

# Analysis of Real Estate Transactions in Lebanon

(2008-2013)

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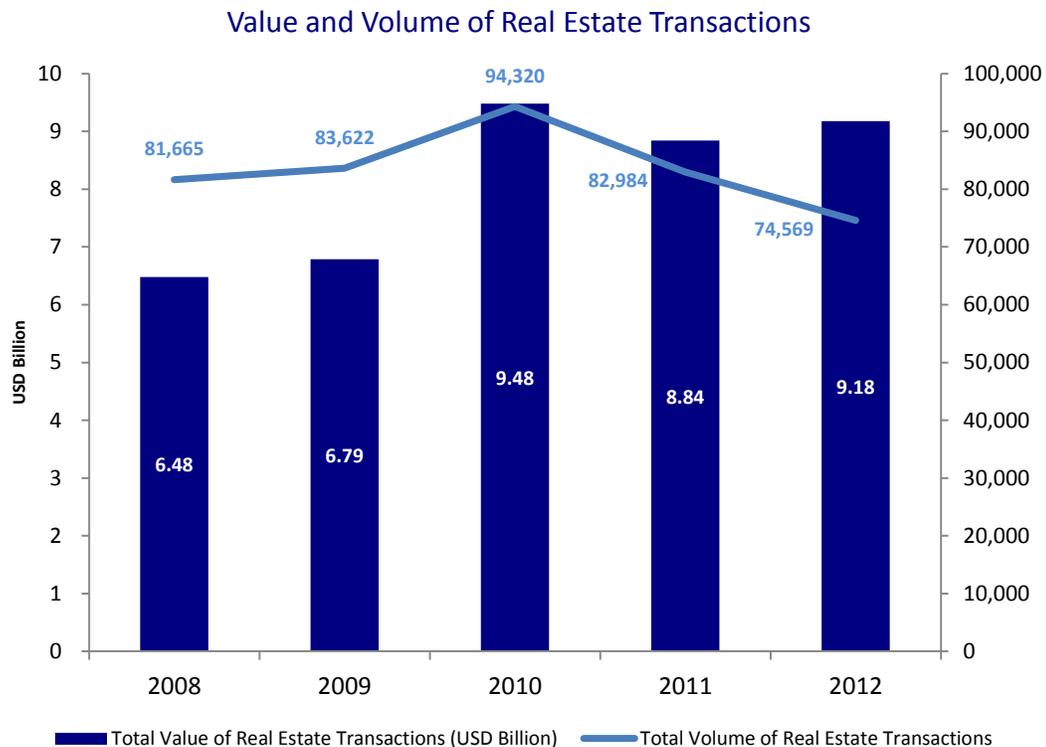
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## Real Estate Transactions (2008-2012):

### Evolution of Value and Volume of Real Estate Transactions:

During the year 2010, the value of real estate transactions witnessed a significant 39.6% increase to reach USD 9.48 billion, up from USD 6.79 billion in the previous year. This increase coincided with a 12.8% increase in the number of real estate transactions which recorded 94,320 transactions in 2010. Demand however dropped in 2011, suppressed by domestic political instability and regional turbulences. In the year 2011, the value of real estate transactions declined by 6.7% to reach USD 8.84 billion, while their volume dropped by 12% to reach 82,984 transactions. The real estate sector continued to face weakening demand in 2012. In fact, the volume of real estate transactions followed a declining trend in 2012 falling by 10.2% to reach 74,569 transactions. However, the value of real estate transactions witnessed 3.8% increase, recording USD 9.18 billion.



Source: Real Estate Registry

### Volume of Real Estate Transactions by Region:

During the year 2010, the number of real estate transactions increased in all regions, with the highest increases recorded in the North region (18.9%), Kesserwan region (17.2%), and the South region (15.6%). However, the year 2011 witnessed declines in the volume of real estate transactions in most regions. Real estate sales recorded in Metn region decreased by 20.2% to reach 9,363 transactions, while those recorded in Baabda region saw a 17.4% decline, reaching 19,125 transactions in 2011. Property sales in the North region dropped by 14% to reach 14,107 transactions, while property sold in Beirut region declined by 12.4% to record 6,088 transactions.

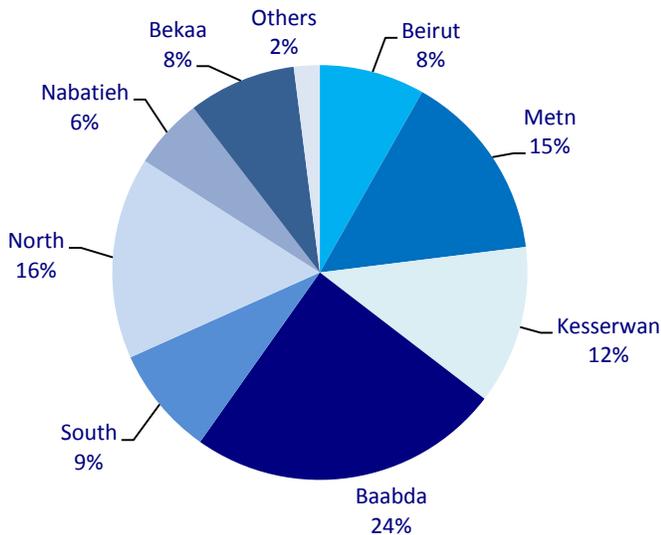
As the economy slowed down in 2012, real estate activity deteriorated in all regions except Nabatieh region, which recorded a slight 0.3% increase in recorded transactions from 5,986 transactions in 2011 to 6,005 transactions in 2012. Property sales in the North region dropped by 18.5%, reaching 11,500 transactions, while sales in Kesserwan region saw 16.8% decline, recording 8,422 transactions. Concurrently, Beirut region's real estate sales further deteriorated to reach 5,239 transactions, a 13.9% year-on-year decrease. Furthermore, each of Baabda region, the South region and Metn region recorded drops in volume of real estate transactions during 2012 by 7.5%, 6.8% and 6%, respectively.

