

**ASSESSMENT OF THE LEBANESE REAL ESTATE MARKET: A
CONTENT ANALYSIS APPROACH**

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Abstract

The purpose of this study is to assess the real estate market in Lebanon. The study was conducted by a group of MBA students at the Lebanese American University. A content analysis of the classified advertisements of the Lebanese Real Estate was conducted. Results identified four major elements that affect the Lebanese Real Estate market: Advertisements ($R^2=0.795559$), Season of the advertisements ($R^2=0.741338$), Location of the advertisement ($R^2= 0.594345$), and Area of the advertisement ($R^2= 0.099588$). The variable, advertisements, was most affected by the other variables. A recursive system test was conducted to show the relationship between advertisements, and the rest of the variables. ($P43= 0.628947$)

Keywords: real estate market, Lebanon, content analysis

Introduction

The purpose of this research is to report about the real estate market in Lebanon. Lebanon has been experiencing severe political instability for the past couple of years. The instability has reached a dead-end political situation, an economic stagnation, a disastrous touristic season (Ramco Real Estate). It all began with the assassination of late prime minister Rafic Al-Hariri. The instability was followed by a war in July 2006, inter community violence, strikes, and sit-ins. Similarly, a war struck out between the Lebanese army and Fateh Al Islam, a terrorist group in Nahr El Bared took place in the summer of 2007. Such a situation has not only lead tourists to avoid Lebanon, but has also pushed the Lebanese themselves to escape and leave the country in search of safety and better quality of life. Most departing Lebanese have gone to Europe, the U.K. or the oil

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rich regions of the Middle East. The exodus of the highly skilled Lebanese became a positive aspect when it came to investments or real estate. (Batbiche, H., 2006)

Currently, the real-estate market in Lebanon is a mature sector that is barely affected by the political situation occurring in the country. "The market has seen resumption in real estate sales transactions in Beirut at the same prices negotiated before July war. This indicates that despite the long term effects of the war, confidence investor's in the local real estate has not shaken." said Raja Mokarem of Ramco Real Estate Brokers and Consultant to Lebanese Opportunities, a local investment journal. Some brokers still have confidence in the Lebanese real-estate market and feel that the rich Gulf Arab investors and the Lebanese working and living abroad will continue to upwardly drive market prices.

There is a growing demand for real estate in Lebanon. Most investments are taking place in land, residential and/or commercial developments, which became a major reason for the price increase. Since the assassination of Rafic Al-Hariri and up to present time, apartment prices have gone up by an average of 20-30%, and it has become increasingly difficult to find a new apartment in Beirut even for the price of \$200,000 while some years ago, such an amount would have been enough for a middle class couple to purchase a decent flat. Today, however, this same couple must pay about \$400,000-\$800,000 to purchase the same apartment. Moreover, land prices have doubled where the land price at the sea front has increased from \$3,000/m² to \$4,000/m². While some buyers are looking to snatch up properties at bargain prices, few sellers are willing to lower their prices even though brokers advice a 10% reduction in the asking price in order to increase sales. (Raja Makarem, 2007)

A major reason behind the growth in the real estate sector is the increased interest shown by the Lebanese expatriates and investors from the oil rich Arab countries. According to Lebanese Opportunities in 2005, the government issued 7,499 construction permits, compared to 7,232 permits in 2003, resulting in a 5% increase. According to Nabil Sawabini, chairman and CEO of Mena Capital, the annual real estate transactions have increased in value by 88% from 2001 to 2005. In addition to high interest of the Gulf nationals in the real estate in Lebanon, the increasing wealth of the Lebanese expatriates has a great impact on the real estate market. Moreover, Lebanon's climate attracts Gulf nationals to buy second summer homes in the Lebanese mountains. Lebanese living abroad are also looking to buy homes in their villages and/or second homes in the city of Beirut.

According to Lebanon Opportunities (2006), of the 160 new building permits for private residence in Mount Lebanon, only 95 permits are for Gulf investors. Almost 72% of land purchases were in Mount Lebanon, mainly Baabda, Aley and Metn, and 95% of these purchases were made by Gulf investors. The amount of these investors has definitely decreased. Yet, Gulf buyers have always been a major source of demand for Lebanon's property. Clearly they are the main source

of demand for large-size apartments (500-1500 m²) which is available at a price between \$2 and \$10 million. These clients are generally buying luxury seafront units. (Dana Chatila, 2006)

The number of Lebanese expatriates' has been growing fast in the last few years. Their incomes and buying power have also increased significantly as the Gulf region entered into a global boom. There are, however, two categories of expatriates. The first category is the upper segment which may come to the market with a budget of one million USD, and is willing to buy at 2000-2500 USD per m² in newly developed buildings. However, the mainstay of expatriate market is the category of salaried couples seeking apartments of 200-300 m² with a budget of up to 500,000 USD. (Raja Makarem, 2007)

Moreover, local buyers remain a very important segment of the market. They generally consist of couples with children seeking apartments priced at 150,000-250,000 USD with sizes between 150 and 200 m². This category is learning to limit their expectations regarding features such as view or calmness as they realize how difficult it has become to maintain a foothold in fast appreciating Beirut. In other words, such people want to be in Beirut, but they know very well that, with their budget, they have more limited choices.

