

TABLE OF CONTENTS

Executive Summary	1
Market Demand	2
Market Supply	4
Market Prices	6
Market Outlook	7

PARADOXICAL REALTY MARKET IN SEARCH FOR POLITICO-ECONOMIC BREAKTHROUGH

Slowdown in real estate market demand this year

Lebanon's real estate market has been somewhat perceived as a safe haven since the onset of the economic and financial crisis. Yet, the demand for realty slowed this year as payments by check have gradually phased out and most sellers started requesting payment in fresh US dollar or payment abroad. Sellers consisting of indebted developers or owners, who used to be willing to be paid in bank check in 2020 to cover their loans, started (post debt settlement) requiring payment in fresh US dollar or demanding significantly higher prices in local dollars, which has weighed on demand for realty over this year. Putting this in figures, the value of property sales transactions dropped by 0.7% during the first seven months of the year 2021 after having expanded significantly by 110.4% in 2020.

Limited new supply on the back of exchange depreciation and volatile construction material prices

The depreciation of the Lebanese pound, which resulted in a significant rise in material prices amid a cloudy politico-economic outlook, did put a number of projects on hold and halted others. In fact, the ongoing socio-economic crisis has only pushed new supply to decelerate further, despite the availability of some demand, especially as pricing in fresh dollars controls the market. The drop in cement deliveries this year, along with a rise in construction permits, suggests that current construction activity is in fact put on hold for the time being, while the construction outlook could witness some improvement looking ahead, especially if a macro crisis exit scenario is put adequately in place.

A 50% drop in real estate prices in fresh dollars since onset of crisis

Over the past few months, real estate prices in fresh US dollars has witnessed a noticeable downward trend. While the quasi totality of sellable real estate are now being priced in fresh US dollars, the fresh dollar buyers are scarce, which put adverse effects on price trends. This led to a reduction in real estate prices in fresh dollars by more than 50% since the onset of the crisis back in 2019. Paradoxically, local dollar pricing has moved in an opposite direction. With real estate sellers regaining upper hand in negotiating a local dollar transaction, sellers have been demanding significantly higher prices in local dollars that exceeded 200% and 300% in some cases.

Property prices to continue following an upward trend in local dollars and a downward trend in fresh dollar terms looking forward

Other things held constant, property prices are likely to follow an upward trend in local dollars and a downward trend in fresh dollar terms looking forward. The upward trend in local dollars is tied to the growing willingness among Lebanese depositors to resort to the real estate market in order to avoid possible haircuts on their financial placements, even at the expense of paying higher prices for real estate. The downward trend in fresh dollars is tied to the scarcity of fresh dollars in the market (despite some recent adjustments) and the lack of fresh dollar investment appetite amid politico-economic uncertainties.

A major politico-economic breakthrough could represent exception to the rule...

The exception to this would be a significant political breakthrough that would be driven by a credible cabinet formation (a cabinet credible in the eyes of both domestic nationals and international observers), the launch of structural, fiscal and financial reforms, a full-fledge program with the IMF (with the Fund acting as a watchdog over reform implementation) and the materialization of international assistance for Lebanon (given the leverage the IMF has over foreign donors at large).

...though the probability of this happening remains lower than the opposite in the near term

Such a drastic breakthrough would undeniably revalue the Lebanese real estate market within better norms, reduce capital losses in the sector and ensure a noticeably more favorable outlook for property owners in general. Unfortunately, at this point in time, it seems that the probability of this "hoped for" politico-economic breakthrough happening in the near future is lower than the opposite, which suggests further forthcoming strain for Lebanon's economic environment in general and the real estate market in particular.