|                  | 2008   | 2009   | 2010   | 2011   | 2012   |
|------------------|--------|--------|--------|--------|--------|
| <b>Beirut</b>    | 6,702  | 6,619  | 6,947  | 6,088  | 5,239  |
| <i>% Change</i>  |        | -1.2%  | 5.0%   | -12.4% | -13.9% |
| <b>Metn</b>      | 12,106 | 10,988 | 11,739 | 9,363  | 8,804  |
| <i>% Change</i>  |        | -9.2%  | 6.8%   | -20.2% | -6.0%  |
| <b>Kesserwan</b> | 10,117 | 9,637  | 11,294 | 10,119 | 8,422  |
| <i>% Change</i>  |        | -4.7%  | 17.2%  | -10.4% | -16.8% |
| <b>Baabda</b>    | 19,901 | 20,686 | 23,158 | 19,126 | 17,682 |
| <i>% Change</i>  |        | 3.9%   | 12.0%  | -17.4% | -7.5%  |
| <b>South</b>     | 6,944  | 7,316  | 8,460  | 8,218  | 7,660  |
| <i>% Change</i>  |        | 5.4%   | 15.6%  | -2.9%  | -6.8%  |
| <b>Nabatieh</b>  | 4,529  | 5,236  | 5,963  | 5,986  | 6,005  |
| <i>% Change</i>  |        | 15.6%  | 13.9%  | 0.4%   | 0.3%   |
| <b>North</b>     | 12,860 | 13,787 | 16,395 | 14,107 | 11,500 |
| <i>% Change</i>  |        | 7.2%   | 18.9%  | -14.0% | -18.5% |
| <b>Bekaa</b>     | 6,859  | 7,240  | 8,114  | 7,545  | 7,259  |
| <i>% Change</i>  |        | 5.6%   | 12.1%  | -7.0%  | -3.8%  |
| <b>Others</b>    | 1,647  | 2,113  | 2,250  | 2,432  | 1,998  |
| <i>% Change</i>  |        | 28.3%  | 6.5%   | 8.1%   | -17.8% |

Source: Real Estate Registry

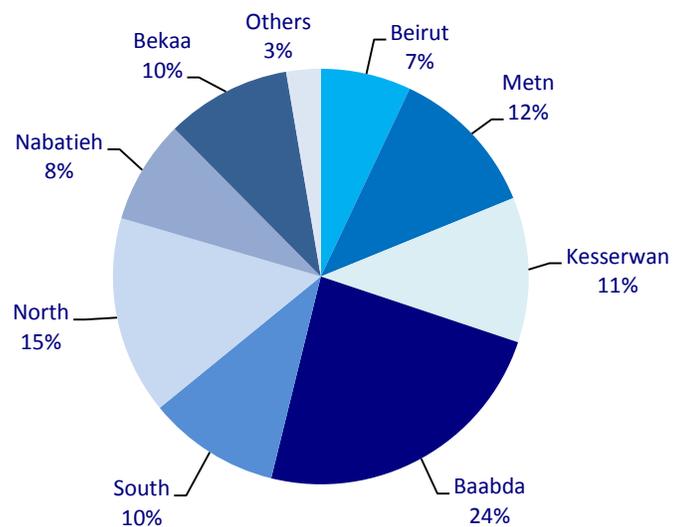
Over the period 2008-2012, Beirut region’s share of total volume of real estate transactions declined from 8% in 2008 to 7% in 2012. Concurrently, Metn region witnessed a decline in its share of real estate transactions from 15% to 12%. Furthermore, the share of Kesserwan region and the North region of total real estate transactions dropped over the aforementioned period, to reach 11% and 15%, respectively, in 2012. On the other hand, each of Nabatieh region and Bekaa region witnessed 2 percentage points rise in their share of total volume of real estate transactions in 2012, reaching 8% and 10%, respectively.

Volume of Real Estate Transactions by Region (2008)



Source: Real Estate Registry

Volume of Real Estate Transactions by Region (2012)



Source: Real Estate Registry

### Value of Real Estate Transactions by Region:

During the year 2010, the value of real estate transactions increased in all regions, with the most remarkable increases witnessed in the Bekaa region (983%), Baabda region (47.7%), and the South region (46%). However, the year 2011 witnessed declines in the value of real estate transactions in various regions. Real estate sales recorded in Baabda region decreased by 19.4% to reach USD 1.93 billion, while the value of transactions recorded in the North region saw an 18.5% decline, reaching 0.55 billion in 2011. Value of property sales in Metn region dropped by 10.5% to reach USD 1.61 billion, while property sold in Bekaa region declined by

9.6% to record USD 0.27 billion. Although the number of real estate transactions recorded in Beirut region fell during 2011, their value increased by 8.1%, reaching USD 2.78 billion.

The slowdown in the number of real estate sales witnessed during 2012, did not hinder the increase in the value of real estate transactions. In fact, the rise in the value of property sales in some regions offset the decline recorded in other regions. Value of property sales in Bekaa region dropped by a significant 93.7%, reaching USD 0.02 billion, while value of sales in Beirut region saw 1.1% decline, recording USD 2.75 billion. Concurrently, Nabatieh region's value of real estate sales improved to reach USD 0.22 billion, a 14.3% year-on-year increase. Furthermore, the South region recorded a rise in value of real estate transactions by 13.3%, from USD 0.45 billion in 2011 to USD 0.5 billion in 2012.

