

Lebanese Real Estate market still growing despite all

I- July War: The Aftermath

Israel's bombardment has dealt a devastating blow to Lebanon's fragile economy, just as it was recovering from a years-long slump.

Israeli warplanes pounded bridges, roads, power plants, ports and grain silos as well as TV and cell phone transmission towers.

Lebanon's Finance Minister Jihad Azur has said that the damage incurred due to Israeli military strikes on its territory had cost his already-fragile economy half a billion dollars. "The direct losses due to the destruction, particularly the destruction of infrastructure, have reached [US\\$400 to US\\$500 million](#)," he said.



Ex-Minister of Finance Dr. Demianous Kattar at a lecture held in Antelias on November 2006 estimated the last war's damages to be more than \$6 billion including both direct and indirect losses. Lebanon without this war he added, was already falling behind evolving regional countries which were once dependent on Lebanon and the Lebanese as middlemen and strategic pioneers.

Also in a preliminary assessment the UN's FAO organization estimated the damages and losses incurred by sectors of the agriculture and marine life in Lebanon due to the last Israeli war, at about \$280 million in addition to the indirect losses of retail markets and job opportunities.

Many shops and businesses, including some major factories in eastern Lebanon that were bombed, have temporarily closed as many employees stayed home.

[Even garbage collectors fled the country.](#)

But while the economic and humanitarian impacts of the war were severe Hayek Group as well as many experts; believes that the effects on the country's real estate sector seem limited.

II- Lebanon's Real Estate sector stands unaffected

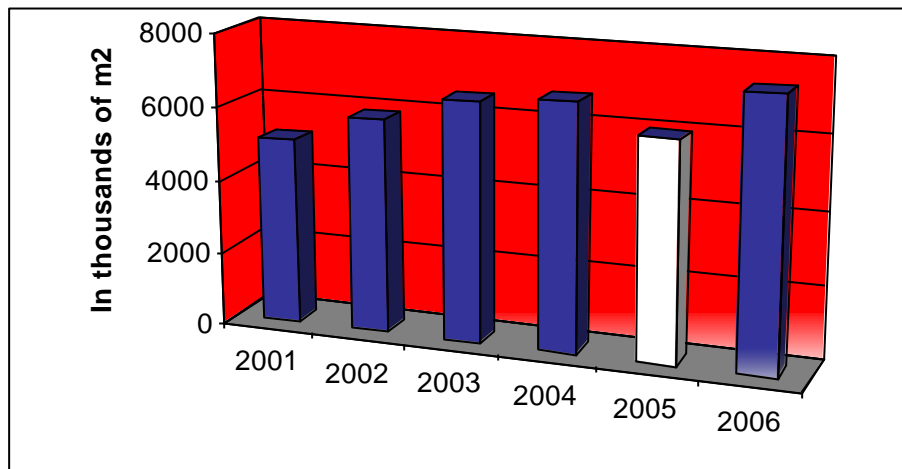
While most economic sectors were striving, the real estate sector in Lebanon preserved an uptrend as the Israeli war had little effects on its market. Instead the market is expected to grow and expand in the near future.

Some brokers insist investor confidence in the market is unshaken while prices remain static.

Most Lebanese and Arab investors preserved their investments in Beirut Central District despite the 34-day war that left 1,200 dead and caused over \$3.6 billion in material damages.

With thousands of destroyed houses in the South and the Suburb, construction is expected to increase trickling the development of more affordable housing options outside the BCD.

Construction Permits chart
(Till Sept. 2006)



Source: Order of Engineers

Cairo based EFG-Hermes expressed confidence that the giant real-estate company Solidere will be able to override the negative effects of the war on Lebanon and maintain its steady profits.

