GEFINOR, BLOCK D, BEIRUT, LEBANON
Tel: +961 1 349 910 Fax: +961 1 753 573
www.ramcolb.com mail@ramcolb.com

ramco
REAL ESTATE ADVISERS SINCE 1973

Q3 . 2012

The Quarterly

INFORMATION & INSIGHT
INTO THE LEBANESE REAL ESTATE MARKET

This is a logical and sustainable market condition, one for which developers are willing to pay the price.

KARIM R. MAKAREM
Partner & Director

Letter from the director

In spite of the slowdown in the real estate market, the price of land continued to increase, while the price trends of the residential sector remained stagnant. During several months, professional developers held off buying new land, as asking prices were incompatible with the sales prices of finished apartments.

The vertiginous hikes in the overall prices of real estate between 2007 and 2010 brought a wave of "amateur developers," drawn into the industry by the seemingly easy money to be made in a booming market. These "apprentice" developers were most active in 2008 and 2009.

As market conditions became more difficult, however, newcomers started pulling out of the market. Those now left to build are professional developers who are an element of stability in an otherwise volatile market.

Professional developers know exactly how sales price trends are unfolding on the market and therefore they know what land prices are reasonable. These are the industry's heavyweights – a healthy sign for the future of the market.

Transactions taking place today are for plots that have held the same prices for the past 12 months or more. Anything else remains above fair market value and has much difficulty finding interested takers.

Only a few areas continue to see the price of land increase: Neighborhoods that are growing and that offer high future development potential (such as Mar Mikhael, Corniche el Nahr, Badaro, etc.), and areas that are becoming rare to find, such as seafront plots. This is a logical and sustainable market condition, one for which developers are willing to pay the price.

Top Five Largest Stock of Land

WHERE ARE BEIRUT'S LARGEST LAND BANKS LOCATED?

It is becoming more and more difficult to find vacant land in the most popular neighborhoods of Beirut. However, some areas still represent important land banks that have tremendous future development potential. While the potential of some areas, such as BCD's new Waterfront District, is well known and has the asking prices to prove it, others are less obvious or are still testing grounds that have not realized their full potential.

ESTIMATED LAND VALUES (USD/BUA)

BCD (BWD)	**4,000 – 5,000**
BCD (inland)	**3,000 - 3500**
Jnah	**2,000 – 2,500**
Corniche el Nahr	**1,000 – 1,500**
Karantina	**1,000 – 1,500**
Bachoura	**1,500 – 1,750**

SOURCE: RAMCO – SEPTEMBER 2012

Top Five
Largest Stock of Land

WHERE ARE BEIRUT'S LARGEST LAND BANKS LOCATED?

BEIRUT CENTRAL DISTRICT

BCD remains by far the largest land bank of Beirut. Dispersed plots still remain in the part of traditional BCD (inland BCD), around the Ring area, and in Martyrs' Square. These are large plots of land that represent a hefty investment at around USD 3,000 per BUA. However, despite their central location and their commercial potential, demand remains relatively shy and hesitant. On the other hand, the brand new Beirut Waterfront District (BWD) is the jewel in the BCD crown. This new city offers some of the most beautiful plots of land in Beirut, with breathtaking views and impeccable urban planning. Here, all the various uses work: hotels, offices, residential apartments, retail areas all have great prospects. However, being located in one of the most beautiful spots in Lebanon comes at a great cost.
RAMCO's estimated average land value (BCD inland): USD 3,000 – 3,500 per BUA
RAMCO's estimated average land value (BWD): USD 4,000 – 5,000 per BUA

JNAH

A relatively new residential destination, Jnah has been booming since the early 2000's. The area is the ideal playground for developers – they can have their pick of land, and almost endless options for allotments and developments. The area is dominated by a few developers with tight connections in very specific niche circles of clientele, predominately in the African diaspora. At USD 2,000 to USD 2,500 per BUA, the area allows developers comparatively wide profit margins, particularly as the area is not renowned for its high construction quality, despite the high asking sales prices of residential apartments. With still ample vacant land, the area has many more years of development ahead.
RAMCO's estimated average land value: USD 2,000 – 2,500 per BUA