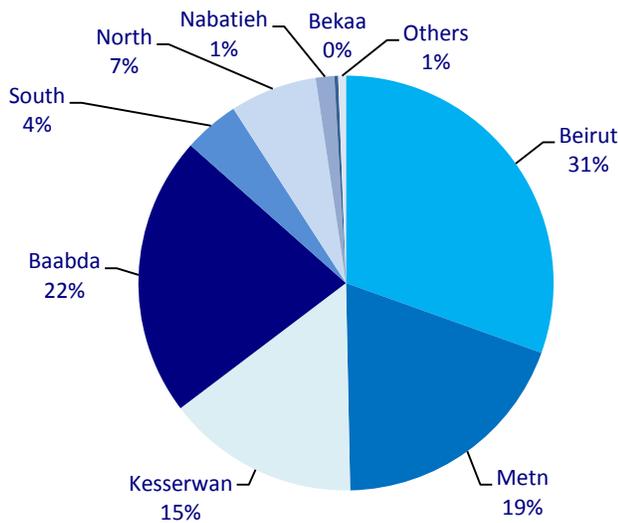
| in USD Billion | 2008 | 2009   | 2010   | 2011   | 2012   |
|----------------|------|--------|--------|--------|--------|
| Beirut         | 1.98 | 2.08   | 2.57   | 2.78   | 2.75   |
| % Change       |      | 5.4%   | 23.2%  | 8.1%   | -1.1%  |
| Metn           | 1.25 | 1.30   | 1.80   | 1.61   | 1.62   |
| % Change       |      | 4.4%   | 37.9%  | -10.5% | 0.5%   |
| Kesserwan      | 0.97 | 0.81   | 1.07   | 0.99   | 0.99   |
| % Change       |      | -16.6% | 31.1%  | -7.4%  | -0.1%  |
| Baabda         | 1.42 | 1.62   | 2.39   | 1.93   | 1.94   |
| % Change       |      | 14.0%  | 47.7%  | -19.4% | 0.5%   |
| South          | 0.28 | 0.30   | 0.44   | 0.45   | 0.50   |
| % Change       |      | 6.3%   | 46.0%  | 2.1%   | 13.3%  |
| Nabatieh       | 0.09 | 0.13   | 0.17   | 0.19   | 0.22   |
| % Change       |      | 39.3%  | 26.1%  | 14.5%  | 14.3%  |
| North          | 0.44 | 0.48   | 0.68   | 0.55   | 0.56   |
| % Change       |      | 8.8%   | 41.2%  | -18.5% | 1.5%   |
| Bekaa          | 0.02 | 0.03   | 0.30   | 0.27   | 0.02   |
| % Change       |      | 46.0%  | 983.3% | -9.6%  | -93.7% |
| Others         | 0.04 | 0.03   | 0.07   | 0.09   | 0.06   |
| % Change       |      | -20.5% | 125.8% | 24.3%  | -33.3% |

Source: Real Estate Registry

Over the period 2008-2012, Beirut region's share of total value of real estate transactions rose from 31% in 2008 to 32% in 2012. Concurrently, the North region and Kesserwan region witnessed declines in their share of total value of real estate transactions to 6% and 11%,

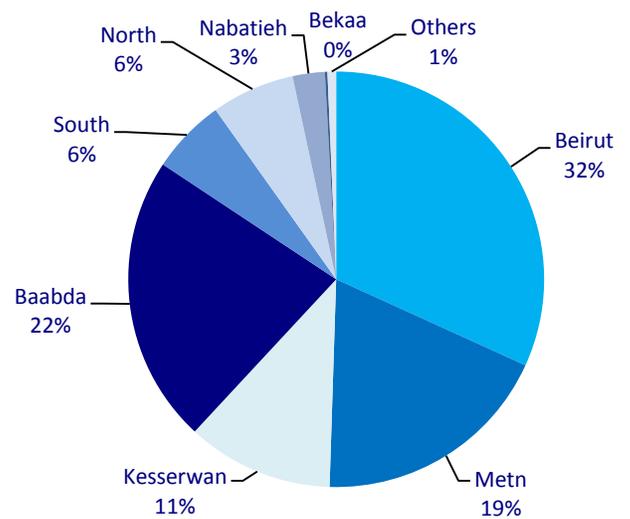
consecutively. Meanwhile, the share of Baabda region and Metn region of total value of real estate transactions remained stable over the aforementioned period, at 22% and 19%, respectively. On the other hand, each of Nabatieh region and the South region witnessed 2 percentage points rise in their share of total value of real estate transactions in 2012, reaching 3% and 6%, respectively.

Value of Real Estate Transactions by Region (2008)



Source: Real Estate Registry

Value of Real Estate Transactions by Region (2012)



Source: Real Estate Registry

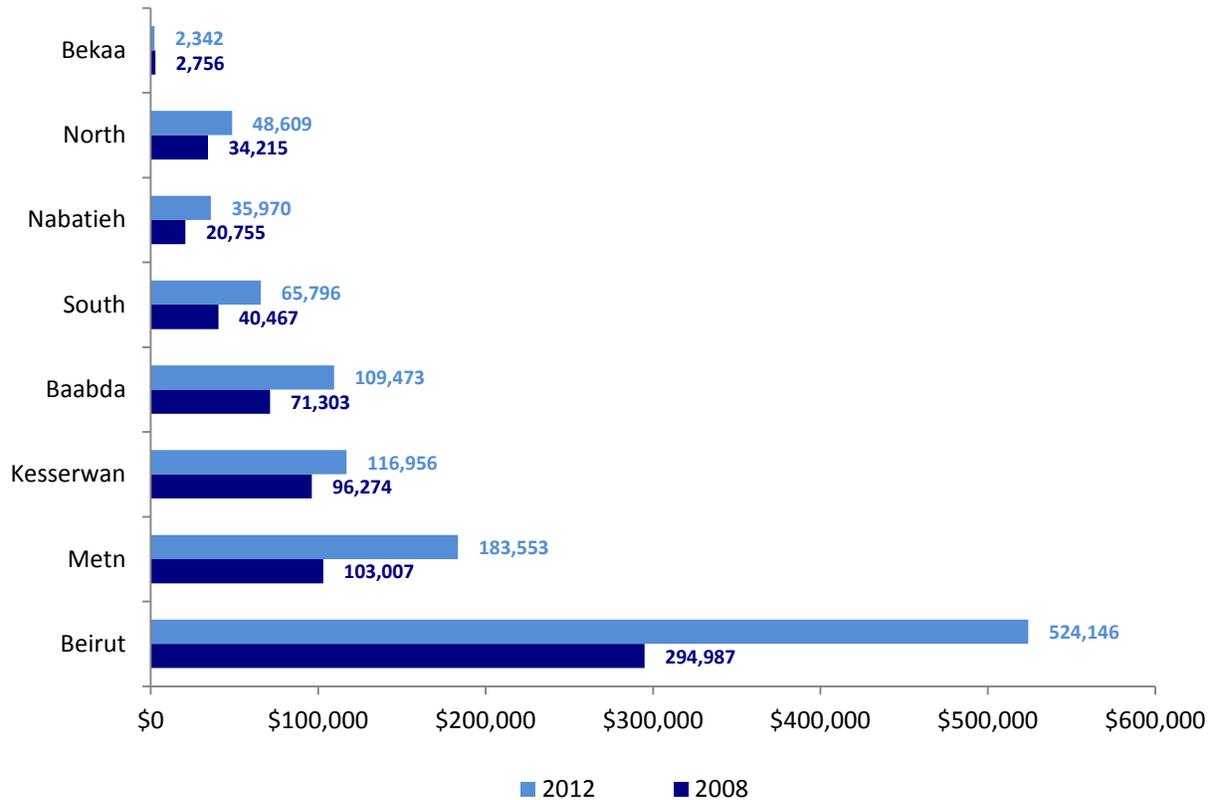
### Average Value Per Real Estate Transaction by Region:

