

YOUR REAL ESTATE MARKET GUIDE

ASCOT

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WHEN POLITICS IS PUT ASIDE

The year 2010 witnessed a notable boom in the real estate market in Lebanon. The market continued to grow mainly driven by local and expatriate demand, while Arab involvement in real estate activities, although significant, was less compared to 2009. Lebanese banks continued offering affordable house loans and raising their value in parallel with the increasing property prices.



HOUSING LOANS IN LEBANON RAISED BY 50 PERCENT

The government-sponsored Public Institution for Housing decided to increase the value of housing loans offered by the institute to borrowers by 50 percent from LL180 million (\$120,000) to a maximum of LL270 million in an attempt to help citizens afford the rising prices of real estate.

This measure is intended to enable low-and middle-income families to be better able to afford the purchase of new houses especially with the prices hike witnessed in the last two or three years in Lebanon.

Lebanese real estate prices have grown at an average pace of 25 percent in the past five years with many economists attributing this rise to a real demand for all kinds of buildings, and from the Lebanese and expatriates and Arabs.

ASCOT data show that residential prices increased up to 10 percent in the first months of last year. Later, prices were stabilized and sales activities slowed down in reaction to political tension in the country. In contrast, land prices continued to increase in tandem with increasing demand for plots. The growth of demand for land indicates that real estate in Lebanon will continue to grow regardless of political tensions. Lebanon is a small country with beautiful geographical advantages where land is scarce. So, worries of bubble or regression in the real estate sector are unfounded.

The real estate sector in Lebanon is no doubt promising but the political situation is what makes us worry. But politics aside, all statistical indicators show that real estate in Lebanon will continue to grow in 2011 based on performance of previous year (see page 4). With every growing demand, it is expected for prices to go up. 2011 is no exception. We anticipate Lebanon's real estate market to grow by up to 15 percent in the next three years. Another factor of real estate growth in Lebanon is the gradual economic recovery in Arab and Gulf Countries, whose residents account for the major source of foreign investors in Lebanon's real estate market.

Soaring property prices in Lebanon has made news in the media and international real estate authorities like the Global Property Guide. According to the Global Property Guide, Beirut is 10th most expensive rental city in the world for expatriate housing in 2010, compared with its rank of 28 last year and in first place in the Arab world in terms of the price of a 120 square meters apartment (see page 2).

But political stability remains essential for continuous growth in the real estate market. Nevertheless, the Lebanese economy has demonstrated resilience that in the face of considerable political challenges. Lebanon has successfully weathered past crises without significant damage to its economy. Real estate is a rare commodity in Lebanon and it has proven over the past five years that it has gained enough immunity to overcome crisis. The last five years were marked by political ups and downs, including a war in 2006, but the Lebanese economy led by the real estate sector achieved big results that were uncommon in the whole world.

PATRICK GEAMMAL

ASCOT makes all the difference for your real estate needs. With decades of successful experience ranging from buying and selling properties, consulting and managing real estate investments, conducting insightful market research and feasibility studies, ASCOT is a one-stop address for reliable services with great returns for its customers.

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BEIRUT HAS THE MOST EXPENSIVE SMALL APARTMENTS IN THE ARAB WORLD ACCORDING TO GLOBAL PROPERTY GUIDE

According to Global Property Guide’s annual report on real estate investment trends around the world, Beirut ranks in 33rd place among 92 markets globally in 2010, compared to 52nd place in 2009, and in first place in the Arab world in terms of the price of a 120 square meters apartment. Globally, the price of such an apartment in Beirut was \$4,258 per square meter, higher than in Dubai, Berlin and Lisbon, and slightly lower than in Andorra, Warsaw, Ljubljana in Slovenia and Prague.

The Guide says that Lebanon has seen a spectacular boom in property prices over the past few years. It indicates that a 120 sqm apartment in Beirut that had a price of \$60,000 in December 2004 would now cost more than \$510,000. It added that rents have

been rising during this period, but not as rapidly as prices.

Further, Beirut ranks in 16th place, up from 27th place in 2009 and 35th place in 2008 among 82 markets globally, and in first place in the MENA region, in terms of the price of an apartment relative to its rent, or the Price-to-Rent ratio. This ratio reflects the years of rent that are required to buy an apartment of 120 square meters, and is typically used for measuring the undervaluation or overvaluation of real estate prices.