CORNICHE EL NAHR

This is the future extension of Beirut City. One of the largest land stocks of Beirut, Corniche el Nahr is an area in the making. Some roads have been planned but not yet realized, making the area's full potential difficult to see for the non-initiated. However, professionals in the field enjoy prospecting for good purchase opportunities. Most of the area, however, is held by a few families, so "good deals" are rather difficult to come by. The area's location in one of Beirut's major traffic arteries make the plots bordering the Nahr Avenue ideal for commercial development (offices and retail), while the inside streets are becoming a residential destination, offering both individual buildings and large residential compounds. The price of land thus depends on its exact location and its development potential.
RAMCO's estimated average land value: USD 1,000 – 1,500 per BUA

KARANTINA

The area still has a large number of empty plots and many plots with old constructions that could be demolished and rebuilt. However, the area still has difficulty attracting investors. The name of Karantina carries a negative connotation as the area is still associated with the quarantine that gave it its name. Karantina is most famous for being the site of Sukleen's trash collecting truck hub, the slaughter house, the military hospital, and other industries. Of course, being a port area will always mean that the neighborhood can never rise to the stature of a "prime" location. Understandably, developers are therefore still reluctant to put a foot in the area. Karantina has definite development potential, given that it does offer a rare land stock at the very doorstep of BCD, but its prospective optimal returns do not justify the prices currently being asked for land.
RAMCO's estimated average land value: USD 1,000 – 1,500 per BUA

BACHOURA

Exactly across the street from BCD's Martyrs' Square, extremely easy to access, Bachoura is one of Beirut's largest land stocks and one of the most strategically located. On the downside, Bachoura is still perceived as a frontier zone – remnant of the Lebanese Civil War. It also borders one of Beirut's least attractive highways – Bechara el Khoury, and the neighborhood of Khandak el Ghamik. It is future potential, however, makes Bachoura a favorite playground among speculators. A new effort to create a business hub for the IT sector in Bachoura may give the neighborhood the needed boost to attract more developments. Developers are on the lookout for possible development opportunities.
RAMCO's estimated average land value: USD1,500 – 1,750 per BUA

Focus
Living in Badaro

PROJECTS UNDER CONSTRUCTION IN BADARO

Total number of projects 7
Total area (SQM) 31,747
Total number of units 121
Average unit size (SQM) 262
Starting asking sales price (USD/SQM)
3,000 – 3,500

SOURCE: RAMCO - SEPTEMBER 2012

The area of Badaro offers some of the best value for money apartments in Beirut. It is thus one of the most attractive alternatives to the expensive neighborhoods of Ashrafieh and other central areas of Beirut City where it is still possible to buy a new apartment at less than USD 3,000 per SQM in a pleasant environment. Badaro flaunts many advantages: It is centrally located with very easy access to the major business and entertainment centers of Beirut. It is also a sparsely populated area that enjoys calm, green spaces. The areas of Medawar and Horsh Kfoury are especially pleasant, with pine trees, and charming buildings dating back to the 1950's and 1970's.

SUPPLY

Seven projects are currently being built in Badaro, totaling almost 32,000 SQM of residential space and more than 120 apartments. The vast majority of projects offer apartments around 250 SQM with three bedrooms. Over the past several months, however, and following in the general trend of the residential market, developers have started offering smaller units. Several projects currently offer apartments varying between 160 and 200 SQM. One brand new project that is still in the pipeline (it has not yet broken ground, but has started the marketing process) has successfully sold one- and two-bedroom apartments.

DEMAND

Badaro caters predominately to families. Its proximity to Ashrafieh and BCD as well as its pleasant setting make Badaro a highly desirable destination for people looking for more affordable alternatives on the outskirts of town. Small units also have a ready client niche, as they answer the needs of investors looking for income-generating placements on the rental market. This is an interesting market niche thanks to Badaro's proximity to the French Embassy, USJ, the Grand Lycée Franco-Libanais, and Hotel Dieu Hospital, all of which could generate rental demand.

PROSPECTS

The area, located at the crossroad of several neighborhoods of Beirut, is characterized by the multi-confessional profile of its clientele. This plays both in favor and against Badaro. Despite its numerous advantages and its charm, the neighborhood is still shunned by some buyers. Having been a buffer zone between east and west Beirut during the 15 years of the Civil War, Badaro is still trying to shed this status and impose itself as a new middle market residential area. Badaro thus has tremendous future potential and is still undervalued. Such a pleasant neighborhood with so many advantages is bound to pick up at a faster pace over the next few years.