To assess the real estate market in Lebanon, one must provide an overview of the business environment surrounding the topic. Since Lebanon has a market-based economy, we must have an understanding of Lebanon's economy along the past years, up to our current situation.

Literature Review

Lebanese Real-estate market

As 2000 unfolds, all predictions for the Lebanese real estate market have been positive and upward. As indicated by surveys and interviews with leading authorities, investments in real estate are becoming closer to the peak of the investment cycle. Investment in real estate is not only growing, but also becoming much more diverse. Real estate markets now provide less risk, higher return, better supply/demand balance, and improved development prospects. (Badih Abu Abdallah, 2007)

Real Estate in U.S.A., Europe, and Australia

Concerning America's housing market, the past year has witnessed the largest slowdown in growth rate since 1975. The average price of a house went up by only 1.2% in the second quarter, the smallest gain since 1999. Average prices were still up by 10.1% since previous year.

The number of unsold homes is likely to bring down prices. The housing futures contract traded on the Chicago Mercantile Exchange predicts a 5% decrease in the following year.

European housing markets, especially Belgium, Denmark, France, Ireland, and Sweden, are now on top of the league. A noticeable change is arising as the German market now starts to wake up after more than a decade of declining prices.

Several economists have suggested that Australia and Britain are “the canaries in the coal mine”, giving out early warnings to America's real estate fate. In both countries, the annual growth rate in real estate, especially house prices, dropped down from 20% in 2003 to zero in the summer of 2006. However, house prices in both countries, now referred to as the "canaries", have started to rise again. Over the past year, Australia's average prices have improved by 6.4%. This is partially due to a 35% increase in Perth, a company in Australia, at the expense of the commodity boom. Similarly, British home prices have witnessed an average increase of 6.6% than the previous year. It is thus claimed that housing markets in Australia and Britain have had a soft landing.

The impact of home prices' flattening is considered to be tougher on the Americans than on the British and the Australians. America's saving rate has sunk, while consumer spending has pitched as homeowners borrow against their capital gains, enhancing the impact on consumers. Britain's saving rate fell down more humbly, so that as prices flattened, the effect on consumer spending was less profound than that of the United States. In Australia, the slowdown in housing made a big dent in construction and consumer spending. However, it was veiled by the commodity boom and exports to China. The risk lies in the fact that the flattening of U.S. home prices could prove much more painful than it has ever been in Australia or Britain.

Real Estate in the Middle East:

The governments in the Gulf are heavily focusing their interests on real estate projects. Entire Cities are being developed and large projects are to be done. An example is the King Abdullah City will cost \$26 billion and will be comprised of 592 million square feet of Greenfield will stretch 22 miles along Saudi Arabia's western coastline. Another development is the \$15 billion Blue City in Oman, which has been designed to accommodate 2 million tourists each year along with 250,000 permanent residents; other projects are the New Town and the Industrial Projects in Bahrain, which cost more than \$2.2 billion and are being constructed on reclaimed land; not to mention Qatar's \$5 billion Lusail development, which will hold 200,000 inhabitants. Moreover, Kuwait is considering a new project: a 1,001-meter-tall Mubarak al-Kabir Tower. (Natalie Visele, 2007)

We still haven't mentioned the most outstanding country in the Gulf concerning real estate, Dubai, with projects valued at \$200 billion. Dubai has four major projects that have been popular all around the world and have attracted the richest, most famous and powerful men in the world. The \$9.5 billion land theme park is to be completed in 2010. Regarding the World and Palm Islands developments, these two land reclamation projects including hundreds of islands, will extend the United Arab Emirates' beachfront by more than 160 %. They are being developed by a variety of real estate consortia to construct a mixture of exclusive residential, leisure and commercial developments. The half-mile high Dubai Burj comes at the top of the list and is expected to be the world's tallest and largest building. For it will contain a hotel, luxury apartments and a 12 million square feet shopping mall.

