# ECONOMIC BULLETIN

first quarter 2009

**REPORT** 

STUDY









• Executive Summary



STUDY

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# Report: Lebanon's Macroeconomic Performance during the First Quarter of 2009

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# LEBANON'S MACROECONOMIC PERFORMANCE DURING THE FIRST QUARTER OF 2009

# [ EXECUTIVE SUMMARY ]

Lebanon's Macroeconomy has recorded better results in the first quarter of 2009 relative to the corresponding period last year:

- Industrial exports increased by 15%.
- The number of tourists increased by 53.6%.
- The number of passengers at the HIA grew by 16.3%.
- The amount of cleared checks increased by 7.9%.
- The fiscal deficit increased by 14.3%.
- The net public debt increased by 6.4%.
- The Central Bank's gross FX reserves increased by 10% to USD 21.7 billion.
- The banking sector's total assets grew by 15% to USD 97.9 billion.
- The trade deficit decreased by 1% to USD 869 million.
- Capital inflows surged by 5.3% to USD 2.54 billion.
- The balance of payments recorded a surplus of USD 297 million.
- Economic growth is forecasted at 3-4% in 2009.

# [INTRODUCTION]

The Lebanese macroeconomy has achieved a better growth in the first quarter of 2009 relative to the same period of 2008. The real sector's performance was better, as indicated by enhanced indicators of the major sectors.

The public finances have slightly deteriorated with higher deficit ratio, and lower primary surplus.

The monetary situation has continued its stability, accompanied by a growing banking sector.

The balance of payments achieved a surplus supported by lower imports, higher exports, and surging capital inflows.

The macroeconomy is posed to continue its growth in 2009 but at lower rate than 2008 if political conditions get better, and economic conditions continue to be good.

# [ I. REAL SECTOR ]

During the first quarter of 2009, the real sector in Lebanon has showed a better performance with all its main indicators ending the year at record high levels, despite the existence of the severe global financial crash that affected some regional markets during the said period.

# 1. Agriculture and Industry sectors:

Based on the figures issued by the Higher Customs Council for the first quarter of 2009, the value of Lebanon's agricultural exports reached USD 31 million, which kept unchanged as compared to those reported in the first quarter of 2008. This performance is explained by many obstacles along with significant dependency on imports, as the primary sector's imports has increased by 7.5% from the same period of 2008, to reach an amount of USD 389 million. This had widened agricultural trade deficit that increased by USD 28 million to reach USD 358 million in the first quarter of 2009.

Also industrial exports increased in the first quarter of 2009, by 15% relative to the same period of 2008 to reach USD 967 million. Imports of industrial machinery increased by 51.1% to reach USD 54.1 million, which reflect the increase in the level of investments made in the industrial sector.

#### 2. Construction and Real Estate Sector

Based on the figures released by the Order of Engineers of Beirut and Tripoli, the construction permits totaled 2.265 million square meters in the first quarter of 2009, up by 4.4% from 2.170 million square meters in the same period of the previous year. This increase in the construction activity is relatively small during this quarter as compared to the yearly rise witnessed in the first quarter of 2008, which was at 34.8%. This increase in construction permits were divided as Mount Lebanon accounted with 37.7% of the total, followed by North Lebanon with 34.1%. South Lebanon with 13.4%. Beirut with 9.5%, and the Bekaa with 5.3%.

Moreover, the figures released by the Directorate of Real Estate showed that the total value of property sales in Lebanon in the first quarter of 2009 has decreased by 4.8% from its level in the same period of 2008, to reach an amount of USD 1.006 billion. The number of sales operations has also increased by 5.7%, which amounted to 16,010 transactions during the said period. This fact has decreased the average value per property sale, which was at USD 62,819 in the first quarter of 2009, down by 10% from the same period of 2008.

#### 3. Tourism sector

According to figures released by the Ministry of Tourism, the number of tourists visiting Lebanon increased by 53.6% in the first quarter of 2009 relative to the same period of 2008 to reach 297,579 as compared to



193,736 in the same period of 2008, due to the good political conditions that are revealed in the country. One should note that the number of incoming Arab tourists into Lebanon rose by 94.2% in the first quarter of the year.

As for the distribution of tourists by countries, it shows that the greater part of visitors were from Arab countries with 45.8% of aggregate visitors, followed by visitors from Europe with 24.5%, visitors from Asia with 15.7%, visitors from the Americas with 9.8%, visitors from Oceania with 2.3%, and visitors from Africa with 2.2%.

