LEBANON REAL ESTATE SECTOR

TIGHT PRICE FLUCTUATION AMID SLOWER ACTIVITY IN A PERSISTENTLY RESILIENT MARKET

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- **Slow activity in an overall resilient arena supported by structural features**
Lebanon's real estate sector remains characterized by a good degree of stability, at the mirror image of the monetary and banking sectors which demonstrated resilience in recent years. Realty prices have been relatively resilient due to structural market features such as non-speculative end-user demand for lodging, mild developer leverage and scarcity of land plots in a relatively small country. The market has seen a slight price correction from peaks attained after half a decade of price appreciation in 2006-2010, thus compressing developers' large margins. The local residents-driven market witnessed slow activity lately amid domestic political bickering and ongoing hostilities in Syria.

- **BDL financing partly alleviating residential market price/buyer income gap**
Perfectly aware of the current market conditions and the wide gap between the purchasing power of Lebanese and the level of realty prices in the country, the BDL responded by extending further its measures aimed at injecting a breath of fresh air in the market. It launched a further wave of stimulus package measures, helping residents bridge their funding needs caused by the disparity between their income and asking prices. Housing loans rose by 10.5% last year to reach US$ 10.9 billion and account for close to 18% of total utilized credits in the financial sector.

- **More compact living space catering to buyers' desiderata**
Developers have modified their offerings into more compact living spaces, often carefully studied to cater to buyers' needs and desiderata. In other words, the supply side of the real estate industry has shifted to embrace "new" demand trends that have somewhat forcibly become the norm. A lot of residential surfaces being currently constructed are under 200 square meters and some developers are even proposing studios of less than 80 square meters to clients. The surface of new construction permits shrank by a yearly 8.9% in 2015 and by a further 2.3% in 8M2016. Beirut accounted for a mere 4% of total new permits this year, against a share of close to 20% a decade ago.

- **Commercial space similarly weighed down by political uncertainties**
The negative repercussions of the fragile politico-security conditions and economic sluggishness continue to have an effect on the performance of the retail market as demand for retail space slowed down across the capital city. The office market maintained its relatively slower activity and lackluster performance over the past year. With commercial activity slowing, demand for office space has been weighed down by the tense political climate. Rents across Municipal Beirut retail and office space declined by around 10% each since end-2015, as per Ramco Real Estate Advisers.

- **Prices fluctuating tightly as market slack increasingly triggers moderate discounts**
With more and more properties available for sale and the investment climate still quite bleak, buyers are being more difficult and know the negotiation power turned in their favor. What is different from a couple of years back is that whenever granted, price discounts are more easily obtained. Prices seen on contracts have tightly fluctuated, in some cases, from almost unchanged asking prices. "Tightly" because prices maintain their relative resilience, meaning that those discounts granted remain of a moderate magnitude (5%-15% range in general in Municipal Beirut as per Ramco estimates), with larger flats sometimes warranting a slightly higher discount margin.

- **More of the same to be seen until politico-security conditions improve sustainably**
Should the status quo prevail, realty sales activity would continue to be slow and the stock of unsold apartments is likely to continue growing. Prices will continue being tilted to the downside with discounts granted on low sales volumes. More of the same would likely be witnessed. There is yet some sort of tipping point past which some developers would not be willing to go to close a sales deal. Some developers will not accept major discounts asked by buyers and for those who might, the limit for discount margins is likely to be more or less close to the ones prevailing today. Should Lebanese political factions reach a political settlement, investor sentiment will obviously improve tangibly. But this will probably not lead to significant price hikes in the near term, as the stock of unsold apartments will take time to be liquidated, especially given the projected gradual sales pick up.

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MARKET DEMAND

Slow activity prevails with slight uptick in early 2016 from low base

The Lebanese real estate market has continued to witness a slow activity in recent times, in a resilient arena affected by domestic political bickering and a persisting Presidential void while the regional map remains impacted by ongoing hostilities in Syria. For those very same reasons, foreign investors (i.e. not of Lebanese origin) who were a major driver of activity in the boom years of the second half of the past decade, are still shying away from Lebanese realty, after being advised not to visit the country first following the start of the war in Syria and second earlier this year when tensions between Lebanon and KSA erupted. While the latter dissipated, foreign investors are unlikely to make a realty comeback until a regional settlement is reached.

