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Housing Problem in Lebanon
(1975 - 1988)

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in
Business Management

By
Marwan Mahmoud Zaydan

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Marwan Mahmoud Zaydan

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HOUSING PROBLEM IN LEBANON
(1975 - 1988)

The following faculty member, appointed to serve as advisor to the named candidate, has approved this research study.

Prof. Nihad Pasha

Name of first Advisor

Signature

Date

Prof. Yusuf Shibl

Name of Second Advisor

Signature

Date

30/1/92

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CHAPTER ONE

THE HOUSING PROBLEM IN LEBANON

A. PURPOSE, SCOPE AND METHODOLOGY

One of the major social problems facing Lebanon nowadays is the severe housing shortage. It is estimated that 400,000 new housing units would be needed before the turn of the century to alleviate the present shortage and to cater for the expected population growth. This is so despite the fact that since 1975 the construction activity has been less affected by the prevailing situation than the other sectors of the economy.

Lebanon has a particularly small territory and a highly dense pattern of settlement. It is to be noted that the high prices for land, when coupled with high construction costs, have placed the housing problem at a great premium. In addition, the inflows of capital have gone into real estate speculation, resulting in a severe distortion of the market which could not cope with the supply and demand of the housing business and the income levels.

TABLE 1.1

Lebanon's Housing Needs¹

Year	Shortage	Older Housing	Slums	Population increase	Total
1978	5,000	900	1,600	6,300	13,800
1979	5,000	900	1,600	6,700	14,200
1980	5,000	900	1,600	7,300	14,800
1981	5,000	900	1,600	8,000	15,500
1982	5,000	900	1,600	8,700	16,200
1983	5,000	1,700		9,400	16,100
1984	5,000	1,700		10,100	16,800
1985	5,000	1,700		10,900	17,600
1986	5,000	1,700		11,100	17,800
1987	5,000	1,700		11,300	18,000
1988	5,000	2,500		11,500	19,000
1989	5,000	2,500		11,200	18,700
1990	5,000	2,500		11,400	18,900
1991	5,000	2,500		11,600	19,100
1992	5,000	2,500		11,800	19,300
1993	5,000	3,500		12,000	20,500
1994	5,000	3,500		12,000	20,500
1995	5,000	3,500		11,000	19,500
1996	5,000	3,500		11,100	19,600
1997	5,000	3,500		11,300	19,800
1998	5,000	3,500		11,500	20,000
1999	5,000	3,500		11,700	20,200
Grand Total	110,000	5,000	8,000	228,000 i.e. around dwellings	400,000

1. Source: Estimates by ECWA: Economic Commission for Western Asia, 1977.

TABLE 1.2

Regions Distribution
(Geographic Distribution Needs)²

Region	%	Number of houses needed
Beirut and its suburbs	38.5	60,000
Mount Lebanon	2.5	40,000
South Lebanon	12.5	20,000
North Lebanon	12.5	20,000
Bega'a	12.5	20,000
Total	100	160,000

Mostly affected by this shortage are the middle and low income groups.

2. Source: Ministry of Housing and Cooperatives, Department of Statistics, Beirut: Central Office, 1982.

TABLE 1.3

Regions Distribution
(Geographic Distribution Needs)³

Description	%	Number of houses needed
Low income category	77.77	124,432
Mount Lebanon	22.23	35,568
Total	100	160,000

The housing shortage is imputed to a number of factors, mainly: the absence of a general development program, the centralization of public agencies, and the incorporation of economic activities in the suburban areas which by attracting a considerable number of people from the country to the city have undoubtedly intensified the housing problem. On the otherhand, the legal restrictions on rents as well as the increasing unwillingness of many landlords to rent out apartments and the lack of appropriate financing facilities have played a negative role in the construction market.

Needless to add that since 1975, because of the tragic events in Lebanon, the authority of the central government has dwindled and the economy has been damaged and segmented. A single glance at the destructions, casualties, equipment losses, displacement and emigration of thousands

3. Source: Ibid.

of families, should give us a clear idea about the price every Lebanese has to pay for the reconstruction of his country.

It is estimated that around 40,000 housing units were damaged and/or destroyed during the earlier years of fighting.⁴ The Israeli invasions of Lebanon have added more than 72,000 damaged and/or destroyed units to this calamity. Moreover, the dislodging of people has accentuated the housing shortage and added to the number of slum dwellers some 120,000 souls whose shelter needs are presenting serious problems. The displaced persons, for the most part, have been able to find temporary shelter in public and government buildings, vacant apartments, beach houses and so forth.

Since the early seventies the rate of construction in relation to the population has not exceeded 6 dwellings per thousand persons. This is a low proportion considering the volume of investment in the building sector which has approached 50% of all investments. However, the ratio of building investments to GNP has somewhat exceeded the figure of 9% which is rather high.

In 1988, the number of dwellings built over the whole of the Lebanese territory is estimated at 509,804 units where 41% of the population live in the capital and its suburbs. The following is a break down of dwellings by category:

4. Progress Report in Reconstruction,
Council for Development and Reconstruction Sep. 1988.

TABLE 1.4

Break Down of Dwellings by Category⁵

Dwellings	Beirut		Other		Rural		Lebanon			
	Beirut	%	Suburbs	%	Cities	%	Areas	%		
Main	100,735	91.1	92,068	94.7	63,510	87.0	160,758	70.3	417,020	81.8
Vacant	7,741	7.0	4,763	4.9	5,475	7.5	21,068	9.2	38,745	7.6
Secondary	2,100	1.9	389	0.4	4,018	5.5	47,177	20.6	54,039	10.6
Total	110,577	100	97,220	100	73,003	100	229,003	100	509,804	100

 5. Source: The news-letter No. 81 - Dec. 2, 1988
 Economic Consultants.

TABLE 1.5

Increase Rate of Owners⁶

	People Living		Owners
	for Free	On Rent Basis	
In all Lebanon	7.9%	48.4%	43.7%
In Beirut and its Suburbs	5.1%	75.7%	18.2%

TABLE 1.6

Houses' Areas (square meter)⁷

Area of the House (m ²)	% of Total Population
Up to 20	17.7
20-80	42.7
80-120	26
120-200	9.0
More than 200	4.6

6. Source: Ministry of Housing and Cooperatives, Department of Statistics, Beirut, Central Office, 1982.

7. Source: Ibid.

In brief, Lebanon is facing at present a severe housing problem. It is true that the civil events have played a negative role in intensifying this problem, yet it is also true that these events are not the only cause of the housing shortage. Many years before 1975 the trend of investment in the building sector had been moving more and more toward luxury buildings because of the prevailing rent law. The proportion of luxury dwellings constructed 30 years ago rose from 6% to 25% for the period 1970-1975.⁸

It is most probable that under the current housing market the middle and low income classes can't afford to purchase or even rent acceptable dwellings. Along with this anomaly the landlords in recent years have been demanding key money for the rented apartments if ever or when they are found.

It is worth-noting as in table 1.6 that more than 60% of the existing houses do not exceed 80 m², which means that the Lebanese citizen can hardly satisfy himself with a small house when needed.

Nevertheless, most investors of the building sector, in contrast with others, have gained a lot of money, but at the expense of the social well-being. Although we can never overlook the social importance of residential constructions and luxury apartments, however, the crux of the problem lies in the high prices of these constructions which are beyond the financial means of limited and low income groups who represent the majority of the Lebanese society.

And to crown all that has been said the government's role has become weak which has been accompanied by an increase in public sector deficits and an accelerating rate of in-

8. ECWA Sources.

flation. For many years now we have been noticing a continuous depreciation of the Lebanese pound, a reluctance of foreign funding agencies to commit themselves in the construction sector, and above all the impotence of the Lebanese authorities to redress the economic situation.

On the otherhand, the role of the public sector more often than not, is not perceived as a builder of housing units but rather as a facilitator, i.e., a creator of circumstances in which all individuals can build. This individualistic behaviour in business affairs denotes a lack of social solidarity.

According, little progress has been made in translating ambitious plans into effective actions in the absence of satisfactory national initiatives and international interest and support.

The following chapters try to find an adequate solution to the problem facing Lebanon. Chapter one studies the evolution of the construction permits and real estate transactions. Chapter two reviews the economic, social and demographic background as well as the legal constraints prevailing. While Chapter three shows in detail certain factors affecting cost of construction and ways of financing. Then Chapter four offers an integrated discussion of the main dimensions, it considers the prospects of construction, examines and analyzes patterns, and discusses the need of tackling the housing problem. Finally, Chapter five draws some conclusions on prospects and policy measures.

B. CONSTRUCTION ACTIVITY

In the Midst of the tragic events the Lebanese economic system has remained remarkably intact, and, oddly enough we find a vigorous and responsive private sector. So far, the construction activity has not been very much affected by these events. Let us note where that for many reasons some regions have benefited from the prevailing security conditions.

1. Decentralization of the economic activities during the events because of the poor security conditions in Beirut has generated a counter population migration to safer regions.
2. Displacements and direct material damage and loss of property have led many citizens to buying new residences or simply to squatting of buildings and apartments. This new wave of internal migrations has strongly produced increased demand for constructed spaces in regions not originally equipped to accommodate the incoming masses.
3. Displacement of people from the unsafe demarcation lines and the commercial center of the capital forced the construction activity to develop in safer regions.
4. In a period of inflation investing in lands and apartments is what most contractors do.

However that may be a heavy price was paid by this sector although it is lower than those of other sectors and brought about by stages.

First of all, we find the destruction of residential and commercial buildings that had stopped the construction activity for a while to repair the damages.

Secondly, there are further destructions with the successive hostilities.

Thirdly the security condition in certain regions has led many contractors to stop their activities and to invest in others.

In the 60's, a rural migration towards the capital was witnessed, the consequences of which were the development of the suburbs and streets especially in the western and southern parts of of Beirut and the construction of small apartments. Parallel to that it arose rich streets with luxurious apartments in Hamra, Verdun, Ramlet al Bayda, and others. This pattern continued in the 70's similar to that of the 60's. However the promoters shifted their activity toward selling apartments which became a more profitable business.

Also, the trend that has been traced during the Lebanese events is that the construction of residences for rent has decreased tremendously. These residences were mostly made for sale because:

1. The owner wants to get rid of his lot in the shortest possible way on account of bad security conditions and squatting.
2. The rent law, which during the war hasn't been adjusted the demographic evolution, or to the economic set up of the country.

3. Inflation, high construction and maintenance costs, especially after the increase of interest rates, have had a negative influence on long term loans and in turn on the construction sector.

On the other hand the war has also marked its impact on some villages. Many refugees have contributed to the proliferation of suburban centers.

Since 1970, the construction activity has been marked in some way by a disturbed evolution. Demand continued to progress in a very shaky manner. This is based on factors some of which are structural and some conjectural. In the first place we find an exodus from rural areas and strong concentrations in some urban zones. We also note the demand for Lebanese workers in the Gulf countries. Unlike the immigration to the United States and other western countries, the immigration toward the Gulf countries has never been considered as definite. Workers are there on a temporary basis and maintain strong ties with their motherland. Their first priority is the purchase of dwellings.

Among the conjectural factors we note the repercussions of 1983-1984 politico-military events and the consequent destruction of numerous dwellings. The decentralization phenomenon for both housing and economic activities has caused commuting difficulties for the movement of the population we notice the most prominent change at the level of leisure centers, hotels, cinemas, coffee shops, beaches and summer resorts mostly grouped before 1975 in western Beirut and for which a strong demand was noticed in the eastern part of the capital.