It added that there are several reasons for a positive assessment: a very low probability of a resumption of hostilities due to the high costs incurred on both sides; the likely return of Arab tourists, Lebanon's strong financial position and a

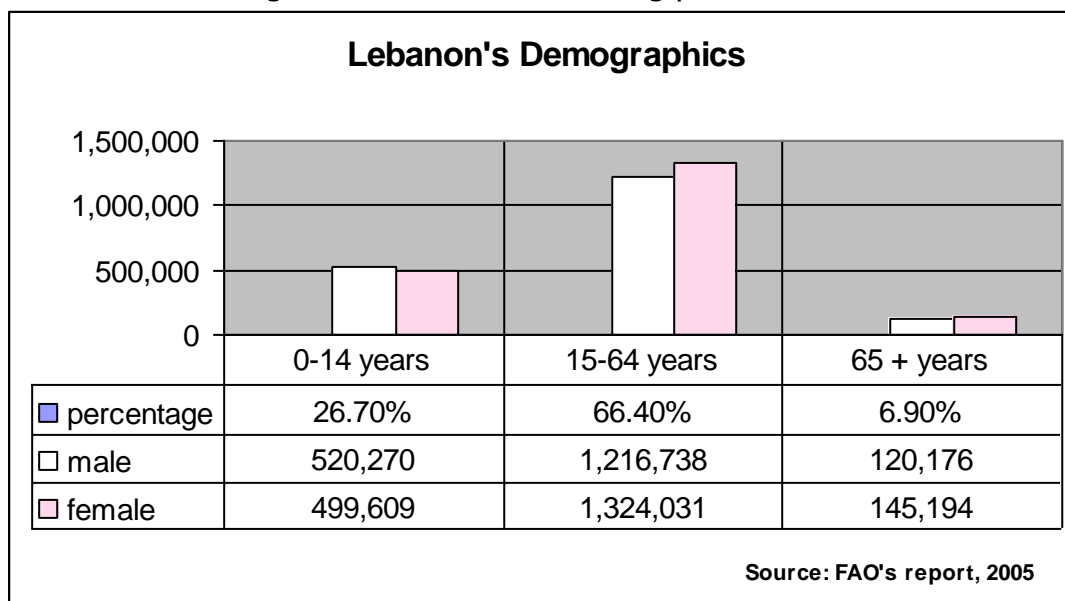
continuous demand exceeding supply. But it warned that such positive outlook is dependent upon domestic political stability.

Such dilemma of unaffected growth in the real estate sector in Lebanon can be attributed to the land restriction or the law of diminishing returns.

Land area in Lebanon is small about 10,452 km² (4,035 mi²), making it the 178th largest country in the world. Most of that area is mountainous terrain, except for the narrow coastline and the Beqaa Valley (an integral part of Lebanon's agriculture).

Moreover Beirut's area of 19.8 km² compared to Egypt's Cairo (210 km²) or that of KSA's Riyadh (1,554 km²) seems very small and signals limited and diminishing investment opportunities.

Add to that the Lebanese Population of about 3,826,018 (July 2005 est.) is constituted of an Age structure of the following pattern:



Compare to USA , Germany and UK

Therefore the majority being middle aged makes them potential customers for lands and housing. Whereas the construction rate although high, does not match the prevailing need; which brings us to an internal growing demand for construction and housing without mentioning commercial and foreign investment inflows.

Consequently as demand increases so do price and as supply shortens you'll have to delegate more. Presently, the occupancy rate for retail and commercial

space in Beirut's central district is running at approximately 98%, giving little leeway for business to grow without further construction to ease demand. Added to this is the overheated demand for residential properties in the inner part of the city, where there is almost no supply.

Moreover the inflow of donations, in particular from the Arab Gulf countries, especially the \$1.5 billion deposited **the central bank** by Saudi Arabia and Kuwait strengthened the banking sector such that the ministry of finance rescheduled some taxes and created an SME support fund. Already home owners whose homes were damaged in the war have been granted a 24-month grace period from paying monthly installments on their housing loans.

Therefore rebounding from the devastation of the last war, land sales and construction are expected to become the driving forces in the Lebanese economy.

Finally an early recovery for the real estate market hinges on an improved political situation which will win back investor confidence.

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