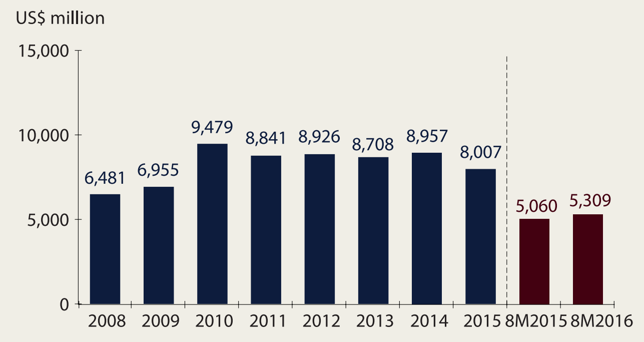
Likewise, non-resident Lebanese, who continued to support their families living in their homeland and visit them regularly sometimes several times a year, have mostly refrained from purchasing properties in Lebanon. As a matter of fact, while they are still active in the market by eyeing and enquiring, they are more reluctant when it comes to closing a deal as they are not compelled to make a buy in uncertain conditions.

It is thus Lebanese residents who are in the driver seat nowadays. Those who are purchasing homes are mostly forming a new household and are in need of lodging. Sometimes Lebanese, among which young professionals, seeking an investment perceived as safe, are making a buy. They understand market dynamics quite well and either plan to get married in the future and buy now as negotiation margins have increased, or just think of seizing good opportunities in difficult times, and make a long-term investment. That is, a buy-and-hold investment until conditions improve markedly, knowing that the wide majority purchases realty or intends to do so for the sake of eventually living in it rather than purely speculating.

As a result, overall realty market activity continued on a rather slow pace over the covered period. Total market value of real estate sales retreated by 10.6% in 2015 before increasing by 4.9% from a relatively low base in the first eight months of 2016. A closer look at monthly sales shows that what appeared as a rather positive momentum in the first few months of 2016 (relative to an already constrained 2015 base and given discounts granted to buyers) gradually faded during spring and summer months, with prevailing conditions domestically and regionally taking a toll on investor sentiment. It is worth noting that over the past few years, most of the sales activity took place in the fourth quarter period with an average share of almost 30% of yearly sales in 2008-2015.

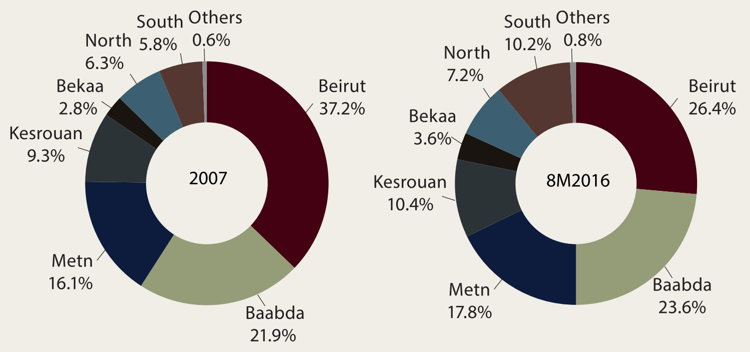
Last year, all regions without a single exception witnessed a drop in sales volumes. So far in 2016, only the Metn, Kesrouan and Nabatieh maintained a downward momentum, while Beirut and Baabda, accounting for a combined 50% of total sales value, were partly responsible for the overall mild 8M2016 increase.

PROPERTY SALES TRANSACTIONS VALUE



Sources: Real Estate Registry, Bank Audi's Group Research Department

PROPERTY SALES TRANSACTIONS VALUE BY REGION



Sources: Real Estate Registry, Bank Audi's Group Research Department

The number of sales transactions have been actually echoing the same trends, dropping by 10.5% last year then edging up by 2.0% in the first eight months of 2016 (and slowing down in the past few months). A tangible indicator mirroring the shying away foreign investors is the number of sales transactions to foreigners, which extended its downward slide over the course of this year (-26.6% in 8M2016).

Perfectly aware of the current market conditions and the wide gap between the purchasing power of Lebanese and the level of realty prices in the country, the Central Bank of Lebanon responded by extending further its measures aimed at propping up demand and injecting a breath of fresh air in the market.

On the demand side, it launched a further wave of stimulus package measures in 2015 and this year by lending to banks at a discounted rate in order for them to re-lend to the real estate sector (among others). As such, residents needing a home have been able to purchase it by getting a housing loan and bridging their funding needs caused by the disparity between their income and the asking prices. Housing loans actually rose by 10.5% last year as per the latest available figures released by the BDL to reach US$ 10.9 billion and account for close to 18% of total utilized credits in the financial sector.

