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GLOBAL REAL ESTATE MARKETS

Global House Prices

Where people decide to live, where they work, where they shop and where they choose to spend their little leisure time has long shaped their demand for real estate properties across different cities. Over the last years, urbanization has become a real global trend transcending all façades of society and impacting real estate markets. According to the United Nations, 54% of the world’s population now resides in urban areas, compared to a mere 30% in 1950. This figure is projected to reach 66% by 2050.

Globally, three outstanding highlights are shaping people’s lives nowadays. First, more than 490 million people live and work in economies associated with negative interest rates. The era of low to negative interest rates has reduced investment returns thus making safe haven assets highly sought after. Second, over 60% of the world’s citizens own a smart phone. This technological innovation has revolutionized the spread of information and affected people’s choice regarding where to live and work. Thirdly, it is estimated that around four billion people live in urban areas, a fact that influenced both demand and supply of real estate.

Over the past years, global real estate prices have moved in coordination with global economic growth. Prior to the global financial crisis, house prices increased rapidly reaching in some countries record high levels. House prices then collapsed over the period 2006–11 yet have recently started to rebound in many countries. These synchronized fluctuations in housing markets first coincided with a period of high growth, but then were followed by financial disruptions and slowdown in economic growth.

![Change in Global House Prices and Economic Growth](chart.png)

Source: IMF, Bankmed Research
GLOBAL REAL ESTATE MARKETS

Global House Prices

On a regional basis, real estate price growth was highest in the Middle East (10.9%), followed by North America (7.6%), South America (5.9%), and Europe (3.9%), indicating an overall nominal price-recovery in global housing markets. Based on the Knight Frank Global House Price Index, house prices increased by 4% globally in the first half of 2016.

However, in the coming months towards the end of the year, both the United Kingdom and the United States will be in the spotlight as the negotiations following the Brexit decision and the US presidential elections shall weigh on the confidence of real estate owner occupiers and may affect the regional flow of capital between countries.

Yearly Price Growth by Region
(Annual Percentage Change Q2 2015-Q2 2016)

Source: Knight Frank Research, Bankmed Research
GLOBAL REAL ESTATE MARKETS

Global House Prices

A closer look on the real house price growth across selected countries reveals that real house prices in Sweden (14%), New Zealand (11%), Hungary (11%), Qatar (8.5%), and Turkey (7.2%) witnessed the highest growth in 2015. On the other hand, real house prices fell most in Ukraine (-25.3%), Russia (-15.4%), and United Arab Emirates (-14.1%).

Source: IMF
Global House Prices

Moreover, real credit growth that is often associated with the change in house prices was relatively high across a selection of countries. Mexico (15.1%), Philippines (11.6%), and China (10.7%) witnessed the highest real credit growth over the year 2015. On the other hand, real credit growth significantly curbed down in Ukraine (-33%), Ireland (-10.8%), and Hong Kong (-7.5%).

![Yearly Real Credit Growth](image_url)

*Source: IMF*
GLOBAL REAL ESTATE MARKETS

Global House Prices

An analysis of the correlation between yearly real house price growth and real credit growth reveals a correlation coefficient of +0.6. This signals a positive relation between credit facilities that are often associated with housing and house price growth. In fact, globally, housing loans have long played a vital role in boosting demand for real estate properties, thus raising its prices.

Source: IMF
GLOBAL INSIGHTS

House Price-to-Income

A proxy to the basic affordability for housing in a given country is the price-to-income ratio. For the first quarter of the year 2016, house prices have grown faster than household income in a number of countries. House price-to-income ratio was far above 100 in New Zealand (130), Austria (126), Sweden (122), Germany (120), and United Kingdom (116).

On the other hand, real estate markets in Spain (73), Poland (80), Netherlands and Hungary (84 each), Greece (87), Italy (86), and France (95) were characterized with considerably affordable housing with respect to household income.
House Price-to-Income

Another measure that is highly considered when assessing the costs of property ownership is the price-to-rent ratio. This ratio compares the total costs of owning a property to the total costs of renting a similar property.