In order to understand the discrepancy in trend evolution of value and volume of real estate transactions, it is important to study the evolution of average value per real estate transaction.

Average value per real estate transaction gradually increased over the period 2008-2012. During the aforementioned period, the average value per transaction recorded the highest increase in Metn region, where the average value increased by 78.2% to reach USD 183,553 in 2012. Concurrently, the average value per transaction in Beirut region rose by 77.7% over the five-year period, reaching USD 524,146 in 2012. Baabda and Kesserwan also witnessed rises in average value per real estate transactions which reached USD 109,473 and USD 116,956,

respectively. Similarly, increases in average value per real estate transactions were witnessed in the South region (62%), the North region (42%), and Nabatieh region (73%), reaching in 2012 USD 65,796, USD 48,609, and USD 35,970, respectively.

Average Value Per Real Estate Transaction by Region

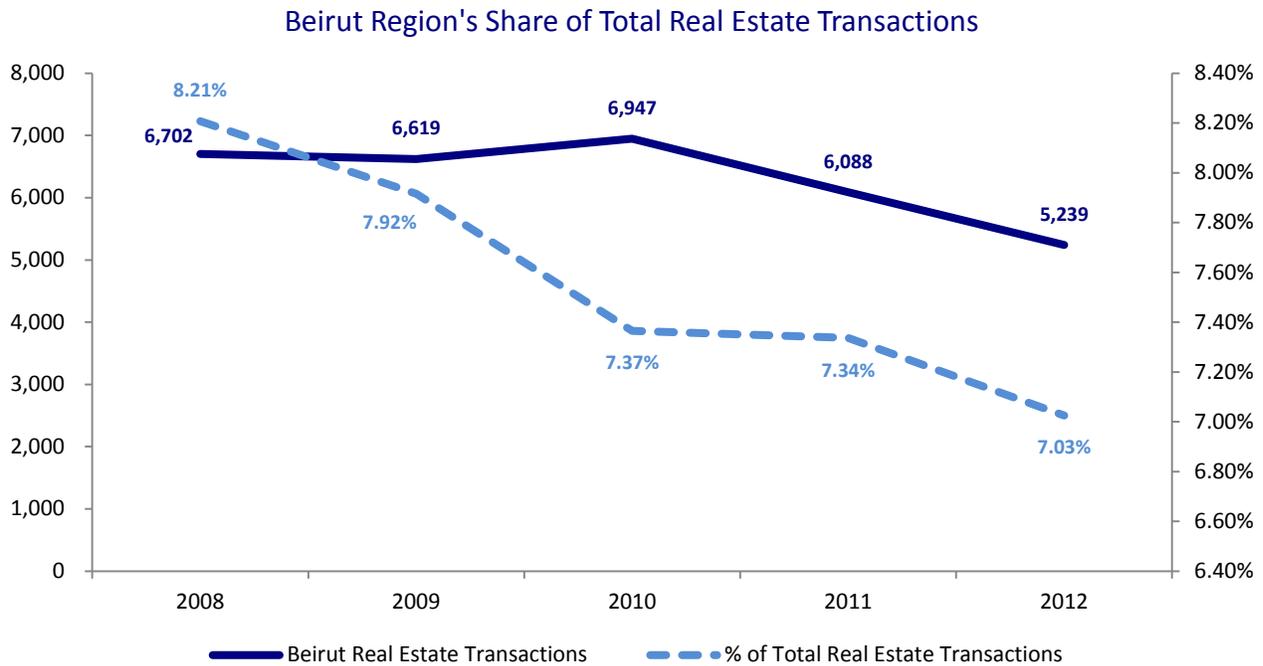


Source: Real Estate Registry

### Shift in Demand Behavior:

The disproportionate change in real estate price trends in Lebanon resulted in a shift in demand behavior away from Beirut region towards more affordable regions across Lebanon. In fact, the high real estate prices in Beirut have crowded-out middle-income consumers, shifting their demand to residential areas in the suburbs. As can be observed in the graph below, Beirut region’s share of the total volume of real estate transactions have gradually dropped over the

period 2008-2012, from 8.21% (6,702 transactions) in 2008 to 7.03% (5,239 transactions) in 2012.

