

# Hot property

Joseph Mouawad talks about the sales increase in the residential market, as demand for big, luxurious apartments climbs

IT IS ENCOURAGING to be able to report that 2003 saw further movement and increased (mainly foreign and expatriate) demand for properties in the residential market, one which is expected to register as much as 15% annual growth in property transactions. This will come hard on the heels of the 30% growth witnessed in 2002, which saw residential property sales of \$635 million. However, developers were, and will continue to be, burdened by the twin evils of political and governmental risk, given the volatile nature of the region and Lebanon's growing, and apparently unsolvable, debt crisis.

The explanation for the increased

activity in the residential sector – compared to the relatively sluggish office and retail markets – is because Lebanon is consolidating itself as the Arab world's premier entertainment and tourist destination. There are additional contributing factors: the results of Paris II created greater confidence in the country's finances and a post-9/11 world has made the case for Lebanon as a target for Arab investors all the more compelling. Nevertheless these are contributing factors; the big picture shows us that we have regained what we lost in 1975.

The residential market has had to claw its way back from the rampant boom of the early 90s and the subsequent catastrophic crash of 1997. Yes, we were selling everything we built at big margins but there were too many amateurs in a market that was

soon flooded with bad quality apartments in unsuitable locations. Much of this useless property has been taken over by banks and liquidated, but the empty apartments that overlook the Jounieh highway are a testament to the recklessness of that period. The postwar property debacle did have a silver lining. Banks are now more cautious and want to see a proven track record from property developers seeking debt. This is good for us professionals who can also demonstrate to potential purchasers (many of whom are discerning expatriate Lebanese and Arab nationals from Gulf countries seeking a second home in Lebanon) that they – the developers that is – have the experience to deliver in terms of quality, size and location. All we would like to see from the banks is a further drop in the lending rate to maybe 6% or 6.5%.

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Further flexibility in mortgage lending would also spur home buying. That said, the mortgage is a recent phenomenon in the Lebanese market and the fact that we have banks willing to lend over 15 years is as good as we can expect for the time being.

What is being bought? Well, in 2002, there was much demand for new, big, luxurious apartments and by big I mean 400m<sup>2</sup> to 600m<sup>2</sup>. These were costing anything between \$1 million to \$3 million. Now we see equally robust demand for



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new 200m<sup>2</sup> three-bedroom apartments that sell for around \$500,000 in Raouche, Ramlet el Baida and Verdun in particular, but there has also been activity in the BCD and Ashrafieh. This does not mean

to say that only new apartments are selling. Those who bought, for example, in 2000 should be able to sell at a profit today if they can undercut current construction costs, which have gone up by about 20% across the board. Why? Land prices have risen by 20%, while increased development has also put a premium on labor and equipment. We are also burdened by paying Value Added Tax (which incidentally we cannot reclaim) while the strengthening euro has seen a rise in the price of building materials – 80% of which comes from Europe. Yes, growth comes at a price.

The biggest problem facing developers today is the high cost of land, which can find its origins in the BCD where the price of the square meter has gone up from (the already high price of) \$1,000 per m<sup>2</sup> of BUA (built up area) to between \$1,300 to \$1,400 per m<sup>2</sup> of BUA. Solidere should never have put up their prices on the basis of a few high profile sales and, in doing so, they have eaten into our profits by as much as 50% should we wish to develop in the BCD. The seafront, which saw sales of \$50 million, now looks cheap compared to the lots further inland which are more expensive and do not have the same sea view.

My company has instead looked elsewhere, such as up and coming neighborhoods like Gemaizeh and Saifi, which are central and have character. There we can "breathe" a bit easier, selling at around \$1,800 per m<sup>2</sup> for our luxury development. Still, many landlords in Gemaizeh are being unrealistic about the value of the land, which they are valuing on the basis of its proximity to the BCD. There is no comparison. The BCD has better infra-



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structure and better regulations. Still, it is an area that has potential.

In the commercial market we have seen a gradual pick up in the office market but this is unlikely to translate into anything spectacular, while the retail rents in the BCD continued to put pressure on landlords. Instead, the future should lie in well-built and equally well-conceived shopping malls, beach clubs, hotels, furnished apartments and, of course, private homes – all the components of a resort nation. [E]

*\*Joseph Mouawad is the head of Mouawad Investment group*

Capital Trust signs a construction agreement with Kettaneh Construction for Avenue Plaza, a residential project in the BCD. Project delivery is scheduled for March 2005.