

Developers will likely have a rocky ride ahead of them in the years to come as the Syrian conflict battles confidence and more supply comes onto a market with changing tastes

# Bumpy road to reality

Luxury real estate flounders as real incomes fall

By Jeff Neumann

**I**n some ways, reality is finally settling in with real estate developers in Lebanon. After years of unprecedented growth, the sector is waking up to the harsh effects of a continuing global financial downturn. Political and humanitarian crises in Lebanon and Syria have had a direct effect on sales and have increased investor wariness. And the ever-shrinking availability of feasible land has compounded an already chronic shortage of it in such a tiny country.

With those factors in mind, two clear trends are emerging this year: a move toward what some developers are calling “affordable” housing — smaller homes in Beirut selling for under \$500,000 per unit, by their measure — and the construction of gated communities on the periphery of Beirut.

Along with this, the continued demolition of many of Beirut’s cultural landmarks — from the classic French and Ottoman-style homes and

storefronts to neglected ancient ruins — in favor of luxury towers continues at a rapid pace. Legal and political wrangling over the city’s Roman-era Hippodrome downtown is unlikely to reach a resolution anytime soon, while Beirut’s Phoenician port was torn down on June 28.

While the country is without reliable and comprehensive figures for the real estate industry, across the board indicators suggest construction has tailed off. In the first quarter of 2012, the number of construction permits issued across Lebanon was down 3.5 percent over the same time last year, according to figures from the Association of Engineers of Beirut and Tripoli. Also in the first quarter, cement deliveries were down 4.2 percent over 2011. Put simply, it has been a rough year for the sector.

## A more affordable future?

While it has become more noticeable now, the rush to build smaller, less expensive residential

flats in Beirut is not exactly a new endeavor for some developers. According to Ziad Karkaji, real estate development manager at Premium Projects, his firm was ahead of the curve. "We anticipated demand for small to medium sized apartments two years ago, before many others," he says. Karkaji points to properties in Ashrafieh where, he says, "we offered apartments starting from 178 square meters (sqm) in a very prime location where other developers were still offering 400 sqm to 800 sqm units."

A relative newcomer to this segment of the residential property market, Nabil Sawabini, chairman of MENA Capital says, "We started to notice just over a year ago that there was a shift towards medium to smaller-sized apartments, and the shift was principally because the price per square meter went up considerably and people simply could not afford the larger apartments anymore." After years of catering strictly to the highest-end buyers, MENA Capital is looking to its new Bella Casa — a three-tower residential development — to broaden its portfolio of properties and, in turn, appeal to a bigger segment of potential homeowners.

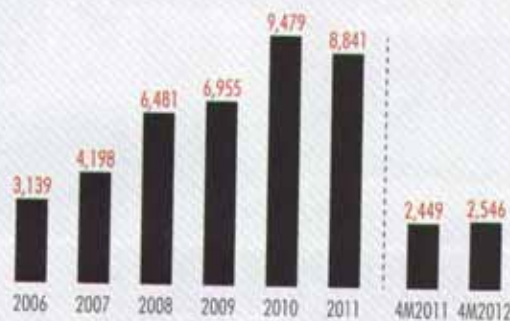
According to the latest World Bank figures, Lebanon's gross national income per capita as of 2010 was \$8,228, which puts it around the regional average. But it should be noted that "affordable" property, at least in the terms that local developers commonly refer to, pertains to a relatively small portion of society and purchasing power in Lebanon is overwhelmingly skewed towards a small, and richer, segment of society.

Pascale Saad, chief executive of Elie Saad Luxury Apartments (ESLA), says that even though luxury apartments are where developers have traditionally made their largest profits, the reality is that many Lebanese are now looking to spend well under \$250,000 on a primary residence. "Once we got to a point where we saw that apartments were not being sold, we had to really take a look at the demands of people," she says, adding that "if developers do not move in this direction they are not going to be selling."

And it is not only offering smaller living spaces that will keep the sector afloat during a downturn. Some developers, like

## PLATEAUIING PROPERTY

OVERALL VALUE OF PROPERTY SALES TRANSACTIONS IN LEBANON (\$mn)



Source: Real Estate Registry, Bank Audi's Group Research Department

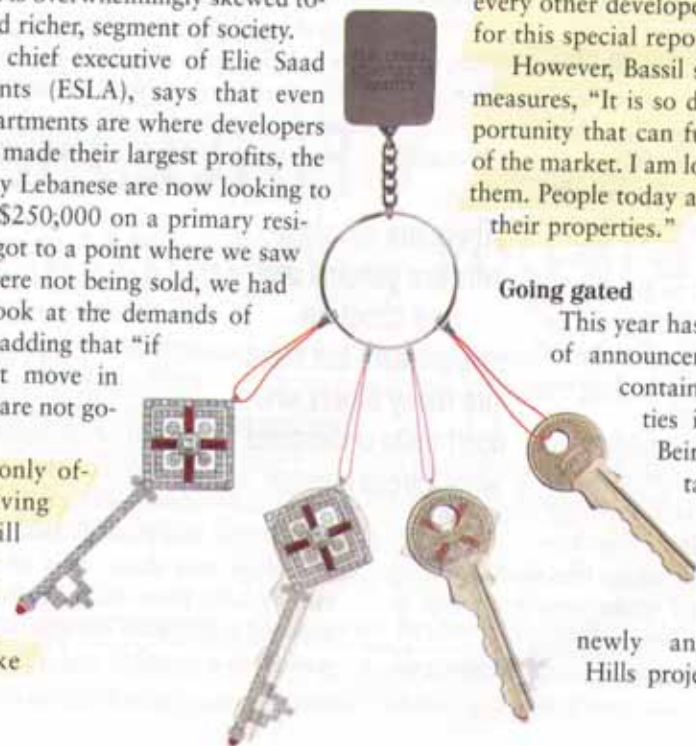
Karim Bassil, founder of BREI Real Estate Investment, are looking at any way possible to reduce operating costs and overheads, and with good results. "We have reduced our prices considerably in order to sell, and we have reduced our margins drastically," he says. "We have done this before other developers and now we are really selling fast." There seems to be a reticence in the industry to admit the true extent of the problem as Bassil declined to give specific figures relating to falling margins, as did every other developer EXECUTIVE spoke to for this special report.