# 4. Airport Activity:

Based on the figures released by the Hariri International Airport (HIA), the number of airport passengers (arrivals, departures, transit) amounted to 886,661 in the first quarter of 2009, up 16.3% year-on-year. As per the distribution of passengers from different countries, we have witnessed that passengers from the UAE accounted for 21.2% of total passengers, followed by those from Saudi Arabia with 10.4%, France with 10.3% and Kuwait with 8.3%. The total number of flights reached 11,485 in the first quarter of 2009, up 22.1% year-on-year. The total cargo processed in the first quarter of 2009 increased by 8.5% compared to the same period of 2008.

# 5. Port of Beirut:

Figures released by the Port of Beirut Authority show that port revenues amounted to \$39.7 million in the first quarter of 2009, up 33.7% from the same period of 2008. Freight activity reached 1.5 million tons in the first quarter of 2009, up 5.8% compared to the same period of 2008. The number of ships reached 599, up 13.7% compared to a year earlier.

#### 6. Clearing Activity:

Based on the figures released by the Association of Banks, the value of cleared checks increased by 7.9% to USD 12.2 billion in the first quarter of 2009 as compared to the same period of 2008. The value of cleared checks in Lebanese pounds rose by 18.2% to the equivalent of USD 2.6 billion, while the value of cleared checks in U.S. dollar rose by 5.4% to USD 9.6 billion. The dollarization rate of cleared checks decreased from 80.2% to 78.4% year-on-year.

#### 7. Customs receipts:

Based on the figures released by the Higher Customs Council, customs revenues have reached USD 427 million in the first quarter of 2009, up 100% from the same period of 2008.

The Port of Beirut continues to be the main point of customs revenues, accounting for 88.3% of the total, followed by the Hariri International Airport, the Port of Tripoli, and the Masnaa Crossing point with 6%,

2.9%, and 1.3%. Overall customs receipts reached USD 748 million in the first quarter of 2009 when including revenues from the value-added tax that amounted USD 321 million over that period of time.

# 8. Car Sales:

Based on the figures released by the Association of Automobile Importers in Lebanon, the number of cars sold during the first quarter of 2009, has reached 6,263 new cars, constituting an increase of 18.8% from the 5,274 cars sold in the same period of 2008.

# **REAL SECTOR'S INDICATORS**

INDICATORS	2009Q1	2008Q1	VARIATION
Agriculture Exports (in Millions of USD)	31	31	0%
Agricultural Imports (in Millions of USD)	389	362	7.5%
Agriculture Trade Deficit (in Millions of USD)	358	330	8.5%
Construction Permits (in square meters)	2,265,006	2,170,234	4.4%
Value of Property Sales (In Billions of USD)	1.006	10.56	-4.8%
Average value per Property sale (in USD)	62,819	69,799	-10%
Number of Property Transactions	16,010	15,147	5.7%
Number of tourists	297,579	197,736	53.6%
Number of Ships at Port	599	527	13.7%
Number of Passengers at HIA	886,661	762,392	16.3%
Cleared Checks (in Billions of USD)	12.20	11.31	7.9%
Port Revenues (in Millions of USD)	39.7	29.7	33.7%
Freight Activities (In Millions of USD)	1.50	1.42	5.8%
Customs Receipts (in Millions of USD)	427	213.5	100%
Number of Car Sales	6,263	5,274	18.8%

Source: Official Departments



# [ II. PUBLIC FINANCES ]

Public finances have slightly deteriorated during the first quarter of 2009, with higher fiscal deficit ratio as a result of rising expenditures, and a decline in the level of primary surplus.

### A. Fiscal Deficit:

According to the figures released by Ministry of Finance, public revenues which include budget and Treasury receipts, increased by 14.3% relative to the same period of 2008, to reach USD 1.88 billion in the first quarter of 2009. Treasury revenues registered a drop from USD 98.97 million to become USD 94.79 million. Budget revenues increased by 23.1% to reach USD 1.78 billion due to the rise in both tax revenues and non-tax revenues. Total tax revenues went up by 34.3%, due to the rise of 105.6% in custom revenues, the rise of 14.2% increase in VAT revenues, and the increase in other tax revenues by 18.5%. As for non-tax revenues, they decreased by 1.5%, due to the fall in government properties' revenues by 7.7%.

On the spending side, total public expenditures, which include budgetary and Treasury spending, increased by a yearly 35.1% in the first quarter of 2009 to reach USD 3.01 billion, caused mainly by an 86.9% in Treasury expenditures, as well as a 17.5% rise in budgetary expenditures.

Treasury expenditures reached USD 1.056 billion in the first quarter of 2009, and their rise is mostly due to an increase of USD 378 million, or 110.5% in transfers to EDL, which totaled USD 720 million. Budgetary expenditures reached USD 1.958 billion, due to the increase in both interest and non-interest expenditures. Interest payments on domestic and foreign debt increased by 25.3% as compared to the same period of 2008, to reach a total of USD 913.6 million in the first quarter of 2009. Non-interest budgetary spending increased by 24.3%, due to the rise by 24% in current primary expenditures and 14% in capital expenditures.

