

Will Beirut Turn Into a Second Dubai?

“Lebanon needs a guardian angel.”

Engineer Abdallah Hayek, CEO of Hayek Group, sat down for a long discussion with EKARUNA about the current state of the Lebanese housing market. The outlook he predicts is quite bleak, but not without a fix. An imminent housing crash is on the horizon, he predicts, having written several articles on the topic since August 2011. Though Hayek maintains that he is not pessimistic, without immediate action Lebanon may become a second Dubai before the year is through.



IMMUNITY BEHIND TROUBLE

According to Hayek, the crisis at hand has nothing to do with current events, like the violence in neighboring Syria spilling over on to Lebanese borders. Throughout Lebanon’s turbulent history of assassinations, political strife, Israeli aggression and times of no government, security, or authority, the local real estate market has proved time and again to be immune to such factors. Even during the global crisis in 2008, as countries worldwide suffered financial damages detrimental to their real estate

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sectors, Lebanon’s market remained in the clear. Having survived all this, why would the local housing sector be in danger now? It is precisely that immunity that has gotten us into trouble, says Hayek. During the Lebanese Civil War and other turbulent times, Lebanon witnessed a high

migration rate of its citizens to the Gulf and other areas where they prospered and ejected funds into a stagnant Lebanese market. At the time of the financial crisis, the demographic of expats that returned from overseas were seniors, executives and CEOs with money to spend at home. These expats sought out residences that could provide them with the same kind of luxurious lifestyle that they experienced while living abroad. Throughout 2008-2010, there was massive demand for high-end residences. In addition, residents of the Gulf have always had an eye on the Lebanese market, especially due to government incentives that allow non-residents to own properties in Lebanon. These factors have affected the housing market, prices held firm, and it seemed that the country was immune while the rest of the world suffered.

AMATEUR DEVELOPMENT...

A PROBLEM

Due to that surface view, market sentiment became overly confident. So confident, that nonprofessionals made an attempt to enter the real estate market. “They just started building,” says Hayek. “Buildings rose up in the wrong locations with the wrong designs and specifications. Prices are also inadequate. They’re facing a huge problem selling off these properties because they

made amateur mistakes.” People are building in certain places because everybody else is building there. It becomes a vicious cycle that perpetuates itself.

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THE REAL DEMAND

In the current market, demand has slowed greatly for the high-end. Demand is now coming from local middle-income families. What they are looking for are units at 150 sqm and below, making the market heavily reliant on small to medium housing units. “But that is just the story demand tells,” says Hayek.

ABSENCE OF INDICES

Hayek goes on: “It is difficult for investors to invest in a market without certain preliminary pre-requisites – especially in the housing sector. Data and indices are all

needed for analysis of financials from the time of construction, to project consumption to completion for an investor to better penetrate the market. We don't have this at all. This country is closed on itself. We have all the data, we have all it takes, but no one is taking the initiative."

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Hayek says that the lack of guidance from proper authorities, the lack of a public Housing Index similar to the Schiller Index that predicted the market crash in the US as early as 2006, is exactly what is going to bring the housing market tumbling down. "We have a market full of nonprofessionals with no experience in the sector, with improper regulation by the authorities, and no adaptation to the mentality of local buyers. So far, the banking sector has shouldered the burden and helped extend the lifeline of a healthy market. But how long can it keep doing this? It's unlikely that the market can last the year with only the banks supporting it."

SLOWDOWN INDICATORS

"Two months ago, when we needed ready mix concrete we would have had to wait days for our supplier to obtain it. This weekend, we called them for supplies and it was available on the spot. We used to have to wait in line, even early in the morning, when we wanted to obtain permits from City Planning (technical) offices. Now you walk in at noon and you

can go straight in. The market is obviously slowing down dramatically."

"These are the on-ground market indicators not revealed in the media", says Hayek. The higher authorities can't possibly know about it because they don't work on the ground. "Bank reports, construction permit data reports, etc., aren't real market indicators. Graph data goes up and down on a monthly basis," he says.

MODERN PROCEDURES NEEDED

"Providing the necessary information to local and foreign investors is one part of fixing the problem", says Hayek. Lebanon is in dire need of a housing index accessible to the public and especially all concerned parties in the real estate sector. Without such an index, haphazard, trend-based building and investing will continue to be the way the market operates.

Authorities should apply modern procedures for all transactions to do with the real estate sector starting from land purchase to legal permits to final housing permits. Hayek goes on: "The local government should consider the housing sector and real estate market as a priority. We need a ministry of housing."

In Lebanon, the Ministry of Finance controls a part of real estate transactions, the Ministry of Public Works is in charge of another, and so on and so forth. The real estate sector is scattered among different offices. "If you want to build a building, you have to visit several different ministries for every separate transaction. It's ridiculous. There is no centralized service for the investor in the real estate market," he says.

Apparently, the same goes for information concerning the market. The data for a proper market index is available, scattered throughout the different offices. Bribery can get a person what statistics they request, but what should be kept in mind is that in other countries such data is made freely available to the public, while in Lebanon, it is guarded.

A GUARDIAN ANGEL IS NEEDED

"Lebanon's housing market needs a guardian angel," Hayek says. This angel comes in the form of an advisory panel or round table committee made up of various professionals from all those involved in the real estate sector to safeguard it – to prevent a future crisis and monitor the market from the inside.

"The Dubai government did it, but only after the market crashed. I'm saying we need to form such a group immediately, as a preventative measure before we fall and hurt ourselves. Let's put it this way. A developer takes out a loan to build a project. An end user buys a unit of the project off-plan. If the developer has insufficient funds to pay the loan because he cannot sell off enough units, then the bank will stop lending. If the bank stops lending and the developer runs out of finances, construction comes to a halt. The end-user will also stop paying. No one goes anywhere. On a large scale – the market will end up suffering," he concludes.

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What an ad-hoc panel could do is sit down and evaluate such problems and come to some sort of agreement with all three parties to resolve them.

"There needs to be a lot more involvement than just building, buying and selling haphazardly," says Hayek, "We can still save our market because it's young. But we need the right authorities to step forward and take responsibility."