In short, the development of the real estate activity during the last years has been deeply affected by the economic-political situation of the country. However, real

estate possesses a dynamic of its own characterized by the inelasticity of supply and a relatively long response delay. Moreover, real estate has some characteristics that are unavailable in other sectors, such as durability, specific juridical status and the notion of safe investment.

1. CONSTRUCTION PERMITS

There are good reasons to believe that the figures released by the Lebanon's Syndicate of Engineers on areas covered where building permits are granted should represent the volume of construction, despite the fact that some holders of licences have failed to utilize them. As a matter of fact, before a permit is issued, a final draft of the project has to be submitted to the municipality which upon approving it, collects a fee in proportion to the value of the square-meter licensed.

Sources at the syndicate of engineers say that theoretical and actual values are really very close, and during normal times may not differ by more than 5%. Furthermore, it would not matter whether these figures in the following table are overstated, since relative rather than absolute amounts are required here. Also a building may not be constructed after its permit was obtained but on a subsequent year or even may not be constructed at all, which is due to the large spread in recent years of illegal constructions. On the other hand, the evolution in building licenses is more than an index of appreciation, and not of evaluation, to the extent that it is not necessary to expect an immediate execution of the licenses granted. Moreover, the areas which are effectively built do not always benefit by an official cover, namely in certain regions of the country. This practice is likely to recede to the extent where license charges are increasingly marginalised with the very great rise in prices of realty.

The civil war in 1975 has its own consequences on the construction sector. A construction boom between 1970 and 1975 closely related to the economic boom is due to the strengthening of the economic links with the Arab world still under the glamorous effect of the first oil shock.

The construction activities were hindered between 1975 and 1977 because of the first traumatic effects of the politico-military troubles. The number of construction permits had fallen in 1976 to 59,544 m² (Table 1.7), the 1/5 of that of 1973⁹

9. Construction During the Crisis Period,
Al Iktissad Wal Aamal
No. 22, Beirut, August, 1980.

TABLE 1.7

Areas Covered by Construction Permits by Region (Square meter)
(1975-1988)¹⁰

Year	Number	Total (area)	Beirut	Mount Lebanon	North	South	Beqa'a	Av. Area
1975	4187	2,788,899						666
1976	133	59,544						448
1977	2778	2,002,826						721
1978	2453	1,959,710						799
1979	3401	2,982,155						877
1980	5627	5,372,627	845,831	3,288,195	580,012	348,332	310,257	955
1981	5970	6,405,000	751,173	4,498,682	601,439	360,109	193,597	1073
1982	6233	6,620,000						1062
1983	6261	7,954,917	1,835,753	4,213,789	871,721	811,394	222,260	1271
1984	4938	3,995,007	180,120	2,442,660	548,710	578,075	245,442	809
1985	5858	5,027,436	187,464	3,141,425	853,611	581,370	268,566	858
1986		6,215,888	324,329	3,522,103	1,306,827	740,857	321,772	-
1987*		4,061,288	315,721	2,860,687	55,511	587,712	241,657	-
1988	4569	4,956,213	449,938	2,978,365	650,359	589,097	288,454	1085

10. Source: Syndicate of Engineers of Lebanon
(Beirut and Tripoli).

* Beirut only

TABLE 1.8

Distribution of the Areas Construction Permits
as A% of Total¹¹

Year	Beirut	Mount Lebanon	North	South	Beqa'a
1975	-				
1976	-				
1977	-				
1978	-				
1980	15.74	61.2	10.8	6.48	5.77
1981	11.73	70.24	9.39	5.62	3.02
1982					
1983	23.08	52.98	10.96	10.20	2.79
1984	4.51	61.14	13.73	14.47	6.14
1985	3.73	62.49	16.98	11.56	5.24
1986	5.22	56.66	21.02	11.92	5.18
1987	7.78	70.43	1.37	14.47	5.95
1988	9.08	60.10	13.12	11.88	5.82

11. Source: Compiled from Table 1.1.

The construction sector has reached stagnation periods, which is due to security reasons and reluctance of contractors to invest in the construction sector in addition to high construction costs, scarcity of labor and shortage of banking loans. The construction permits have dropped, and it is said that they are merely theoretical so that the engineers won't lose their quotas.

A recovery was starting in 1978 till 1982 because of the new needs created by the demographic changes of the civil war. This phenomenon created demand for real estate in new areas. The relative security has then enhanced this sector, and the urgent demand for commercial facilities has speeded up the frequent execution of projects.

The number of permits has risen from 2453 in 1978 to 3401 in 1979 with a total built up area of 2,982,155 m² (Table 1.7). In 1980 large areas were subjected to large residential or touristic projects. Two thirds of the areas (Table 1.8) are located in Mount Lebanon, particularly in regions lying 400 m above the sea level. But we should express some reservations in this respect in so far as this region remains that which mostly complies with the law whereas in the other districts illegal constructions are dominant.

The ups and downs in the security conditions in 1981 have their own marks on the building sector. Lower quality buildings which do not conform to international specifications are widely spread phenomena.

The average rate of increase in the number of the granted permits still remained below that increase in the areas covered by the permits, thus indicating a shift towards larger construction projects (Table 1.7).

The sharp increase in the areas covered by building permits in the first half of 1983 and the equal upsurge in the construction activity were at a time when the Lebanese economy was on the verge of a severe recession. To some extent there was a rush of applications for building permits during this period in anticipation of new restriction amendments to the law of construction and urban planning, which were under study at that time, and which were expected to reduce the land exploitation factor.

These amendments were finally introduced under Decree No. 198 of September 16, 1983¹², but contrary to earlier indications, the land exploitation factor was not reduced.

As a direct consequence of the internal and regional economic crisis and the resumption of fighting all over the Lebanese territory, the construction permits had fallen by 51.35%, to increase again in 1985 as the political situation in the country become relatively more stable.

The golden age of the construction activity was in 1986 as 6,215,888 square meters of construction areas were announced. There was a remarkable shift to Mount Lebanon (3522,103 m²), and a considerable activity was noticed in the North, where commercial uses in El-Mina were demanding.

12. M. Iskandar and E. Baroudi, The Lebanese Economy in 1982-1983
MEEC: Beirut, 1984.

Thus the demographic and commercial decentralization and the emigrants willingness to buy residences in their home land with a relative security and stability have enhanced the construction activity. Slightly saturated, this construction activity decreased in 1987, which was not necessarily due to a regression, but primarily to the politico-military developments. Then there was an increase in 1988 above 1987 figures especially in those areas of Beirut which were covered by construction permits. However, this increase was not very much appreciated because of the high construction and labor costs, shortage of materials and non existence of long term loans to avoid high interest rates.

Finally, the flourished regions have been very densely inhabited since they could not accommodate any further residential or commercial establishments. As to the other regions which did not experience the construction activity, they are still in the same conditions that prevented the activity years ago. The average area of construction permits has increased, which means that larger and higher story buildings are being constructed owing to high exploitation factors. Only a limited number of people can afford to buy these apartments.

2. CEMENT PRODUCTION

Cement production has dropped from 1,171,700 tons in 1977 to 1,069,700 tons in 1978, and local sales from 704,300 tons to 519,700 tons, to increase in 1979 to 1,610,200 tons and 1,0731,000 respectively¹³.

In 1985 and 1986 the annual delivery of cement was around 1.6 million tons, thus witnessing a rather identical activity during both years. The improvement registered in 1986 remained therefore limited and represented only 4.37%. However 1987 registered a setback in cement consumption with a decrease of 20.72% (Table 1.9) at the very same time a new factory at Sibline was in operation. In 1988 cement consumption reached around 1.64 million tons with an increase of 18.86% (Table 1.9). Nevertheless, this increase in cement consumption was in favor of the local production which was declining, yet there was a demand for less expensive cement from foreign countries particularly from Syria, Greece and Cyprus.

13. Construction During the crisis period,
Al Iktissad Wal Aamal No. 22, Beirut, August 1980.

TABLE 1.9

Local Cement Consumption
(in Tons)¹⁴

	Lebanese Cement	National Cement	Sibline	Imports	Total	Av. price of ton in L.L.
	875,500	451,317	40,000	10,900	1,377,717	
1st trimester 1987	176,574	91,458		7100	275,132	3777
2nd trimester 1987	266,982	136,737				
3rd trimester 1987	252,840	115,973		2000	370,813	8873
4th trimester 1987	179,104	107,149		800	327,053	18934
	797,609	451,281	110,049	279,500	1,638,439	
1st trimester 1988	156,424	50,734	-	57,500	264,658	16102
2nd trimester 1988	190,191	177,779	45,000	60,000	472,970	14789
3rd trimester 1988	236,556	128,039	43,549	82,000	490,144	16745
4th trimester 1988	214,438	94,729	21,500	80,000	410,667	

14. Source: Isticharat, Dec. 1988

3. REAL ESTATE TRANSACTIONS

The real estate transactions have synchronized the prevailing Lebanese conditions and become an indicator of their nature.

In addition the charges on real estate accompanied other charges on vehicle registration and mechanics, almost the sole sources of income to the Lebanese state. On the other hand, land had experienced fluctuation in prices, higher in some regions, lower in others with a drastic increase, on account to the deterioration of the Lebanese currency, inflation, competition, and, to a certain extent, illegal construction.

Consequently, investment in the housing sector which has created speculation in the real estate business should maintain the inflationary spiral and permit the realization of inflationary profits beyond the control of present tax laws, where the imposition of a property tax in Lebanon would reverse the current practice as unbuilt property is exempted from taxation. All this has been against the interests of low income families.

The real estate transactions in the following tables (1.10, 1.11) must also be regarded with much attention and care to the under-estimation of values aiming at decreasing the taxes on those transactions.

TABLE 1.10

Real Estate Transactions and Taxes Collected
1978-1988¹⁵

Year	No. of Transactions	Taxes in (L.L.)
1977		112,000,000
1978	62,479	117,215,989
1978	82,603	212,441,352
1980	38,651	250,135,055
1981	75,876	279,331,196
1982	72,923	241,860,340
1983	60,377	326,899,916
1984	48,666	295,093,254
1985	85,516	652,776,473
1986	85,943	884,231,282
1987	73,109	1,491,616,026
1988	67,511	4,207,705,550

15. Source: Ministry of Finance, Department of Real Estate Affairs.

TABLE 1.11*

Real Estate Transactions in 1988
(Number and Value in Lebanese Pound)¹⁶

Center	Number of Transactions	Number of Lots	Initial Taxes L.L.	Additional Taxes L.L.	Declared Prices L.L.	Taxes in Declared prices	Mortgage on Loans L.L.	Reimbursed debts L.L.
Beirut	6,774	9,062	1,055,834,870	28,409,916	13,369,647,600	889,172,807	9,679,822,620	868,355,384
Baabda	3,919	2,078	192,655,707	18,701,031	2,437,275,680	139,916,002	7,007,699,620	311,172,887
Metn	10,222	18,759	1,132,125,950	1,173,601,120	13,695,309,700	1,405,143,730	14,466,881,900	1,133,056,960
Kesrouwan	8,154	14,017	797,800,903	1,315,668	8,645,347,620	512,450,929	24,328,372,800	
Rest-of Mount-Lebanons	1,792	141	13,983,005	1,169,191	184,497,800	11,522,797	32,217,456	3,576,700
North-I	8,509	12,117	236,536,300	60,654,255	3,049,421,210	175,304,411	4,428,743,470	692,219,292
North-II	7,833	23,194	127,317,884	540,242	1,560,611,720	106,215,741	1,162,859,620	125,479,215
South	12,401	17,707	461,589,970	194,470	6,043,924,980	377,034,220	2,568,811,480	163,020,824
Bekaa	7,907	22,431	189,864,250	3,474,502	2,134,783,850	140,039,018	3,267,588,800	153,042,159
Total	67,511	119,506	4,207,705,550	1,288,060,300	51,120,819,000	3,750,799,500	66,942,996,700	4,418,318,810
Total of 1987	73,109	-	1,491,616,026	-	19,909,023,318	1,274,020,493	4,829,459,494	2,433,123,630
% Change	-7.65	-	+182.0	-	+156.7	+194.4	+1286.1	+81.59

¹⁶ Source: Ministry of Finance, Department of Real Estate Affairs.