House prices increased faster than rental prices in about half of the countries during the first half of 2016, specifically in Turkey (145), Sweden (127), Germany (126), New Zealand (125), and Canada (120). On the other hand, the cost of owning a property was estimated to be less than the cost of renting one in countries like Russia (61), Spain (75), Netherlands (78), Greece (80), and Italy (82).
GLOBAL INSIGHTS

Quality of Life Index

The quality of life of individuals and societies in the cities where they reside is defined by their respective well-being and their personal safety.

A range of frameworks describe the quality of life in different cities, including their international exposure, political status, employment opportunities, and healthcare services. According to the Mercer Institute’s 2016 Quality of Living survey, Vienna tops the overall quality of living among 230 cities.

The survey analyzes the quality of living conditions according to 39 factors grouped into 10 major categories, namely political and social environment, economic environment, socio-cultural environment, medical and health considerations, schools and education, public services and transportation, recreation, consumer goods, as well as housing and natural environment.
GLOBAL INSIGHTS

With regard to the quality of life across different cities in the Middle East and North African (MENA) Region, Dubai ranked 75th globally and 1st in the region followed by Abu Dhabi and Doha. Beirut improved by one position in 2016 and ranked in the 180th place out of 230 countries and 10th place out of 14 countries within the region.
LEBANON’S REAL ESTATE MARKET

Real Estate Market Demand Side

Real Estate Transactions

Lebanon’s real estate sector has proved to be one of the pillar sectors of the Lebanese economy. Though in times of economic stagnation the sector retreated to a five-year low in 2015, it showed an improvement in the first nine months of 2016. The value of real estate transactions reached USD 6 billion over the period January-September 2016 growing by a yearly 4.6% from the same period last year. As to the volume of real estate transactions, it increased by a yearly 1.2% from the aforementioned period to reach 45,848 in January-September 2016.
LEBANON'S REAL ESTATE MARKET

Real Estate Demand by Region

A closer look on the real estate demand by region reveals that Beirut witnessed the highest yearly growth in volume of real estate transactions of 11.4% to reach 2,605 transactions in the period January-September 2016. It was followed by the South and Nabatieh which witnessed a yearly growth of 5.8% and 5.6% respectively. Nevertheless, the volume of real estate transactions in Metn and Keserwan posted a yearly decline of 5.4% and 3.8% respectively.

### Volume of Real Estate Transactions

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Source: Real Estate Registry, Bankmed Research
Real Estate Demand by Region

With regard to the value of real estate transactions by region, it witnessed a yearly growth of 4.6% for the first nine months of 2016 when compared to the same period last year to reach USD 6 billion. Particularly, the highest increase in the value of real estate transactions was witnessed in the South whereby the value of sold properties reached 430 million over the period January-September 2016, thereby increasing by a yearly 29.2%. Moreover, the value of real estate transactions in Baabda also witnessed a yearly increase of 14.6% in the first nine months of 2016 to reach USD 1.46 billion.

It is worth noting that after dropping by more than 23% in 2015, the value of real estate transactions in Beirut posted a 10.7% yearly rise to reach USD 1.6 billion over the period January-September 2016.

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Source: Real Estate Registry, Bankmed Research
LEBANON’S REAL ESTATE MARKET

Real Estate Demand by Region

Analysis of the property market in Beirut city shows that real estate activity rebounded in the first nine months of 2016 to account for more than 6.45% of total real estate transactions. It did not only surpass the 5.86% share posted in the same period last year but also exceeded the share recorded in the full year of 2015. Though Beirut's share of the total volume of real estate transactions is regarded as one of the smallest shares when compared to other regions, but it is indeed the highest in terms of value.

Source: Real Estate Registry, Bankmed Research
LEBANON’S REAL ESTATE MARKET

Real Estate Demand by Region

Nevertheless, the high real estate prices in Beirut have forced a large portion of middle-income consumers to shift their residential real estate demand to areas outside Beirut. In this regard, Baabda gained popularity over the last five years and currently accounts for the highest share in terms of total real estate transactions.

Source: Real Estate Registry, Bankmed Research
REAL ESTATE MARKET SUPPLY SIDE

Construction Permits

As the main indicator of real estate market supply, construction permits reached 8.9 million square meters in the period January-September 2016, slightly declining by a yearly 2.8% from the same period last year.