Therefore, the public balance saw a drawback in the first quarter of 2009, as the global deficit went up by 92.5%, to reach USD 1.138 billion. When excluding debt service, the first quarter of the year witnessed a significant deterioration in the level of the primary balance, which registered a cumulative deficit of USD 198.74 million, compared to a surplus of USD 255.98 million in the first quarter of 2008.

#### B. Public Debt:

Based on figures issued by the Ministry of Finance, the gross public debt reached USD 47.8 billion at the end of March 2009, constituting an increase of 1.8% from 2008 and a rise of 10.7% as compared to March 2008. Domestic debt increased by 22.7% to USD 26.5 billion, while external debt decreased by 1.2% annually to USD 21.3 billion. Local currency debt accounted for 55.4% of gross public debt at end-March 2009 compared to 50% a year earlier, while foreign currency denominated debt represented 44.6% of the total

at the end of March 2009 relative to 50% a year earlier.

Commercial banks accounted for 56.4% of total public debt at the end of March 2009 compared to 54.1% a year earlier. They were followed by the Central Bank with 21%, up from 19.3% at end-March 2008; while public agencies, financial institutions and the general public held 8.3% of the debt relative to 10.2% a year earlier. Further, bilateral and multilateral loans accounted for 5.9% of total public debt, down from 7.1% at end-March 2008, while other public debt holders held the remaining 8.4% compared to 9.3% a year earlier.

Net public debt, which excludes the public sector's deposits at the Central Bank and at commercial banks from overall debt figures, increased annually by 6.4% to USD 42.3 billion.

# **PUBLIC FINANCE'S INDICATORS (USD, MILLION)**

INDICATORS	2009Q1	2008Q1	VARIATION
Public Revenues	1.876	1.641	14.3%
Public Expenditures	3.015	2.232	35.1%
Deficit	1,139	592	91.7%
Deficit /Expenditures (%)	37.6	26.5	11.1%
Aggregate Primary Surplus	(198.74)	255.98	-77.6%
Gross Public Indebtedness	47,020	47,850	1.8%

Sources: Ministry of Finance and Central Bank

# [ III. MONETARY SITUATION ]

The Monetary situation has continued its stability owing to better economic conditions and the prevailing monetary stabilization policy of the Central Bank, along with an ongoing rising demand for the Lebanese Pound, despite the outburst of the global financial turmoil in the region and worldwide.

#### 1. Money Supply:

Money supply (M2) in LP expanded broadly by USD 2.098 billion over the first quarter of 2009, as compared to a growth of USD 0.694 billion during the corresponding period of 2008, which reveals that the local currency is regaining its role as a store of value due to the growing investor confidence in local monetary conditions. LP saving deposits increased by 9.8% to reach USD 34.078 billion during the first quarter of 2009.

#### 2. Consumer Prices:

Based on the figures issued by the Central Administration of Statistics, inflation rose by 2.1% in the first quarter of 2009 compared to same period of 2008. This is due to the increase in prices of most commodities in the Lebanese market, such as prices at restaurants & hotels, which increased by 16.6%, followed by prices of clothing & footwear with 16.3%, food & nonalcoholic beverages with 6.5%, furniture & household equipment with 5%, housing with 4.8%, education with 4.1%, miscellaneous goods & services with 2.7%, health care with 1%.

# 3. Central Bank Foreign Assets:

According to the figures released by the Central Bank, its balance sheet reached USD 44 billion at the end of the first quarter of 2009 compared to USD 34.5 billion in the same period of 2008. Assets in foreign currencies increased by 10.1% to reach USD 21.7 billion, as compared to USD 19.7 billion in 2008, after achieving a cumulative increase by USD 2 billion in the first three months of 2009. Its gold reserves increased by 5.5% in the first quarter of 2009, to reach a value of USD 8.47 billion that is 1.7% short than the increase in value in the same period of 2008.

Also deposits of the financial sector rose by 11.5% in the first quarter of 2009, which is equivalent to USD 3.25 billion due to capital inflows into the banking sector, while deposits of the public sector declined by 1.6% in the first quarter of 2009, to reach a value of USD 4.56 billion.

#### 4. Credit and Debit cards:

Based on the figures issued by the Central Bank for the first quarter of 2009, the number of credit and debit cards has increased by 9.1% as compared to the same period of 2008, to reach 1.59 million cards. The majority of cardholders were residents as they accounted for 97.3% of total cards issued in Lebanon.