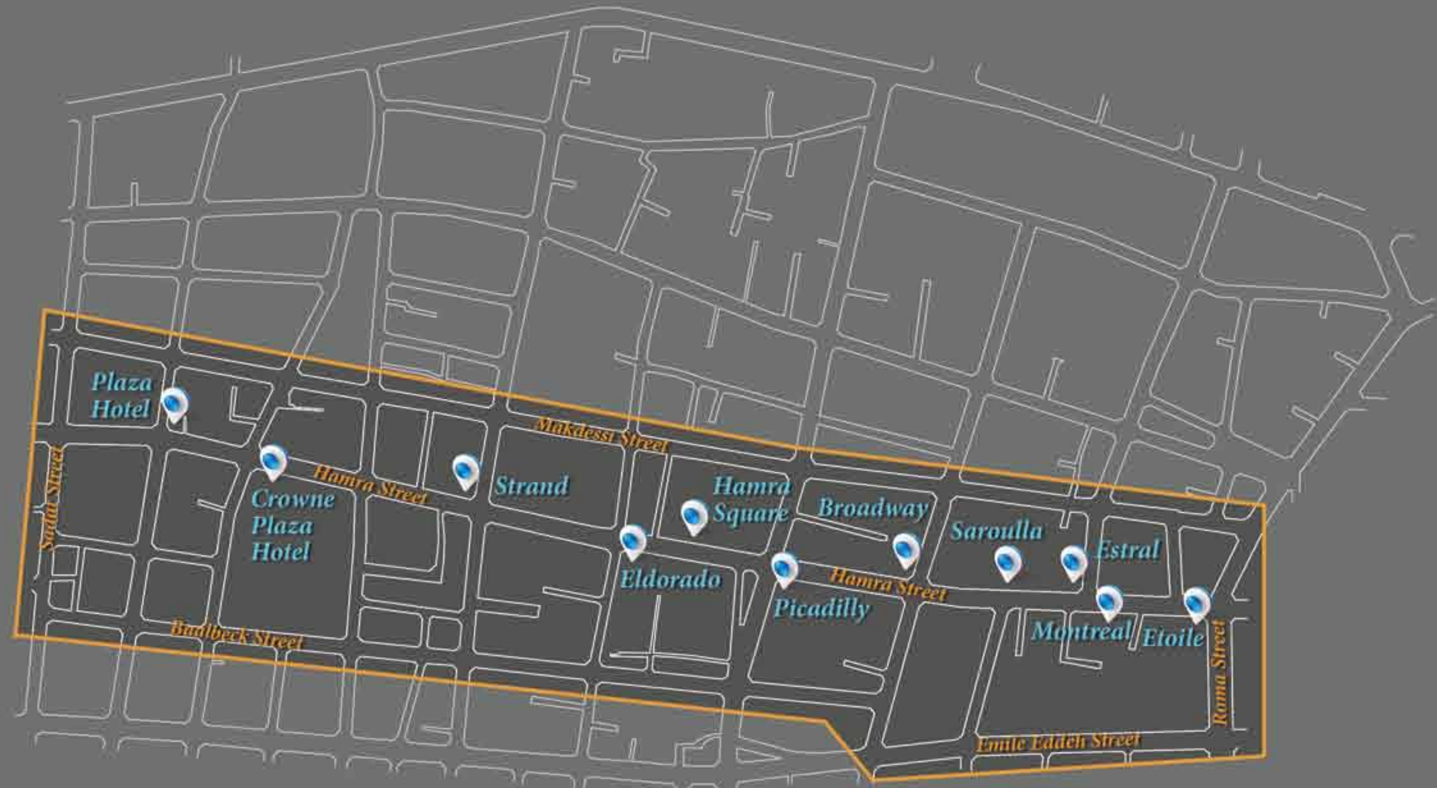
PRICES

Prices have increased by close to 60% during the past four years. New apartments could be purchased at between USD 1,900 and USD 2,000 per SQM in 2008. Today, prices start at around USD 3,000 per SQM on the first floor. Despite that increase, however, Badaro remains one of the most affordable residential neighborhoods on the eastern side of Beirut. It is still cheaper than even the second tier neighborhoods of Ashrafieh, such as Nazareth, Sodeco, Charles Malek, and some areas of Sioufi.