![Construction Permits Chart]

Source: Banque du Liban, Bankmed Research
REAL ESTATE MARKET SUPPLY SIDE

Construction Permits by Region

With regard to construction permits by geographical distribution for the first nine months of 2016, the highest growth was witnessed in South Lebanon (22%) and Nabatieh (21%), followed by Bekaa (19%). However, construction permits in Beirut and Mount Lebanon posted a decline by 27% and 15%, respectively.

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Source: Order of Engineers, Beirut and Tripoli, Bankmed Research
REAL ESTATE MARKET SUPPLY SIDE

Cement Deliveries

As for the coincident indicator of building activity, cement deliveries posted a yearly 7.1% rise to reach 3.8 million tons over the period January-September 2016.

It is important to note that while construction permits depicted a fall since 2015 and onwards, cement deliveries have shown a positive growth as at the third quarter of 2016. The reason behind this discrepancy is primarily attributed to the lag between permits and cement deliveries. In fact, the lag between obtaining the permit and effectively initiating construction is estimated to be around 12 to 18 months. For this reason, current cement deliveries are associated with permits obtained in previous years.
REAL ESTATE PROPERTY PRICES

Despite the slowdown in Lebanon’s real estate sector impacted by the slowdown in economic growth in the year 2015, there has been no connection in prices so far in 2016. As such, real estate property prices have been sustained revealing a positive consumer sentiment.

The single fundamental driver of residential property demand in Lebanon has always been the household sector. The absence of speculation and the low leverage within the sector at all levels pushed property prices to remain sticky in 2016. In particular, the average value per real estate transaction across all regions slightly increased by a yearly 0.5% over the period January-September 2016 when compared to the same period last year.

The highest increase in average property prices was witnessed in the South (22.2%) and Baabda (10.9%) where the average price per real estate transaction over the aforementioned period reached USD 92,351 and USD 150,474 respectively. On the other hand, the highest decline in property prices was seen in both Nabatieh (-16.9%) and Kesserwan (-11.8%) reaching an average of USD 40,018 and USD 124,628, respectively.

As to property prices in Beirut, they witnessed a mere decline in the first nine-months of 2016, but remained more than twice the prices in Metn (USD 213,350). The average selling price per real estate transaction in Beirut reached USD 538,546 over the period January-September 2016.

Source: Real Estate Registry, Bankmed Research
REAL ESTATE MARKET FINANCING

Lebanese banks, under the supervision of the Central Bank of Lebanon, strive to develop tailor-made housing loans to meet the needs of contractors, home-buyers, and investors. Lending to construction and housing is considered one of the key services provided by commercial banks in Lebanon reflecting the increased demand for properties and the positive consumer confidence and investor sentiment in both sectors.

**Lending to Construction**

Loans granted to the construction sector posted a year-on-year 13% increase over the first quarter of 2016, which is equivalent to the change achieved in the full year of 2015. Lending to construction reached USD 11,008 million in January-March 2016, posting a five year record high level. The construction sector has been adjusting to the new residential specifications demanded by end-users who are requiring small-sized apartments that coincide with their financial budgets.

![Graph showing Lending to Construction](source: Banque du Liban, Bankmed Research)
REAL ESTATE MARKET FINANCING

Lending for Housing

Over the years, the various subsidized housing loans schemes supported by the Central Bank of Lebanon and the relatively low rates for home loans in LBP have encouraged property ownership and increased demand for residential real estate. For the first quarter of 2016, the yearly growth in housing loans continued at double digits (11%) reaching USD 11,176 million. For a large portion of the Lebanese population, housing loans are considered a primary source of financing home-ownership. For this reason, lending for housing is considered as a significant service offered by Lebanese banks proliferating the contribution of the real estate sector to the economy of Lebanon.

Source: Banque Du Liban, Bankmed Research
Real estate sector impact on budget

Real estate registration fees, which represent the bulk of real estate sector-related public revenues, increased by a yearly 5.5% in the first half of 2016 to reach USD 248 million and accounted for 5% of total government revenues. This growth coincides with the growth in the volume of real estate transactions and with the growth in housing loans reflecting the stability of the sector and its significant impact on the government budget.

Source: Ministry of Finance, Bankmed Research
REAL ESTATE SECTOR GOVERNMENT RETURNS

Real estate sector impact on budget

Moreover, total public revenues generated from real estate sector-related fees (taxes on property) increased by an annual 3.7% to reach USD 422 million, which accounted for 8% of total government revenues for the first half of 2016.