But what are the flats that are in demand on behalf of residents? Simply put, the smaller the more in demand. This is because prices are so high relative to buyer income that the units going away are those that are more affordable. This started with the capital city flats (developers had started building them a few years ago) and the trend is slowly extending to nearby suburbs. Larger flats are joining the growing club of unsold apartments as they have become too expensive, sometimes even after the discounts granted to serious enquirers.

The realty market in Lebanon has always been dominated by buyers rather than tenants, as the evolution of realty prices in the country over the past couple of decades in the form of an ascending staircase encourages investment rather than just leasing without reaping financial benefits at the end of the day. But those who are looking for a temporary stay awaiting the completion of their homes or because they are expatriates working in Lebanon for multinationals or foreign companies, or even because they are non-resident Lebanese who come to Lebanon a few times a year and wish to have the comfort of their own home during their stay, go for rentals.

PROPERTY SECTOR FINANCING

US$ million	2009	2010	2011	2012	2013	2014	2015
Property sales transactions	6,955	9,479	8,841	8,926	8,708	8,957	8,007
o.w. Built property estimate*	3,367	4,542	4,089	4,219	4,191	4,353	3,987
Housing loans portfolio	2,805	4,511	5,982	7,269	8,535	9,879	10,917
New housing loans	1,037	1,706	1,471	1,287	1,266	1,344	1,038
Avg lending ratio	30.8%	37.6%	36.0%	30.5%	30.2%	30.9%	26.0%
Avg self financing ratio	69.2%	62.4%	64.0%	69.5%	69.8%	69.1%	74.0%

* rough estimate derived from the share of the number of built transactions out of the total number of sales transactions

Sources: Real Estate Registry, BDL, Bank Audi's Group Research Department

The rental market has been somewhat boosted by a series of factors in the past few years. First is incoming of Syrian refugees to the country, seeking a shelter before applying for residency in other countries or awaiting the resolution of the Syrian conflict and looking for a temporary apartment. Second are the delays between the delivery dates of new flats on paper and their actually delivery dates, pushing homeowners to seek a temporary house elsewhere (i.e. a rental) until then. Third is the still high price level of homes in the country, forcing some Lebanese to rent awaiting better days. And fourth is the wait-and-see attitude of a few, who would rather buy and invest once conditions improve consistently rather than amidst uncertainties.

As such, the rental market had seen some vigor in the past few years with double-digit increase in rents, but has lately been subjected to the same sort of slow pace the primary sales market has witnessed. And this is due to a very simple and in many ways common reason, namely the increase in market supply. Many flats available especially in the secondary market and their owners having purchased them during the boom years (either non-residents or former residents having left the country or in some cases buy-and-hold investors) have been made available for rent, and similarly to the buy market, have been in excess of demand lately. This is also why discounts granted to tenants in a similar fashion to the buy market are being observed on the rental market nowadays.

Along the same lines, the negative repercussions of the fragile politico-security conditions and economic sluggishness continue to have an effect on the performance of the retail market in Lebanon. Demand for retail space slowed down across the capital city, in traditional hub areas such as Hamra, Verdun, Downtown and Achrafieh. The only exception was Badaro which continued to see healthy demand with a flurry of restaurants, pubs and cafes attracting the clientele. Nowadays, food and beverages outlets obviously remain an important player across the country's retail space. Shopping mall space remains in demand more than others, although it is worth noting here that several brands belonging to the same parent company can be present in the same mall and thus can have some sort of leverage over landlords with regards to rents. On the overall, rents across the Municipal Beirut retail space declined by around 10% since end-2015, as per Ramco Real Estate Advisers, with the market seeing some inadequacy between supply and demand. Some areas across Downtown witnessed a rent decline of 20% to 30%. It is worth noting that rent remains the top indicator in the retail market as the share of commercial space for sale remains very tiny in the segment.