The average monthly domestic payment by residents has increased by 16% in the first quarter of 2009, as compared to the same period of 2008, to reach USD 78.5 million. Further, the average monthly value of cash withdrawals by residents using ATMs increased by 24.7% in the same period, to reach USD 347 million, and the average monthly withdrawals by non-residents increased by 22.6% as compared to the same period of 2008, to reach an amount of USD 4.9 million.

# MONETARY SITUATION'S INDICATORS

INDICATORS	2009Q1	2008Q1	VARIATION
USD/LP Exchange Rate	1,507.5	1,507.5	0.0%
BDL Assets in FX (Billions of USD)	21.7	19.7	10.1%
Variation in Money Supply M3 (in Billions of USD)	1.86	1.75	6.3%
Inflation Rate (%)	0.4%	3.2%	-2.8%
Cleared Checks (in Millions of USD)	12,195	11,302	7.9%

Sources: Central Bank and Association of Banks

# [ IV. FINANCIAL SECTOR ]

The banking sector achieved a significant growth level in the first quarter of 2009. Also, the activity of the BSE was better during this period.

# 1. Banking Sector

Based on the figures released by the Central Bank, the banking sector's total assets reached USD 97.9 billion in the first quarter of 2009, an increase of 15% as compared to the same period of 2008. Private sector deposits have also increased by 16.5% from the same period of 2008, to reach USD 80.5 billion.

Deposits in Lebanese pounds rose by 61.5% from the same period of 2008, while deposits in foreign currencies increased by 2.9% from the same period of 2008. Non-resident foreign currency deposits had increased by 24.4% from the same period of 2008, to reach USD 11.2 billion. The dollarization rate of deposits decreased by 11% as compared to the same period of 2008, to reach 67.7% at end-March 2009.

Further loans to private sector have increased by 1.6% in the first three months of 2009, to reach USD 25.4 billion. Non-resident foreign currency loans have increased by 0.4% to reach USD 4 billion. The average lending rate in Lebanese pounds was 10.1% in the first quarter of 2009 compared to 9.92% in the same period of 2008, while average lending rate in US dollars was 7.32% in the first three months of 2009 compared to 7.57% in the same period of 2008.

The ratio of private sector loans to deposits in foreign currencies increased from 37% in the first quarter of 2008 to 40.1% in the first quarter of 2009. The ratio of total private sector loans to deposits has decreased by 0.9% to reach 31.6% after it was 32.5% in the same period of 2008. The banks' aggregate capital base has increased by 0.6% in the first three months of 2009 to reach USD 7.14 billion.

# **BANKING SECTOR'S INDICATORS**

INDICATORS	2009Q1	2008Q1	VARIATION
Total Assets (USD, Billions)	97.9	85.14	15%
Total Deposits (USD, Billions)	80.5	69.1	16.5%
Variation in Total Credits (%)	1.6%	10%	-8.4%
Ratio of Private sector's loans to Deposits (%)	31.6%	32.5%	-0.9%
Banks' capital Base (In Billions USD)	7.14	7.10	0.6%

Sources: Central Bank and Association of Banks

### 2. Capital Market

Based on figures released by the Beirut Stock Exchange, the total trading value has decreased by 58.5% to reach USD 99.1 million in the first quarter of 2009, as compared to USD 168.4 million during the corresponding period of 2008. While aggregate turnover increased by 31.8% to reach an amount of USD 188.3 million. Market capitalization decreased by 30.8% to USD 8.5 billion, of which 66.2% was in banking stocks and 29.4% in Solidere stocks. The market liquidity ratio increased by 0.7% to reach 2.2%, as compared to 1.5% for the same period of 2008.

In terms of value of shares traded, banking stocks accounted for 65.3% of aggregate value, followed by Solidere stocks with 34.6%. The average daily traded volume for the period was 995,317 shares for an average daily value of USD 3.2 million.

# **BSE INDICATORS**

INDICATORS	2009Q1	2008Q1	VARIATION
Market Capitalization (in Billions of USD)	8.5	12.3	-30.8%
Total Trading Volume (in Millions of USD)	99.1	168.4	-58.8%
Price Index	0.4%	3.2%	-2.8%
Total Volume of Lebanese Eurobonds (in Millions			
of USD)	7.1	3.65	95%

Sources: BSE and Central Bank

# [ V. FOREIGN SECTOR ]

The balance of payments recorded a surplus due to higher exports and greater capital inflows.

#### 1. Foreign Trade:

According to figures issued by the Higher Customs Council, imports decreased by 7.4% to reach USD 3.2 billion in the first quarter of 2009, while exports increased by 14.3% to reach USD 1 billion in the same period, leading to a decrease of 14.6% in trade deficit to reach USD 2.2 billion.