Source: Ministry of Finance, Bankmed Research
REAL ESTATE MARKET GLOBAL POSITION

Global Real Estate Transparency Index

Global Real Estate Transparency Index, published by Jones Lang LaSalle, is a unique biennial survey covering 102 markets worldwide. It aims to help real estate players understand important differences when transacting, owning, and operating in foreign markets. The composite Global Real Estate Transparency Index scores range on a scale from 1 to 5. A country or market with a perfect 1 score has total real estate transparency while a country with a 5 score has total real estate opacity. Markets are then assigned to one of five transparency tiers: Highly Transparent (1.00 – 1.70), Transparent (1.71 – 2.45), Semi-Transparent (2.46 – 3.46), Low Transparency (3.47 – 3.97), and Opaque (3.98 – 5.00).

The index is based on a combination of quantitative market data and contains the most comprehensive country comparisons of data availability, governance, transaction processes, property rights, and the regulatory-legal environment around the world across 109 markets. For each market, 139 separate factors, both quantitative data points and survey questions, are used to calculate the composite score.

According to the Global Real Estate Transparency Index report for 2016, the United Kingdom, Australia, Canada, and the United States are characterized as the most highly transparent markets in the world. These countries have taken the lead in introducing greater transparency on beneficial ownership disclosure and strict enforcement of anti-money laundering legislation and procedures, especially after the leaking of the Panama Papers in early 2016.

Source: Global Real Estate Transparency Index 2016, Bankmed Research
REAL ESTATE MARKET GLOBAL POSITION

Global Real Estate Transparency Index

As for the MENA region, Dubai has maintained its position as the most transparent market within the region achieving a composite score of 2.88. This score is attributed to Dubai’s new Open Data Law which aimed at promoting the sharing of non-confidential data between government and non-government entities. Moreover, the Dubai Land Department which manages the Emirate’s Real Estate Regulatory Agency (RERA) has implemented new measures to advance the accessibility and quality of real estate data available to potential investors. Several improvements have also been made to the drafting and enforcement of real estate contracts and the resolution of real estate disputes. Also, Dubai’s use of standard residential leases has reduced complexity and increased transparency.

Furthermore, Saudi Arabia became second most transparent market in the MENA region in 2016, moving into the "semi-transparent" category and recording a score of 3.28. It was followed by Egypt (3.39) which continued to improve in regard to achieving transparent property registration.

With respect to Lebanon’s market, it witnessed a decline in real estate transparency in 2016 recording a composite score of 4.06 and ranking in the 91st position out of 109 markets. Lebanon deteriorated from the 81st position in 2014 with a 3.9 composite score. Regionally, Lebanon ranked in the 11th position out of 15 markets ahead of Tunisia, Algeria, Iraq, and Libya.

<table>
<thead>
<tr>
<th></th>
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<th></th>
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<tbody>
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<tr>
<td>UAE-Abu Dhabi</td>
<td>59</td>
<td>3.24</td>
<td>53</td>
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<tr>
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<td>3.28</td>
<td>67</td>
<td>3.6</td>
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<td>65</td>
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<td>Jordan</td>
<td>79</td>
<td>3.75</td>
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<td>Tunisia</td>
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<td>Iraq</td>
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<td>4.50</td>
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<td>Libya</td>
<td>109</td>
<td>4.69</td>
<td>102</td>
<td>4.6</td>
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</tbody>
</table>

Source: Jones Lang LaSalle, Bankmed Research
REAL ESTATE MARKET GLOBAL POSITION

Global Real Estate Transparency Index

Lebanon was not able to maintain its position in the Low Transparency tier and moved to the Opaque Transparency tier in 2016 after achieving low scores on the real estate transparency categories.