SEASONALITY ANALYSIS: BREAKDOWN OF PROPERTY SALES BY QUARTER

	Q1	Q2	Q3	Q4	Total
2008	16.3%	23.7%	29.4%	30.6%	100%
2009	14.5%	20.4%	26.5%	38.6%	100%
2010	22.3%	27.4%	23.7%	26.6%	100%
2011	20.5%	23.1%	24.7%	31.8%	100%
2012	21.9%	24.6%	24.3%	29.2%	100%
2013	17.4%	26.4%	25.6%	30.7%	100%
2014	22.9%	27.1%	24.4%	25.5%	100%
2015	20.3%	24.5%	27.3%	27.9%	100%
Total	**19.8%**	**24.8%**	**25.6%**	**29.8%**	**100%**

Sources: Real Estate Registry, Bank Audi's Group Research Department

The latest global survey of the prime rental locations around the world issued by Cushman & Wakefield and covering the 12 months to June 2015 shows that Beirut's prime locations rent decreased by 4% on average relative to the previous year survey (covering 12 months to September 2014). As such, the results also echo the decrease in rents across prime retail hubs in the country. What is interesting is that the survey shows that Beirut's prime retail locations rents remained below regional and global counterparts. For instance, the MENA countries' prime retail spots surveyed by Cushman & Wakefield boast average rents 39% above those of Beirut's prime retail locations. Furthermore, rents of the emerging markets' prime retail spots stand 17% above those of Beirut and the global average is almost 1.2 times that of Lebanon's capital city prime retail spots.

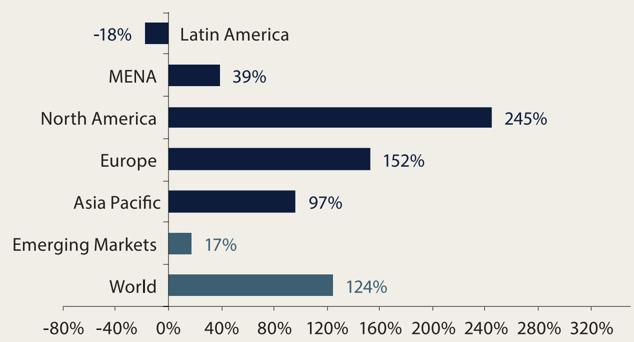
Last but not least, the office market maintained its relatively slower activity and lackluster performance over the past year. With commercial activity slowing, demand for office space has been weighed down by the tense political climate.

Within this context, rents witnessed a decline of around 10% in Municipal Beirut since end-2015, with the strongest decline seen in some parts of the Beirut Central District, as per Ramco Real Estate Advisers. The market is seeing more and more commercial areas for rent with demand and occupancy consequently declining. It is worth noting that rents are the most significant indicator in this market segment, with the wide majority of commercial space put for rent rather than sale.

Perhaps the most impacted area in the BCD was Nejmeh Square, where rents dropped by up to 30% since the beginning of the year as per Ramco. The latter area has been suffering from strict security measures surrounding it, which has handicapped commercial business activity. In contrast, the Park Avenue area, which houses several commercial buildings, was the least impacted by the unrest hitting BCD last year.

What is worth noting is that high-end offices performed relatively better across Beirut. Those consist of office space of good quality, with advantageous amenities and are not clustered in specific areas bearing in mind they are still a niche in the market.

RETAIL RENTS 12 MONTHS TO JUNE 2015 (RELATIVE TO PRIME BEIRUT RENTS)



Sources: Cushman & Wakefield, Bank Audi's Group Research Department

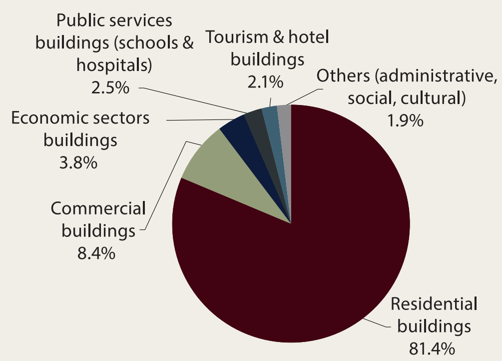
MARKET SUPPLY

More compact living spaces catering to buyers' desiderata

It is true that the local realty market slowed down and is continuing to bear witness to a slow pace in the prevailing conditions. Enquirers are only turning into buyers when necessary, meaning they only purchase when they have to. And when they do, prices are practically the first thing on their minds. The value of an apartment, in addition to obvious factors such as location and amenities along with build quality, is what determines their choice. And because of that, they tend to go for smaller flats that are more affordable. They often value the neighborhood and amenities over the size of an apartment, and go for a smaller flat in Beirut or its immediate suburbs rather than a bigger one in more distant suburbs or beyond.

