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## Beirut with the brakes on

By Abigail Fielding-Smith

Unrest in the Middle East has hit the Lebanese city's building boom



The Corniche promenade in Beirut.



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The panoramic view is supposed to be a selling point for a new 15th-floor apartment on Beirut's seafront but right now its four master bedrooms are as empty as the turquoise Mediterranean stretching out in to the horizon.

"We used to have many people come to see it," says Wissam Habchi, marketing manager for Mena Capital, the investment firm behind the development. "Unfortunately, due to the situation in the Middle East, the market is freezing."

The \$7m property is one of the most desirable in the Hochar tower, a luxury residential block on the seafront in the final stages of development. A couple of years ago, it would have been snapped up, mostly probably by a Gulf-based client, before the ink was dry on the construction permit.

Now, however, like nearly a third of the other homes in the tower and hundreds of new upmarket developments across the city, it is struggling to find a buyer as the civil war in neighbouring Syria escalates.

The waves of money that have washed over urban Beirut in the past six years are drying up, leaving developers to consider a client base they haven't given much thought to for a while: middle-income local residents.

The boom, which began amid the rubble of the 2006 war with Israel, was initially driven by the hundreds of thousands of Lebanese who live and work in higher-income countries in the Gulf and elsewhere. The 2008 global financial crisis, from which Lebanon remained largely insulated due to its ultra-cautious banking practices, accelerated the flow of capital into Beiruti bricks and mortar. Well-off local residents and Gulf nationals, who used to come here to escape the scorching Arabian summers, joined the stampede.

At the peak of the buying frenzy, prices in central Beirut rose around 30 per cent a year. All over the city, the arched windows of French Mandate-era buildings that had survived the country's 1975-1990 civil war were demolished to make way for multi-storey investments. Tony Chakar, an architectural historian at the Académie Libanaise des Beaux-Arts, says the boom has been comparable in its psychological impact to the violent "modernisations" of Ottoman and French imperial administrators.

Demand was already slowing by the time of the Arab uprising in 2011, with even deep-pocketed expatriates starting to balk at the soaring prices. The eruption of a bloody civil war in Syria, and its inflammatory effect on sectarian tensions in Lebanon, has only made matters worse.

"We were selling a \$1.5m apartment every week on average," says Ziad Maalouf, chairman of Capstone Investment Group. "Now we're selling that every month or couple of months."

Due for completion in 2014, Capstone's L'Heritage project in the fashionable French-speaking Achrafieh district still has 13 of its 20 properties left to sell, mostly three-bedroom apartments going for around \$1m.

Nabil Sawabini, chairman of Mena Capital, paints a similar picture. "In 2012 most of the purchasing, if there was any to speak of, was from Lebanese living in Lebanon, and since the summer that has become even more restrained because of the political situation."

Theoretically, this should be an opportunity for local families who have been priced out of the market.

Anis and Rana, an engaged couple in their thirties, offer a fairly typical story. They were hoping to buy before getting married this summer but the cheapest apartment they have been able to find in central Beirut that meets their modest requirements is priced at \$300,000, with vendors usually requiring a 30 per cent downpayment. They both have good jobs – she is a development expert and he an IT specialist – and have been saving. Even with a little help from their families, and a bank loan, they realise this may not be enough. "I wonder what other people are doing," says Rana. "If we can't buy, who can?"

Some developers have begun building smaller properties, and ones further away from central Beirut.

Karim Basil, a pioneer of one-bedroom apartment building in Lebanon, believes economic necessity is eroding cultural prejudices against small apartments. "I always believed there would be a market for studios of 30 sq metres and 50 sq metres, and everyone was laughing at me," he recalls. Today, he argues, small is the safest trend. "Life is getting expensive and flats are getting smaller," he says in one of his elegant one-bed apartments in the Gemayzeh district, part of a new complex called Convivium VI. The smallest apartment here is just 36 sq metres, and sold for \$72,000 three years ago. So far, 95 per cent of the properties in Convivium VI have sold.

Mena Capital, meanwhile, has started work on a residential development in the suburb of Adlieh, with apartments starting at 120 sq metres. This kind of development may be encouraged by a recently-announced central bank stimulus package of nearly \$1.5bn, much of which is aimed at offering medium-sized low-interest housing loans.

However, others doubt whether the bulk of the market will shift to more affordable homes. Michel Abouzeid, managing director of broker National Properties, says developers get frustrated at the obstacles faced in doing business with local residents buying with bank loans, as opposed to wealthier customers who tend to pay more up front. Developers are more likely to look abroad for opportunities, he argues, or explore resort areas.

Capstone's Maalouf is encouraging people to buy in spite of the instability. "I know a lot of clients that want to purchase a home but that are being a bit careful these days," he says. "What I keep telling these guys is that prospects will get better, and then you'll have to pay more."

He obviously convinces some. He recently bought a plot of land in the Achrafieh district with 15 investors, and claims at least 10 of them intend to buy an apartment in it themselves.

Indeed, some argue that property in Beirut is unlikely to fall significantly in price, due to the small size of the country, its attractive combination of mountains and coastline, its reserve of high-earning expatriates and the tendency of developers to have relatively low leverage, reducing pressure for a quick sell. However Nassib Ghobril, head of research at Byblos Bank, dismisses such talk and insists the market is going to have to adjust to new realities of supply and demand.

