Hayek Group
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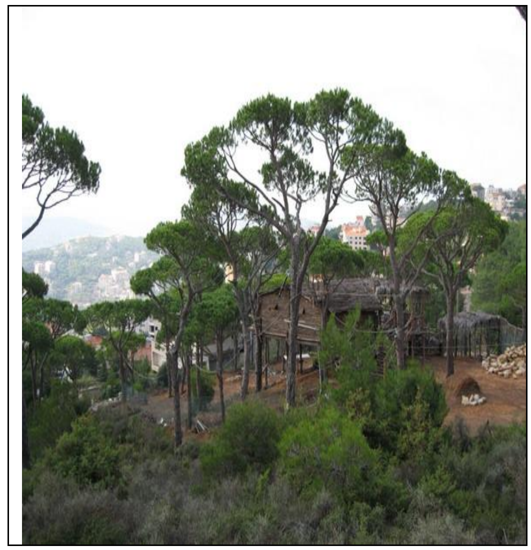
Since 1951

# A tasty treat

The Lebanese real estate market is giving investors something to chew on to digest the international financial crunch

At a time when regional and global real estate markets were experiencing a meltdown, Lebanese properties were quickly picking up steam. Incomprehensible? No! The dynamics are different.



When the crisis began 18 months ago, specifically in Aug of 2007, it was discovered that investment banks and other lending institutions were investing in sub-prime properties. Bad mortgage loans, heavy lending to suspect properties, faltering property bonds, and uncontrolled financing precipitated the collapse we're witnessing today. The failure of ENRON, WorldCom and Global Crossing in the US exposed the tip of the iceberg when it came to revealing top level corporate managerial corruption and today we're dealing with similar corruption in the financial system.

This was decidedly in Lebanon's favor. Faced with a bleak scenario in overseas investments, Lebanese Expatriates decided to choose their country's real estate market as a safe haven for their investments and savings, helping drive real estate prices by an average of 35% across Lebanon. This was feasible and encouraged by the fact that regulations set by the Central Bank at the start of the crisis limited investments in foreign financial markets and capped financing of real estate projects to 60% of the cost of development. This type of control is inexistent in US banks who list their real estate operations in "off balance sheets". Rapid expansion in financing real estate developments at up to 90% of the cost led to the eventual demise of US lending institutions.

Additionally, Lebanese banks are heavily invested in high yielding government bonds, adding a sense of security for investors. Lebanese banks communicate with each other very efficiently, immediately acting to protect the interest of depositors by defaulting loans or foreclosing on properties.

**Why is the Lebanese real estate market attractive?**

1- Prices are still below regional real estate market values
2- The market needs new apartments to absorb demand by expatriates and GCC nationals
3- The natural beauty of Lebanon and its recent political stability

**What are our expectations?**

We are experiencing a market correction. Stability in the current prices will last until March 2009, when the next US administration takes over. There will be no dramatic changes in the global market, but the flow of "terrified" funds and capital to Lebanon will carry on. More money in banks will lead to higher lending. Real estate prices will begin to rise again next spring, but the trend will be to also develop properties and not just to sit tight. Next spring will be accompanied by high expectations for parliamentary elections when copious amounts of cash are expected to be circulated. Increased confidence in democratic rule will encourage aid, foreign direct investment and strong backing to government institutions. In 2009, Lebanon won't have burdensome obligations towards its foreign debt when the Paris III loans come into effect. The international court investigating the assassination of former Prime Minister Rafiq Hariri will not yield adverse effects on Lebanon, but rather release tension and spur economic activity.

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**Hints**

The Lebanese real estate industry should implement new technologies and cost-saving methods to compete with the current crisis. Examples: sustainable energies, green building design and new managerial techniques for property development. The public and private sectors should market incentives to spur buying. The public sector should issue clear decrees about foreign ownership of real estate.

**Recommendations**

Real estate in Lebanon has never suffered severe price setbacks even during the country's darkest days. This trend will continue in the medium term (5-10 years). Investors are advised to purchase plots in Beirut and Mount Lebanon, with minimum ROI of 25-30% per annum. In addition, prices in other areas like mountain resorts in the North, coastal properties in the South and the Western part of the Bekaa all have high potential for a boom. They are already priced low, enjoy spectacular scenery and climate, and are located away from congested areas. Perhaps what is most attractive about these locations is people's generous hospitality.

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