The Hariri International Airport was the main source of Lebanese exports accounting for 41.6% of total exported goods in the first quarter of 2009, followed by the Port of Beirut with 21.3%, the Abbudieh

crossing point with 16.1%, the Masnaa crossing point with 15.7% and the Port of Tripoli with 4.4%. The Port of Beirut was the main source for imports, accounting for 65.7% of total imports, followed by the Hariri International Airport with 18.5%, the Port of Tripoli with 8% and the Masnaa crossing point with 5.2%.

# 2. Capital Inflows:

Based on the figures released by the Higher Customs Council, capital inflows increased by 5.4% to reach an amount of USD 2.54 billion, which are still coming mainly from Lebanese living abroad.

# 3. Balance of Payments:

Based on the figures issued by the Higher Customs Council, Central Bank figures show that Lebanon's balance of payments posted a surplus of USD 297 million in the first quarter of 2009 compared to a deficit of USD 214 million in the same period last year. This cumulative surplus over the first quarter of 2009 was caused by a surplus of USD 1.8 billion in the Central Bank's net foreign assets and a decline of USD 1.5 billion in those of banks and financial institutions. The balance of payments posted a cumulative surplus of USD 3.5 billion in 2008.

# **FOREIGN SECTOR'S INDICATORS**

INDICATORS	2009Q1	2008Q1	VARIATION
Trade Deficit (In Millions of USD)	2241	2623	-14.6%
Exports (In Millions of USD)	1000	875	14.3%
Imports (In Millions of USD)	3241	3500	-7.4%
Capital Inflows (In Billions of USD)	2.54	2.41	5.4%
Balance of Payments (In Millions of USD)	297	(214)	-138. 8%

Sources: Higher Customs Council and Central Bank



# [ VI. ECONOMIC PROSPECTS ]

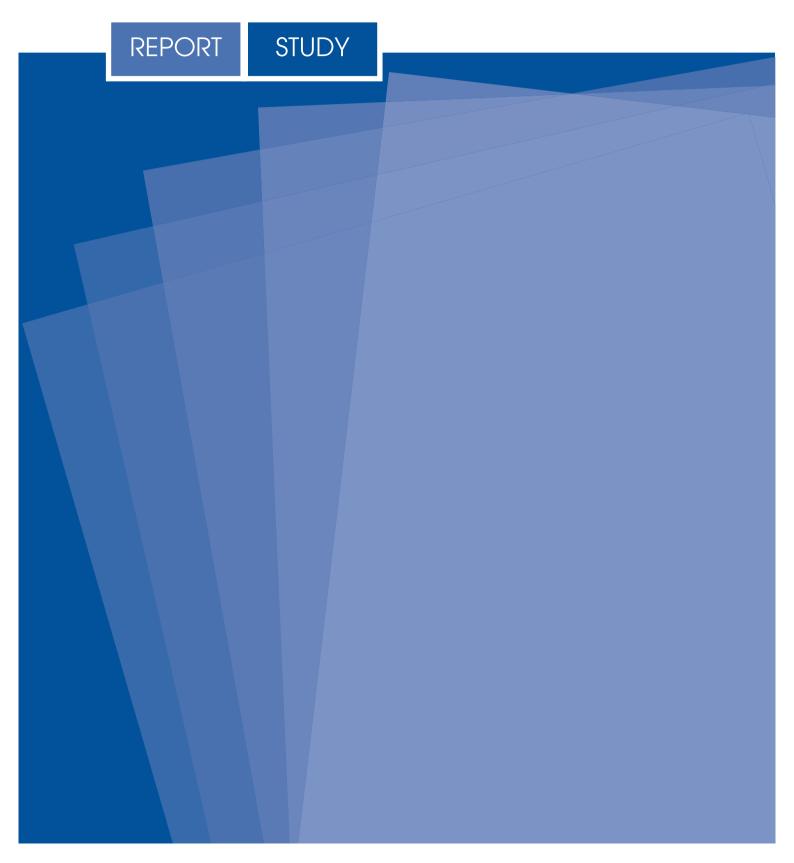
The Lebanese economy has been remarkably resilient to the global financial crisis, and the domestic financial system is not directly exposed to distressed financial products or markets, because it is very liquid and well capitalized, and economic growth has remained strong. Prudent macroeconomic and financial policies in recent years have strengthened the economy's ability to weather external shocks. Primary fiscal surpluses have contributed to lowering the debt-to-GDP ratio by nearly 20% since 2006; interest rate policy has supported deposit inflows, rapid de-dollarization, and a build-up of foreign reserves; and strict financial regulation and oversight have shielded banks from exposure to troubled international banks and structured products.

However, Lebanon faces significant challenges, as the economy will feel spillovers from the global recession and the weakened outlook in the GCC. It is expected that real GDP growth to drop to 3-4% in 2009 from over 8% in 2008, and remittances, tourism, merchandise exports, FDI and portfolio investment, and deposit inflows will be negatively affected.