CONTACTS

Research

Marwan Barakat
(961-1) 977409
marwan.barakat@bankaudi.com.lb

Salma Saad Baba
(961-1) 977346
salma.baba@bankaudi.com.lb

Farah N. Nahlawi
(961-1) 959747
farah.nahlawi@bankaudi.com.lb

Zeina M. Labban
(961-1) 952426
zeina.labban@bankaudi.com.lb

Michele Sakha
(961-1) 977102
michele.sakha@bankaudi.com.lb

Bank Audi

MARKET DEMAND

Slowdown in real estate market demand this year

Lebanon's real estate market has been widely perceived as a safe haven since the onset of the economic and financial crisis. Yet, the demand for realty slowed this year as payments by check have gradually phased out and most sellers started requesting payment in fresh US dollar or payment abroad.

Sellers consisting of indebted developers or owners, who used to be willing to be paid in bank check in 2020 to cover their loans, started post debt settlement requiring payment in cash US dollar or demanding significantly higher prices in local dollars, which has weighed on demand for realty over this year.

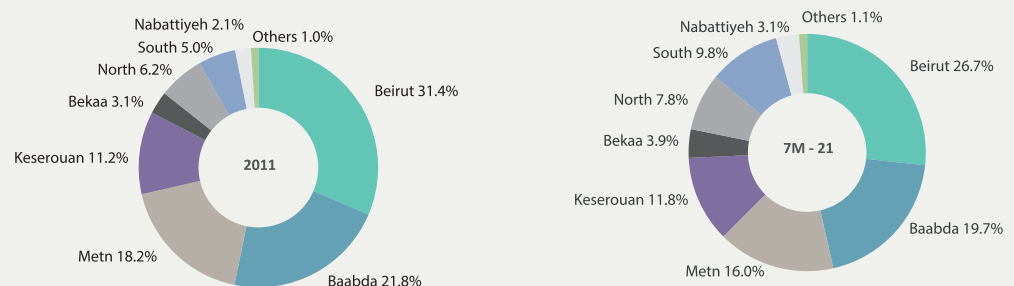
Putting this in figures, the value of property sales transactions contracted by 0.7% year-on-year during the first seven months of the year 2021 after having expanded significantly by 110.4% in 2020. In contrast, the number of sales operations jumped by a yearly 26.7% during the first seven months of 2021, following a 63.3% surge in 2020.

PROPERTY SALES TRANSACTIONS VALUE (US\$ MILLION)



Sources: General Directorate of Land Registry and Cadastre, Bank Audi's Group Research Department

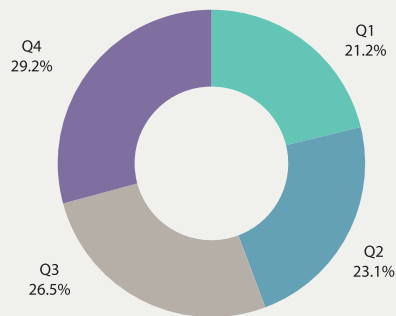
PROPERTY SALES TRANSACTIONS VALUE BY REGION



Sources: General Directorate of Land Registry and Cadastre, Bank Audi's Group Research Department

Bank Audi

SEASONALITY ANALYSIS: PROPERTY SALES BY QUARTER (2011-2020)