* The data are not 100% accurate, because prices were not exact and there was a daily fluctuation of the US dollar.

Before 1975, the real estate activity was very normal and involved a limited number of transactions which did not experience dramatic fluctuations for a long period of time.

With the outbreak of the Lebanese events, the sector was again active where lots of land were purchased in the absence of external financing. Selling and buying were attributed to demographic changes, and new population displacement and settlement, which were followed by commercial dislocations.

In 1978 the real estate activity increased 18% over 1977 (Table 1.10) and 76% over 1974 on account of the demand for houses, and emigrants remittances. However, this increase was mainly due to inflation as a last resort for placing deposits in a period of instability. While in 1980 (the year that has been called the black year of the real estate sector), the bank restrictions to finance real estate transactions and the rise of interest rates to 9% have actually stagnated this sector.

As of 1981, the activity has had an upsurge of around 125% over the previous year's level. With the increase of land prices and the transaction taxes from 4% to 6%, the corresponding charges and the collected taxes have become greater (Tables 1.10).

The overall drop in 1982 was basically due to the Israeli invasion of Lebanon and the resulting economic dislocations and uncertainty.

An analysis of real estate transactions by area in the 1st half of 1983 shows that in Beirut and Baabda where the government was in full control, the number of transactions concluded was around 65% of 1982 level in Beirut and 62% in Baabda. The charges and taxes which were collected in these two areas in the same period were higher than the corresponding total for the whole year 1982 by 25%, and 61% respectively.

The 1984 statistics show that the North Metn region was very active despite the sharp decrease compared to 1983. In Beirut, almost all transactions were completed in the second semester since not a single one was registered between February and July. This unusual behaviour may be explained by the evolution of the political situation not only in Beirut but also in all the Lebanese regions.

In 1984, not a single sale of land to a non-Lebanese was concluded. This phenomenon was due to:

- 1) the reluctance of foreigners to invest in real estate acquisitions in Lebanon;
- 2) the decree 113 dated 16/9/83 which limited the rights of foreigners in matters of land or building acquisitions in Lebanon.

TABLE 1.12

Regional Distribution of Real Estate Transactions
(Percentage)¹⁷

Transactions by Region	1973	1981	1982	1983	1986	1987	1988
Beirut	30%	5.9%	5.4%	6.85%	8%	6%	10%
Mount Lebanon	33%	47.6%	43.2%	50%	40%	35%	32%
North	18%	21.9%	18.4%	18%	23%	25%	27%
Bega'a	16%	10.2%	12.11%	7.95%	11%	12%	12%
South	13%	14.4%	20.89%	17.2%	18%	22%	19%

A revival of transactions was noticed in 1985 and 1986 (41% increase in 1985 over 1984 values)¹⁸ where the country had enjoyed relative stability and some of the commercial banks were involved in the real estate sector. These transactions had to decrease in 1987 by about 14.9%.

In 1988 the number of transactions decreased at an average of 7.65% as of 1987 figures (Table 1.10) from 73109 to 67511. 36290 lots of land and 36290 sale operations (30.36% of total transactions) had been involved by these transactions.

17. Source: "The Commerce" - October 24, 1988

18. "The Commerce" - December 7, 1987

The reasons for this low percentage of 30.36% are:

1. Decrease in buying and selling operations.
2. Lack of transactions in certain regions.
3. Reluctance of citizens to register their transactions so that they avoid paying extra illegal charges which have sometimes exceeded the official rate.

On the otherhand, the increase in land prices has achieved around 156.7% and the charges 194.4% over the 1987 figures.

However, these figures are not a true indicator of the actual growth of this sector especially in the remote regions of Lebanon, but they help to detect the pattern of the activity throughout this period.

CHAPTER TWO

DEMOGRAPHIC, SOCIAL AND ECONOMIC BACKGROUND

A. INTRODUCTION

At the simplest level, a combination of economic, social and demographic factors should always affect the pattern of the construction activity. So it is helpful to provide valuable insights into the dynamics of these factors.

The armed conflict has had negative repercussions at all social and humanitarian levels. Production has been regressing in a very tangible manner, below the prewar level, which is detrimental to the Lebanese economy. In addition legal constraints are still augmentating the housing problem.

B. DEMOGRAPHIC SITUATION

1. Population Growth

The increase in population does not affect the construction directly but indirectly. This is because the increasing number of crumbling buildings at a greater rate will have to be replaced with an increasing number of new ones year after year.

Ever since 1975, the demographic situation in Lebanon has experienced a disturbed behavior in its growth. In the absence of official statistics, the population increase is estimated at an average sound rate of 17%.¹

As a consequence of demographic changes, the population growth discrepancy is significant between males and females. According to ECWA estimates there were in 1986 1.335 million souls of males and 1.425 million of females. This disequilibrium is found among those whose ages are between 25-29 and 30-34 years.

1. Source: ECWA, Economic Commission for Western Asia, April 1989.

TABLE 2.1

Data Population

Estimates of the Lebanese Population
(1975-1988)

Year	Total Population	Residents	Immigrants
1975	2,849	-	-
1976	2,897	2,272	625
1977	2,946	2,625	321
1978	2,996	-	-
1979	3,090	-	-
1980	3,160	-	-
1981	3,213	2,981	232
1982	3,267	2,812	455
1983	3,323	2,653	670
1984	3,379	2,644	735
1985	3,437	2,635	802
1986	3,495	2,660	835
1987	3,455	2,686	769
1988	3,515	2,713	802

- Population figures in thousands
- Total population's estimates are based on average growth of 1.7%.
- Residents' estimates are based on "ECWA".

TABLE 2.2

Percentage Population by Age and Sex²

Age Group	Total	Male	Female
	100	50.79	49.21
Less than	2.75	1.36	1.39
1-4	11.42	5.88	5.54
5-9	15.43	7.84	7.59
10-14	13.03	6.71	6.32
15-19	10.13	5.18	4.95
20-24	7.59	3.87	3.72
25-29	6.15	2.97	3.18
30-34	5.85	2.87	2.98
35-39	5.56	2.84	2.81
40-44	5.16	2.61	2.55
45-49	3.87	2.02	1.84
50-54	2.77	1.39	1.28
55-57	2.49	1.28	1.21
60-64	2.75	1.43	1.32
65+	4.95	2.48	2.47
.....	0.12	0.06	0.06

2. Source: Estimated by United Nations, ESCWA April, 1989

Figures in Table 2.2, are useful data to highlight the demographic situation. They show that the Lebanese population is young and marriage is frequent, especially during prosperity and in the rural areas where the economic requirements for marriage are less than those of the cities.

2. Urbanization

Owing to the reduced size of Lebanon, the population density is very high. It attains 265 persons³ to km² and is concomitant with an excessive rate of urbanization.

As a matter of fact, an increasingly rapid and excessive urbanization is taking place on account of the concentration of the cultural, economic, educational and social activities in the Lebanese capital. In 1970, 43% of the overall population of Lebanon lived in Beirut and its suburbs, over a global area of 70 km². Furthermore, in 1979, the number of Lebanese living in the cities was estimated at 58%, against 51% at the beginning of the 60's.

3. The News-Letter No. 81, Dec. 2, 1988
Economic Consultants.

This urbanization is in constant progression. Thus in 1981 67% of the Lebanese population were concentrated in agglomerations of over 5,000 inhabitants, bearing in mind that over 80% of this urban population lived in Beirut a new reason for intensifying the Lebanese crisis.

3. Migration

It is often said that migration from rural to urban areas brings with it an increased demand for housing in the cities and leaves rural housing vacant for which there is scarcely any demand. (Such housing is usually transformed into secondary. (Table 1.4)).

Since 1975, the armed conflict in Lebanon has produced a large number of displaced persons. Complete quarters along the demarcation lines in Beirut and in its commercial center were devastated causing the transfer of residential and commercial sectors to regions remote from the conflict zone.

The new wave of internal migration has produced increased demand for constructed spaces in regions not originally equipped to accommodate the incoming masses. The construction sector, therefore, has to face the major hurdle of the largest scale migration.

Another factor that has affected the internal migrations and also the distribution of the construction activity is the classification of regional areas as industrial, agricultural, touristic or residential. The agricultural and industrial areas have very limited portions for housing construction. Whereas

the touristic and sea front areas are increasing. In this light, the Lebanese people have to congregate in residential areas.

However, the problem is now emerging in different ways. Whenever violence breaks out, many Lebanese have to escape to safer places. Some have to travel to foreign countries where temporary accommodations or job opportunities are available, while others emigrate from cities to rural regions or to safer cities.

It is worth-noting that violence has led to massive migrations.⁴

- The war has obliged 625,000 citizens to leave the country between April 1975 and April 1977.
- The Israeli Invasion has led 455, 000 citizens to run away to foreign lands. We do know that at least 277,000 citizens have remained abroad as a result of migrations.
- The 1983 war in the mountain and the February 1984 events with the consequent deteriorating economic situations, have in 1988 increased the number of the Lebanese residents abroad to about 800,000.

4. Al Nahar 4/9/1989.

Those immigrants are categorized as follows:

- 15% are permanent immigrants, about 45,000
- 35% are skilled laborers, temporary, or even extended migration, about 105,000; 77,300 of them are still working abroad since 1977.
- 30% or 35% are students, about 105,000.
- About half a million who leave when violence breaks out
- About 300,000 will return when security will prevails once again.

During this migration we have to notice the following:

- It was a selective migration causing a loss of a highly skilled manpower, "the brain drain"

15.3%	Industry
16.9%	Construction
16.9%	Commerce
4%	Hotels
5.1%	Transportation
0.9%	Banking
4.8%	Public sector

- Migrations have led the Lebanese people to spend their savings abroad. The war psychology which has been looming over the Lebanese horizon has led to substantial political risks and induced capital outflow. The evolution of the Lebanese savings outside either through money transfers from Lebanon or from work abroad is found in Table 2.3.

TABLE 2.3

Lebanese Savings Outside⁵

Year	Billions Dollars
1981	3.3
1982	3.4
1983	4.0
1984	4.4
1985	4.8
1986	5.4
1987	5.7
1988	7.0

5. Al Nahar 4/9/1989

C. SOCIAL BACKGROUND

The social standard is a combination of various factors that have a diversified impact on the housing situation.

1. Education:

Families of higher education tend to live in larger and/or better residential spaces and areas. Also improvements in the level of education brings exodus from the rural regions to the centers where more jobs are available and life seems more attractive.