Reducing the debt-to-GDP ratio remains the top priority, and reforming the state-owned Electricité du Liban is essential to avoid an increase in the deficit.

Further, the ongoing monetary policy will continue to encourage deposit inflows, given the risks of the global crisis. The Central Bank and the Banking Control Commission will have to continue monitoring commercial banks and to plan for contingencies in the wake of the worsening global outlook.







# LEBANESE REAL ESTATE SECTOR: CURRENT SITUATION AND FUTURE PROSPECTS

# [ EXECUTIVE SUMMARY ]

- The Lebanese real estate sector witnessed a significant growth in the last three years.
- Arab investments contributed to the larger share of total investment inflows into the real estate sector, particularly from the Lebanese expatriates who emerged as one of the key players in the Lebanese real estate purchasing and sales operations.
- The real estate and construction sector contributed by a share of LBP 2,669 billion in the GDP by end of 2005.
- Tourism in Lebanon witnessed a significant growth, especially from Gulf citizens and Lebanese expatriates, which in turn revitalized investments in the real estate sector and re-assured trust in the Lebanese real estate sector.
- The prices of residential apartments in Beirut reached significantly high levels.
- The future prospects of the real estate and residential sector in Lebanon indicate further price increases, and an upsurge in demand as well as in supply.

# **INTRODUCTION:**

The Lebanese real estate sector has grown considerably in the last three years, in an unprecedented way, as a result of the considerable rise in the prices of raw materials on the one hand, and the high demand for real estate as a safe investment on the other. Arab investments account for the bulk of the total investments in the real estate market; particularly the Lebanese diasporas have emerged as key players in the buying and selling of real estate in Lebanon.

And since real estate prices in Lebanon are low compared with most countries of the world, the Lebanese market was affected by the wave of global price rises, which contributed to high real estate prices locally in conjunction with the high demand for this sector.

In the last quarter of 2008 and early 2009, there was a decline in the demand for real estate in Lebanon as a result of global financial crisis, and experts analyses were unclear about the path of the real estate sector trends in the near future. In this paper, we give a briefing about the developments in the Lebanese real estate sector in the near past and prospects for the future.

#### THE REAL ESTATE CURRENT STATUS

The value of real estate transactions recorded USD 4.3 billion in 2007 compared with USD 3.1 billion in 2006, i.e. with an increase of 34%. Land prices also recorded a rise of 20% on average, and about 145 thousand transactions of transfer of ownership were registered in 2007, compared to 122 thousand transactions in 2006, i.e. with an annual increase of 18.85%.

The real estate sector in Lebanon remained active during 2008, as the demand was not affected by the uncertain security and political situation, especially in the first half of 2008. These conditions allowed for a gradual increase in the prices in line with the developments in the preceding year. And in the second half of 2008, the Doha agreement contributed to the increase in demand for housing units, and thus to the increase in investments in this sector, whereby many projects were able to achieve significant sales, as one project registered more than 20 sales transactions in a few weeks. These developments led to an increase in prices between 30% - 40% during 2008, as a result of the rise in prices of primary building materials, high land prices, and the increase in the volume of demand for real estate.

In the last quarter of 2008, the demand for real estate declined as a fallout of the global financial crisis on the economies of most of the world. Despite the fact that the Lebanese economy is still far from the effects of this crisis, yet this period was characterized by a slow down in the Lebanese real estate market, at the levels of both demand and prices, with the expectation of buyers that prices will decrease in the light of the decline in the prices of raw materials, the declining world oil prices, and the effect of the euro exchange rate. Buyers prefer to purchase at prices or to wait until all the consequences of the crisis are revealed. And this is reflected by an increase in the duration of any sale procedure, and in the difficulty of negotiation, and in a decline in sales volume. On the other hand, construction dealers refuse to reduce prices or to become more flexible in their tolerance in buying and selling, as they are still cling to their positions and the prices they set based on the profits achieved in the past few years, the ability of Lebanon to overcome the implications of the crisis, and the return of the Gulf and expatriates' demand for real estate back to its initial levels during times of stability. Hence, all these reasons explain the stability of prices during the recent period.

According to data from the Directorate of Real Estate, real estate sales in Lebanon registered 167,054 transactions during 2008, with an annual increase of 21.8%. And the value of real estate sales registered USD 863 million, with an increase of 47.6%. Also, the average value of real estate processes registered about USD 38.81 thousand, with an annual increase of 42.5% compared to 2007. The rise in the value of the real estate transactions was the result of the sense of security in the Lebanese real estate market by expatriates and Arab investors, and this is reflected by the increase in the sales of real estate to foreigners by 21.9% compared to the previous year, to reach 81,709 operations.