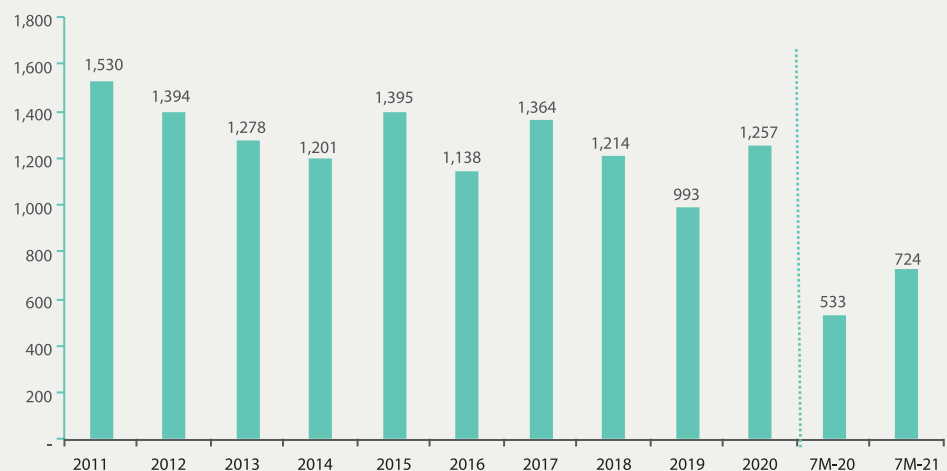


Sources: General Directorate of Land Registry and Cadastre, Bank Audi's Group Research Department

Most regions recorded an increase in the value of sales transactions, with the most significant movements coming as follows: North (+67.6%), Nabattiyeh (+35.7%), Bekaa (+23.8%), the South (+20.4%), Baabda (+15.6%) and Keserwan (+2.7%). As for the breakdown of the value of property sales, Beirut continued to capture the highest share over the first seven months of 2021 with a share of 26.7%, followed by Baabda with 19.7%, Metn with a share of 16.0%, Keserwan with a share of 11.8%, the South with 9.8%, North with 7.8%, Bekaa with 3.9% and Nabattiyeh with 3.1%.

With most apartments offered for sale in Beirut requiring payments in fresh US dollars and given the noticeable drop in apartment prices in fresh US dollars, both expatriates and foreigners found a "good buy" in Lebanon's residential market. This was reflected by a 36.5% year-on-year increase in sales to foreigners during the first half of 2021, following a 26.6% rise in 2020, as per the latest statistics published by the General Directorate of Land Registry and Cadastre.

NUMBER OF PROPERTY SALES TO FOREIGNERS



Sources: General Directorate of Land Registry and Cadastre, Bank Audi's Group Research Department

Bank Audi

Despite a flight to realty as a safe haven, the demand for offices remains limited this year, as it seems that Coronavirus-related lockdowns and the abrupt shift to working from home in addition to the sluggish business activity have deterred office buyers.

On the other hand, land has seen a surge in interest and sales activity. Solidere, the largest real estate company in the country that has land plots available for sale across the Beirut Central district mainly, recently declared that revenues from land sales reached US\$ 382 million in 2020 as compared to US\$ 234 million in 2019. Within this context, it is worth mentioning that all transactions occurred in local dollars, noting that Solidere may opt to require a certain percentage of future transactions to be paid in fresh dollars but no decision has been yet reached in this regard, according to company sources.

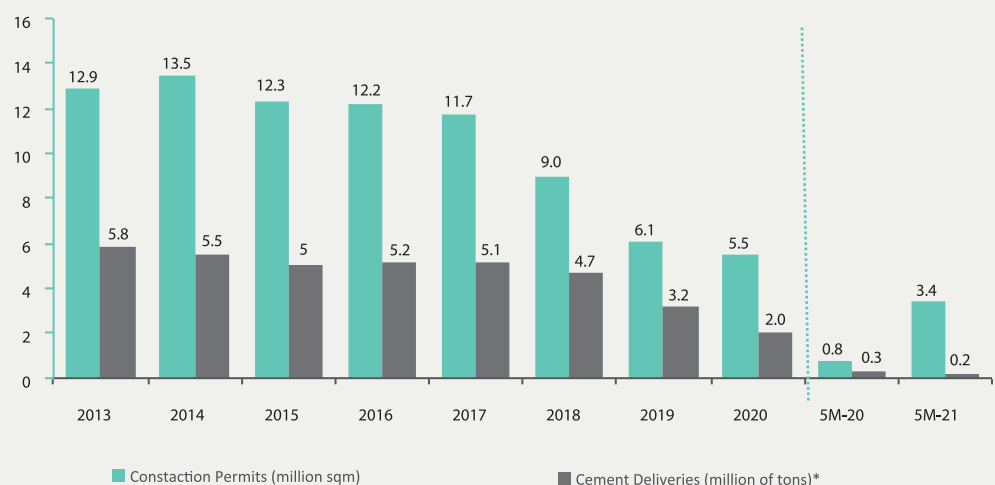
MARKET SUPPLY

Limited new supply on the back of exchange depreciation and volatile construction material prices