TABLE 2.4

Literate and Illiterate Population
Aged 15 Years and Over by Sex⁶

	Total	Male	Female
Total	1,740,058 (100)	819,246 (100)	920,812 (100)
Literate	1,484,281 (85.30)	733,635 (89.55)	750,646 (81.52)
Illiterate	255,777 (14.70)	85,611 (10.45)	170,166 (18.48)

6. Source: ECWA, Economic Commission for Western Asia, April 1989.

2. Labor Force

TABLE 2.5

Labor Force Participation Rates
by Age and Sex⁷

Age Group	Total	Male	Female
15-19	15.30	23.90	6.49
20-24	38.77	54.90	23.90
25-29	58.63	89.40	35.80
30-34	57.09	97.00	26.10
35-39	56.23	99.10	19.40
40-44	52.98	98.60	13.80
45-49	81.59	96.00	12.20
50-54	49.27	91.70	9.20
55-59	44.74	82.20	8.00
60+	18.91	39.30	1.00
C.A.R. (15+)*	25.14	40.68	10.57
R.A.R (15+)**	39.87	66.29	16.37

Migration, however, does have its social and economic costs. The country has lost up to 30% of its labor force and even a proportion of its qualified labor (brain drain).

7. Source: Ibid.

* Crude activity rate

** Refined activity rate

It is important to notice from figures in Table 2.6 that the individuals who are directly employed in the construction sector represent 6.13% of the economically active population.

Although these figures do include the non-Lebanese who come from neighbouring countries, yet they do not include those who work in commercial enterprises and industries related to construction. Such industries produce cement, round iron bars, pipes, taps, aluminium, furniture, and so forth.

The list is indeed endless. The point to note is that the building sector is far from being an independent income producing sector of the economy.

Nevertheless, unemployment had affected 28% of the labor force in 1985, and as many as 50% in mid 1986⁸ because of the major shifts in population. The breakdown on the infrastructure and the economic dislocation of larger segments have led to raise the unemployment rate.

Finally, it is note-worthy that employment growth is one of the most important long-term determinants of demand for housing.

3. Income Per Capita

Any increase in income is quickly spent on food, clothing and lodging. This means that the real income of the majority of the population will decrease. Lawyers, engineers, wage-earners, civil servants are also getting one tenth of their former fees or wages.

8. Source: Lebanese Economic Report, August 1987.

The basic minimum wage should always enable a paid worker of average earnings with an average family of 5, to provide for them adequately all that is necessary for their existence (shelter, food, education, medication and leisure, in an economy that has to generate its own development and maintain the growth rate necessary to its survival, in order to present social equilibrium and security against unrest and turmoil.

The basic minimum salary (SMIG) has registered the following evolution during the past year.

TABLE 2.6

Percentage Distribution of Economically Active
Population by Sector and Sex⁹

Sector	Total	Male	Female
Total	100	82.66	17.34
Agriculture	17.80	14.09	3.71
Industry			
- Mining, quarrying and manufacturing	16.71	13.45	3.26
- Electricity	0.98	0.99	0.01
- Construction	6.13	6.09	0.04
Services			
- Wholesale and retail trade	16.02	15.01	1.01
- Transport, storage and communication	6.69	6.36	0.33
- Finance and business	26.20	18.64	7.56
- Community and personal services	3.22	2.73	0.49
Others	0.41	0.36	0.05
Idle	5.84	4.96	0.88

9. Source: Ibid.

TABLE 2.7¹⁰

Basic Minimum Salary (SMIG)

Year	Salaries Increase %	SMIG (L.L.)	SMIG (\$)
1975	12.72	310	135
1977	33.87	415	135.17
1979	26.50	525	164.06
1980 (Feb.)	6.66	560	164.70
1980 (March)	20.53	675	198.52
1981	18.51	800	189.57
1982	15.62	925	192.70
1983	18.92	1100	162.33
1984	13.63	1250	86.76
1985	18.00	1475	47.82
1986	49.15	2200	75.83 ¹
1987 (May)	59.00	4300	17.00 ²
1987 (Oct.)	100.00	8500	40.49 ³
1988 (April)	75.00	15000	50.00 ⁴
1988 (Oct.)	50.00	25000	

10. Source: Chamber of Industry and Commerce, Beirut, 1988.

1 Closing of April

2 Closing of Oct.

3 Average of April

4 500 LL per \$

This effective degradation in the value of the SMIG does not correspond to a decrease in the same proportions of the per capita income in dollars, which according to sources of the Chambre of Industry and Commerce appears as in Table 2.11.

TABLE 2.8¹¹
Per Capita Income (In Dollars)

Year	Per Capita Income (in Dollars)
1975	1292
1976	761
1977	1202
1978	1414
1979	1665
1980	2069
1981	1975
1982	1945
1983	2219
1984	1847
1985	1101
1986	1010
1987	680
1988	741

11. Source: Ibid.

4. Average No. of Persons in Families

TABLE 2.9

Distribution of Households by Household Size¹²

Household Size	Number of Households	Number of Persons in Households
Total	564480	2760115
1	27601	27601
2	40574	81147
3	55387	166159
4	83149	332594
5	88232	426162
6	82298	493785
7	69713	487988
8	45059	360471
9+	75468	384208

12. Source: ESCWA, Economic Commission for Western Asia, 1986.

TABLE 2.10

Percentage Distribution of Households
by Household Size¹³

Household Size	Households	Persons in Households
Total	100.00	100.00
1	4.89	1.00
2	7.19	2.94
3	9.81	6.02
4	14.73	12.05
5	15.10	15.44
6	14.58	17.89
7	12.35	17.68
8	7.98	13.06
9+	13.37	13.92

13. Source: Ibid.

If the average number of persons in families, which is estimated at 5.3 persons per family, or alternatively when the average room occupancy level increases, the demand for new housing increases. In Lebanon the average room occupancy is very high and was estimated in 1977 at 1.73 persons per room, whereas in other countries the average falls below one person per room.

Because of this high occupancy level, large families who occupy relatively small dwellings have an incentive to move to large houses even if they have to give up in the quality of their new houses. This partly explains the sharp increase in demand for low quality apartments in Beirut and the suburbs and the spread of illegal construction. In fact the variations in the average room occupancy level are very high and vary from very low values in luxury dwellings occupied by wealthy families to high values in crowded dwellings, sometimes lacking the necessary services such as kitchens and bathrooms. (Table 2.11).

TABLE 2.11

Houses not equipped
with the necessary services¹⁴
(Percentage)

State of Dwelling

Total	100%
Lacking kitchen	15.5%
Lacking bathroom	21.1%
Lacking toilet	11.4%
Outdoor or shared toilet	11.4%
Lacking running water	17.1%
Lacking electricity	6.6%
Other	16.9%

14. Source: Ministry of Housing and Cooperatives, Department of
Statistics, Beirut, Central Office, 1982.

D. ECONOMIC BACKGROUND

Although we do not wish to retrace the history of the economic facts of this period, we consider nevertheless that it is necessary to highlight the evolution of certain economic indicators. In 1984 and 1985 it became clear that year after year of relative resilience to political events, the economy of Lebanon was on a sharply downward path.

A severe recession in the Lebanese economic sectors has ultimately led to a fall in the value of the Lebanese pound. The recession has come to coincide with a similar one in the Gulf countries.

TABLE 2.12

Destruction of Capital as Result of War in
1975-1982¹⁵

Sector	Destruction in Millions of LL (1983)	Description
Housing	3,600	11,2000 houses
Tourism	1,200	65 hotels in Beirut and mountain (42 in 1975/76, 25 in 1982)
Services and Commerce	9,300	13,400 agencies, offices and public equipment of commercial zones
Industry	1,500	300 enterprises
Agriculture	1,000	Estimation F.A.O
Public equipment	4,000	Roads, ports, airports, telephone, water and electric networks, schools, hospitals
Destruction of citi- zens' properties and belongings	2,000	Primary materials, finished products, automobiles
Total	<u>22,600</u>	

15. Source: The Commerce, October 3, 1988.

1. Economic Activity

By 1983 Lebanon had already suffered seven years of intermittent violence followed by invasion. Crude indicators suggest that the level of the economic activity, as measured by real GDP, declined in 1976 to roughly half its 1974 level.¹⁶

During the 1976-81 period the economic activity recovered but in 1981 real GDP was still about 20 percent lower than that of 1974. In 1982 GDP in real terms decreased by 10 percent from those levels of 1981. The partial recovery in the aggregate level of activity experienced during the five years preceding the Israeli invasion in 1982 was reversed during 1983-87. Real GDP in 1984 was less than 70 percent of the 1982, and in 1985 less by 65 percent of 1982 level¹⁶.

It became clear that year after year of relative resilience to political events, the economy of Lebanon was on a sharply downward path.

It is worth mentioning that GNP could be a better measure of income since it includes the portion of the economy to national income that originates from Lebanese immigrants (large sum of money from immigrants has been injected). Then GDP Compared to GNP is the only suitable measure.

16. Progress Report in Reconstruction, CDR Sep. 1988.

TABLE 2.13

GDP at Current Prices¹⁷

Year	Million (\$)
1974	
1975	3,578
1976	2,107
1977	3,318
1978	3,861
1979	4,497
1980	5,524
1981	5,234
1982	5,136
1983	5,859
1984	4,877
1985	2,939
1986	2,697
1987	1,836
1988	2,000

TABLE 2.14

GDP per Capita at Current Prices¹⁸

Year	Million (\$)
1978	989
1979	1,113
1980	1,289
1981	1,306
1982	1,203
1983	1,352
1984	901
1985	347
1986	144

17. Source: Al Nahar 25/3/1989.

18. Source: Al Nahar 27/11/1989.

TABLE 2.15

Gross Domestic Product by Kind of Economic
Activity in Producers' Value at Current Prices
(Mn US\$)¹⁹

YEAR	1978	1979	1980	1981	1982	1983	1984	1985	1986
Government final consumption expenditures	681	789	1023	978	1568	2208	1659	1150	684
Private Final consumption expenditure	2581	2979	3756	3590	3460	3311	2131	1014	1067
Increase in stocks and gross fixed capital formation	555	620	639	802	767	766	740	307	166
Exports of goods and services	717	1285	1589	1327	727	691	582	482	500
<u>Less: imports of goods and services</u>	1556	2235	2933	2803	3140	2390	2730	2040	2039
Agriculture, forestry and hunting	254	293	375	333	299	317	211	81	33
Electricity, gas and water	162	187	206	211	178	189	125	48	20
Construction	102	117	130	133	112	119	79	30	13
Wholesale and retail trade, hotels and restaurants	843	973	1166	1102	963	1020	678	260	107
Transport, storage and communications	229	264	154	146	127	135	89	34	14
Financial institutions and insurance	112	129	317	299	262	277	184	71	29
Real estate and business services	265	306	367	346	303	321	213	82	34
Community, social and personal services	321	370	444	419	366	388	258	99	41

19. Source: Al Nahar 27/11/1989.

(TABLE 2.18 CONT'D)

YEAR	1978	1979	1980	1981	1982	1983	1984	1985	1986
<u>Less: Imported service charge</u>	-	-	-	-	-	-	-	-	-
Producers of government services	303	350	420	397	346	247	163	94	39
Compensation of employees operating surplus	2805	3228	3876	3793	3319				
Indirect taxes	172	210	199	101	65				

The contribution of construction sector to GDP has averaged in 1979, 1980 (Real values of GDP) and 1986 about 3.40%, 3.19% and 3.44%.