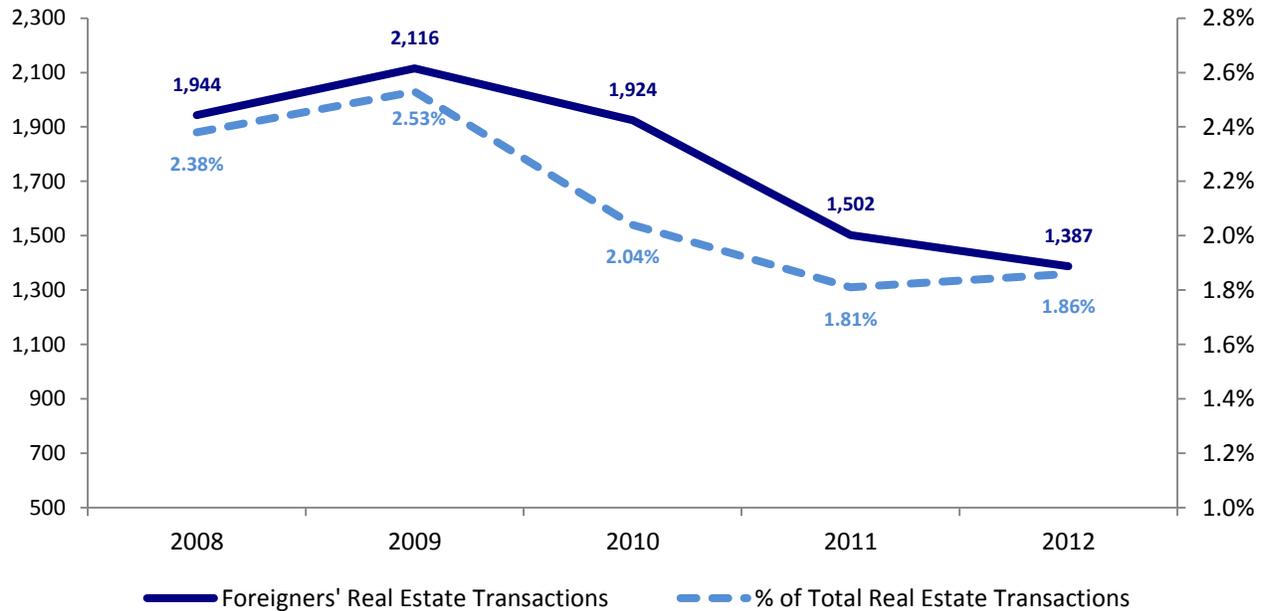


Source: Real Estate Registry

### Local Versus Foreign Demand:

When it comes to the split of real estate demand between local residents and foreign investors, it can be noted that foreign demand has declined gradually over the years, but witnessed a reversal in 2012. With the deterioration of stability and security in Lebanon over the period 2008-2011, the proportion of real estate sales to foreigners as a percentage of total real estate transactions declined from 2.38% (1,944 transactions) in 2008 to 1.81% (1,502 transactions) in 2011. However, as the number of Syrian families relocating in Lebanon increased, the share of foreigners out of total real estate sales rose to 1.86% in 2012. However, in absolute volume, the number of real estate transactions pertaining to foreigners declined to 1,387 transactions during 2012.

Share of Foreigners out of Total Volume of Real Estate Transactions



Source: Real Estate Registry

## Real Estate Transactions (January-May 2013):

During the first five months of 2013, real estate transactions totaled 26,042, witnessing an 8.2% decline from 28,369 transactions in the same period last year. Similarly, the value of real estate transactions dropped by 8.56% y-o-y from USD 3.31 billion as of the end-May 2012 to USD 3.02 billion as of end-May 2013. As a result, the average value per real estate transaction decreased slightly (-0.39%) to USD 116,114 as of May 2013, compared to USD 116,569 in the same period last year.

|   | Jan- May 2012 | Jan - May 2013 | Y-o-Y Change |
|---|---------------|----------------|--------------|
| Volume of Real Estate Transactions              | 28,369        | 26,042         | -8.20%       |
| Value of Real Estate Transactions (USD Billion) | 3.31          | 3.02           | -8.56%       |
| Average Value Per Transaction (USD)             | 116,569       | 116,114        | -0.39%       |

Source: Real Estate Registry

The number of real estate transactions recorded during the first five months of 2013 decreased in all regions except Bekaa region where the number of transactions increased by 13% to reach 3,031 transactions. The steepest declines were witnessed in Baabda region, Beirut region, Metn region, and the South region where the number of recorded transactions dropped by 16.1%, 13.9%, 12.1% and 10.8%, respectively.

|           | Jan-May 2012 | Jan-May 2013 | Y-o-Y Change |
|-----------|--------------|--------------|--------------|
| Beirut    | 1,908        | 1,643        | -13.9%       |
| Metn      | 3,360        | 2,955        | -12.1%       |
| Kesserwan | 3,194        | 3,150        | -1.4%        |
| Baabda    | 6,790        | 5,694        | -16.1%       |
| South     | 2,731        | 2,436        | -10.8%       |
| Nabatieh  | 2,315        | 2,249        | -2.9%        |
| North     | 4,577        | 4,145        | -9.4%        |
| Bekaa     | 2,683        | 3,031        | 13.0%        |
| Others    | 811          | 739          | -8.9%        |

*Source: Real Estate Registry*

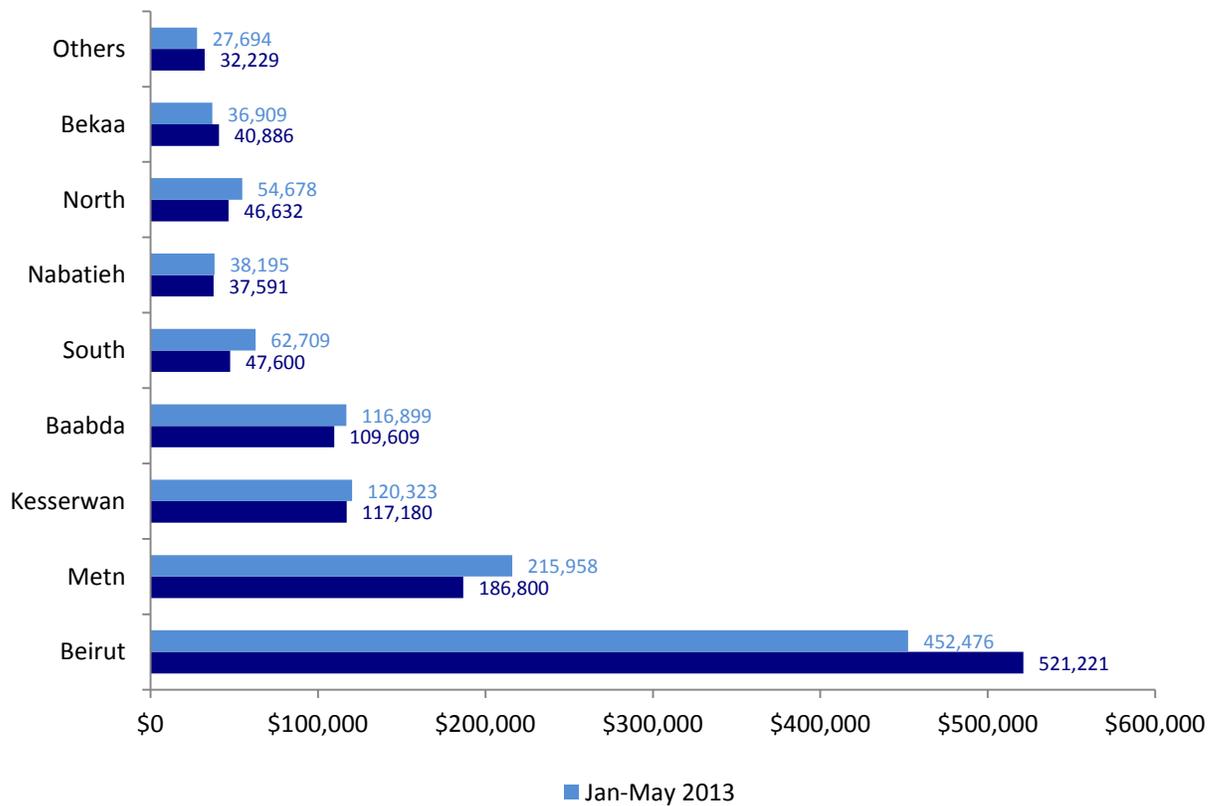
Beirut region recorded a sharp 25.2% year-on-year decline in the value of real estate transactions which reached USD 0.743 billion by May 2013. Baabda region followed the same falling trend with a drop in the value of real estate transactions recorded by 10.6%, to reach USD 0.666 billion as of May 2013. On the other hand, the South region saw an increase in the value of real estate transactions by 17.5%, where the decline in the number of transactions recorded in the South was offset by the an increase in property prices.

