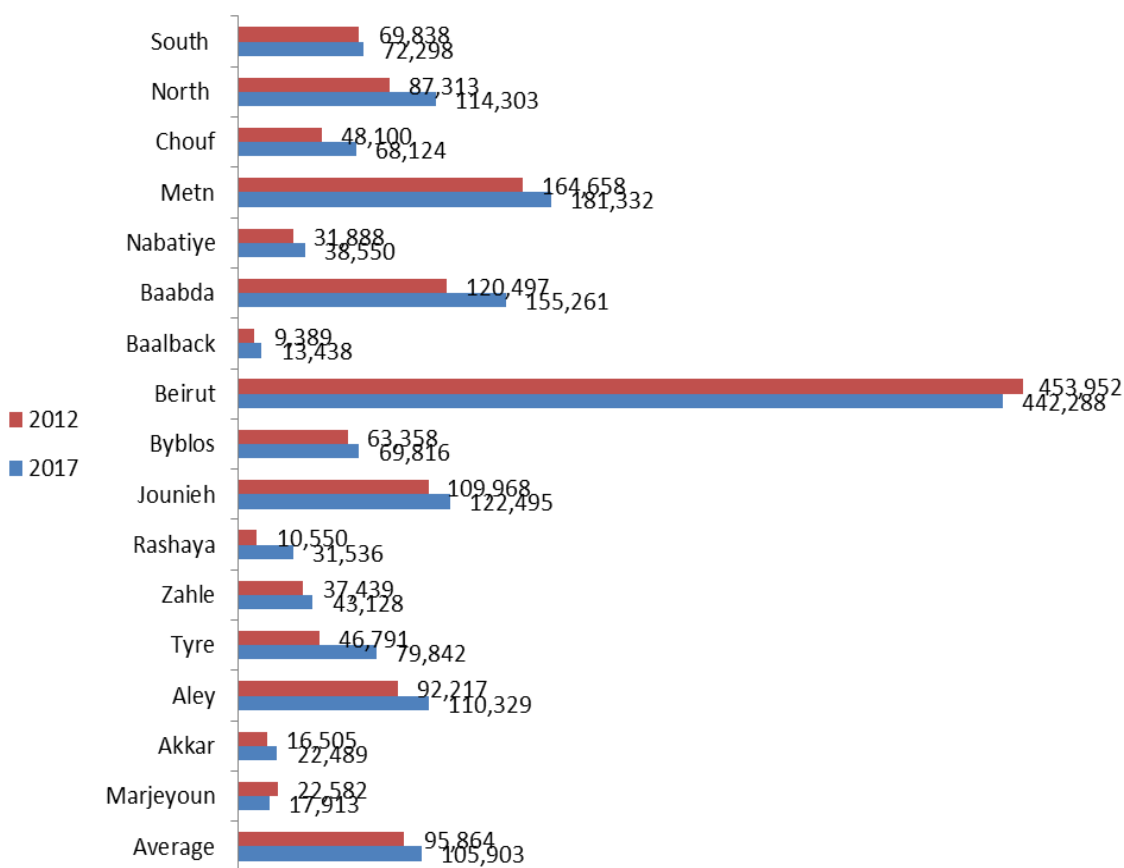
Banks real estate loans in the first three quarters of 2017 a total value of \$21.25B compared to \$19.68B in 2016. Housing loans were on top of the credit allocated for individuals with a share of 61% of the total. These loans recorded a 9.8% year-to-date (y-t-d) rise up to September 2017 and are expected to rise further at year end as a result of Banque du Liban’s (BDL) Circular #473 that was released in October 2017. Based on the circular, the ceiling on the amount of subsidized housing loans has been upped from a previous LBP 800 million ( around \$530,679) to LBP 1.2 billion (\$796,020).