Also, the increase in the real estate sales was associated by a significant rise in real estate tax revenues by 35.8%, according to data from the Association of Engineers in Beirut and Tripoli. And the size of licensed areas for construction registered 11 million square meters.

# **REAL ESTATE TRANSACTIONS IN LEBANON**

	<b>JULY 2008</b>	2007	2006	2005	2004
Beirut	3,432	6,355	4,941	4,637	4,694
Baabda, Aley, Chouf	10,432	18,219	13,580	13,008	13,582
Keserwan – Jbeil	5,630	7,773	6,026	5,799	5,135
Al-Metn	6,644	10,069	7,641	7,338	7,682
Tripoli & Akkar	3,707	5,681	4,546	4,680	4,655
Batroun, Koura, Ehden	3,211	4,541	3,383	3,791	4,181
Beqaa	3,525	5,732	4,377	5,151	5,566
Sidon	3,645	5,532	4,092	4,480	4,389
Nabatieh	2,237	3,787	2,441	2,680	2,819
Total	42,463	67,689	51,027	51,564	52,700

Source: www.databank.com.lb

# **ECONOMIC CONTRIBUTION OF THE REAL ESTATE SECTOR**

Lebanese real estate sector depends to some extent on tourism, which in turn contributes significantly to the GDP. The increase in the number of tourists inevitably signifies an increase in the number of hotels, residential complexes, apartments and other buildings which will be built or purchased to cope with the high demand rate. Arab investors are the major foreign investors contributing to the development of real estate sector in Lebanon.

The real estate and construction sectors registered a share of LBP 2,669 billion in the GDP in end-2005. It is expected that this rate has decreased in 2006 due to political conflicts in the country. But the sector's contribution to gross domestic product rose again in the years 2007 and 2008 at a rate of 15% annually, and it is said that the sector's contribution to the GDP growth increased by a compounded annual growth rate of 6.2% during the period 2001-2005. And the construction sector contributed by a share of 8.2% of the GDP in 2005.

#### THE ROLE OF GULF INVESTORS

During the past years, tourism in Lebanon registered a remarkable growth, especially from the Gulf citizens and the Lebanese expatriates, which in turn contributed to the revitalization of the real estate investments and the re-assuring of trust in the Lebanese real estate market, supported by the interest of Gulf businessmen to invest in this sector, both in the residential and tourism real estate fields.

It is worth noting that GCC investments in the Lebanese real estate sector is not new, but has grown significantly in recent years, particularly as the Lebanese real estate market has recently begun to register improvements in its indicators. More specifically, the real estate market is growing on many fronts, including hotels, shopping malls and luxury apartments, which are funded by Gulf investors and high income Lebanese residents and expatriates. It is worth noting also that the activity of investments was resumed after the events of September 11, 2001, as getting visas to Europe and America became more difficult. This in turn revived the trend for domestic tourism, and the increase of investments in the tourism real estate sector especially in terms of purchasing real estates in their vacation destination countries, of which is Lebanon in particular.

Lebanon has got the lion's share of Gulf investments, particularly in the tourism and real estates sectors, given that the country is attractive for investment in all sectors from several countries in the Arab region, particularly the Gulf. Also, the real estate sector in Lebanon still attracts more investments from the Gulf, despite the political and security conditions Lebanon faced in the previous period. Past experience has shown that such investments were not affected by the crisis in Lebanon, and these crisis were not followed by any decline in investments, or have forced Gulf investors to leave the country, noting that most of these real estate investments are for personal use.

In 2006, Gulf investors scored the second level, preceded by Lebanese investors, in the procurement of real estate, with a share of 40%, equivalent to USD 5.3 billion.

# DOMESTIC AND REGIONAL DEMAND

The strength of domestic and external demand for residential apartments in Beirut is attributed to several factors including:

**Demographic factor:** due to the annual natural growth of population and entrance of new age and economic groups into the real estate market each year to purchase houses or to replace their currently used ones with others of different sizes or regional locations. This demand is due primarily to the significance of the age group of young people and relatively high income buyers who seek purchasing residences instead of leasing them.



**Economic factor:** due to the increase in the incomes of expatriates, especially those working in the Gulf region. This has created a request for additional housing units. It is worth mentioning that the main source of expatriate demand is referred to those who have worked in the Gulf for the past 5 to 10 years and more, and were able to collect substantial savings, while new comers into the residential demand are facing difficulties in saving, with the exception of a few with executive leadership positions or employer statuses.

**Political factor:** despite the political situation, most Lebanese do not believe in the return of significant security turbulences or an internal war, and so they rate the country's political risk as low and not justifying refraining from investing in private housing.