| USD Billion | Jan-May 2012 | Jan-May 2013 | Y-o-Y Change |
|-------------|--------------|--------------|--------------|
| Beirut      | 0.994        | 0.743        | -25.2%       |
| Metn        | 0.628        | 0.638        | 1.7%         |
| Kesserwan   | 0.374        | 0.379        | 1.3%         |
| Baabda      | 0.744        | 0.666        | -10.6%       |
| South       | 0.130        | 0.153        | 17.5%        |
| Nabatieh    | 0.087        | 0.086        | -1.3%        |
| North       | 0.213        | 0.227        | 6.2%         |
| Bekaa       | 0.110        | 0.112        | 2.0%         |
| Others      | 0.026        | 0.020        | -21.7%       |

*Source: Real Estate Registry*

During the period January-May 2013, the average value per real estate transaction declined in Beirut region to reach USD 452,476 down from USD 521,221 in the same period last year. Similarly, Bekaa region saw a slight drop in average value per transaction from USD 40,886 in January-May 2012 to USD 36,909 in the same period of 2013. On the other hand, the average value per transaction as of April 2013 increased in each of Metn, Kesserwan, and Baabda, to record USD 215,958, USD120,323, and USD 116,899, respectively.

### Average Value Per Transaction by Region

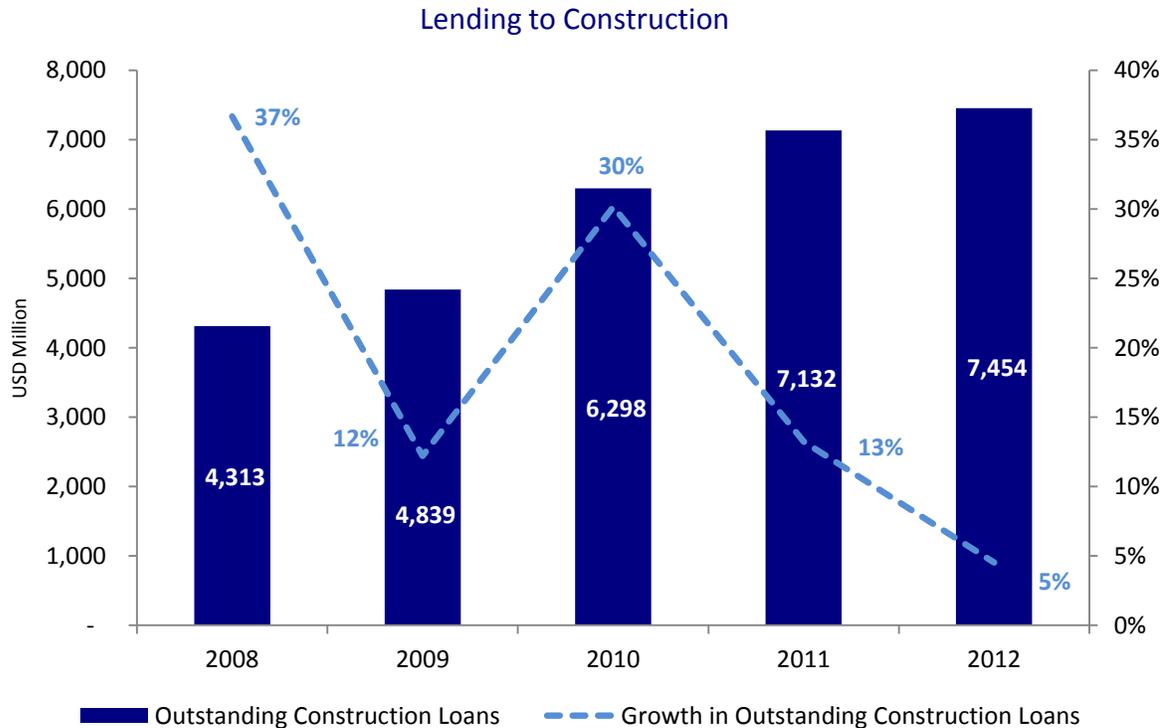


Source: Real Estate Registry

## Real Estate Market Financing:

### Lending to Construction:

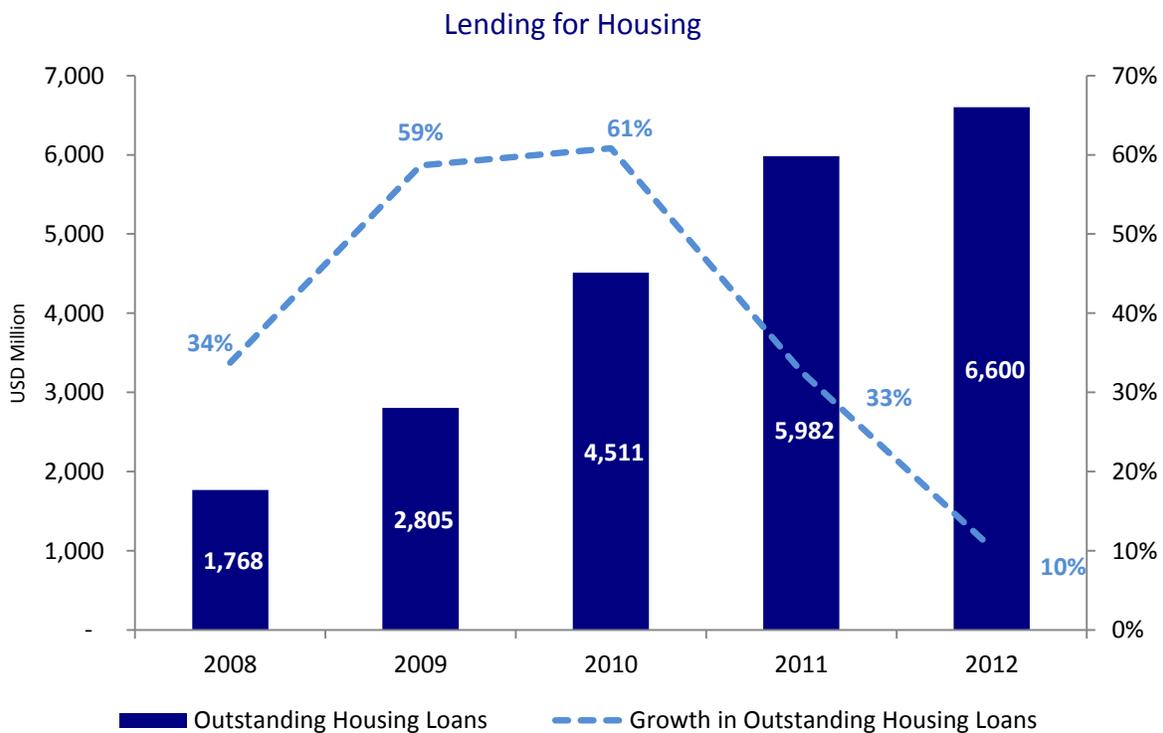
Loans granted to the construction sector have increased through the years, reflecting sustained levels of the sector’s activity during periods of economic growth and slowdown. During the year 2009, outstanding construction loans increased by 12% to reach USD 4,839 million by the end of the year. An even higher growth in lending to construction sector was witnessed in 2010, where construction loans increased by 30% reaching USD 6,298 million. However, as