Snapshot

HAMRA

Hamra has retained its glitter, regardless of the number of competing shopping malls mushrooming across Beirut. Hamra Street is still indeed the busiest shopping thoroughfare in Lebanon. The street's success boosts rental values. Demand is mainly driven by the F&B sector and mass market international fashion brands. Over a stretch of about one kilometer, Hamra Street houses roughly 300 boutiques. That's almost one store every 6.6 meters! There are very few vacancies on Hamra, as only units too expensive or offering restricted visibility or no terrace remain empty.



From Etoile to Broadway

This eastern-most section is the least dynamic part of Hamra Street. Five ground floor units are occupied by banks, while the neighboring area is taken up predominately by public institutions, such as the Central Bank of Lebanon and the Information and Tourism Ministries. All these institutions have short working days, emptying the street in the early afternoon. Several shops are also still tenanted under the old rental law and survive only in the hope of cashing an indemnity to vacate the premises. The only interesting commercial activity taking place in the area is due to the fast food outlets of Kababji and Dunkin Donuts as well as the pubs in the Estral Center.
RAMCO's estimated rental values are around USD 800-1,000 per SQM per year.

From Broadway to Strand

This is the heart of Hamra Street and the part that is most in demand. The central stretch of Hamra Street has been slowly dominated by international fashion brands – the likes of H&M, American Eagle, Vero Moda, Bossini, La Senza, and Mothercare are constantly on the lookout for new commercial structures. Starting a few years back, the high demand for the area has allowed owners to be highly selective in the profile and renown of brands to which they agree to lease. Only leading brands that generate very high traffic can indeed afford rental values as high as USD 1,200 per SQM per year.
RAMCO's estimated rental values lie at around USD 1,000-1,200 per SQM per year.

From Strand to Sadat Street

The western end of Hamra Street (around the area of Abou Taleb) is booming: It is the logical geographical continuity of the tremendous success of the pubs of Makdessi Street. This has become a destination for professionals of the F&B sector. It is not a highly prestigious demand – the newest arrivals are made up of a hamburger joint, a pizza place, manakish and hot dog stalls. Long gone are the days when Hamra attracted such elitist cafés as the Horse Shoe and Modca, but the current supply answers existing demand. Retail units rarely remain vacant for longer than a few days and naturally prices follow. Despite its lack of glamour, prices in the area are close to those found in the prime shopping streets of BCD or Verdun.
RAMCO's estimated rental values lie at around USD 1,000-1,200 per SQM per year.

Zoom Offices on Sassine

HISTORICAL CENTER

Sassine Square is the uncontested historical heart of Ashrafieh. It is the place for public gatherings and demonstrations as well as public, cultural and artistic events. It is also a known business destination although only a dozen office buildings out of more than 100 in Ashrafieh are located in that neighborhood. Despite the fact that it is not a prime office center, Sassine and its immediate surroundings are a high-performing niche market. Future prospects are rather limited, as the area lacks vacant plots ready for development and is difficult to access particularly in peak hours. The limited stock, however, ensures the continued good performance of the sector.

Zoom
Offices on Sassine
TIER TWO DESTINATION

LIMITED SUPPLY
Ashrafieh counts more than 100 office buildings, but only 12 office buildings are located on Sassine Square. The majority are tenanted under the old rental law, so they are effectively not on the market, as they have a very low turnover ratio.

Sassine was not always a business destination. During the Lebanese Civil War, a number of local companies relocated their offices from the devastated Beirut City Center to Sassine. As there was a lack of purpose-built office towers, they rented residential apartments. Slowly, many residential buildings were thus transformed into office buildings, although they did not have the necessary amenities – no proper entrance halls, no adequate signage, no underground parking, and inappropriate floor plan layouts.

A few office buildings emerged in the 1980's and 1990's, around which the office rental market currently revolves. More recent projects have office units offered on the sale market. One recent office center, a classical building with no particular architectural charm, has been on the market since the summer of 2000 but still has office space for sale. Another project still under construction also has about 500 SQM of offices available.

Very few offices are available for rent on Sassine, as the market is predominately still tenanted under the old rental law with very low turnover rates. Only two recent office centers have offices to sell.

Overall, the stock is of mediocre quality, with minimal amenities and maintenance. Despite these drawbacks, however, while supply remains limited, occupancy levels will surely stay high – the market currently performs at between 90-95% occupancy.