Beirut ranks in 25th place, up from 45th place in 2009, among 82 markets globally and in first place among 6 markets in the MENA region in terms of the Rent-per-Month of a 120 sqm apartment. Globally, monthly rent in Beirut was more expensive than in Dubai, Warsaw and Auckland in New Zealand, and slightly less costly than in Luxembourg, Vienna, Sydney and Cape Town in South Africa. Beirut’s was \$2,342 for a 120 sqm apartment, up from \$1,488 a year earlier, and higher than the regional average of \$1,715 per month and the Arab average of \$1,593 per month.

PROPERTY SALES ACTIVITY IN LEBANON MODERATES STARTING OCTOBER 2010

Lebanon’s property sector exhibited a strong performance during the first ten months of 2010, according to the Directorate of Real Estate. The sector benefited from strong economic growth, continued large remittances from Lebanese non-residents, population growth and vigorous tourism. In the same period of 2010, property sales transactions have improved coupled with increasing values of such transactions.

In details, the number of property sales transactions has reached 77,360 during the first ten months of 2010, up by 20.6% relative to the same period of 2009, and a historical high when compared to the same period of previous years.

The year-on-year growth in property sales activity has begun to moderate in July 2010, when it saw a single-digit growth, with this trend continuing through August. In September, property sales have seen their first year-on-year decline of a mere 0.6%, only for it to be followed by a higher year-on-year plunge of 9.3% in October 2010. Nonetheless, the drop in the number of property sales exceeded the drop in their value, reflecting a rise of 6.5% in the average value per property sale during October 2010. In the first ten months of 2010, the average value per property sale reached LP 149.5 million, up by 25.5% relative to the same period of 2009.



City	Gross Rental Yield (%)	Price-to-Rent ratio	Buying Price* \$US/sqm	Rent* US\$/month	Roundtrip Cost (%0)
Amman	8.00	13	1,157	1,152	15.24
Cairo	7.10	14	916	810	11.74
Marrakesh	6.63	15	1,994	1,321	12.13
Dubai	5.62	18	4,169	2,341	5.05
Beirut	3.30	30	4,258	2,342	11.57

*120 sqm apartment Source: Global Property Guide, Byblos Research

REMITTANCES INTO LEBANON AT \$8.2 BILLION IN 2010, A MAJOR DRIVER OF REAL ESTATE ACTIVITY

In its 2011 edition of the “Migration and Remittances FactBook,” the World Bank revised its estimate of remittances into Lebanon for 2009 upward, setting their value at \$7.6 billion, and estimated they would reach \$8.2 billion in 2010, the equivalent of 22 percent of total remittances to the Middle East and North Africa (MENA) region, as reported by Bank Audi’s Lebanon Weekly Monitor.

Remittances flows into Lebanon would grow by 8 percent in 2010, on the back of a recovery in the MENA region and globally.

Among the 12 MENA countries observed in the report, Lebanon ranked first in terms of remittances received, outpacing Egypt, which ranked second with a total of \$7.7 billion in remittances in 2010. Morocco came in third position with \$6.4 billion, followed by Jordan (\$3.8 billion), Sudan (\$3.2 billion), Algeria and Tunisia (\$2.0 billion each), Yemen (\$1.5 billion) and Syria (\$1.4 billion).

CITIBANK NOTES RESILIENCE IN THE LEBANESE ECONOMY TOWARDS POLITICAL CRISES

Citibank indicated that political crises are commonplace in Lebanon, noting the resilience the Lebanese economy has demonstrated in the face of considerable political challenges. Domestic deposit growth continued at a considerable clip throughout the decade, despite the Hariri assassination, the war with Israel, and the domestic political turmoil of 2006-2008. GDP growth recovered during the 2006-2008 crisis to register in excess of 7% in 2007 (mid-crisis), climbing to around 9% in 2008 and 2009. However, Citibank indicated that to a certain extent this resilience is a measure of the confidence of the Lebanese people, Diaspora and regional investors, as well as being a reflection of the economic potential of the country. If confidence in Lebanon and in the rule of law in particular were to dissipate, the impact on Lebanon's economic and fiscal performance could be severe, according to Citibank.