Over the past couple of years, new supply in the Lebanese real estate market was significantly. The depreciation of the Lebanese pound which resulted in a huge rise in material prices did put a number of projects on hold and halted others. In fact, the ongoing socio-economic crisis has only pushed new supply to decelerate further, despite the availability of some demand, especially as pricing in fresh dollars controls the market.

At the level of residential properties, demand did absorb some of the existing stock ever since the October 2019 revolution, however, a relatively large stock still lingers in the developers portfolios and it is not before the latter is reduced that plans for new projects can restart. This is especially true with the ongoing inflation due to the volatile exchange rate which caused a rise in construction prices. This also goes back to the fact that developers are the sole-funders of their projects as new loans are no longer initiated to serve funding the projects.

CONSTRUCTION PERMITS & CEMENT DELIVERIES



*YTD figures are for first quarter

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

Bank Audi

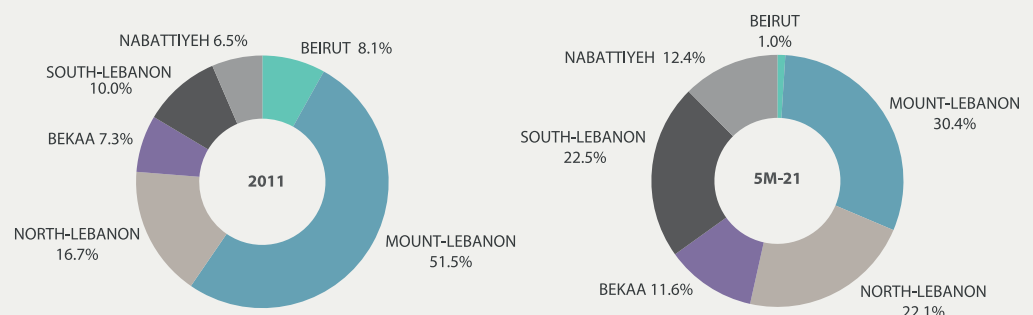
The slowdown in supply did also impact other segments of the market. According to real estate consultancy Ramco, there is plenty of office space left for sale in the capital, in local dollars and fresh dollars. The business market did not experience the same dynamics as the residential and land market over the past period.

The COVID-19 has not helped to value business real estate, as the various confinements and the increase in distant working has dissuaded some buyers, hence leaving the already existent supply vacant and ceasing any chance for new projects. On a similar note, the increase in rents and the ongoing economic crisis controlled the new supply of retail space, especially with the reduced purchasing power and the closure of a number of retail names and F&B outlets.

Paradoxically, the latest statistics released by the Order of Engineers of Beirut and Tripoli reveals contradicting trends. After a series of declines over the past couple of years, the latter went back to increase during 2021. In details, construction permits, an indicator of forthcoming construction activity, posted a three digit year-on-year rise during the first half of 2021, showing a questionable interest in the construction sector noting the increasing prices due to the volatility of the parallel exchange rate market and the instable socio-economic and political situation. In fact, construction permits covered an area of 3,425,278 square meters in the first five months of 2021, against an area of 802,996 square meters in the first five months of 2020. This followed a yearly contraction of 73.8% registered in the aforementioned period of 2020 and which was mainly due to the lockdown imposed in Lebanon during that period. The breakdown by region shows that most of the regions reported three digit increases in the aforementioned periods. As for the breakdown of construction permits, Mount-Lebanon continued to capture the highest share in newly issued construction permits in the first five months of 2021 with a share of 30.4%. It was followed by South-Lebanon with 22.5%, the North with a share of 22.1%, Nabattiyeh with 12.4%, Bekaa with 11.6% and Beirut with 1.0%.