SASSINE SQUARE OFFICE MARKET
Number of purpose-built office buildings 12
Average sales price (USD/SQM) 4,000
Average Estimate Rental Value (USD/SQM/Year) 200
Profile of Demand Small local companies
Office size most in demand (SQM) 100-200

LOCAL DEMAND
Demand, which started with local companies in the late 1970's continues to be driven by small to medium-sized local firms looking for offices ranging between 100 and 200 SQM. Demand typically comes from companies that cannot afford the higher expenses of the more renowned business centers of Ashrafieh, such as Charles Malek, or the newer stock along Corniche el Nahr.
Sassine, which is an affordable alternative, attracts local companies wanting to be located in a known business address. Offices on the first floors also attract banks, which often have branches on the ground floor and offices above them. Sassine Square is also attractive to a number of NGO's and para-governmental organizations or business-related associations, such as the Lebanese Businessmen Association. Only two major international companies are located in Sassine: Total and ADPI.

REASONABLE PRICES
The few offices that are placed on the sales market post asking prices of around USD 4,500 per SQM. After negotiation, however, effective sales prices can drop to USD 4,000 per SQM.
These prices, however, are slightly overvalued, as new stock in other areas of Ashrafieh, such as Saifi, Mar Mikhael, Mathaf, or Corniche el Nahr, range between USD 3,100 and USD 4,000 per SQM (on the first floor).
The comparatively high prices can be explained by the scarcity of the stock. As many offices have been on the market for several years, it is correct to conclude that these prices may be too excessive for their location.
Estimated rental values reflect an average of USD 200 per SQM per year. At such rental rates, the yield would stand at around 5%, which is a reasonable return on office rentals under current market conditions.

BCD Special

MAARAD NEJMEH SQUARE

Nejmeh Square is the historical center of downtown Beirut. It is a business and commercial destination as well as the location of a number of public institutions and places of worship. Nejmeh Square is the site of the Lebanese Parliament Building and it is famous for the Abed Clock that occupies the center of the square. With a number of French Mandate buildings dating back to the 1930's, unique arcade walkways on Maarad and Al Omari streets, the many restaurants and cafés, the area offers a unique setting that attracts strollers, families, and tourists. The entire Maarad-Nejmeh Square area is one of the rare pedestrian areas of Beirut, creating a convivial ambiance.

OFFICE SUPPLY

There are 39 buildings in the Maarad-Nejmeh Square area, 35 of which are exclusively office buildings. The area is thus a predominantely business and commercial address, much in demand by both local and international companies. The majority of the buildings are low-rise constructions of four to five floors that have been renovated during the reconstruction period. Only three new buildings were built after 2000, thus offering modern internal spaces and amenities within a traditional external architectural look. The older stock of offices means that the floor plan layout is of mostly small areas divided into individual rooms. The office supply is made up mostly of areas between 100 and 200 SQM, with very few open spaces. This in part explains that prices are slightly lower than neighboring Foch-Allenby. Rental rates vary between USD 250-275 per SQM per year. Very few units are for sale in that part of town. Only a few buildings are offered for sale in their entirety.

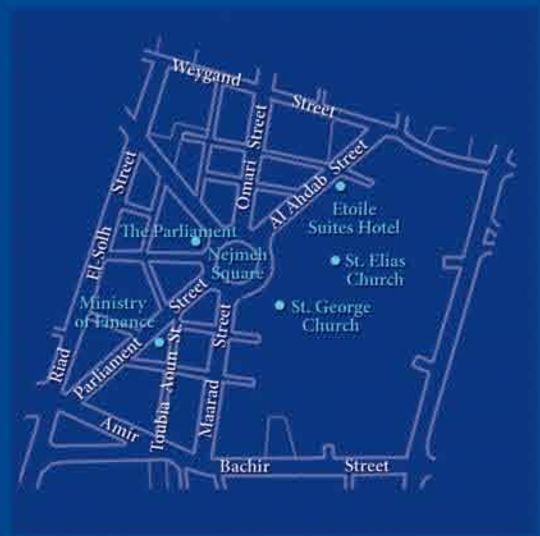
OCCUPANCY

Not all office buildings or retail units post the same occupancy rates. The majority of office buildings that are well maintained, with good common areas, post satisfactory occupancy rates. The three buildings belonging to Solidere as well as buildings belonging to religious Waqf (institutions) also have very few vacancies. However, more than 25% of the office buildings in the area are empty, either because they are in a terrible state of repair or have been abandoned for several years, or because they are placed on the sale market.