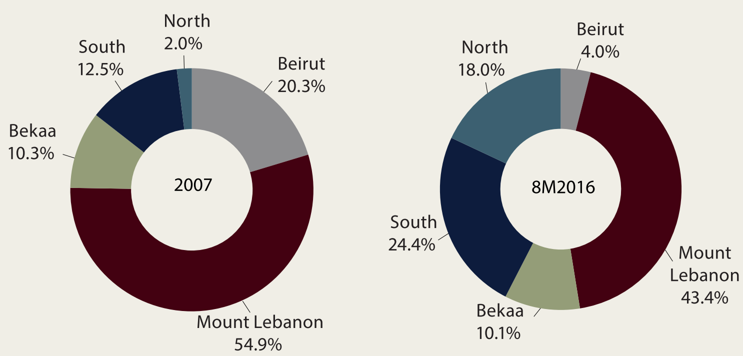
For those specific reasons, engineers and developers have modified their offerings into more compact living spaces, often carefully studied to cater to buyers' needs and desiderata. Balconies are increasingly

CONSTRUCTION PERMITS (AREA) BY USAGE PURPOSE (2015)



Sources: Order of Engineers of Beirut, Bank Audi's Group Research Department

BREAKDOWN OF CONSTRUCTION PERMITS BY AREA



Sources: Order of Engineers of Beirut and Tripoli, Bank Audi's Group Research Department closed or curtained and integrated into living space and smaller surfaces are thus optimized. This is kind of becoming the new norm in Lebanese residential construction, simply because that is where demand is these days.

In other words, the supply side of the real estate industry has shifted to embrace "new" demand trends that have somewhat forcibly become the norm. A lot of residential surfaces being currently constructed are under 200 square meters and some developers are even proposing studios of less than 80 square meters to clients. These could be ideally located and serve as a central weekday foothold for buyers or even appeal to single person households, and obviously prove less expensive than larger lodging units.

The latest figures published by the Order of Engineers of Beirut and Tripoli confirm such a trend. As a matter of fact, the overall surface of new construction permits shrank by a yearly 8.9% in 2015 and went down by a further 2.3% in 8M2016. Similarly to demand-side indicators, the positive momentum sensed in first few months' figures gradually faded for permits to register the small contraction in 8M2016. Beirut accounted for a mere 4% of total new permits over this year's covered period, against a share of close to 20% a decade ago, as a result of growing vacancy rates in the capital city pushing developers to suburbs and nearby mountains. Surrounding suburbs in Mount Lebanon benefited from this, and the area now accounts for around 43% of total permits granted. This year, areas farther from the capital city seem to be on the minds of developers, with North and South Lebanon both seeing a rising share in total permits.

A quasi-indicator of supply are cement deliveries, a cyclical indicator for construction activity, and which saw an 8.6% decline in 2015 followed by a 7.3% increase in 7M2016 as per the latest BDL figures. Construction costs have mostly stagnated so far this year, reflecting the slow market activity on the overall.

Going forward, what could partly help developers are the new measures introduced by the BDL this year through circular 427 and that support indebted developers. In summary, the latter allows banks to secure loans to real estate companies (which are not owned by banks) seeking to buy properties to ease the debt burden of real estate developers. Such properties should have been constructed after securing a running loan from financial institutions in Lebanon, the amount of which is not under 50% of the value of realty intended to be purchased. Those real estate companies must liquidate acquired properties within ten years from the date of ownership, and purchase them by injecting own equity equivalent to at least 40% of its value (the remainder could be secure through a bank loan). The aim is to help indebted developers complete their projects or start new ones, bearing in mind the large stock of unsold properties in the country over the past few years, while decreasing the exposure of banks to developers who are not able to sell their units.

On the retail market front, an emerging trend seems to be the opening of the food and beverages areas and clusters, mostly outside the capital city. Following the opening of The Backyard in Hazmieh and The Garden in Dbayeh (adding to the already expanded F&B outlet space, the latest of which is The Village in Dbayeh), a series of F&B cluster projects that would be located in Jounieh, Jbeil, and Ramlet el Bayda are expected to be completed in early 2019, in addition to the upcoming restaurants center in Achrafieh. Dalfa Bay is a food and beverage area that would be launched in Ain El Mreisseh in February 2017. Additionally, the opening of ABC Verdun, Tripoli Square mall and a mall in Kaslik, among others, would further add to the supply space in the market.