Real estate is not far from the hotel development of tourist infrastructure. The boom in real-estate in the Middle East has greatly aided tourism to substantially boom as well. Christian Portman, the World Bank vice-president for the MENA region, said, "With rising oil prices contributing to surging liquidity, the efficiency with which the region can manage these resources and channel them to productive uses will depend critically upon the region's financial sectors. It is thus particularly opportune that this report highlights the state of the region's financial systems, to understand how they are poised to meet some of the region's development objectives."

Methodology

The study was conducted by a group of MBA students at the Lebanese American University. The students conducted a content analysis study of the classified advertisements of real state in Lebanon. Information generated from the study was obtained from three major daily published Lebanese newspapers, Al-Nahar, Al-Safir, Addiyyar, and one magazine monthly published Lebanon Opportunities. Additionally, personal interviews were conducted with Mr. Rajha Makarem, owner of Ramco, a local real estate firm, and Mr. Badih Bou Abdallah, representator of Coldwell Lebanon. This study was conducted to obtain information about major trends in the real estate market in Lebanon. The study analyses the Lebanese real estate market for the period between 2001 and 2007.

Results

Building the recursive system:

This procedure aims toward a complete diagnosis of the effects of each of the independent variables on the dependent variables (Advertisements) and whether this effect is a direct effect or indirect one. It is a significant way, where some

variables are dependent at times and independent at other times, until we reach the final most effected dependent.

The study examined the dependency of each of the variables on the others by undergoing regression statistics to figure out which of the dependents has the highest R, R², and ratio of the explained variation of the dependent variable with respect to the independent variable. Accordingly, the variables were arranged from highest to lowest scores. A correlation analysis between each of the highest and lowest score was conducted.

Data was categorized into four groups:

Group one: consists of the count of all the terminologies that refer to advertisements of real estate

Group two:refers to the count of all the terminologies that refer to the season of the advertisements of real estate

Group three: refers to the count of all the terminologies that refer to the location of the real estate

Group four: consists of the count of all the terminologies that refer to the area of the real estate

Table 1
Data Categorization

Year	Group One	Group Two	Group Three	Group Four
2001	207	130	132	120
2002	195	170	120	157
2003	254	195	172	140
2004	302	248	150	135
2005	280	230	170	210
2006	225	110	130	216
2007	280	260	160	170

In 2001, 207 terminologies referred to advertisement of real estate (group one), 195 in 2002, 254 in 2003, 302 in 2004, 280 in 2005, 225 in 2006 and 280 in 2007. In 2001, 130 terminologies referred to the season of the ads of real estate (group two), 132 terminologies that refer to the location of the real estate (group three) and 120 terminologies that refer to the area of the real estate (group four).

Results of the regression model in Table 4 show that the dependent variable (group one), which represents the advertisements of real estate, has deviations that are 79% explained by the deviation in the independents variable (group two, three and four).

Table 4

<i>Regression Statistics of Group 1 (advertisements)</i>	
Multiple R	0.891941
R Square	0.795559
Adjusted R Square	0.591117
Standard Error	26.120669
Observations	7.000000
F	3.891375
Significance F	0.146921

Results of the regression model in table 6 shows that the dependent variable (group two), has deviations that are 74% explained by the deviation of the independent variables (groups one, three and four).

Table 6

Multiple R	0.861010
R Square	0.741338
Adjusted R Square	0.482677
Standard Error	41.800087
Observations	7
F	1.465152
Significance F	0.380592

Results of the regression model in table 8 show that the dependent variable (group three) has a 59% deviations that is explained by the independent variable (groups 1, 2 and 4).

Table 8

<i>Regression Statistics of Group 2 (season of advertisements)</i>	
Multiple R	0.770938
R Square	0.594345
Adjusted R Square	0.188691
Standard Error	18.646820
Observations	7.000000
F	0.110603
Significance F	0.948270

Results of the regression model in table 10 shows the dependent variable (group four), has deviations that are less than 1% explained by the deviation of the independent variables (groups one, two and three).

Table 10

Regression Statistics of Group 3 (location)	
Multiple R	0.315576
R Square	0.099588
Adjusted R Square	-0.800824
Standard Error	49.784880
Observations	7.000000
F	2.866054
Significance F	0.205106

Table 11

Correlation between the first group and the remaining Groups

	<i>P4</i>	<i>P1</i>	<i>P2</i>	<i>P3</i>
P4	1	0.102608605	0.767840995	0.844495483
P1	0.102608605	1	0.089841226	-0.071272453
P2	0.767840995	0.089841226	1	0.681523563
P3	0.844495483	-0.071272453	0.681523563	1

Table 12 represents the internal force that affect the R equatio

Table 12

R Inverse		
1.042596	-0.26948	0.257962
-0.26948	1.936974	-1.3393
0.257962	-1.3393	1.93115
P Values		
P41	0.117912927	
P42	0.328605179	
P43	0.628947255	

Further, the highest variable scores were eliminated the same procedure was repeated twice.

