

Lebanese Housing Sector, Who is in Charge?

Prime Real Estate investors in Lebanon raised interesting questions and concerns to Hayek Group. "I decided to shift my investment into purchasing land in Bucharest; I know it is a stable country in a stable region with excellent neighboring relations" said An American Lebanese who invested in land purchase and development in Maten, Baabda and the North. "I can afford to pay more taxes and public utility bills in return of Security and Stability". A UK based financial expert raised unpleasant concerns regarding the procedures of all relevant legal construction permits, housing Data and the zoning specially in mountain areas."Interest rates for housing loans are inadequate for middle income families", A Canadian-Lebanese graduate Engineer continued "...Infrastructure master plan for fast developed regions should be implemented accordingly"

The majority of the remaining concerns were specific regarding the possibility of a new recovery in the Lebanese market and when? And what are the areas expected to enjoy high returns in the future. I will try to answer such concerns:

1-Security and Stability:



Amid all the pros and cons of the late tragic security events, the Arab uprising and the Euro zone crisis, No sovereign country in the East or the west can afford to survive what happened to this country since 1975, when Lebanon was subjected to a catastrophic civil war. Beirut, the only Arab Capital to be occupied by Israeli army in 1982, Heads of state were assassinated since 2004 along with top national politicians. There was time when the

Lebanese government was paralyzed and divided between rival sanctions, not to mention the Syrian "occupation" for decades, the Israeli war in 2006, downtown sit in and strikes, yet the real estate market was holding steady on the uptrend. In a country where political rivals disagree on the country's past, present and future, what's the worst thing that could happen?

2-Regulations

Administration's bureaucracy is a major deficiency in the public sector. All efforts by the government to modernize the system are modest and ineffective. The lack of official and



reliable statistics in Lebanon makes a true discussion of housing market difficult. There is no reliable real estate price index. There is also no current survey of quality of housing which can be used to determine intrinsic values for houses.

The Private sector succeeded in offering efficient systems in the banking and mail service (Liban Post), insurance companies, ISPs, Media and many others, while promises of the public sector of modern system and an e-government are still on hold. This should be a major issue on the agenda of all candidates for 2013 elections. Citizens of Lebanon are fed up with such non responsible attitude of the successive governments. Parliamentary elections is supposed to establish new leadership to this country, if the people of Lebanon select the appropriate and qualified candidates to run the system for the next term, a great hope for a new era will arise. Public data should be analyzed and presented to investors in practical indices; candidates who can perform excellent data for their election campaign can easily issue a periodic housing index. Until then who is in charge of this vital sector? A question is raised to the current government.



3-Housing Loans

A "Credit" should be given to the Banking sector who invested in construction industry almost 18% of its \$42 Billion loans to the local market and an amount of \$7.5 Billion for housing loans which represent a modest risk. Yet the tripled interest rates (13%) are high enough to compete with max 4% in western global markets. For how long will the Central Banks support housing loans around 6% under the tight measures deployed on the local banks? This is an issue to be raised for the Central Bank officials.

4-Oil & Gas Exploration:

No doubt that Oil and Gas exploration will boost the economy of Lebanon. Britain-based Spectrum, which is surveying the potential gas reserves off the



Lebanese coast, says the country's southern offshore has over 25 trillion cubic feet of gas which is valued more than \$40 billion at current market prices.

In parallel, a three-dimensional offshore seismic survey,



which will be conducted by geosciences data providers Dolphin Geophysical and Spectrum Energy & Information Technology, will provide advanced information regarding prospective oil & gas presence off Lebanon's coast. It expected the survey and data to be ready by the end of 2012.



5-Economy Strength:

Lebanese economy enjoys an immunity which provides confidence to investors; Authorities should be credited for the freedom in investing, the credible banking sector, the tight monetary regulations by the Central Bank, the clean record for debt obligations, free mobility of capitals, affordable taxes and foreign reserves.

Business Monitor International maintained its forecast for Lebanon's real GDP growth at 2.8% in 2012 relative to 1.2% in 2011; Real estate transaction values dropped by 7% while real estate transaction operations dropped by 11.9% and sales for non-citizens dropped by 20.3%. Since 2006 till 2010 the real estate growth rate averaged 10%, building permits in 2011 totaled 16.4 million m² down by 6.8% while in 2010 it recorded an increase by 23.0%.

6 -Market forecast

Lebanon, no matter how many almost apocalyptic events it undergoes, has proven over the years that investments in lands are one of the safest and most promising investments to be made. However, a slowdown in this sector is inevitable in the upcoming months while distressed opportunities are emerging in increasing numbers. No doubt, apartments in Lebanon are witnessing a piercing decrease in demand; Lands however, are witnessing stability because "they" enjoy self-developed immunity.



Land investment in the Lebanese local market is attracting many real estate local funds developed for Lebanese and expats. Such investment is targeting an average IRR of min 23% for a mid-term not exceeding 5 years. Price will enjoy a rebound due to many factors including scarce of availability, affordable values and distressed opportunities. Saturated areas which enjoyed a fast price escalation and encouraging development will be out of the scope for the meantime, while underdeveloped areas are an excellent candidate for such investments.

The main question that is asked is: when will the **recovery** happen? And where are the hot regions to invest? Watch for our next newsletter!

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