However, the construction sector shouldn't be separated from the real estate sector whose contribution to GDP has averaged in 1979, 80 and 86 about 8.90%, 9.01% and 8.99% respectively. If all added together, then two complementary sources show a steady percentage.

The investment activities were seriously impeded following the initial years of conflict. In 1976 gross investment in real terms had fallen to less than a quarter of the level of 1974 and remained at that level throughout the period till 1982, notwithstanding some modest recovery of investment activity in some years. During 1986 and 1987 there are indicators of a recovery in some sectors, (particularly manufacturing and agriculture), owing in part to the effects of an acceleration in the rate of depreciation of the Lebanese pound. This had domestic demand from imports toward domestic goods and enhanced the competitiveness of exports.

The sparse information that are available on the sectorial composition of output indicates variations between sectors in coping with the difficult situation. The structural transformation, indicated during the previous period, continued. The contribution of the service sectors generally declined and the directly productive sector constitutes at that time an important component of GDP. Although there has generally been a contraction in the size of estab-

ishments in these sectors, the dispersion of some service activities in areas away from central Beirut has brought additional employment and growth.

2. Public Finance

Civil disorder restrained the Government's ability to collect taxes and other revenues. Total government revenues in 1976 were in real terms less than one tenth of their 1974 value. During the 1974-81 period spending grew at a rate appreciably above the rate of inflation. Government spending in real terms in 1981 has been estimated at some 80% higher than that of 1974. Total revenues in nominal terms fell in 1984 to about 56% of the 1983 level.

In 1985, despite an increase in nominal revenues, the real revenues around declined further to 1030% of the 1983 level. The total real budget expenditures in 1986 were running at about 80% of the 1983 level.

Although the public sector as a whole was in modest surplus in 1974, the overall public sector reorded a deficit amounting to 28 percent of actual expenditure in 1978 and progressively deteriorated to 51 percent in 1980 and 70 percent in 1982. The domestic public debt increased from a modest LL 52 million (0.6 percent of GDT) in 1974 to LL 14.1 billion in 1982 (an estimated 72.4 percent of GDT). As to the external public debt, it increased from LL 113 million in 1974 to 810 million in 1982. The financing of the public sector deficit was primarily through the issuing of treasury bills to Lebanese commercial banks. Outstanding treasury bills at end of year increased from LL 19 million in 1974 to LL 12.2 billion in 1982.

The basic picture emerging here is one in which the authorities have progressively lost control of the sources of taxation and fee revenues. As a result of the inability of the central government to enter into large-scale initiatives, the progress in reconstruction has been severely limited.

The overall nominal annual public sector deficit increased from LL 7 billion in 1983 to LL 29 billion in 1986 and LL 144 billion in 1987. These escalating deficits, which were financed through public sector loans, had increased the burden of the public debt and added to expenditures. Although the budget deficit as a percentage of the total revenues had narrowed in 1983 to 114 percent of those of 1986, the deficit amounted to 429 percent of revenues.

Setting aside a few exceptional advances which were granted in 1977 for reconstruction at symbolic rates, (2 percent), the financial burden borne by the state for its loans from BOL was fixed at 11 percent by the 1985 budget law. And as if this were not enough, the banks in Lebanon had been compelled to subscribe to the ordinary issuing of Treasury bills for over one year, and to reoffer them on the secondary market to the banks at the real rates of 35 percent/annum.

As to the public loans the state offers the same terms as those granted to the commercial banks. However, the savers are not very enthusiastic about these investments.

Moreover, the decline in tax revenues has been the result of many factors. The breakdown of the central authority and the seizure of ports by different militias deprived the government from one of the

major sources of finance. Custom duties are counted about 33% of all taxes of the prewar decade. Also, the division of the country into regions raised the amount of effective sales taxes on goods, only to benefit the different militias who initiated the division. Tax rates on income would not be raised to substitute for the revenues, because the tax was sharply reduced as a consequence of the steady decline in the income aggregate output. Payments of interest on internal debt increased from 20% of the total budget expenditures in 1983 to 41% in 1986. Expenditures on servicing the internal debt amounted to 43% of the total revenues in 1983 and 208% in 1986. The widening public sector deficits over the review period have been closely reduced by the growth of the internal public debt incurred in financing the deficits.

3. Money Supply

Detailed analysis reported by Saidi²⁰ for the period until 1984 has indicated the close relationship between the growth of the money supply (m1) and the general price level in Lebanon. Although this relation between the quantity of money and the price level has been subject to moderation by other factors, the total amount of currency in circulation and sight deposits rose from LL 2,998 million at the end of 1974 to LL 1,070 million by the end of 1982 (269% in 8 years) then to LL 30,376 million at end of 1986 (+174% in 4 years).

20. Saidi, Economic Consequences of the War in Lebanon, Bank of Lebanon Bulletin 1986.

At any rate, money supply should affect the construction activity positively through affecting the level of prices which is an index for inflation, the level of national income, the level of interest rates and the level of investment which through the multiplier affect the national economic growth.

E. ILLEGAL CONSTRUCTION AND SQUATTERS

One of the intriguing particularities of the Lebanese construction industry is the high volume of squatters occupying luxury apartments and land property. Since the early start of the civil war, entire communities almost from every part of Lebanon have been uprooted and have found shelter with or without the helps of welfare institutions through occupation of buildings and schools and illegal construction of housing units on public and private lands. Beirut and its suburbs have amassed most of the displaced population. No authority was able to prevent squatting, and many powerful political parties were indeed protecting squatters.

In order to have an idea about illegal construction in 1983, 4,400 buildings and 6550 residential units were erected either on public or private land in the southern suburbs of Beirut²¹.

If the supposed area of each dwelling is 50 sq.m², therefore the total area which was occupied amounts to 324800 sq.m². But we can safely assume that the total area of illegal construction in Beirut is double the above figure.

Destruction and damage had resulted in the proliferation of squatters in unhealthly and overcrowded conditions.

Illegal construction is not confined to the southern suburbs of Beirut but practiced elsewhere.

21. N. Issa, A special housing problem in Beirut southern suburb
Unpublished study by the Shiite supreme Council,
Beirut, 1983

Therefore, we can fairly assume that the area of illegal construction would add up to about 10% of the permitted construction areas.

F. LAWS AND REGULATIONS

Construction is regulated by civil construction laws which divide the Lebanese regions and cities into zones. It sets the architectural by-laws of buildings and restrictions, thus separating the maximum percentage of the area that could be utilized, such as max height, etc...

There is no law which sets what is minimum acceptable. Such a law specifies the minimum allowable as to the quality of materials, building design to ensure safety, healthy inside conditions, comfort, all according to authority standards. In addition to this, there is no specific code which is required by law, although American and European standards have been adopted. So the lack of norms or unified standards has not been conducive to the modernization of building construction; it has only permitted a large category of people from different backgrounds to be involved. At any rate the real problem is that contractors do not abide by the rules to save costs. This phenomenon has been largely practiced after the war and is more acute in low income regions.

The absence of such laws coupled with the present security situation have allowed contractors to break all limits because of weak juridicial authorities and absence of supervision.

Rent Laws

During the war, the law hasn't been adjusted to the demographic evolution, or to the economic set up of the country. The government has not been able to formulate an adequate rent law that would alleviate some of the great restrictions imposed on increasing rental charges and conditions for evacuation.

The successive emergency rental laws (there have been 25 of them) have not resolved the housing problem. On the contrary many landlords have stopped to rent out apartments and houses or have driven rental charges to extremely high values in order to protect themselves from inflation. Also contractors have oriented their investment towards luxury buildings to avoid impact of rent law. So an unsatisfied demand for renting houses developed.

TABLE 2.16

Evolution of a Rental Charges in L.L.²²
(Contracted 1961) 1961-1987

1961	100	
1962	85	(decrease 15% under decree 31/7/62)
1965	85	
1969	85	(same under decree 29/67)
1969	85	
1971	85	
1972	85	
1973	85	
1974	85	(same under decree 25/3/74)
1975	85	
1977	85	
1979	85	
1980	85	
1981	85	
1982	97.75	(gradual increase till 60% under decree 20/2)
1983	143	
1984	157	
1985	173	
1986	196	
1987	271	

22. Source: Al Anwar 1/5/1988.

After many years of study and controversy, a rental law which governs the contractual relationship between the landlords and different types of tenants, was finally issued on May 27, 1982. Many of its provisions, however, were unclear and subject to different interpretations, to the extent that the council of ministers decided, early in 1983, to clarify the text of this law and to introduce two basic amendments designed to encourage house renting or leasing. The proposed amendments were the setting up of a ceiling on the value of compensation rightfully due to the tenants upon the evacuation of rental dwellings which would not exceed double the total amount of rental charges paid by the tenants during the occupancy period, and the dropping of provision No. 11 of the law which barred all evacuation.

Accordingly, the landlords have justifiably complained that the tenants eventually became permanent residents of the rented property rejecting any increase in rental charges that are not justified by law, and demanding large sums of money in compensation for the evacuation of such property.

This is particularly the case with the tenants who rented apartments and houses prior to 1974 at a low cost.

In this respect many cases have been cited where the landlords have incurred losses on rented apartments because of the rise of maintenance costs. To overcome this anomaly many landlords have tended in recent years to prefer selling the rented apartments and houses to their tenants at prices that take into account the keymoney which would have been due to the tenants when they evacuate their apartments and houses. The laws did stipulate that the owners of real estate could break the rent contract if the tenant did not pay his rent in due course or caused damage to the

property. Also the social of insecurity and political instability have made the landlords uncertain whether they could collect rental charges or not.

The draft law proposed by Deputy Auguste Bakhos to Parliament on the matter of rents, providing for an increase in rents and the exemption of the landlords from maintenance costs and various other services, continues to fuel controversy in parliamentary circles. Although most of the responsible officials are favourably disposed to accept an increase in rents, especially in rent contracts and leases entered upon before January 1, 1975, other deputies call for the reduction of at least 30% on rents contracted after January 1, 1984, as well as the freeze on rents of furnished flats, and the extension of seasonal lease contracts for additional four years.

Moves have been once more made to extend the law on rents proposed by Bakhos, which, it is recalled, expired at end of 1986. Several deputies, in fact, were hostile to the Bakhos project aiming at amending this law.

As a result of this legislative controversy juridical-parliamentary committee appointed by the Speaker of the House was entrusted with the task of elaborating a draft law on rents for 1987. The draft bill, prepared during the month of February, proposes an extension of the old law for one year ending at the end of 1987, albeit, with some modifications, as follows:

1. Rents on dwellings shall be increased for 1987:

- Rents contracted before the beginning of 1954: increase of 200%.

- Rents contracted between the beginning of 1954 and the end of 1961: increase of 180%.
- Rents contracted between the beginning of 1962 and the end of 1966: increase of 170%.
- Rents contracted between the beginning of 1967 and the end of 1972: increase of 150%.
- Rents contracted between the beginning of 1973 and the end of 1980: increase of 100%.
- Rents contracted after the beginning of 1981: no modification.

2. Commercial leases were divided into three categories:

The first comprises offices situated on the ground floor; these will be modified for 1987:

- Rents contracted before the beginning of 1954: increase of 400%.
- Rents contracted between the beginning of 1954 and the end of 1961: increase of 350%.
- Rents contracted between the beginning of 1962 and the end of 1967: increase of 300%.
- Rents contracted between the beginning of 1968 and the end of 1974: increase of 250%.
- Rents contracted between the beginning of 1975 and the end of 1980: increase of 150%.

