Lebanese Real Estate: A Safe Haven

November 13, 2010

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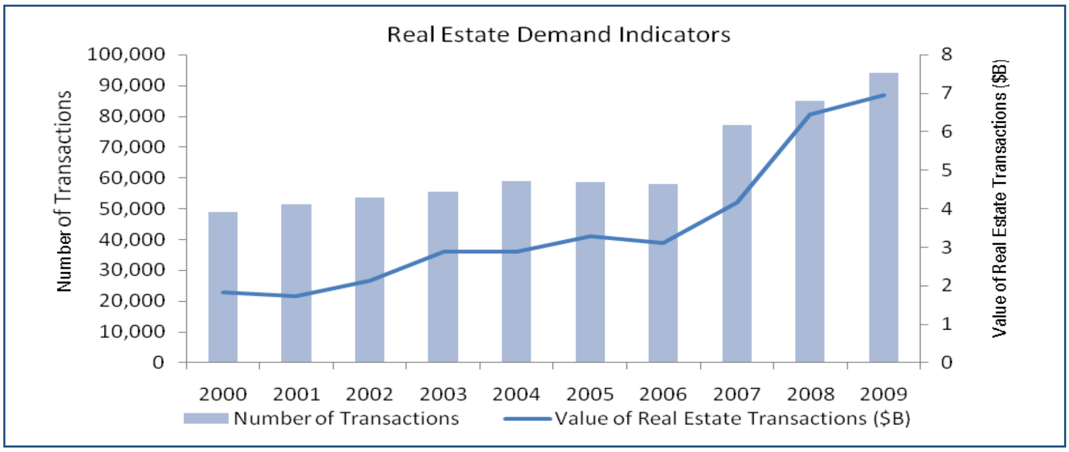
Real Estate demand expands on the back of domestic, Arab, and expatriates' investments; attractive tax system, liberal financial environment, and favorable laws

Expansion of demand, scarcity of land and rising construction cost exert an upward pressure on prices

Demand remains strong as local prices have been undervalued for a long while; the central bank's measures limit speculation and make the local market an end-user one



Source: Lebanon Opportunities

	2004	2005	2006	2007	2008	2009
Total FDI in Lebanon ($M)	2,333	2,629	2,669	1,996	2,664	2,674
Average Oil Prices ($)	41.46	56.70	66.25	72.36	99.75	62.09

Source: IMF, Reuters

Real estate investments in Lebanon have proven to be a safe haven for nationals and foreigners in the last decade. Despite the frequent local political bickering and the current global economic difficulties, several factors are providing a solid platform for the growth of the Lebanese real estate sector, with both demand and supply on the uprise.

Demand for property grew impressively on the back of domestic, expatriates, and Arab investments. Around 50% of total Arab Foreign Direct Investment (FDI) is targeted towards large property developments in Lebanon. There are no official figures on how much Arab nationals invested in Lebanese property in the past few years but the holdings of raw land by Gulf Cooperation Council (GCC) investors in Lebanon totaled 2 Million square meters (sqm) in 2005, up from 0.5 Million sqm in 2002 and increasing steady since then. Most of the investments come from Saudi Arabia, Kuwait and the UAE, and are oriented towards residential, commercial, and touristic projects. Gulf citizens invest mostly in Beirut and the Southern Metn region but recently expanded to cover the regions of Northern Metn, and Kesrouan.

Lebanese Diaspora is a major support to the real estate sector in Lebanon as it accounts for more than 40% of the demand of real estate. The flow of expatriates' remittances is about $7 billion annually, and has been rising by an average 18% since the start of the decade. The transfer of fund contributes to boosting the purchasing power of residents, fostering an increase in local demand for goods and services, among which is real estate. The recent global crisis as well as Dubai's troubles has benefited Lebanon on that front: As the global banking sector was hit hard by the crisis, Lebanese expatriates transferred their funds to Lebanese banks, and many of them returned home with their cash. In addition, expatriates' investments are not solely driven by fundamentals and sound business practices, but are also the result of strong emotional ties with their homeland. This generates the willingness of non-resident Lebanese to purchase and own apartments in Lebanon, driving demand for real estate further up.

The demography of Lebanon contributes heavily to the high real estate market demand. The Lebanese population has been steadily growing over the last two decades by an average of 2.4% in the 1990s and 1.3% in the last decade. This reflects a relatively young population when compared to developed economies: the median age for Lebanon is 29.4 years, compared to 39,7 for France and 44.3 for Germany, with more than half of its population below 30 years. The importance of this young population lies in the high number of young couples that are getting married each year with a significant portion buying apartments and contributing to a higher real estate demand.

