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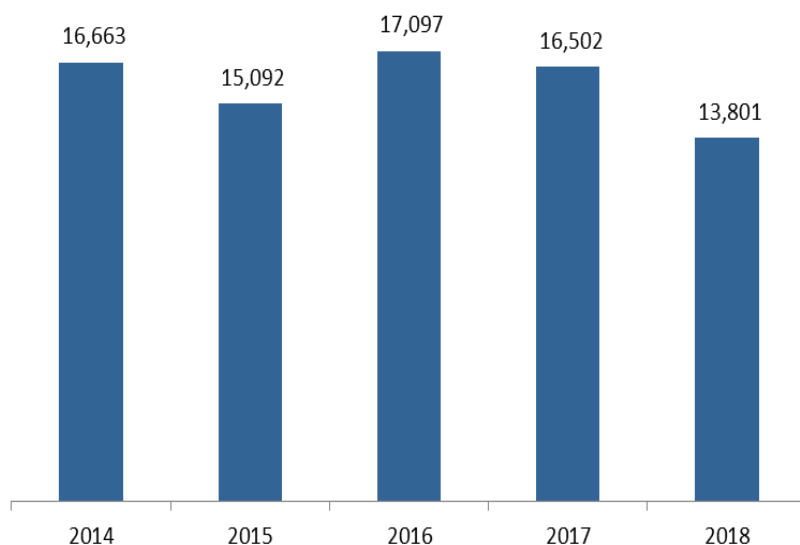
The ripples of the Lebanese economic slowdown vary from sector to sector. Tourism was hit by the absence of hefty Gulf spenders but was able to adapt to the new segment of European tourists by offering small Bed and Breakfast experiences outside Beirut. The automobile sector suffered from low demand but also adjusted its offering to cater to buyers looking for a sleek look and a small price tag.

The general economic slowdown plaguing Lebanon since 2011 has hit the real estate sector hard. The wealthy Gulf investors for whom large units were destined pulled out of Lebanon after a series of travel bans and regional turmoil. Moreover, the wallets of the Lebanese were squeezed by the deteriorating economic conditions. These two factors led to a large stock of large units being unsold and to lower local demand. What little demand is left has been geared towards smaller units.

However, the adaptation is slower and harder to achieve in the real estate market. The stock of unsold apartments with no buyers in sight significantly impacts the cash flow of the developer and therefore future projects. The squeeze in cash-flow is significantly tough if the developer has upcoming payment dues to creditors or delivery dues to customers. The real estate market has been adapting with all new projects being smaller in size. However, we cannot expect a swift revival in demand as the decision to invest in real estate involves higher capital and longer commitment.

The halt of subsidized loans, which have now been reinstated, heavily weighed on demand in 2018. It is no surprise to see that construction permits reached their lowest level since at least 2014; 13,801 permits were issued in 2018, down by 16.4% compared to 2017. Real estate transactions also dropped by an annual 17.44% to reach 60,714 transactions in 2018.