- Rents contracted between the beginning of 1981 and the end of 1981: increase of 100%.

Rents contracted after the beginning of 1982: no modification.

The second category includes offices situated on the higher floors and in the basements. Their rents shall be increased in a proportion equal to half of what is applied to the first category above.

The third category comprises offices used by members of the liberal professions, such as lawyers, engineers, chemists, doctors, dentists. The rents of these premises shall be increased in a proportion equal to half of what is fixed for the premises of the second category.

3. With regard to tenants who are prevented from occupying their rented premises as a result of the 1975 events, these rents shall not be increased by any amount or percentage.
4. Owners of touristic enterprises (in particular hotels) will be entitled to ask for the rescheduling of their rents in arrears, to be settled in monthly installments and spread over two years.

With regard to public service, conveniences, and utilities, the landlord is required to provide them should this be stipulated in the contract. The financing of these services shall be borne by the landlord in a proportion equivalent to that paid before the beginning of 1975. Any increase in the cost of these services after that date shall be borne by the tenant.

CHAPTER THREE

THE FINANCIAL ASPECT OF THE CONSTRUCTION BUSINESS

Before beginning a construction project, a marketing study is important in order to foresee the rapidity of selling and then the return on investment which will be followed by assessment of the major costs, factors affecting the construction and ways of financing.

TABLE 3.1¹

SQUARE METER SELLING PRICE OF HOUSING AND COMMERCIAL BUILDINGS (1987)

	Commercial	Mountain		Mid-Altitude		Coast	
	L.L	Luxury apartments	Popular	Luxury apartments	Popular	Luxury apartments	Popular
BEIRUT							
Mosaytbe	25000					25000	20000
Achrafieh	50000					40000	20000
Al-Hamra Ras-Beirut	50000					45000	
Al-Mazraa Ouzai	35000					30000	18000
Hekmé Jeitawi	40000					30000	20000
BABDAA	30000			25000	10000	18000	
ALEY							
CHOUF							
JDEIDEH	50000			30000	20000	35000	18000
JOUNIEH	50000	15000	10000	27000	19000	40000	17000
JBEIL	40000	140000	9000	18000	15000	25000	16000
TRIPOLI	45000		8000	18000	16000	30000	16000
AKKAR						15000	12000
BCHARREH		10000					
ZGHORTA	15000			14000	13000		
AMYOUN	10000			14000	13000		
BATROUN	15000	11000	10000			17000	13000
ZAHLE	17000			11000	10000		
BAALBEK	17000			11000	10000		
HERMEL				8000	9000		
RACHAYA							
JEB JANNINE						18000	12000
SAIDA	25000						
NABATIYE				15000	10000		
TYR	20000					15000	15000

1. Source: Lebanon Economic Report, May 1987

A. MAJOR COSTS INVOLVED IN CONSTRUCTION

1. Land:

Land prices constitute a major proportion of the total cost of a construction project. In the 60's the percentage cost of land to total construction cost had varied from 20 to 40%, while in the 70's and 80's it had reached 60%².

In the 1977-80 period speculative investment in real estate had pushed land prices to very high values, which in 1980 forced the Central Bank to intervene and prevent the banks from advancing credit for real estate speculative purposes. After some time this occurrence had to calm down.

Land price has experienced fluctuations, higher in some regions, lower in others, with dramatic increase on accounts of the deterioration of the Lebanese currency.

The major reason of the high price of land is mainly due to its demand (demographic shifts, political reasons, shift of population from the city to the suburbs and from demarcation lines to more secure areas). Also its location (as distance) from the Commercial area is another affecting the price.

Another reason is size and feature; the smaller is the land size the more is the demand, i.e. the more it is expensive; the less steep is its slope and more rectangularly shaped more attractive it is and its price is higher.

2. Ministry of Housing, 1983

Finally, zoning is also a dominant factor in determining the price of land since it allows the maximum permissible area that could be constructed on a definite portion of land (exploitation factor). Any time there is a classification of non-residential area to a residential one, land prices in that will appreciate as people will be attracted to live in those regions.

TABLE 3.2

Evolution of Land Prices as of a Regions
(price of an average square meter)
in L.L.³

Year	Rural Regions	Coastal Regions	Commercial	Beirut
1980	200	325	770	3000
1983	275	450	725	3400
1985	350	550	750	3750

3. Sources: Al Nahar Archif.

TABLE 3.3

Square Meter Price for Unconstructed Real Estate
(mid-May 1987)⁴

	Mountain	Mid-Altitude	Coast
BEIRUT			30000-70000
Mosaytbe			
Achrafieh			
Al-Hamra Ras-Beirut			
Al-Mazraa Ouzai			
Hekmé Jeitawi			
BABDAA	12000		12000-40000
ALEY			4000-6000
CHOUF			
JDEIDEH	9000-11000	15000-20000	15000-35000
JOUNIEH	10000-25000	8000-16000	15000-25000
JBEIL	7000-10000	8500	7000-10000
TRIPOLI	4000-7000		10000-15000
AKKAR			6500
BCHARREH	7500		
ZGHORTA		3000-8000	
AMYOUN		3000-8000	6000-10000
BATROUN	4000-11000	4000-9000	6000-10000
ZAHLE		4000-10000	
BAALBEK		3000-8000	
HERMEL		3000-7000	
RACHAYA			
JEB JANNINE			
SAIDA			10000-20000
JEZZINE	6000		
NABATIYE		4000-9000	
TYR			9000-15000
BINT JBEIL			
MARJEYOUN			
HASBAYA			

4. Source: Lebanese Economic Report, May 1987

However, land value has been growing at a faster rate than inflation. Many view land as good store value for their money. So they were reluctant to sell in anticipation of higher future revenues.

Another major consequence of the inflationary trend in land price was to divert construction from main cities to suburbs, specially Beirut where land prices struck high values.

A study was conducted to compare the price of land, the SMIG and the exchange rates. It showed that exchange rates increased by 5.2% while the price of land increased by 2660% and the SMIG by 815%. The evolution of the SMIG and the land prices were parallel up to 1986, then the land prices in 1987 and on should improve⁵. The land prices were less accelerated than the foreign exchange rates but more than the SMIG values.

It is worth noting that the evolution of land prices can be divided into categories according to regions:

- Regions where the increase in land prices is above that of the foreign exchange rates increase, like Adma, Faqra and South Lebanon.
- Regions where the increase is higher than the cost of living index but lower than that of foreign exchange rates increase, like the rich agricultural regions of Bekaa, Metn, Kesrouan and regions in North Lebanon.

5. The Commerce, January 1987.

- Regions where the increase is less than the cost of living index, like regions in Beirut, Zahlé, Hazmieh and Aley.

2. Studies:

Architectural, civil and soil mechanics, mechanical, electrical and quantity surveying studies are the features of the design needed to execute a project. Added to these features a supervision for the good execution of the plans. The usual fees 5% to 10% of the overall estimated cost of the project depend on size and complexity.

The real estate prices posted presently are 20% lower than those which were posted several years ago. A specialist's consultation costs 3\$ per square meter at the present time, against 30\$ in 1983. Engineers are getting one tenth of their former fees or wages.

3. Material:

Material is nowadays the predominant cost of a construction project. 70% of the raw material is imported and its cost was pushed upwards by gradual depreciation of the Lebanese pound. This affects the whole range of materials, whether they are entirely of local manufacture, or based on imported raw materials and semi finished products.

Hereunder: the evolution of different materials in 1984 and 1988, in Table 3.4.

TABLE 3.4

Construction Index 1984 - 1988⁶

Factors	<u>Price LL (in 1 m²)</u>		<u>% of total cost</u>		<u>% Charge</u>	
	Jan. 84	Dec. 88	Jan. 84	Dec. 88	Jan. 84	Dec. 87
					Jan. 88/	Dec. 88/
- Fabric work of a building	135.80	12897.90	21.41	26.19	8286.46	45.44
- Finishing work	47.40	2977.79	6.60	6.05	6182.26	32.83
- Internal woodwork	42.10	4054.50	5.86	8.23	9530.64	56.47
- External woodwork	42.22	4604.48	5.88	9.35	10805.91	48.00
- Tiling & coating	35.95	2150.25	5.01	4.37	5881.64	30.13
- Painting	10.52	1414.57	1.46	2.87	13349.68	48.31
- Kitchen furni- ture	20.00	699.60	2.78	1.42	3398.00	.82
- Sanitary	41.67	3808.56	5.80	7.73	9039.32	26.75
- Heating-hot water	45.00	5363.01	6.27	10.89	11817.80	9.96
- Electrical ap- pliance & lifts	52.35	5743.74	7.29	11.66	10871.60	18.17
Material	491.000	43714.45	68.37	88.78	8803.09	33.05
Labor	227.200	5526.00	31.63	11.22	2332.22	133.66
Total	718.20	49240.45	100	100	6756.05	39.81

6. Source: Istacharat, Dec. 1988

The appreciation of the US dollar has generated building material price rise, thus propelling the global index to soaring heights. However, the evolution of building material prices is to be considered independently from labor costs as they represent 88.28% of the total construction cost. Mostly the increase was in material prices and therefore the construction cost of one square meter has increased from 718.20 L.L. in 1984 to 49240.45 L.L. in 1988.

4. Labor

Labor has registered a growth in cost.

In Dec. 1984 labor used to account for more than 30% of the total cost of construction while it's now about 12%. The index of labor has appreciated as of 1988 as 2332.22 times values of 1984 figures.

However, labor is subject to a rapid increase once the boom of the construction period projected is settled by a stable political situation. This increase would lift back the percentage of labor to material to about 30% and hence increase the index of cost price in the construction business, insurance, accidents, and mining equipment.

5. Others

Insurance, accidents and missing equipment represent about 10% of the total cost.

Therefore, it is obvious to find out that the general index of construction cost is absolutely parallel to the index of material cost by a lower amount (labor force is almost stable)

The rise in the costs of materials was mitigated by the stability in the index of labor costs, and therefore this index has a moderating effect on the global index of construction.

B. FACTORS AFFECTING PRICES OF CONSTRUCTION

1. Price of Money

Interest can be defined as the price paid for the usage of money. The interest rate is the level of rates, paid to creditors where creditors may include banks, depositors in banks and borrowers from banks. Consequently, in the capital markets there are many interest rates that differ according to the nature of loans and their duration as well as according to the situation of supply and demand on the same markets.

The interest rate is considerably important changing data that is generally active and effective in economic analysis. Its importance is from the fact that it represents the cost of capital. And the efficiency of its action is explained by the fact that its variations lead to changes at the level of other economic data such as, among others, cost and yield of investment, inflation rate and balance of payment.

Interest rates are called to evolve constantly upwards as long as the political and economic situation remains unstable. All changes which are likely to bring back, even partially, confidence should be translated into a gradual reconversion of currency deposits in L.L., a fact that will make superior the national currency supply.

TABLE 3.5

Average Interest Rate on Banks Loans⁷

Year	Interest Rate
1975	10.75
1976	11.00
1977	11.5
1978	10.00
1979	10.00
1980	12.00
1981	16.15
1982	16.70
1983	14.04
1984	17.05
1985	17.65
1986	24.55
1987	50.12
1988	45.0

The increase in interest rates could lead to a recession in the construction sector. In the U.S.A high responsiveness of the construction sector to changes in the interest rates level is mainly due to the fact that financing the purchase of homes is usually provided through long term (10-25 year) loans. In Lebanon the purchase of a house is generally financed

7. Source: Banque de Liban: Bulletin trimestral, various issues

either by personal savings or short term loans. However, the increase in interest rates is a barrier to many investor.