LEBANON'S ECONOMIC GROWTH FUELED BY TOURISM, CONSTRUCTION, FINANCE

A recent report released by the Institute of International Finance (IIF) indicated that the Lebanese economy boomed in the past three years, driven by a strong growth in tourism, construction, and financial services. The report was published by Bank Audi.

While the rapid growth is projected to decelerate slightly to 7 percent, down from 8.6 percent in 2009, it will remain strong, the second highest in the Middle East and North Africa after Qatar. Meanwhile, the IIF forecasted growth in 2011 to remain strong, at 6 percent. Inflationary pressures, although limited, have emerged recently due to the sharp rise in global commodity prices and the depreciation of the dollar vis-à-vis major currencies.

The IIF expects the overall fiscal deficit to narrow and the primary surplus to widen, supporting a further decline in the government debt ratio from 148 percent of GDP in 2009 to 136 percent in 2010 and 134 percent in 2011. The macroeconomic risks from the exceptionally high debt are

somewhat alleviated by the large foreign assets of the central bank. Political uncertainty may dampen banks' appetite to finance the deficit, but this is seen as transitory.

The rapid growth of the past few years was largely concentrated in tourism, financial services, and construction.



FOREIGN DIRECT INVESTMENT (FDI) INTO LEBANON AT US\$ 3.9 BILLION IN 2010

The Arab Investment & Export Credit Guarantee Corporation (Dhaman) issued forecasts for foreign direct investment (FDI) in Arab countries in 2010, in which it expected FDI into Lebanon to reach US\$ 3.9 billion in 2010.

Although this constitutes a drop in FDI in the country from the record high inflow of FDI into the country of precisely US\$ 4.8 billion witnessed in 2009, it is still deemed significant, as it is the third highest amount of FDI in Lebanon's history following 2008, during which FDI was at US\$ 4.3 billion, and 2009.

As a matter of fact, during 2008 and 2009, Lebanon saw an exceptionally high level of FDI, as the country benefited from the effects of the global financial crisis on neighboring Arab countries, thereby attracting capital inflows, specifically FDI into its economy, which remained more or less immune from effects of the global financial crisis. Here, it is worth noting that amid the global financial crisis, Lebanon saw high real GDP growth rates of 9.3% in 2008 and 9% in 2009, also benefiting from improved political conditions in the country.



CENTRAL BANK EXPRESSES CONFIDENCE IN LEBANESE CANADIAN BANK

Central Bank Governor Riad Salameh declared that the Lebanese Canadian Bank (LCB) is in compliance with Lebanese and international anti-money laundering regulations, and with the circulars issued by the Central Bank and the Special Investigation Commission against money laundering. He added that Central Bank fully supports LCB and has confidence in its management.

The governor's statement came in light of a decision by the U.S. Department of the Treasury to identify the LCB and its subsidiaries as a financial institution of primary money laundry concerns. The U.S. Treasury attributed its decision to the bank's alleged role in facilitating the money laundering activities of an international narcotics trafficking and money laundering network. It added that the network has used accounts at the bank to launder hundreds of millions of dollars monthly. Also, the U.S. Treasury's Financial Crimes.

CONSTRUCTION PERMITS IN LEBANON UP 23% IN 2010

Figures released by the Association of Engineers of Beirut & Tripoli and published in Byblos Bank's weekly report, construction permits in Lebanon reached 17.6 million square meters in 2010, constituting an increase of 22.7% from 14.4 million square meters in the previous year. Newly-issued construction permits totaled 1.93 million square meters in December 2010, down 34% year-on-year from 2.93 million square meters in December 2009. In parallel, cement deliveries reached 5.2 million tons in 2010, a rise of 6.7% from 4.9 million tons in 2009. Cement deliveries reached 399,621 tons in December 2010, up 25.2% from 319,094 tons in December 2009.