On the office market front, the overall market slowdown reflected on the supply of office projects in Municipal Beirut, which has 34 projects currently under construction, down by 8% compared to 2015 and representing 194,863 square meters of total office stock, as per Ramco Real Estate Advisers' latest survey released earlier this year. In details, upcoming office space in the capital remained dominated by Achrafieh, with 24 new projects covering a surface area of 139,099 square meters, and comprising 71% of the total stock, as per the same source. The number of office projects in Achrafieh witnessed a rise in neighborhoods like Hôtel-Dieu, National Museum, Corniche el Nahr, Adlieh and Badaro during the past few years. The latter can be explained by the developers' interest in previously disregarded areas with available land plots that are of close proximity to the Justice Court and Nahr areas.

Last but not least, it is worth noting that a new trend is emerging, as developers started launching new office projects in Jnah, Ramlet el Baida, and Unesco, which were traditionally residential neighborhoods. In parallel, some areas outside of Beirut have recently been the focus of developers. Sin el Fil and Dbayeh are emerging as prominent office spots due to their strategic location at the crossroads of the North of the country, Metn and Beirut.

OFFICE SPACE UNDER CONSTRUCTION* (2014-2016)

Year	Area	BCD	Achrafieh	Western Beirut	Municipal Beirut
2014	Number of projects	4	18	10	32
	Office area (sqm)	25,073	97,491	25,307	147,871
	Share across Beirut	17%	66%	17%	100%
2015	Number of projects	5	23	9	37
	Office area (sqm)	43,331	130,752	21,611	195,694
	Share across Beirut	22%	67%	11%	100%
2016	Number of projects	4	24	6	34
	Office area (sqm)	32,831	139,099	22,933	194,863
	Share across Beirut	17%	71%	12%	100%

* Within Municipal Beirut

Source: Ramco - March 2016

MARKET PRICES

Prices fluctuating tightly as market slack increasingly triggers moderate discounts

With more and more properties available for sale and the investment climate still quite bleak, buyers are being more and more difficult and know the negotiation power turned in their favor. They have turned into fierce negotiators and can nowadays get price discounts more easily than before. Some developers can quickly grant them, while others only do so when feeling the enquirer is serious. But what has changed from the previous few years is that developers are agreeing to prices lower than the asking prices in some cases. And what is even different from a couple of years back is that whenever granted, those discounts are more easily obtained. Some developers are keen on gradually getting rid of their stock of unsold units, while some others believe that a property deed they own (i.e. the stock of units they built) remains better than cash today as it would translate into higher sales value upon a marked improvement in market conditions.

It is within this context that real estate prices seen on contracts in the country have tightly fluctuated, in some cases, from asking prices. "Tightly" because prices maintain their relative resilience on the overall, meaning that those discounts granted remain of a moderate magnitude. We are talking of discounts in the 5%-15% range in general in Municipal Beirut, as per Ramco estimates, with larger flats that are way more expensive sometimes warranting a slightly higher discount margin. Asking prices have not changed much, according to a recent Ramco Residential Price Index of Beirut survey, which shows that prices of apartments under construction in Beirut have declined by a mere 1.2% last year (following a 0.7% drop in 2014). The study is based on asking prices posted by developers and does not take into consideration negotiation margins or discounts that may later apply. According to the study, 57% of developers maintained their prices during 2015, 30% decreased them and 13% increased them.

While those figures capture Municipal Beirut, we resorted to Bank Audi's Real Estate Department's own survey to get a feel of country-wide metrics and get post-discount values. These cover the entire housing loan portfolio of the bank (all types), which is pretty much nation-wide. Given Bank Audi's leading position in the Lebanese banking sector, and while the numbers above probably do not exactly reflect the situation of the market at large, we believe they give a fairly accurate picture of the general trends of the current residential real estate market.

For the past few years, the Real Estate Department has been analyzing the data stemming from the housing loans granted by Bank Audi Lebanon to its clients. In that respect, it is worth comparing the numbers gathered during the second quarter of 2013 and the last quarter of 2015 (latest figures surveyed). During these quarters, the number of loans granted is very similar. However, the average unit area went down by almost 17% between Q2 2013 and Q4 2015, while the average price per square meter dropped by almost 13% over the covered period, thus confirming overall market trends perceived lately.