In 1977, the banks lent money at 11,5%, then in 1981 interest rates had increased to 16%, 25% in 1986 and at present between 40 and 45%.

The major factor of the financial sector efficiency is the level of interest rates. The distortion observed at the level of these rates may be held as one of the elements which is responsible for the depreciation of the national currency.

The construction sector needs more than short term less than medium term loans, and it can't tolerate more than 10 to 12% interest rates, otherwise the construction business would be negatively affected.

2. Rate of Foreign Exchange - Inflation

Inflation started to rise high during the 1975-83 period. The cost of living index (Confederation of Workers in Lebanon) increased at an annual rate of 18%. Both internal and external factors contributed to bring pressure on prices, inflationary financing of the growing public sector deficits, depreciation of the pound, supply constraints and cost increase imposed by the depreciation and impact of international inflation during the period. Then the rate of inflation accelerated rapidly and the international value of the Lebanese pound depreciated. Table 3.6 and Table 3.7 provided details of the available price indices and exchange rates against the US dollar.

TABLE 3.6

Price Indices^a

Year	A	B	C 1966=100	D 1974=100	E 1966=100	F 1966=0
1974				11.1		
1975				9.9		
1976				28.3		
1977				19.8		
1978			270	10.1		
1979			349	13.8		
1980			403	17.8		
1981			501	20.4		
1982	100	100	561	9.6	573.9	234.5
1983	110	110	583	3.8	615.2	251.1
1984	138	138	615	25.3	774.2	282.0
1985	234	221	774	66.1	1314.2	301.0
1986	614	546	1314	147.8	3445.9	1,177.6
1987	5085	4535	2633	741.8	5,159.3	1,523.8

8. Source:

- A = Confederation of Workers in Lebanon
- B = Beirut Chamber of Commerce and Industry
- C = Lebanese Economic Report, March 1987
- D = Average increase in prices %, Beirut Chamber of Commerce and Industry
- E = General Index, Lebanese Economic Report, May 1987.
- F = Housing Index, Lebanese Economic Report, May 1987.

These sharp price fluctuations complicate decision making and increase the risk of currency decisions.

The inflationary phenomenon was relatively mild before the 1975 events and was kept in check until 1984. However, it was amplified afterwards, and assumed the aspect of galloping inflation.

In fact, between 1978 and 1982, inflation rates varied between 15 and 20% and attained 18% by 1984, according to the estimates of the Central Board of Statistics. In 1985 according to the same source, the rate of inflation hovered around 59%. In 1986, the purchasing power of the national currency took a nose dive. According to the Central Board of Statistics the consumer price index was rated at 232.9 (Dec, 85, basis 100) thus showing a rate of inflation of 132.9%.

Inflation has been further pushed by wages increases. The minimum wage for public private sector workers was pushed to LL 25,000 on June 1988, but in face of mounting unrest over the economy the Finance Ministry announced an increase for both private and public sector workers as of July 1989.

Despite the decline in domestic production and the increasing trade deficits up to 1982 Lebanon's overall balance of payments remained in surplus all these years except in 1976. Important factors here were the continued inflow of emigrants' remittances and capital inflows, some of which were directed to the support of local militias.

The depreciation of the Lebanese pound, however, generally depreciated from an average of L.L. 2.3 to the US dollar in 1975 to an average of L.L. 4.7 in

1982, largely due to the conversion of residents' money in local currency to foreign currency accounts. The exchange rate appreciated during the second half of 1982, but subsequently depreciated at an increasing rate. On the basis of year end to year end rates the value of the pound against the US dollar depreciated at a rate of 3.1 percent per month in 1983. The rate of depreciation on this basis accelerated to 4.1% per month in 1984, 6.1% per month in 1985, 14% per month in 1986 and 14.8% per month in 1987.

TABLE 3.7⁹

Evolution of Exchange Rates (U.S. Dollars)

Year	Exchange Rate (Period average)	Volatility
1974	2.3278	
1975	2.3020	
1976	2.8716	
1977	3.0690	7.3%
1978	2.9554	7.3%
1979	3.2428	15.3%
1980	3.4361	17.2%
1981	4.3139	26.2%
1982	4.7435	31.7%
1983	4.5282	38.8%
1984	6.4111	56.8%
1986	38.3699	63.6%
1987	477.35	192.8%
1988(July)	351.65	

9. Source: Banque de Liban: Bulletin Trimetrial, Various issues.

An index of the value of L.L. exchange rate against a basket of other currencies may have been a better choice for the purpose. But it is still a good measure to use since most of the Gulf currencies are more or less tight to the US dollar by a constant exchange rate.

The volatility of the foreign exchange market has been remarkable during this period. The average annual degree of volatility in the foreign exchange market has increased from 7% in the prewar period (1950-1975) 10 39 % during the civil war events. It is clear from the table (3.7) that fluctuations were increasing dramatically to reach 192% in 1987.

This risk and "bad quality" characteristic of domestic money is regarded as an incentive for the public to switch the transactions balances toward a more stable and less risky currency.

So the increasing rate of inflation and the accelerating rate of depreciation of the pound are closely related to the combined impact of the increasing public sector deficits.

C. WAYS OF FINANCING A CONSTRUCTION PROJECT

1. Minimum Internal Finance

To begin with, one has to own a piece of land and provide 50% of overall construction costs in order to be able to go through the project.

The cost of construction for the square meter prior to 1984 was estimated to range between 800 L.L. and 1200 L.L. for common houses building, where as in Dec. 1988 the prices estimates were ranging around 49,000 L.L. Accordingly, the investor can compute the approximate total cost of his project by knowing the total area he will construct.

In the past decade, with the sharp increase in construction cost and interest and the growing demand for residences, investors financed their activities by selling on maps prior to beginning of completion of a construction project.

2. External Finance

a. Emigrant remittances

The latest phase of a process of migration that has been going on for more than a decade carried with it this lesson: while the country may benefit from exporting migrant labor, nevertheless it becomes very dependant on the remittance flows from that labor as a major source of foreign exchange.

The primary concern of emigrants is to own a home; most of the capital that has been flowing into Lebanon is from the oil producing Arab countries.

b. Foreign investment

Foreign investment did not stop with the start of events in 1975. However, in 1983 the government issued Decree No. 93 that put severe restrictions on foreign land ownership by reducing the maximum allowable foreign ownership in any zone to 3% of the total zone. Some bankers maintained that this decree would restrict the inflow of the needed funds for reconstruction.

c. Commercial banks

Banks nowadays are very careful of investing in real estates and construction projects, and usually require from investor to insure at least 2/3 of the total cost needed and ask for primary and secondary mortgages.

Moreover, a bank would check about the loyalty and past record of its client before allowing such financing. A complete feasibility study and time schedule plan should be procured showing steps of constructions, revenues and costs.

The evolution described in Table 3.8 and 3.9 enables us to note that:

TABLE 3.8

Break Down of Bank Credits to the Economic Sectors
(in Millions of Lebanese Pounds)¹⁰

Sector	1975	1981	1982	1983	1984	1985	1986	1987*
Agriculture	188	561	700	701	930	953	1,886	2,653
Industry	1,335	3,635	4,366	5,277	6,756	7,877	13,461	26,280
Building	766	2,375	3,041	4,275	5,412	7,255	11,740	20,891
Commerce	3,570	11,527	13,364	16,633	21,947	27,393	66,838	163,269
Miscellaneous	864	3,194	4,007	6,514	7,990	13,776	32,713	100,764
Total	6,723	21,292	25,478	33,400	43,035	57,254	126,638	313,817
Growth Rate	-	-	19.7	31.1	28.8	33.0	121.2	
Rate of dollar at end of period				5.49	8.89	18.10	87.0	

10. Source: Banque de Liban: Bulletin trimestral, various issues
*1987 figures are up to 3rd quarter

TABLE 3.9

Share of Sectors in the Credits
(In percentage)¹¹

Sector	1975	1981	1985	1986	1987*
Agriculture	2.8	2.6	1.7	1.5	0.85
Industry	19.9	17.1	13.7	10.6	8.4
Building	11.4	11.2	12.7	9.3	6.6
Sub Total	<u>34.1</u>	<u>31.9</u>	<u>28.1</u>	<u>21.4</u>	<u>15.85</u>
Commerce	53.1	54.1	47.8	52.8	52.0
Miscellaneous	12.8	15.0	24.1	25.8	32.15
Total	100.0	100.0	100.0	100.0	100.0

11. Source: Ibid.

- The participation of sectors producing goods (Agriculture, Industry, Building) in the total credits dropped from 34% in 1975 to 28% in 1985, to 21.4 only at end of 86, and to 15.85% in Sep. 87.
- The share in building has changed very slightly up to 1985. It has regressed around 11.4% at end of 1975 and at the 3rd quarter of 1987 by about half to become 6.6% only.

Thus the development of services was at the origin of Lebanon's economic prosperity during the fifties and sixties, while the building sector and transfers by expatriate Lebanese provided the indispensable support for the economic survival between 1975 and the Israeli Invasion in 1982.

This progression is mainly due to the appreciation of the existing bank advances in currency.

During the first quarter of 1987, the progression of advances in Lebanese pounds was 6.78% whereas it was 43.0% for advances in currency converted into Lebanese pounds¹².

The progression of advances in Lebanese pounds stems solely from the unpaid interest carried over. The banking establishments practically grant no more credits in Lebanese pounds, and even try to recover whatever previous credits were granted, and to suspend all facilities granted formerly.

12. Lebanese Economic Report, July 1987.

It is a fact that contractors are now compelled to resort to facilities in currency in order to compensate the restrictions imposed on the advances in national currency.

Besides, ever since 1988, the banks had started to adjust advances in currency, and even compelled their debtors to reimburse those debts, or at least, to convert them into national currency.

However, the negative effects of the reduction of bank credits are amplified by the fact that the distribution of credits among the various sectors has developed since the beginning of the war in 1975 to the detriment of the production sector.

d. Financial institutions

Housing problems are among the government's top priority concern. In an effort to relieve the country's housing shortage and alleviate the social pressure resulting from the war, the government initiated programs of medium term nature. The essential strategy was the provision of soft loans at preferential rates of interest to assist private sector construction, reconstruction and repair. The loans were administered through government sponsored and/or assisted institutions.

The government by enacting legislative Decree 20 in Jan. 1977 established a framework for a home repair and reconstruction program for Lebanese

citizens whose housing properties were damaged during the Lebanese civil war since February 1978.

The government embarked on a loan program for construction and/or purchase of housing units, to address the needs of middle and limited income groups. It established a number of housing schemes: Easy credit for middle and limited income groups is being provided through institutions created by government since 1977.

During 1982-1987 L.L. 458 Million of housing credit¹³ were committed and disbursed through specialized credit institutions:

1. Council for Development and Reconstruction (CDR)

It has articulated some aspects of a national urbanization pattern of growth and has developed with the Ministry of Public Works and Transport some regional and city plans for land use management.