Among the major investment drivers that propel national and foreign investments towards the real estate sector and thus contribute to high demand, is Lebanon's attractive tax system that reflects one of the lowest fiscal charges worldwide, with maximum tax rates of 15% for companies and 20% for individuals. The Lebanese Ministry of Finance imposes a 0.3% municipality fee, a 0.3% stamp duties fee and a 0.1% lawyers' syndicate fee on the buyer. Additional 0.1% is imposed if the registration takes place through a notary's office rather that the real estate registry. Real estate registration fees have been reduced from 6% for national investors and 16% for international investors to 5% for both. Moreover capital gains made by individuals on real estate are exempted from any kind of taxation.

Another factor explaining the tremendous amount of investments, particularly Arab ones, lies in the nature of the local economy, which embraces a free Laissez Faire market whereby free enterprise and private initiative are the leading drivers of the economy. Lebanon adopts a liberal financial environment with a free foreign exchange market, full currency convertibility policies, banking secrecy law and no restriction on the movement of capital, which makes the country ideal for conducting business. Furthermore, the country holds a well-developed, transparent and non-discriminatory legal framework that protects private property and provides Lebanese and Non-Lebanese with equal business rights.

Favorable laws for foreign ownership ease the legal limits on foreign ownership of real estate properties in Lebanon, and stand as another important factor behind the Arab capital inflow towards the sector. The availability of investment promotion agreements between the Lebanese government and foreign countries' governments support and sponsor investments and improve the business climate for investors. For instance, the Inter Arab Investment Guarantee Corporation and the National Investments Guarantee Corporation partially insure inter-Arab investments and offer risk mitigation advantage to investments made in Lebanon. In addition, large projects that go through the Investment Development Authority of Lebanon (IDAL) will enjoy tax-free profits for a period of 10 years, with a maximum 50% reduction in permit fees for construction works. IDAL's services offers investors a quick and smooth way to get the financial permits and licenses needed to implement their projects.

The growth in real estate demand in Lebanon over the last decade was a bit tamed over the period extending from 2004 till 2006. Local demand was confined, as people were uncertain about the economic outlook, amidst a series of political assassinations, followed by the Israeli aggression in 2006. The investment environment was obstructed as Lebanese adopted a wait and see approach until the political and security situation stabilized. However, this did not translate into a fall in demand as the downward effect was counteracted by the spike of Arab real estate investment demand that followed the issuance of new laws facilitating foreign ownership in Lebanon in 2005. Arab investors purchased more than 3,523,950 sqm during that year, 125% higher than their purchases a year earlier. In addition, the sharp increase in liquidity that followed the rise in oil prices coupled with the Saudi stock market crash in 2006 attracted Gulf real estate investments. Following that phase, the Doha agreement in 2008, brought in a relaxed political and investment climate, and restored the confidence level, boosting local and foreign demand for real estate properties.

The expansion in demand - along with the scarcity of land and the rising construction cost - exerted an upward pressure on prices for lands and apartments that went up by more than 100% in Solidere's area over the period extending from 2006 to 2010, with the biggest increase taking place in the last two years. However, demand remained strong despite the resulting higher prices. This might in part be explained by the fact that real estate prices in Lebanon have been undervalued for years as the country has not been through the boom that most emerging markets experienced throughout 2004-2008. Hence, the increasing trend reflects an upward correction movement in prices, well mirrored in investors' perception of the higher prices.

Although the government is undertaking important and efficient steps to promote real estate investments in Lebanon, barriers to entry do exist for buyers. A cap of 10% of space for Beirut and 3% for other areas is fixed for foreign ownership. Furthermore, the central bank imposes a cap on loans for developers of real estate projects at 60% of the project's value. These measures limit the speculation factor and help make the real estate in Lebanon an end-user market.
The growth of the real estate sector in Lebanon has been a healthy one triggered by fundamental factors. Nonetheless, looking at the matter through a different lens, suggests that the expansion of the sector might bring in a cost to Lebanon. The partial dependence of the sector's growth on foreign investments makes the economy highly vulnerable and dependent on international developments, in particular to the movement in oil, gas and other commodities prices as they heavily affect the wealth state of Gulf citizens and thus, their investment decisions.

The threats to the growth of the sector, although negative on the macro level, might bring in positive aspects on the micro level. As foreign investment is expanding to all areas in Lebanon, it is threatening the preservation of Lebanon's cultural heritage and might, over the long term, distort the comfort zone of the Lebanese citizens as they may feel deprived from their own space, and it will become more difficult for the middle and low income households to afford buying an apartment as they cannot compete with wealthy foreign players.

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