The continuous efforts to motivate demand were reflected in the rise in real estate transactions. The Lebanese real estate market recorded a 14.49% higher number of transactions amounting to 95,856, with a higher total value of transactions, reaching \$10.15B, in 2017, compared to \$8.53B, in 2016. This led to the average value of a real estate transaction rising from \$101,142 to \$107,062. Unsurprisingly, given the relatively

stable political situation during the year as well as the decreasing prices, sales to foreigners registered a 15% jump in volume of sales. Foreigners were interested particularly in the Metn and Baabda regions.

The residential demand continues to drive the prices of the real estate sector today. In fact, most of the buyers are middle-income people, who prefer smaller apartments as well as apartments located in the suburbs of Beirut. Smaller size apartments, constituting more than 60% of the demand, tend to have sticky prices, since if their demand were to fall; it would decline at a much slower pace than larger apartments. Looking at the graph below, substantial growth in value per transaction was recorded in the areas close to Beirut, in specific Metn and Baabda, while the capital witnessed a decrease in value. This can be also supported by Infopro’s statistics that states that average price per meter in Beirut has fallen by 20% in the past 5 years to reach \$3,152/m<sup>2</sup>.

**Average Value per Transaction**

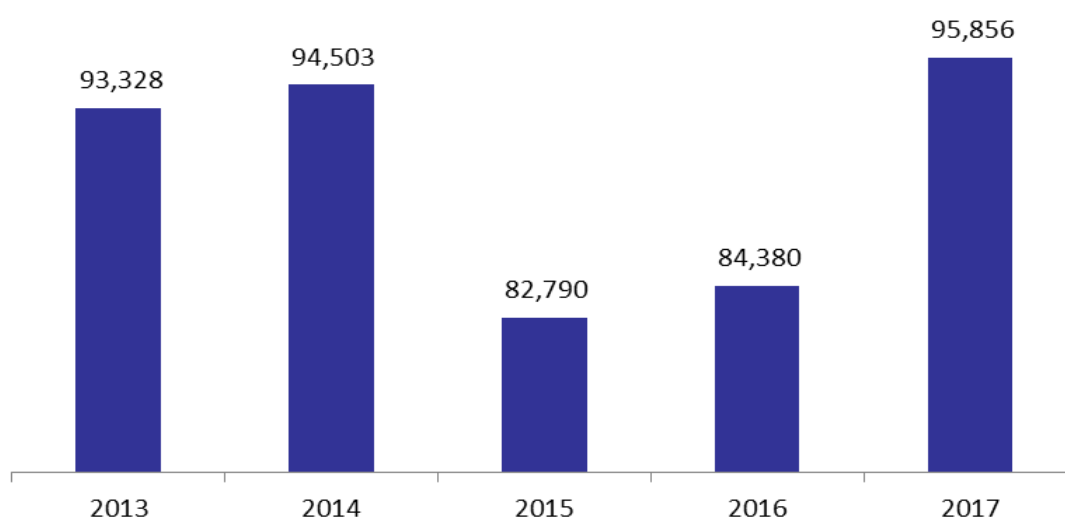


Source: Cadastre

During the period prior to 2012, developers believed that the demand for luxurious apartments would substantially increase and hence started constructing apartments with sizes of more than 400 m<sup>2</sup>. However, after the spillover of the Syrian war and the decreasing oil prices, demand for these specific apartments stagnated. Hence, the excess supply allowed their prices nowadays to be at a 20 to 30 percent discount. The index derives from a survey on the intention of households to buy apartments in the coming 6 months.

Similarly, demand for housing remains to be considered highly volatile and dependent on the political events. Expectedly, the demand was partially hit during the last quarter of the year as a result of the increase in taxes and the shocking resignation of PM Saad Hariri. The Byblos Bank Real Estate Demand Index decelerated during the last quarter, delineating a plunge from the previous quarter.