About 90% of the retail units on Maarad Street are occupied, while several side streets (Toubia Aoun, Souk Bazerkane, Maaniyin, Kaddoura) are totally neglected by shoppers and retailers alike. Some shops have stood vacant for several years, although they post relatively lower ERVs. The lack of pedestrian flux, however, deters retailers. A more attractive pricing strategy might help boost the area.

RETAIL SUPPLY

Maarad Street is one of the most popular destinations with tourists, particularly from the Arabian Peninsula and Gulf. The Maarad-Nejmeh Square landscape is dominated by the F&B sector, with 29 restaurants, cafés, and snacks, 17 of which are located on Maarad Street. The area caters mostly to a mass market clientele, offering mostly Lebanese food, nargileh cafés, and fast food outlets. It is not a destination that attracts high-end cuisine. Rental values depend on the size of the unit – the smaller areas are relatively rare and therefore quite expensive. ERVs vary between USD 1,000-1,500 per SQM per year. However, some side streets leading away from Maarad and Nejmeh Square, such as Souk Bazerkane or Toubia Aoun, receive very little traffic. Rental rates there have been dropping since 2006. There is very little – if any – demand in those streets, despite rental rates as low as USD 500 per SQM per year.



MAARAD NEJMEH AT A GLANCE

TOTAL NUMBER OF BUILDINGS **39**
TOTAL NUMBER OF OFFICE BUILDINGS **35**
VACANT OFFICE BUILDINGS **9**
TOTAL NUMBER OF GOVERNMENTAL BUILDINGS **3**
HOTEL **1**
OFFICE RENTAL VALUE (USD/SQM/YEAR) **250 – 275**
RETAIL RENTAL VALUE (USD/SQM/YEAR): Prime Location **1,000 – 1,500**
RETAIL RENTAL VALUE (USD/SQM/YEAR): Secondary Location **500**

SOURCE: RAMCO - SEPTEMBER 2012

ramco
in the
news

www.ramcolb.com

WHAT WE WROTE

IN L'ORIENT LE JOUR

The summer season has been relatively quiet, depressed by a highly volatile political environment at home and an explosive security situation in neighboring Syria. Despite a clear slowdown, however, demand persists and transactions continue, albeit at a slower pace than during the ebullient previous years because buyers still hope for a drop in prices (29 August 2012). BCD offers good investment options: Several projects offer interesting commercial space along high traffic axes (16 July 2012) and offices in good condition and in the most prized locations of Foch, Allenby, and Weygand are in high demand (15 September 2012). The summer was dominated by the residential rental market, driven by westerners working in Lebanon and a wave of Syrian nationals escaping the events of the last few months (31 July 2012).

WHAT WE SAID

"In Beirut's prime area, land prices ranged from USD 2,000 to USD 5,000 per BUA [and] between USD 800 and USD 1,800 per BUA in peripheral areas. [...] "
Prices Up, Sales Down in Lebanon – NuWire Investor, July 2012

"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."
Bumpy road to reality – Executive, 9 July 2012

"If [the new fiscal policy of subjecting real estate sales to 15% tax] was going to be done, it should have been [done] a few years ago when the market was strong. Now it is plateauing and needs support. This will not help."
Rent-a-mob – Executive, 9 July 2012

"The real estate market in Lebanon is still very healthy despite the stagnation that it goes through from time to time."
The real estate market in Lebanon is still very healthy – Al Moghtareb, June/July 2012

"Land prices have increased slightly although the supply offered on the market is limited, whereas apartment [transactions] stagnate, with the exception of those that are still offered at their 2010 prices."
Price hikes are at an end and Syrian nationals buy in mountain areas – Al Mustaqbal, 27 July 2012

"The [real estate] sector is still an attractive investment option to developers who see in it a safe alternative to financial products."
Real estate transactions drop by 3.41% during July – Annahar, 6 September 2012

WHERE WE APPEARED

RAMCO Founder and Managing Director Raja Makarem was interviewed by Voice of Lebanon's Carole Karam on the state of the real estate sector on 29 July 2012. He also appeared on Future News in July 2012. RAMCO also made an appearance in a report on the real estate prices in Beirut on CNBC Arabia on 17 August 2012. An-Nahar's "Five-Minute Interview" ran a bio of Raja Makarem in its 30 March 2012 issue, saying that despite the many ambitions that he still has, he is happy to let his two sons realize more successes for the company. Raja Makarem was hosted by the Arab Economic Forum, held at the Phoenicia Hotel on 10 May 2012.