<table>
<thead>
<tr>
<th>Category</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment Performance</td>
<td>4.7</td>
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<tr>
<td>Market Fundamentals</td>
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</tr>
<tr>
<td>Listed Property</td>
<td>2.3</td>
</tr>
<tr>
<td>Regulatory and Legal</td>
<td>4.0</td>
</tr>
<tr>
<td>Transaction Process</td>
<td>4.3</td>
</tr>
<tr>
<td><strong>Composite Score</strong></td>
<td><strong>4.0</strong></td>
</tr>
</tbody>
</table>

Source: Jones Lang LaSalle, Bankmed Research
REAL ESTATE MARKET GLOBAL POSITION

International Property Rights Index

As a component of the International Property Rights Index, the Physical Property Rights Index measures and compares the protection of physical property rights across countries. It investigates the effects of a country’s legal and political environment as well as the recognition and enforcement of physical property rights on the economic development of a country. A strong property rights regime generates the confidence of people in its effectiveness to protect private property rights. It also provides for seamless transactions related to registering property. Finally, it allows for the access to credit, which is necessary to convert property into capital. For these reasons, the following variables are used to measure private physical property rights:

- **Protection of Physical Property Rights**: This variable directly relates to the strength of a country’s property rights system as it reflects experts' views on the quality of judicial protection of private property, including financial assets. Additionally, it encompasses professionals’ opinions on the clarity of the legal definition of property rights.

- **Registering Property**: This variable reflects businesses’ point of view on how difficult it is to register property in terms of both length of time and procedures necessary.

- **Access to Loans**: This variable is included because access to a bank loan without collateral serves as a proxy for the level of development of financial institutions in a country. Financial institutions play a complementary role, along with a strong property rights system, to bring economic assets into the formal economy.

Globally, Finland ranked at the top of 128 markets followed by New Zealand and Luxembourg. These three countries are characterized by their strong property rights regime and their stable legal and political environments.

Source: International Property Rights Index, Bankmed Research
REAL ESTATE MARKET GLOBAL POSITION

International Property Rights Index

With regard to Lebanon, it recorded a Physical Property Rights Index value of 3.8 and has ranked 117th among 128 countries worldwide according to the 2016 survey, deteriorating from a score of 5.4 in 2015. This decline is due to losses in both Access to Loans and Protection of Physical Property Rights.

Globally, Lebanon came ahead of Mauritania (119th worldwide) but fell behind Ukraine (115th worldwide). Regionally, Lebanon ranked in the last position out of 18 markets.

It is important to note that Qatar ranked in the 20th position globally and in 1st position regionally followed by United Arab Emirates (UAE), hereby indicating that countries in the gulf are becoming more developed in terms of protection of physical property rights, registering property, and access to loan facilities.

<table>
<thead>
<tr>
<th>Country</th>
<th>Score</th>
<th>Globally</th>
<th>Regionally</th>
</tr>
</thead>
<tbody>
<tr>
<td>Qatar</td>
<td>7.4</td>
<td>20</td>
<td>1</td>
</tr>
<tr>
<td>United Arab Emirates</td>
<td>7.3</td>
<td>21</td>
<td>2</td>
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<tr>
<td>Saudi Arabia</td>
<td>6.1</td>
<td>38</td>
<td>5</td>
</tr>
<tr>
<td>Bahrain</td>
<td>6</td>
<td>42</td>
<td>7</td>
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<tr>
<td>Oman</td>
<td>6</td>
<td>40</td>
<td>6</td>
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<tr>
<td>Jordan</td>
<td>5.9</td>
<td>45</td>
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<tr>
<td>Morocco</td>
<td>5.3</td>
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</tr>
<tr>
<td>Kuwait</td>
<td>5.2</td>
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<tr>
<td>Tunisia</td>
<td>4.8</td>
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<td>Egypt</td>
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<td>98</td>
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<td>Algeria</td>
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</tr>
<tr>
<td>Lebanon</td>
<td>3.8</td>
<td>117</td>
<td>18</td>
</tr>
</tbody>
</table>

Source: International Property Rights Index, Bankmed Research
CONCLUSION

In conclusion, the real estate sector activity revealed continued momentum over the period January-September 2016. In fact, the sector showed an improvement in both, transactions and construction over this period after it slightly retreated in 2015 due to the persistent economic stagnation. Moreover, real estate property prices remained sticky highlighting a positive consumer and investor sentiment in the sector. In addition, the Lebanese commercial banks, supported by the Central Bank of Lebanon, have been playing an instrumental role in stimulating the activity of the real estate sector, hereby promoting its contribution to the overall economy.

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