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Making the most of a bad market

THE BALL IS NOW IN THE PROPERTY BUYER'S COURT AS SELLERS FACE IMMENSE COMPETITION

Investing in a tight market is never easy. Choosing the correct product, paying the correct price, renting at the correct value, building the correct typology: these are much more crucial to achieve in a stagnating market than they are in a booming market. A slow market does not forgive mistakes of judgment.

Sitting on the supply side of the equation is the trickiest position in any market downturn. This applies — in different degrees — to developers, landowners, and landlords.

In such an unforgiving market, developers have the difficult task of building exactly what the market wants at a price buyers are willing to pay. Today, developers must juggle the choice of location, the product mix across sectors (residential, office, and retail), size, layout, construction quality, amenities and, of course, asking price. Any misjudgment on any of these parameters may make the difference between the success and the failure of a project.

For residential developments safe investments include small, mid-market residential units that still manage to offer three bedrooms in a classic residential neighborhood at budgets not exceeding $500,000. It is important to maximize the usage of space and offer as many in-built storage areas as possible.

Large and luxurious apartments have not been able to find buyers for the past several years. On the other hand, niche products that are in high demand can sell at 20-30 percent higher than the standard neighboring products. For example, a developer offering one-to two-bedroom studios with double height living areas and excellent finishing and fixtures in the area of Sursock can achieve very high sales ratios at a starting price of $6,000 per square meter (on the first floor) while neighboring projects average $5,000 per sqm on the first floor.

Beirut has never counted so many office developments as it does today. While there is demand for modern offices with an open floor layout, full amenities, services and parking spaces, sub-par office products are not attracting takers.

Developers also tend to include retail units on the ground floor of their projects to try to boost the sales returns. However, not all locations are adapted for retail development. Retail units should be limited to projects with unobstructed frontage on a main street that attracts traffic. Retail spaces should also answer demand in terms of sizes required and layout (façade vs. depth). While the majority of developers distribute retail over ground floor, mezzanine, and basement, retailers now want all the retail space to be located on ground floor level only. Retail units that do not address demand requirements remain vacant for years and can be harmful to the image of the project. In the long run, they could negatively affect the price of the units on the upper floors.

Ultimately, the price of new stock depends largely on the price of the land. Land accounts for roughly 30-50 percent of the overall construction cost, depending on the location, the quality of construction, and the profit margin the developer retains. In many cases, landowners refuse to drop their prices, putting excessive strain on final asking prices.

The problem is not limited to landowners. Property owners need to be flexible on asking prices to dispose of their assets more quickly. Landlords must reconcile asking prices with real property values given the post-boom-years downturn.

These high prices exacerbate stagnation. Landlords must understand that they can no longer retain pre slow-down prices. To successfully place one's property on the market under the current tight conditions one must lower house prices to their market values. This applies to apartments, offices, and retail units across Beirut.

On the other side of the equation, buyers and tenants only stand to profit from the current situation. While landlords are slow in aligning their prices with values that would be acceptable to end users or investors, they are more disposed to negotiate now than ever.

As prices are not set to start increasing in the near future, buyers and tenants should have stronger negotiation power. Time is on their side, as is the increased pressure on landlords who are serious about selling or renting their property to drop their prices.

So how to speed up a slow market? If you're selling, don't camp on your price. Be reasonable and listen to what demand wants. If you're buying, don't be afraid to negotiate — hard!