**Yearly Number of Real Estate Transactions**

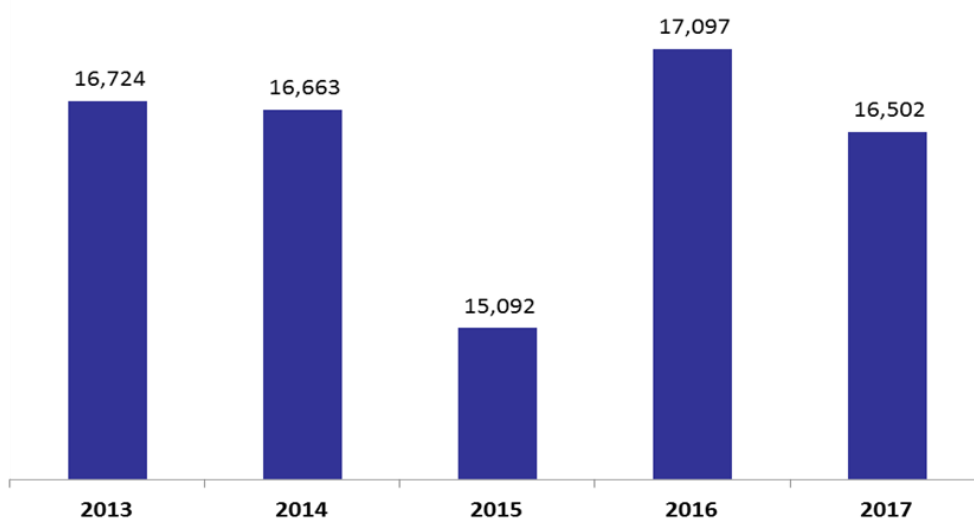


Source: Cadastre

On the supply side, developers are adapting to the decreased prices and the oversupply in the market, specifically in the Beirut region. The rising number of unsold apartments, especially the large ones that are concentrated in the capital, made suppliers more cautious and alert about a potential mismatch between the existing demand and supply. Accordingly, and before initiating any new project, in-depth studies of the market are conducted to avoid any risk that could restrain developers from liquidating their projects.

Issued construction permits during 2017, which reflect the market’s envisioning of real estate activity in the next 6 months, show a decrease of 3.83% to 16,502 permits. However, the Construction area Authorized by Permit (CAP) increased by 15.44% to 11.81 million sqm in 2017. Mount Lebanon appeared as the top location for new constructions in 2017 capturing 35.2% of total activity in terms of projects number, while the lowest was Beirut reporting 4.6% of total projects.