However, Bassil says that despite these measures, "It is so difficult to find an opportunity that can fulfill the requirements of the market. I am looking and I can't find them. People today are asking so much for their properties."

### Going gated

This year has seen a steady stream of announcements for new, self-contained gated communities in areas surrounding Beirut. For MENA Capital it is Bella Casa near the Adlieh roundabout in Beirut.

ESLA has also joined in, with its newly announced Boutchay Hills project, which will over-





Beirut's historic Phoenician port makes way for the Greek goddess' Venus Towers

look Beirut. When completed, it will be a massive complex of 51 buildings with 550 apartments ranging from 80 to 300 sqm each, and an additional 7,000 sqm of green public areas for its residents' communal use.

Demand for gated community living is high, too. In just the first two days of availability, ESLA sold roughly 70 percent of Boutchay Hills.

Gated communities are meant to provide respite from a crowded metropolis, usually with wide-open spaces, self-contained shopping areas and a feeling that one does not need to leave their immediate area for anything if they so choose. The appeal is clear. But is a move toward this kind of living necessarily a good thing?

In a chapter on the Middle East in the book "Gated Communities: Social Sustainability in Contemporary and Historical Gated Developments", Samer Bagaeen argues that gated communities are stifling real, urban neighborhoods in many of the region's cities.

"Gated living is being advertised as offering the

very best of city living, which is about connecting with family, friends, and a 'life you've always dreamed about', offering urban life with all the amenities of a metropolitan center, and the added comfort of security of an exclusive community," Bagaeen writes. "Although privacy and exclusivity feature prominently in the material advertising of these sites, there is no mention of the older mechanisms, such as kinship and social solidarity, which gave rise to the form of traditional cities historically associated with the Middle East."

For now at least, a full-blown exodus from urban Beirut has not taken shape. But a combination of marketers preying on people's security concerns and selling an escape from congested city living, in addition to exorbitant prices per square meter in Beirut, the future could be a different story.

#### In search of green

With the apparent sector-wide shift toward both sequestered and sensibly sized living spaces, nearly all developers are starting to push the use of "green" technology — everything from on-site renewable energy sources to waste composting — for their new projects. Most Lebanese developers are late to the "eco-friendly" game and are rushing to cash in on what has been a profitable global enterprise for some time. But Karim Makarem, director at Beirut-based Ramco real estate advisors, is skeptical of some companies' claims. "There are developers who are genuine and care about the environment, but there are many others who don't quite understand what it means and they are using the word 'green' to encompass a lot of things," he says. "It is slightly misused as a word. There is very little appetite from end users for green projects which leads one to believe it is more of a [public relations] stunt than a real movement."

Marwan Youssef, sales manager at Seven Invest, boasts of his company's new 30-unit "One" community in Ain Saade — where villas sell for between \$2 million and \$3 million each — and its commitment to environmentally friendly practices, such as outfitting homes with solar panels and rain water filters. Nearly half of the site's original 1,000 or so native pine trees will be cut down during construction, but he says each fallen tree will be replaced by two more.

It is an ambitious project that benefits from sitting at the higher-end of the market, making its commitment to eco-friendly standards a tangible and affordable asset.

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### No longer a Gulf haven

A key component of demand in Lebanon looks to be shying away as the conflict in Syria spills into Lebanon and a steady stream of warnings by governments in the Gulf urging their citizens to stay clear of the country have clearly hurt the tourism industry. These warnings, most notably



by the United Arab Emirates, Bahrain and Qatar, may not have a direct effect on potential property buyers, but the overall political climate that spurred these warnings certainly does. A mid-June Bank Audi report on the real estate sector states that property sales to foreigners dropped by 20.3 percent last year, the first year of the Syrian uprising and a year that started off with Lebanon trudging along without a government. Five steady years of foreign property purchasing in Lebanon has finally dried up.

That leaves developers EXECUTIVE spoke to with one main target market: the Lebanese diaspora, which has always played a huge role in the real estate market, and little seems to be changing. "Our main target is Lebanese living abroad — people who have saved money for the last 10 years and want to keep a  *pied-à-terre* [foot on the ground] here," says Youssef of Seven Invest.

### Dark days ahead

According to Lebanon's Real Estate Registry, transactions across the country contracted 6.7 percent in total value last year, whereas in the previous five years annual growth registered at 32 percent on average. The first quarter of this year is looking somewhat better, with the number of transactions up 4.0 percent year-on-year. Like nearly every developer and analyst, researchers at Bank Audi attribute this slump largely to local political disputes and regional instability.

The effect on the sector is clear. As Pierre Bou Jaber, CEO and Partner at Ven Invest Holding says, "I am bearish for the next five years to come, at least." And some are even more pessimistic about the current state, such as Bassil of BREI Real Estate Investment, who estimates that Lebanon is perhaps in just the second year of a 10-year long slump.

"Today Beirut is so difficult. I may be wrong, but with such an oversupply of flats that will be finished in maybe two years, Beirut is going to have an enormous amount of empty flats," Bassil says.

On the whole, developers know that the glory days of unchecked growth are over and are adapting accordingly. But in the lean years ahead, those who are the quickest and most adept at change and forecasting trends will stand the best chance of sticking around for the next upswing, whenever that might come. 