However, cement deliveries, a quasi-indicator of current construction activity, contracted by 38.9% last year and by a further 32.2% in the first quarter of 2021. The drop in cement deliveries, along with a rise in construction permits this year suggests that current construction activity is put on hold for the time being, while the construction outlook could witness some improvement looking ahead, especially if a macro crisis exit scenario is put adequately in place.

BREAKDOWN OF CONSTRUCTION PERMITS BY AREA



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

Bank Audi

MARKET PRICES

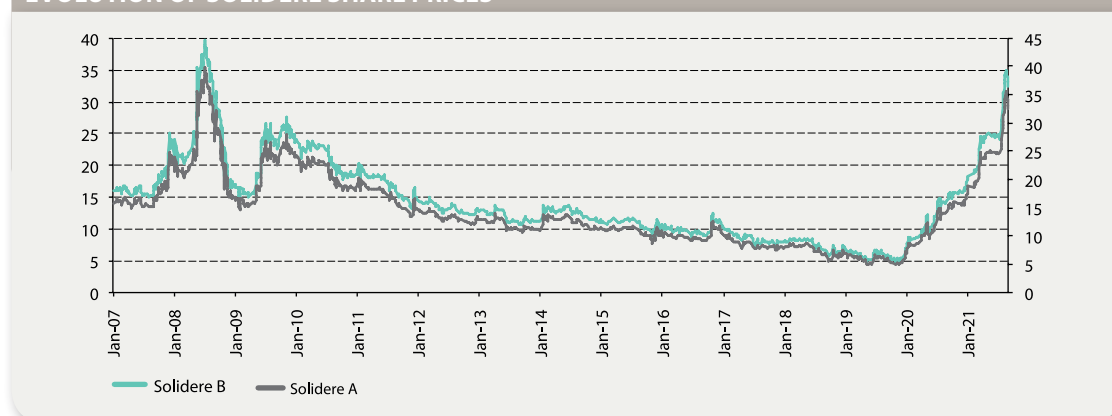
A 50% drop in real estate prices in fresh dollars since onset of crisis

Over the past few months, real estate prices in fresh US dollars has witnessed a noticeable downward trend. While the quasi totality of sellable real estate are now being priced in fresh US dollars, the fresh dollar buyers are scarce, which put adverse effects on price trends. This comes after a reduction in real estate prices in fresh dollars by more than 50% since the onset of the crisis back in 2019.

Paradoxically, the rise in real estate prices in local dollars is directly tied to the uncertainty facing the financial system, in addition to the inefficient interplay between supply and demand. The succession of events in Lebanon over the past couple of years - starting from the economic/monetary crisis, to the State's default on its Eurobond payment, to the Corona virus Pandemic to the explosion of Beirut port and to the political crisis related to Cabinet formation – all had their adverse effects on the financial system and on the perceived value of local dollar deposits in the market place.

Progressively, the market started verifying a new equation: Sellers consisting of indebted developers or owners getting frequent calls from buyers consisting mostly of depositors seeking to park their funds in real estate assets and not necessarily needing a house/land for their own use, at least immediately. With real estate sellers regaining upper hand in negotiating a local dollar transaction, sellers have been demanding significantly higher prices in local dollars that exceeded 200% and 300% in some cases.

EVOLUTION OF SOLIDERE SHARE PRICES



Sources: Beirut Stock Exchange, Bank Audi's Group Research Department

The rise in real estate prices in local dollar terms is well portrayed by the evolution of Solidere prices, as Solidere shares reported a rise from US\$ 7.30 at end-2019 to US\$ 18.50 at end-2020 and to nearly US\$ 32 today. The upward trend in Solidere prices was driven by the important demand registered on those shares in search for a safe haven from the perceived more risky financial investments.