NUMBER OF TOURISTS TO LEBANON EXCEEDS 2 MILLION

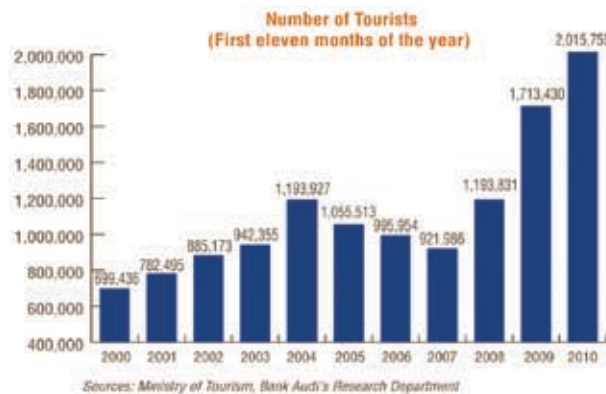
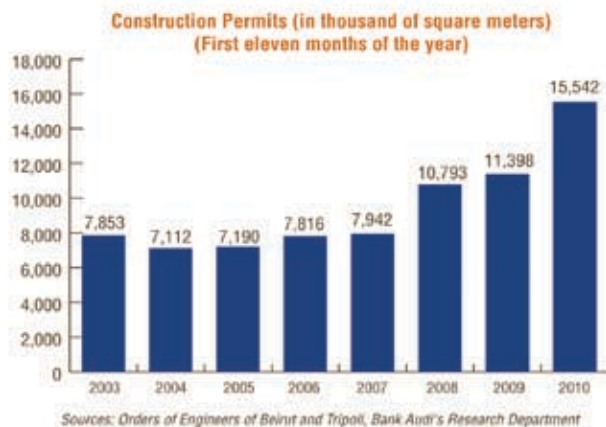
Figures released by the Ministry of Tourism point to a continuous growth in tourism activity during 2010, following an extremely vibrant year during 2009. Indeed, the number of tourists went up by a yearly 17.6% to reach an all-time record high of 2,015,755 during the first eleven months of 2010 versus 1,713,430 during the same period of last year. The number of tourists that visited the country indeed crossed the 2 million benchmark as forecasted early on during the year.

This proves that the country's hospitality sector continued to flourish, even during later months of the year during September, October, and November 2010 when political conditions in Lebanon took a downturn. Indeed, following a year-on-year increase of 31.8% in September 2010, the number of tourists visiting Lebanon went up by 15.7% in October 2010 relative to October 2009, only for them to increase by an even higher 17.9% during November 2010 relative to November 2009. The number of tourists reached 163,833 in the eleventh month of this year, compared to 138,940 a year earlier. The distribution of tourists by origin in the first eleven months of 2010 indicates that the majority of visitors were from Arab countries with 41.6% of aggregate visitors, followed by visitors from Europe with 25.1% of total visitors, visitors from Asia with 17.3%, and visitors from the Americas with 11.4%.

CEMENT DELIVERIES IN LEBANON ON THE RISE

Figures released by the Central Bank of Lebanon show that cement deliveries, a coincident indicator of construction activity, increased by 5.4% over the first ten months of 2010 as compared to the same period of 2009 to reach 4,416,811 tons.

This growth in fact reflects continued investments in Lebanon in infrastructure and residential, offices, commercial property, to cater for the high demand for real estate in the country. Cement deliveries represent a lagging indicator for construction permits, which increased by 41% in the first ten months of 2010 compared to the same period of last year. As for the month of October 2010, cement deliveries reached 548,373 tons, up by 6.2% year-on-year.



BEIRUT AIRPORT PASSENGERS ON THE RISE IN 2010

Figures released by the Hariri International Airport (HIA) indicate growth in air transport activity indicators during 2010. Indeed, the number of passengers at the airport, the number of planes, and loaded and unloaded freight, grew during the said period. Airline traffic witnessed a yearly rise of 14.9%, while passengers at the airport progressed by 11.3%. Total planes using the airport amounted to 66,122 while passengers at the airport totaled 5,510,214. Detailed aircraft activity suggests increases of 14.9% in landings and 15.0% in take-offs, with both attaining an equal 33,061.

As for the growth in passenger activity in 2010, it is worth noting that it precisely half the growth registered in 2009. Still, the growth in 2010 reflects a strong tourism activity in the country, as well as an ongoing

large number of Lebanese expatriates visiting their home country. Departing passengers increased by a yearly 11.8% during 2010 whereas arrivals went up by 10.7%. Arriving passengers totaled 2,757,939 in 2010 whereas departing passengers reached 2,752,275. The fact that the number of passengers arriving at the airport is almost equal to the number of departing passengers indicates that most visitors (Lebanese and foreigners) came to or left Lebanon for tourism, short visits, or business trips, but there was no significant activity of people leaving the country or returning to it for good. As to the transit passengers, they increased by 23.7% relative to 2009 to attain 40,311.