the demand for real estate property moderated in 2011, loans granted for construction purposes grew by a modest 13% recording USD 7,132 million. During 2012, lending to construction further adjusted to the falling activity in the real estate sector. In fact, construction loans grew by an unprecedented low rate of 5%, recording USD 7,454 by December 2012.



Source: Banque Du Liban

## Lending for Housing:

Over the period 2008-2010, housing loans witnessed remarkable growth, reflecting improved consumer confidence which translated into higher demand for housing. This growth is also attributed to the support of the Central Bank of Lebanon through the various subsidized housing loans schemes. During the year 2009, outstanding housing loans increased by 59% to reach USD 2,805 million by the end of the year. An even higher growth in lending for housing purposes was witnessed in 2010, where housing loans increased by 61% reaching USD 4,511 million. However, as the economy slowed down during 2011, so did the demand for real estate property. Hence, outstanding loans granted from housing grew by a modest 33% recording USD 5,982 million. During 2012, housing loans further adjusted to the falling activity in the real estate sector. In fact, housing loans grew by a remarkably low rate of 10%, recording USD 6,600 by December 2012.



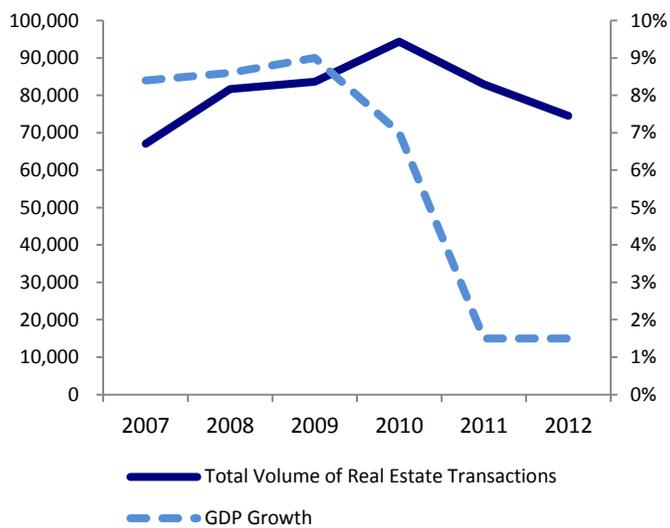
Source: Banque Du Liban

## Real Estate Transactions Dynamics:

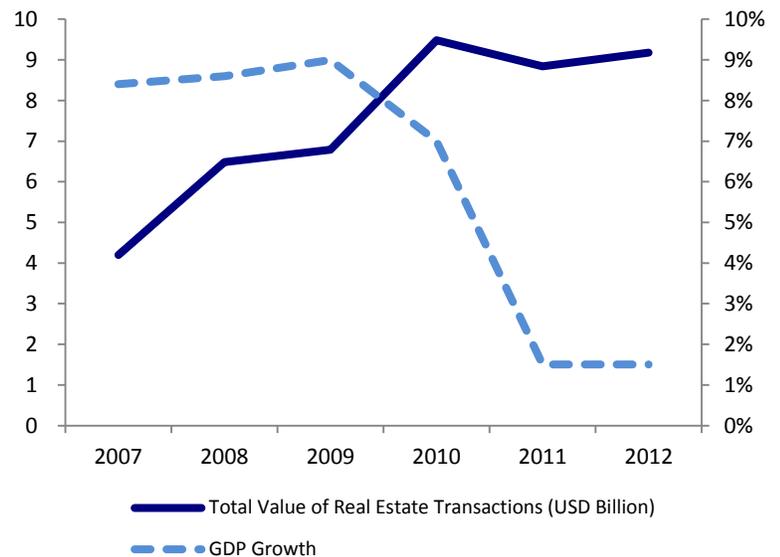
### Real Estate Transactions, GDP Growth and Average Lending Rate:

Trend analysis of real estate transactions and GDP growth reveals that both value and volume of transactions respond positively to fluctuations in GDP growth rate. This can be explained by the fact that consumers and investors adjust their spending and investment behavior based on past and current economic performance and growth.