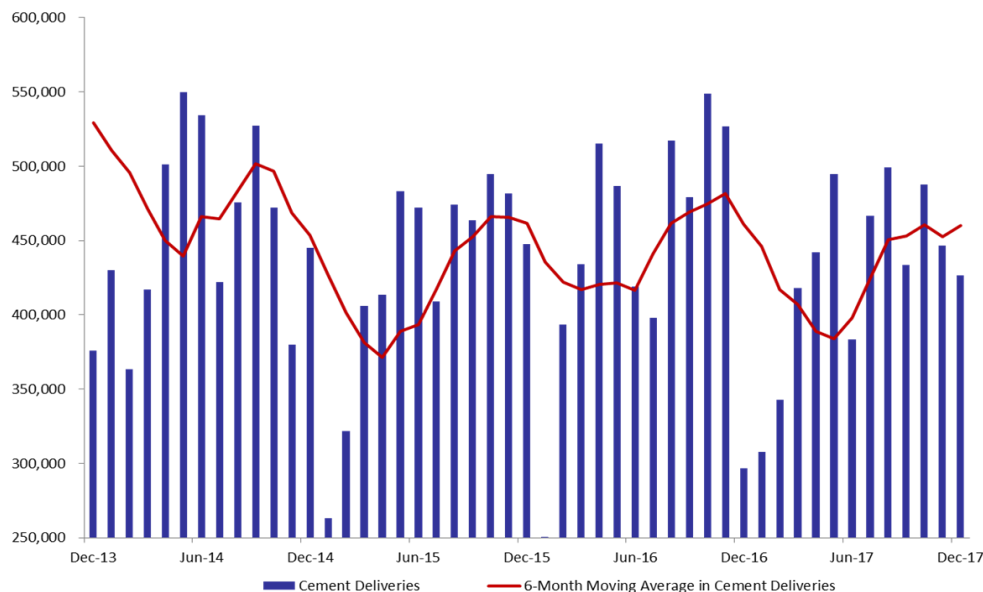
**Yearly Construction Permits**



Source: Order of Engineers of Tripoli and Beirut

Regarding the ongoing real estate activity during 2017, cement deliveries contracted by an annual 2.21% by the end of 2017, to stand at 5.15M tons compared to 5.27M tons by end 2016. Nonetheless, on a monthly basis, cement deliveries surged from 296,521 tons in December 2016 to 426,543 tons in December 2017 alone. The higher demand on cement in the last month of 2017 may be linked to buying larger quantities as the VAT was expected to climb to 11% from 10% on January 1, 2018.

Cement Deliveries (Tons)

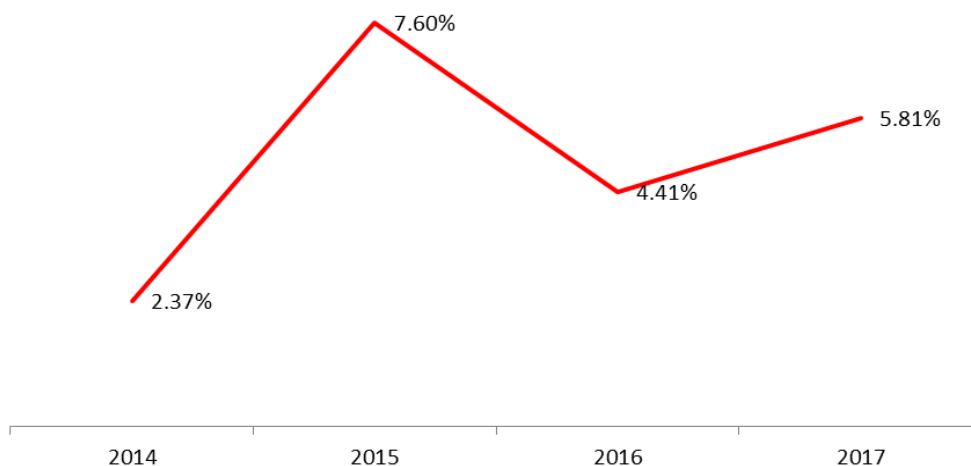


Source: BDL

As a further depiction of the slackening demand and excess supply in the Beirut market, RAMCO, Lebanese Real Estate advisers, stated that Beirut Central District witnessed no initiation to new office projects since 2014. Nonetheless, as per RAMCO’s publications, listed asking price have not been affected by the downward push of demand; however, the negotiation margins have been on the rise for the past years.

Amid low consumer confidence and a growing quantity of housing at ever cheaper rates, prospective buyers are not in any rush to make housing purchases. Negative investment sentiment may have triggered a shift in the trend from buying to renting. In fact, demand on rentals could be increasing, hence pushing rental prices higher. The Consumer Price Index (CPI) for rentals has increased by 6% when compared to the previous year and by 26%, when compared to 2012.

**Actual Rent Average Yearly Inflation Rates**



Source: CAS

Given the increase in subsidies for housing loans during 2017 and BDL's persistence in boosting the sector, demand was shyly stimulated. With BDL's latest decision to suspend lending to banks at subsidized rates and shift to just pay the differential in interests, banks have tightened lending conditions, and began granting customers at nonsubsidized interest. Moreover, the latest tax reforms that will to some extent decrease one's purchasing power will also weigh down on the real estate sector. Nonetheless, the increasing oil prices accompanied by a success in the elections would attract foreigners, specifically GCC nationals, to further invest in the Lebanese real estate sector.

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