Then Mmult and Minverse calculations for each of the results of the correlations were applied. Internal forces P43, P42, etc. were obtained. These Forces were then used to calculate the whole set of reaction between the variables

By applying a calculation of Minverse to get the inverse of R(table colored in blue) and then MMult (multiplying the inverse of r with V(table in blue) for each of the results in the correlations table as shown above we can get the internal forces P43 , P42.....that constitute the Relations between the different variables. (R43,R42,R41)

$$R_{41} = P_{41} + P_{42}P_{21} + P_{43}P_{31} + P_{43}P_{32}P_{21} = 0.1026$$

Where 0.1179 comes from the endogenous relation and -0.0153 Comes from the exogenous relation.

R41 represents the relation between advertisements and area where we found that the effect of the area on the number of ads through the years 2000 and 2007 is not large 0.102 according to the recursive system but what is significant is that this relation comes mainly from the direct effect (endogenous relation) of the area on the # of ads.

$$R_{42} = P_{42} + P_{41}P_{21} + P_{43}P_{32} + P_{43}P_{31}P_{21} = 0.767$$

Where 0.3286 comes from the endogenous relations and 0.439 comes from the exogenous relations.

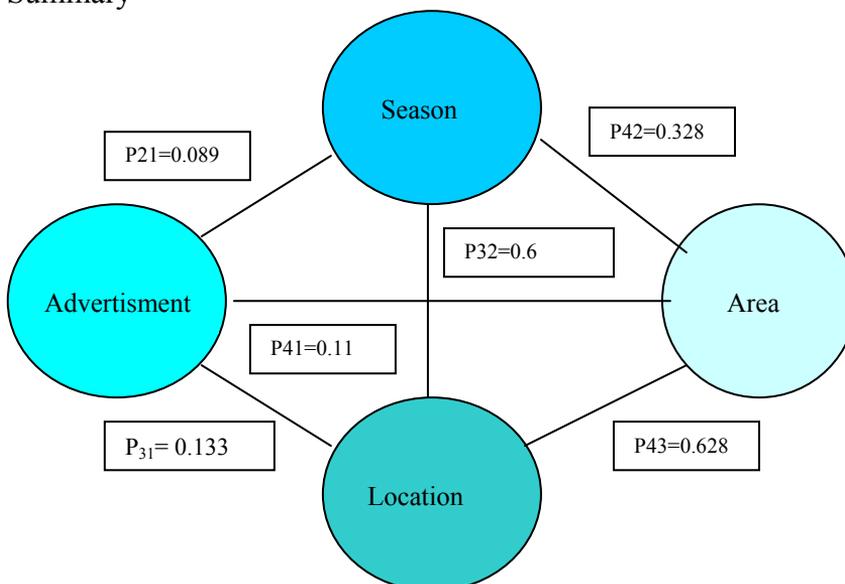
R42 represents the relation between advertisements and location where we found that the effect of the location on the number of ads through the years 2000 and 2007, is large 0.767 according to the recursive system but what is significant is that this relation is divided between the direct effect of the location on the # of ads 0.328 and the indirect effect 0.439.

$$R_{43} = P_{43} + P_{41}P_{31} + P_{42}P_{32} + P_{41}P_{32}P_{21} + P_{42}P_{31}P_{21} = 0.84$$

Where 0.6289 comes from the endogenous relations and 0.2155 comes from the exogenous relation.

R43 represents the relation between advertisements and location where we found that the effect of the location on the number of ads through the years 2000 and 2007, is large 0.844 according to the recursive system but what is significant is that this relation is divided between the direct effect of the location on the # of ads 0.628 and the indirect effect 0.2155.

Figure 1
Summary



Discussion

Lebanon's marketing-based economy is driven by services, banking and tourism sectors.

The banking sector in Lebanon acts as a magnet for locals and foreign investors because there are no restrictions on foreign exchange and capital movement and most importantly, bank secrecy is strictly enforced. Another aspect that nourishes tourism and creates spillover to the banking sector is the lack of restrictions concerning foreign investment. As a result, people from all around the world are allowed to own property in Lebanon and create investments which consequently make them feel at home.

The real estate sector is one of the major components of the Lebanese economy. So for the last couple of years, real estate has been considered among the top investment priorities of all people. A discussion about the importance of real estate and its advancement over the years is presented.