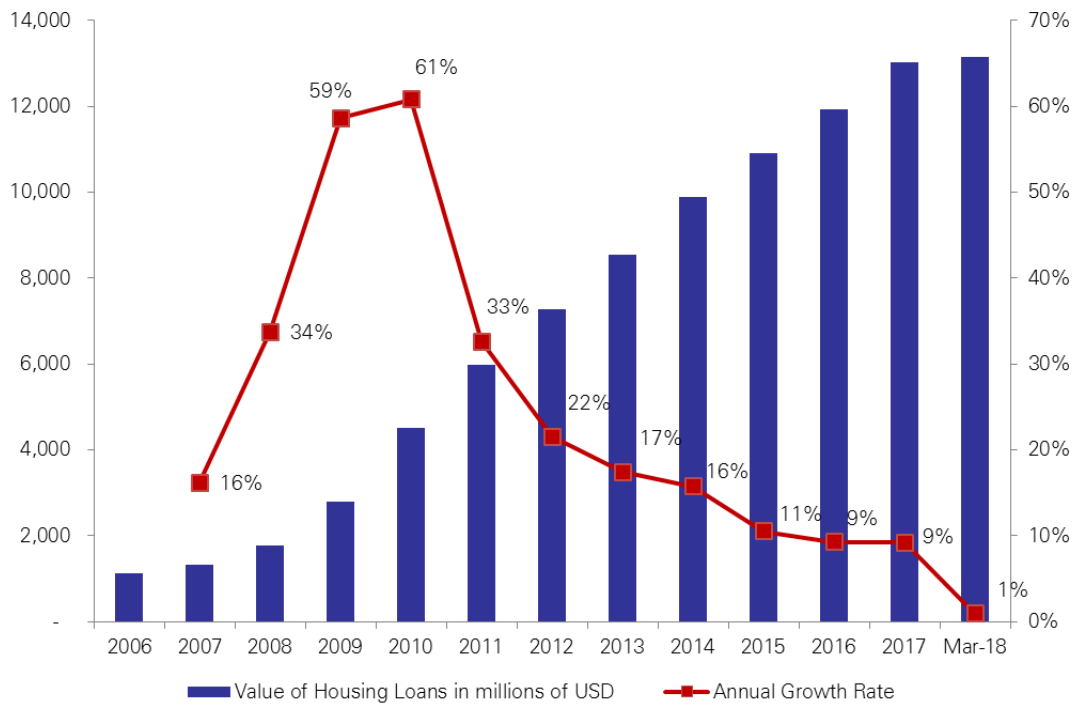
Number of Construction Permits



Source: Orders of Engineers in Beirut and the North

In fact, 2018 also proved to be an exceptionally challenging year as the cumulative effect of the economic slowdown raised eyebrows in the market. Confidence was therefore quite damaged and it would have been hard to see demand gaining vigor. The political deadlock around the government's formation also acted as a major deterrent to any investment decision.

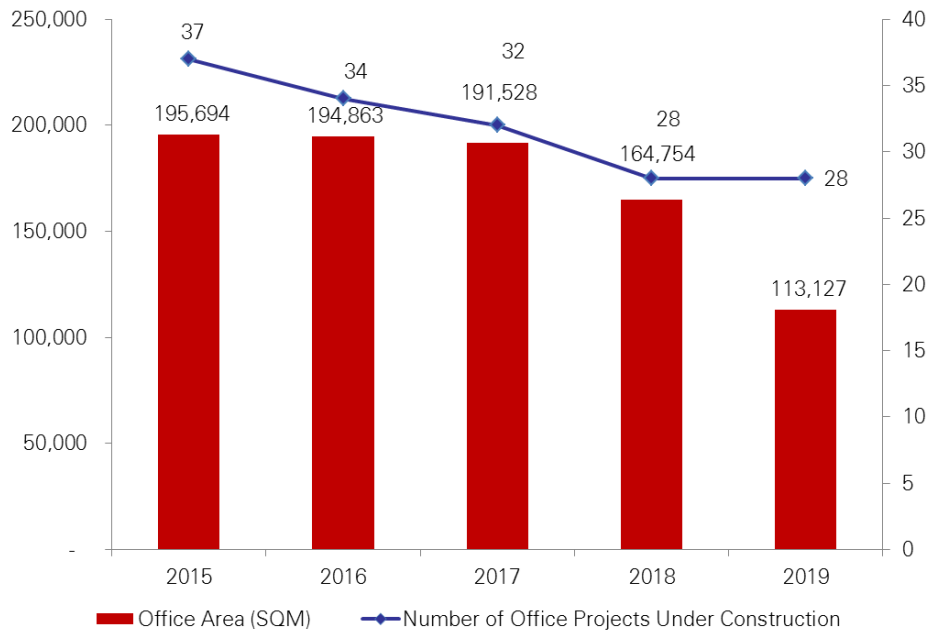
Growth in Housing Loans has slowed



Source: Central Bank of Lebanon

According to RAMCO, the strain caught up to the office market as well. The number of office projects under construction in Beirut was the lowest since 2015. In 2018, 28 projects were under construction with an office area of 164,754 square meters. The number is yet lower in 2019 with 24 projects with an office area of 113,127 square meters. According to Raja Makarem, Founder and Managing Director of RAMCO sarl, "Similarly to the residential sector, the business real estate market in Beirut is in crisis. Fewer projects are under way. Low sales ratios and dropping sales prices dampen developers' appetite. Furthermore, the stock of unsold offices completed during the past few years is on the rise, which proves that the market starts to reach saturation point."

Office Projects under Construction in Beirut



Source: RAMCO

Assessing the extent to which the real estate sector is performing poorly is a challenging task. Construction permits and cement deliveries reflect developers’ building appetite which naturally follows demand while real estate transactions give an overview on movements in the market. However, Lebanon lacks data on the exact number and value of unsold stock, on the exact pricing of units across Lebanon and the extent to which discounts are being offered. What is certain however that real estate is tightly linked to sentiment and sentiment needs to be boosted by real reform, which will hopefully be carried out by the newly formed government.

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