**Pricing Factor:** the surge in the prices of housing units in Beirut (by not less than 20% per annum) stimulated a number of potential buyers to speed up purchasing residencies for one of two reasons: either to secure a residence prior to a further rise in prices and thus facing more difficulty in purchasing afterwards, or in order to take advantage of the current rise and thus make a profit on real estate capital. Indeed, all those who bought apartments during last summer have witnessed a significant rise in their prices, meaning that they have achieved a profit in a short time on the capital investment. And of course, many of those who buy today do so because of fears of further increases in prices towards the end of the recent political uncertainty, which in turn will stimulate a further external demand for real estate, particularly from the GCC.

# CONTINUOUS STRENGTH OF THE REAL ESTATE MARKET

The continuous strength of the real estate sector in Lebanon is the result of a combination of factors that can be summed up by a key factor, which is the strength of aggregate demand facing a limited supply.

# The size of the national economy:

The strong demand for real estate is attributed to the size of the Lebanese economy (local and expatriate) and the size of the population of more than four million residents plus more than two million expatriates who are still closely linked to the homeland. This is equivalent to a market of about six million people, many of whom belong to the middle and upper classes. But a large proportion of the expatriates belong to the upper income class or are owners of medium and large business, who can channel a share of their incomes into the real estate sector.

### Purchasing power:

This factor is affected by the chronic shortage in the supply as a result of the mode and system of sales operations adopted in the development and marketing of real estate in Lebanon, which relies primarily on the private financial capital of developers, and more significantly on the "sale of apartment while still on the map", and receiving the payments in installments for the price of successive real estate project. This system is considered as an important safety valve for the market, because it means that the developer does not begin implementing the project before being able to sell on the map up to 40% - 50% of the apartments. In this case, the developer will secure sufficient cash flows for the implementation of the project, and thus he will be able to slow down in selling the remaining percentage. Moreover, developers intentionally slow down in selling the remaining apartments in the hope of achieving higher prices as with the market continues to register higher prices

### SIGNIFICANT CURRENT REAL ESTATE PROJECTS

- La Residence by Ivana Trump: is a joint venture between DAMAC in the United Arab Emirates and Ivana Trump, to construct a building of 27 floors in the center of the city of Beirut, with and a total project cost of USD 150 million.
- Saifi Village 2: is a new residential project consisting of building a sixteen-story building overlooking the Mediterranean Sea and Mount Lebanon. This project is funded by Solidere in Lebanon and the DIYAR in the United Arab Emirates. The project will be set up in downtown Beirut.
- **Beirut Gate:** is a project worth USD 600 million, funded by Abu Dhabi Investment House in, and it is a residential and commercial project overlooking the sea, and the project covers 21.448 square meters.
- **Platinum Tower:** will be the highest building in Beirut, with the end of the year 2009, with a total cost USD 200 million. The height of the tower is 153 meters and will consist of 34 floors.
- **Phoenician Village:** is a multi-purpose project covering 260,000 square meters, and is considered the largest real estate development projects scheduled so far. The project will include four towers of 160 meters in height and will include areas for cultural activities, offices, homes and hotels.



#### **HIGH PRICES**

Prices of residential apartments in Beirut are at record levels; rendering the city and its luxurious regions out of the reach not only those with limited income, but much of the middle class who no longer can afford to obtain an apartment in Beirut for less than USD three thousand per square meter. This means that the medium sized apartment can be obtained for versus USD one million or more, noting that the upper floors or apartments overlooking landscape views may cost much more. And the average price range per square meter in most of Beirut now ranges between USD 4 and 5 thousand per square, while the price of residential buildings at the coast of Beirut reaches up to USD 10 thousand per square meter. And it is likely that the stock of apartments in Beirut will be depleted shortly, as finding a new apartment is now becoming more difficult due to the limited supply or the lack of intention by owners to sell in the future, in anticipation of further profits as prices improve even more in the future, especially after the parliamentary elections.

# **NEW PROJECTS**

The majority of new projects are being sold prior to their construction (i.e. between 50% - 70% of the projects). Consequently, these real estate projects are considered safe, and their owners can delay further sales, especially since many of them have recovered the cost of the development from the sale of the largest proportion of the apartments, and hence they can retain the remaining apartments, as a net profit of the process of development, and therefore are not in a hurry to sell at whatever price.

Despite the relative slowdown in the market, it does not seem that real estate owners are in urge to sell. This is a remarkable situation because it refers to the robustness of the financial strength of the developers and real estate owners in Lebanon. Yet this situation contradicts the reality of some Arab markets, which have witnessed the collapse of the primary and secondary markets due to the pressure on liquidity, the owners and the disappearance of buyers.

The outlook for the real estate and housing sector in Lebanon indicates additional rises in their prices, and an increasing demand in alliance with the growing volume of supply. It is likely that the contribution of this sector in the gross domestic product will increase in the near future based on the projected path in the sector .





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