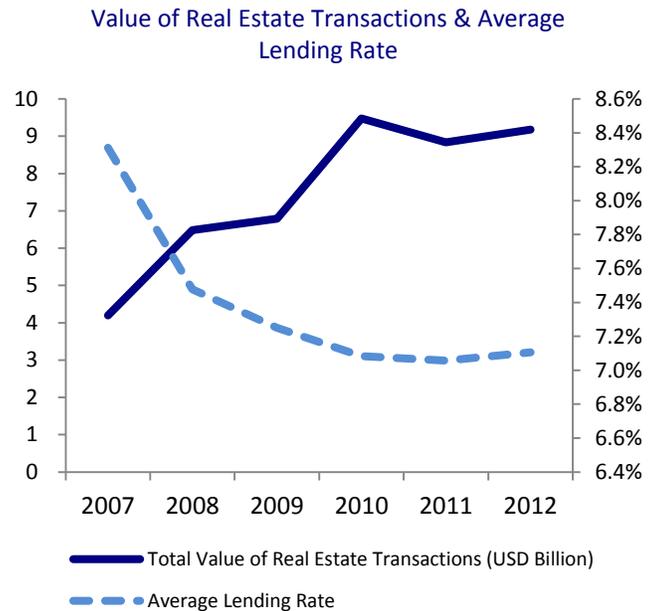
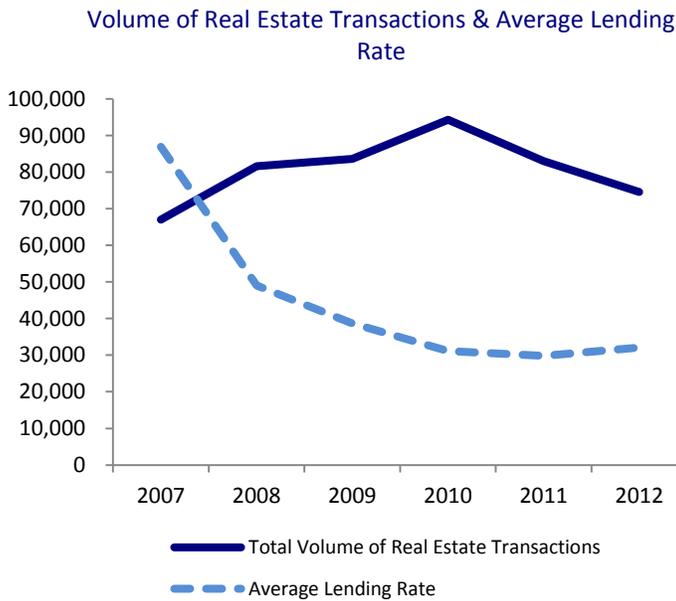
Volume of Real Estate Transactions & GDP Growth



Value of Real Estate Transactions & GDP Growth



On the other hand, trend analysis of real estate transactions and average lending rate shows that both value and volume of transactions respond inversely to fluctuations in average lending rate. This can be explained by the fact that when the cost of borrowing is reduced, households and businesses increase their demand for real estate.



To further analyze the relation between real estate transactions, GDP growth rate and average lending rate, ordinary least square regression analyses were performed between yearly change in value and volume of real estate transactions over the period 2007-2012, GDP growth and change in average lending rate over the same period. As expected, the analyses showed that, holding average lending rate constant, there is a positive relation between change in value and volume of real estate transactions in Lebanon and GDP growth at constant prices. The analyses also revealed that, holding GDP growth constant, there is a negative relation between change in value and volume of real estate transactions in Lebanon and average lending rate. The regressions performed revealed high coefficients of determination, which renders the analyses quite reliable.

Furthermore, the analyses reveal that, holding average lending rate constant, a rise in GDP growth rate by 1 percentage point would lead to a yearly increase in value of sales transactions by USD 0.13 billion and a yearly increase in volume of transactions by 2,654 transactions. On the other hand, a 1 percentage point drop in GDP growth rate would result in an annual reduction in value of sales transactions by USD 0.13 billion and a yearly decline in volume of transactions by 2,654 transactions.

The same analyses show that, holding GDP growth constant, a rise in average lending rate by 1 percentage point would lead to a yearly decline in value of sales transactions by USD 1.45 billion and a yearly fall in volume of transactions by 4,799 transactions . On the other hand, a 1 percentage point drop in average lending rate would result in an annual rise in value of sales transactions by USD 1.45 billion and a yearly increase in volume of transactions by 4,799 transactions.<sup>1</sup>

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<sup>1</sup> Technical details on the regression analyses performed can be found in Appendix 1.

## Appendix 1:

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### Volume of Real Estate Transactions, GDP Growth and Average Lending Rate Regression Analysis:

| Regression Statistics |          |
|-----------------------|----------|
| Multiple R            | 0.870931 |
| R Square              | 0.758522 |
| Adjusted R Square     | 0.597537 |
| Observations          | 6        |

| Coefficients         |              |
|----------------------|--------------|
| Intercept            | -12944.06075 |
| GDP Growth           | 2654.080971  |
| Average Lending Rate | -4799.449818 |

### Value of Real Estate Transactions, GDP Growth and Average Lending Rate Regression Analysis:

| Regression Statistics |          |
|-----------------------|----------|
| Multiple R            | 0.657752 |
| R Square              | 0.432638 |
| Adjusted R Square     | 0.054397 |
| Observations          | 6        |

| Coefficients         |          |
|----------------------|----------|
| Intercept            | -0.11987 |
| GDP Growth           | 0.132671 |
| Average Lending Rate | -1.45458 |

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