Going back to real estate prices, the large price deviation between different buildings, apartments and land suggest that buyers and sellers are perturbed by the conversion rates between local dollars and fresh dollars. In few words, the real estate market is in crisis and in chaotic conditions like the rest of the economy.

When looking at the market breakdown between residential, commercial and office real estate, it is clear that the crisis is impacting more commercial and office markets relative to the residential market. This is due to the lack of business activity within the country over the past couple of years.

As a matter of fact, despite depositors tendency to seek real estate as a safe haven, the interest for office purchases remains limited. According to Ramco real estate advisors, there is around 100,000 square meters of offices currently put on sale in Beirut. It seems the office market did not share the same vigor of the residential real estate market in the post crisis environment.

Bank Audi

The market for rentals is at the mirror image of a country in crisis. In fact, landlords are trying to search for fresh dollar payers for rentals, rather than local dollars or Lebanese Pounds. Those targeted tenants are searched for among Lebanese with foreign income, or employees at international organizations or diplomats. Given the scarcity of such profiles relative to the multitude of rentals offered, this has put those tenants in a strong negotiating position, which ultimately lead to a noticeable drop in negotiated rentals. This is amplified by the fact that offers are numerous in view of the fact that a large number of ex-depositors have bought apartments that they don't need and are now seeking to rent them in an market of a multitude of vacant apartments. Within this environment, there has been rent reduction recorded relative to 2019 in the vicinity of 20% to 30% with peaks approaching 50% reduction in some cases.

MARKET OUTLOOK

Property prices to continue following an upward trend in local dollars and a downward trend in fresh dollar terms looking forward

The current real estate market situation is likely to continue prevailing throughout the year to come, though at a slower pace because most developers covered their loans. In fact, most of property owners are increasingly seeking to sell the remaining stock in fresh US dollars since they don't have much loans left to settle in local dollars. It is estimated that more than 90% of the currently offered stock in Beirut is sought for fresh dollar payment or for payment outside Lebanon.

It is worth mentioning that the number of buyers being able or ready to pay in fresh dollars or to pay outside Lebanon is rising. Their prime motivation is to try to benefit from the monetary crisis in order to do lucrative business. In few words, with the local dollar transactions shrinking significantly looking forward, most transactions would henceforth be increasingly undertaken in fresh dollars.

At the supply side, given the current circumstances and the high volatility on the FX market with a continued depreciation of the local currency amid the overall uncertain outlook, the high cost of construction materials supply is in a stagnant mode. Developers do not wish to kick-off new projects, adopting a wait and see attitude and even refrain from doing so because of current market conditions. As such, developers would rather not start projects before volatility eases, confidence improves and FX instability cools down. Meanwhile, there is an important stock of property sale on the market, regardless of whether owners would like to sell today or postpone the sale.

Other things held constant, property prices are likely to follow an upward trend in local dollars and a downward trend in fresh dollar terms looking forward. The upward trend in local dollars is tied to the growing willingness among Lebanese depositors to resort to the real estate market in order to avoid possible haircuts on their financial placements, even at the expense of paying higher prices for real estate. The downward trend in fresh dollars is tied to the scarcity of fresh dollars in the market (despite some recent adjustments) and the lack of fresh dollar investment appetite amid politico-economic uncertainties.

The exception to this would be a significant political breakthrough that would be driven by a credible cabinet formation (a cabinet credible in the eyes of both domestic nationals and international observers), the launch of structural, fiscal and financial reforms, a full-fledge program with the IMF (with the Fund acting as a watchdog over reform implementation) and the materialization of international assistance for Lebanon (given the leverage the IMF has over foreign donors at large).

Such a drastic breakthrough would undeniably revalue the Lebanese real estate market within better norms, reduce capital losses in the sector and ensure a noticeably more favorable outlook for property owners in general. Unfortunately, at this point in time, it seems that the probability of this "hoped for" breakthrough happening in the near future is lower than the opposite, which suggests further forthcoming strain for Lebanon's economic environment in general and the real estate market in particular.