RAMCO, a leader in the Lebanese real estate market with a portfolio of more than 20 million dollars composed of lands, apartments and villas distributed all over the country. Mr. Makarem said that the trend in the Lebanese market concerning the real estate has been upwardly sloping since 1994. However, this increase is negatively affected, to a great extent, by the instable political and security situation, where the continuous Israeli attacks on Lebanon severely discourage investors.

At the same time, Mr. Makarem said that the over all performance of this sector was good and that we can distinguish between the three stages the real estate sector has passed through:

1) The first stage is the period following the war from 1990 till 1994. In this period, the sector started to grow little by little, people started to regain confidence in the country, and lots of them wanted to return from abroad, thus increasing the market demand and giving the green light to contactors to aggressively buy lands to build apartments and satisfy the increasing demand.

2) The second stage was from 1994 to 2005, where the Prime Minister Rafic Hariri launched the plane of "Rebuilding Lebanon". According to Mr. Makarem, this stage was considered as the golden phase of the Lebanese real estate, where huge amounts of money, particularly from Gulf investors rushing to own properties in Lebanon, were injected in this sector.

3) The third stage starts from 2005, when Prime Minister Hariri was assassinated, and continues till the present time. As Mr. Raja commented, this stage is the most critical and complicated phase in the real estate life cycle, where the growth continued in spite of all the instability of the political and security situation. This growth, however, only targeted certain areas in the country such as Beirut and its suburbs. As for the future, Mr. Raja stated that the political

situation is the key player for the market. Therefore, we are facing two scenarios. The first is a boom, meant to happen for the first time if the political complex is resolved. This is due to the great amounts of money, particularly from the gulf region due to increase in oil prices, waiting to be invested in the real estate sector. The other scenario is a steep decline caused by either a war or an economical break down in the country. (Raja Makarem, 2007)

The Coldwell ,which is another leading real estate firm in Lebanon, represented by Mr. Badih Abu Abdallah, considers the real estate sector as one of the treasures that Lebanon possesses. It attracts investors due to the beautiful mild weather and short distances. In his opinion, the trend in the Lebanese R.E. will continue to increase in the future. Even in the worse case scenario, this increase will be, on average, around 8% per year. After all, the country has been unstable for the past 25 years and this didn't hinder growth. The Variety of land found in Lebanon, and the limited areas are all factors supporting this sector and making it more valuable. Moreover, the demand on real estate in Beirut and its suburbs is very high and is considered as the main reason for the growth in real estate.

The prices in the real estate sector were still increasing. According to Mr. Simman, the head of the mortgage publishing in the Addiyar news paper, this was due to the intervention of e-buying, where the internet revolution has reached its peak. This had caused people to shift away from the traditional news paper ads.

These major categories in real estate (lands, buildings, and Villas) were depicted as different categories in order to determine important trends and where demand is concentrated.

The reason for this discrepancy can be explained by the shift towards on line advertising. It is also due to the aggressive strategies implemented by the real estate firms. According to Mr. Badih Bou abdallah, Coldwell has employed more than 100 young people to work as real estate brokers and to conduct market research through site visiting and personal interviews with buyers and sellers in order to identify the needs and opportunities away from advertising and the traditional publishing of real estate. According to Mr. Bou Abdallah, this strategy is successful since these brokers as playing the role of intermediaries between the buyer and the seller and directly matching their needs. (Badih Abu Abdallah, 2007)

Limitations:

- We were not able to link between the increase in prices and increase in ads, so we had to interview experts and conduct research and read many article in order for us to determine the trend of prices.

- The real trend was not represented only through ads, which drew a real image till end of 2003, but after that there was a decrease in the number of ads for

real estate sector, while the price were going up. So this was explained later by tracing some interviews and conducting research analysis.

Conclusion

By adopting the content analysis strategy and following its steps, we were able to draw out a conclusion to our topic which is reasonable matter and can be repeated again. By applying the funnel method starting from the general economy in Lebanon, then targeting real estate sector as a whole and after that determining the main components of this sector and the key factors behind its growth, in addition to main locations that the investors are seeking (Beirut). All this was achieved by tracing the ads in several sources, and by locating them into categories and sub categories using the coding process. Our findings matched our research questions where we were able to determine that the trend of real estate in Lebanon is upward and the economical and political factories didn't severely affect this area where prices are still increasing as well as demand. Moreover, we observed the effect of seasonality on real estate which is changing from season to season, except for Beirut; where demand is approximately the same all over the year. Based on the sources we were targeting and on the interviews that we conducted no one can deny that there is, undoubtedly, some risk linked to the current situation, but we consider this as a calculated risk.

Real Estate in Lebanon remains a sure value.

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