Those moderate discounts compare to high price levels (actually peak levels) attained at the end of the boom era in late 2010 following an average 35% price hike per annum between 2006 and 2010, and prices remain high in absolute terms. We have not witnessed a crash in real estate prices or even a drop similar to that of sales activity. What we have seen are rather incentives for buyers who would otherwise be hesitant to buy. Besides, and this is quite important, one must note that those discount margins are relative to near peak levels (of end-2010), and thus cumulative and not applicable every year again and again. The relative resilience of realty prices in Lebanon, or as we also call it price stickiness-on-the-downside, remains tied to structural factors mentioned time and time again such as the predominance of end-user driven demand for lodging the country, the mild leverage of developers who are not necessarily desperate to close a sales deal, and the scarcity of land plots available for sale in the country, especially in the capital city.

MARKET OUTLOOK

More of the same unless politico-security conditions improve sustainably

The Lebanese realty market has thus been affected by the chronic political bickering in the country and the absence of Presidential elections that have actually weighed on buyer sentiment. Add to that the war in Syria and resulting constraints on FDIs to the region, and the low oil price levels draining liquidity from wealthy Gulf investors. Consequently, activity remains slow and realty prices sticky but tilted to the downside given moderate discounts granted to buyers.

Where will the market head next? Will the discount margins obtained widen? What will it take for prices to go up again? Those are probably the main questions on observers' and investors' minds nowadays, and we will attempt to answer them in what follows to the best extent possible.

First and foremost, we must establish the fact that two main scenarios are envisaged in the near term, regardless of their likelihood and duration. On the one hand, the status quo might prevail where bickering goes on without a resolution to the political conundrum and occasional yet contained security drifts occur. On the other hand, a political settlement scenario where a President is elected and political parties agree on a smooth functioning of institutions, with this scenario itself varying with or without a settlement to the conflict in Syria.

Should the status quo prevail, realty sales activity would continue to be slow and the stock of unsold apartments is likely to continue growing. Prices will continue being tilted to the downside as a result with discounts granted on low sales volumes. As such, more of the same would likely be witnessed. But there is a limit to those discounts that can be granted. There is some sort of tipping point past which some developers would not be willing to go to close a sales deal. One must not forget that apartment prices are made up of the cost of land, the construction costs and the developer's margin. With land and construction costs already incurred, it is mostly the margins that have been eaten away lately. Some developers will not accept major discounts asked by buyers and for those who might, the limit for discount margins is likely to be more or less close to the ones prevailing today.

Should Lebanese political factions agree on a President and the political life gets to benefit from some sort of normalization with executive and legislative bodies functioning smoothly anew, investor sentiment would improve tangibly. Local buyers who were reluctant would surface again and market activity would pick up gradually. Lebanese expatriates living abroad could be encouraged to make a move as well. But one must not forget that even if domestic conditions improve, this solves the sentiment factor and reduces uncertainties. Yet this does not solve the price issue, i.e. the large divide between realty prices today (even after moderate discounts) and per capita income of residents. Obviously, banks' lending activity would be well supportive of buyers and could partly bridge that gap. But this will probably not lead to significant price hikes in the near term, as the stock of unsold apartments will take time to be liquidated, especially given the projected gradual sales pick up in this context.

Should the latter scenario materialize in conjunction with a regional settlement scenario, the pace of activity might change to the better. In this case, Lebanese buyers are likely to be not alone anymore in the market, which would see the return of foreigners as well, especially wealthy GCC investors. Activity would thus gain ground much more in this case, and the stock of unsold apartments would diminish faster. Eventually, once buying and selling form a more balanced equation, prices would have room to grow again. After all, GCC nationals and well-off Lebanese expatriates were partly the ones responsible for the surge in prices during the last upward correction phase in the second half of the past decade.

All in all, we can say that there are no threatening downside risks in the market, but rather factors delaying the upturn. In other words, there is no risk of collapse in prices due to the structural features we already mentioned. The worst that can currently be envisaged is the same situation continuing, but no significant price declines per se. There however will be a time when prices would start increasing again, the timing of which remains unclear.

Anyhow, much remains to be seen as to which way the market will go in the near term, but one thing is certain. Today and for the time being, the market is slow. For buyers, it is an ideal time to bargain and get the best possible deal, knowing that eventually, prices will pick up again. Lebanese residents, who are now the driving force in the market, are at the end of the day the ones with the most pressing lodging need. It is true that housing in the country is not always affordable, but the moderate discount possibility and the bank financing schemes are able to help sellers find a match in today's tough times.

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