13. Progress Report on Reconstruction, Council for Development and Reconstruction, Sep. 1988.

TABLE 3.10

CDR Expenditures (1977-1987) on Housing¹⁴

Year	Assistance to Housing (in Million of L.L.)
Up to 1982	151.38
1983	181.34
1984	26.76
1985	50.00
1986	0.00
1987	200.00

The CDR Expenditures on housing represent only a 3.13% of total CDR Expenditures.

2. Ministry of Housing and Cooperatives

Faced with the task of reconstructing damaged dwellings, it has been able to face problems of setting up a long-term housing strategy.

In March 1977, the government enacted decree law 20 as a vehicle for the extension of loans to home owners for reconstructing or repairing their damaged houses. The program should be implemented through the General

14. Ibid

Directory for Housing. L.L. 133 million were committed and disbursed during 1982-1988.

3. The Housing Fund

A semi autonomous government agency related to the Ministry of Housing and Cooperatives created in 19/7/80 by law No. 6180 for the construction and ownership of 20,000 units. The eligible beneficiaries are Lebanese families with income that doesn't exceed 3 times the minimum wage. The maximum granted amount arrives at 276,000 L.L. with an interest rate around 4.95% and a duration of 20 years. The number of loans reached L.L. 600 million out of which L.L. 120 million were disbursed during 1982-1987 for low-income families for housing acquisition and/or construction beyond the limits of Beirut.

Financing of the housing fund was obtained from taxes on the beneficiaries of the extra floors (or Murr floor) on their buildings. This was replaced by end of 1987 by the General Foundation for Housing whose aim to coordinate between public housing agencies and developing policy frameworks.

4. The Common Administrative Agency

This agency was created in 1977 for the reconstruction and repair of damaged houses. It gave credits up to L.L. 341 million for repairing of 25000 housing units.

5. The easy credit program for housing cooperatives and savings and credit cooperatives of the National Union for Cooperative Credits (UNCC) provides loans for cooperative housing projects. L.L. 20 million were committed and disbursed during 1982-1987.

6. Housing Bank

A semi private institution was created by legislative decree No. 4 dated 15/1/77 and No. 27 dated 11/4/77. The Bank's main undertaking was to finance housing projects covering construction, reconstruction and upgrading of housing units and compounds. Eligible beneficiaries are Lebanese citizens (families) whose income doesn't exceed three times the minimum wage. The maximum granted amount arrives at L.L 2.5 million with an interest rate ranging between 12% and 15% depending on the area of the dwellings, duration and subject of the loan.

TABLE 3.11

Evolution of Housing Banks Loans¹⁵

Year	Number	in Millions
1979	245	31.542,500
1980	667	67.523,000
1981	384	54.650,000
1982	314	49.427,000
1983	291	46.434,000
1984	374	62.467,000
1985	027	91.829,000
1986	462	91.612,000
1987	237	60.586,000
1988	84	163.524,000
Total	3585	719.594,500

The highest loan was given in 1980 then in 1985, the highest quantity in 1988 after the ceiling was raised to 2.5 million.

15. Source: Al Nahar 14/1/89

TABLE 3.12

Evolution of Interest Rates with
Loan Amount and Years¹⁶

Credit in Million of L.L.	12% for 20 years	14% for 15 years	15% for 10 years
1.0	25,500	40,500	49,000
2.0	71,000	81,000	98,000
3.0	107,000	121,500	147,500

Interest also increases with area of dwelling.

0.05% up to 140 m² and 0.10% for 140-200 m² (upper limit for 200 m² is 18%).

The housing bank had provided houses for 4000 families. During 1983-1988. L.L. 135 million were committed and disbursed through the housing bank.

16. Source: Al Amal, Tue. 14, November, 1988.

TABLE 3.13

Housing Bank Loans - General Statistics¹⁷

Regional office	No. of appli- cations	No. of housing units	Loans needed	Refused appli- cations No.	Filed appli- cations No.	No. of housing units con- tracted	Loans advanced
Beirut	3768	9895	374,388,650	466	944	1968	63,512,500
Metn-Keseruan							
Jubail	3958	12723	364,133,700	7	940	2451	77,468,800
Burj-Hammoud	1574	7442	1,291,210,500	98	279	1384	10,851,400
Ba'bda Chouf							
	14051	28730	--	249	1002	1684	58,665,500
				104	760	2219	54,464,900
Southern Suburb							
Aley	6280	12961	680,705,758	38	501	1039	33,716,000
South	5941	7680	262,638,700	262	184	138	30,212,833
North	5476	9192	301,447,800	606	2352	3547	80,837,000
Bekaa	2414	3458	115,149,100	4	951	1559	41,408,572
Total	43462	92082	3,534,871,608	1834	7913	15989	451,134,505

17. Source: Ibid.

The bank could not insure its own financial resources in order to carry out its work. For a while it has been passing through a difficult situation (lack of liquid assets) and just granting money that is collected from the government under the form of Treasury Bills.

D. CONCLUSION

The present set up pretends to highlight some of the major factors affecting the cost of construction and consequently the amount and type of the constructions.

Indeed many factors interact to set up the total amount of construction year after year, that one cannot measure the exact net effect.

Some of the factors have already taken a definite shape in case where the effects are almost immediate. Others are still in the making or changing in case where the effects will be felt less rapidly.

CHAPTER FOUR

ANALYSIS OF THE CONSTRUCTION MARKET

The new Dollarization data of the real estate market imposes a deep revision of the analysis of the market. Transactions qualified as structural have been induced by the monetary developments of these past few years.

The whole process has been characterized by the very substantial depreciation of the pound. From land price, to the financing of projects passing through the cost of the materials, labor costs and sales policies, real estate is adjusting to the new data.

Let us there has been a gradual relative decrease in building prices with respect to their quotation in foreign currencies which is not in proportion to the fall of the pound. The prices in real estate in 1987 translated to their counter value in Lebanese pounds of 1984 have registered a net regression:

1. A regression in the sales prices, in dollars, of lands destined for construction. This drop is mainly linked to the economic crisis and to the slow down at the level of real estate operations.
2. A drop in labor costs, in dollars, is extremely important, especially in periods of economic doldrums. Readjustments of labor costs are very difficult with respect to the rate of depreciation of the Lebanese pound.

3. The lack of interest in real estate investment, and the orientation of investments are directed towards currency.
4. The inadaptability of supply to market requirements, with a very large availability of luxury and large surface area apartments, and the absence of smaller-sized and more modest units of lesser quality.
5. A lack of financing for the purchase of apartments, have imposed new forms of financing which are more costly.
6. A reduction in the profit margin at all levels, namely on building materials, costs of studies and of supervision.

It is worthwhile to note this preliminary fact: a near total dollarization except for the labor costs. This phenomenon is not only limited to posting the prices in dollars, but also to directing payments in foreign currency. Even rent contracts, as rare as they are, are made out in dollars.

Dollarization in buildings and real estate is practically an acquired fact. Certain promoters are posting prices in L.L., but this is merely a publicity gimmick.

7. The decrease of the share relating to the price of land, especially to the cost of labor. The major portion of costs is absorbed by the price of building materials.

8. The search for new sources of supply of building materials definitely cheaper than those hitherto imported from abroad. Greek, Portuguese or Turkish products are replacing those "Made in Germany or Italy". Also, the domestic production finds favor with the consumers once more.

Any depreciation of the Lebanese pound would still have an adverse effect on the construction industry as it would appreciate costs and direct investments into the foreign currency market. This risk and "bad quality" characteristics of domestic money are regarded as an incentive for the public to switch their transaction balances towards a more stable and less risky currency. Foreign money yields a return in the form of interest rate payments and potentially is a source of capital gain if the foreign currency appreciates versus the domestic one.

Nevertheless, the construction business could be very profitable if it were the outcome of good experience, high skill management and a flexible time plan which takes into account the risks involved.

Investment is a complicated process of financing approximately a two years period. However, the dollarization of this phenomenon has made it simple, but the effects of interest and inflation have to be taken into consideration. It is yet a risky task, for there are market fluctuations which are mainly due to political deliberations which could make investment profitable or ruinous. Furthermore, the internal political context, translated by the absence of any stringent control over the policies and supervision of the judiciary, has increased the vulnerability of the insurance against all kinds of risks. So, to gauge risks in

Lebanon is rather difficult. Any evaluation of such risks would be imperfect and even wrong, if it does not take into account the political, social and security factors.

Thus the Lebanese investors, being unable to assess the risks of the projects, are hesitating to resume the normal rhythm of business desired and prefer to wait for the evolution of the political situation before choosing their investments. They are also reluctant to borrow at a determined rate, at a time when insecurity and business stagnation do not anticipate a medium or marginal capital profit that is higher than any investment for the required period.

However this situation has been partially restored and investment in real estate has been attractive once more on account of adjustment in the quotations.

Lebanon has experienced a construction evolution unprecedented till 1983. The rentability, as mentioned, has reached 30%. Take, for example, \$100 the cost of one square meter of construction, added to it the interest rate and price of land to be sold at \$200. Thus the stone investment can secure an important rentability. The economic, urban and demographic situations were favorable in this sector till 1983:

- a. Migrations from Beirut and development of urban concentrations favored the expansion of the construction sector in the mountains and the coastal regions..
- b. In addition, this situation has been accompanied by active finances of banks (more than 3 billion L.L. were involved in this sector by end of 1982)¹

1. Le Commerce Nov. 7, 1988

- c. It is worth mentioning that this period was a prosperous period in the Gulf and in the important transfers to banking sectors.
- d. Selling of lands was at good prices.
- e. Several people have invested in long term projects to protect themselves against inflation.

These factors amplified the movement and provoked the grand boom of this sector since the independence resulting in constant and elevated rentabiliy.

However, most investors ran against a number of problems which reduced their activities for a short period. The second period 1983-1988 was characterized by reduction of this boom. This is seen in:

- a. Excess flow of Lebanese savings outside the country.
- b. Shortage of funds, as credits have been scarce and rare.
- c. Economic recession.
- d. Inflation has striken this sector by 150% in 1986, 44% in 1983, 62% in 1984, 100% in 1985, 300% in 1986, 423% in 1987.
- e. The losses have been registered between the stone and foreign currencies investments. One could acquire a significantly less expensive flat awaiting a rise in foreign currencies and a relative drop in offered units price. For example, the price of an ordinary

three bed room apartment has decreased with the deterioration of L.L. from \$85,000 (LL 350,000) in 1983-1984 to \$40,000 (L.L. 22 million).

- f. Saturation of a market offering commercial and luxurious apartments.

It is true that the Construction market has several weaknesses:

- ease of entering and intensive completion;
- profitability involved is very much related to span of time with respect to completion and selling;
- instability of prices;
- instability of the security situation;
- high cost for protecting property from squatters.

Nevertheless many opportunities are still offered:

- continuous need for housing;
- high inflation rate is pushing people towards construction, a guaranteed way of preserving one's wealth since fixed assets, unlike liquidity, don't lose value with inflation.
- should the security conditions improve, a weak Lebanese pound is likely to attract foreign investments to this sector.

The principal actors should be the holders of foreign currencies and the Lebanese abroad. So investments could be resumed on a wider scale in a more or less near future.

The investor in order to insure maximum profitability and to invest in the construction business has to:

- a. Insure at least the minimum personal finance and provide sufficient financial support. The absence of financial institutions that will provide medium and long term loans have prompted investors to seek financing through the commercial banks. The commercial banks claim that the central bank is hindering productive investments. For its part the central bank questions the commercial banks' commitment to such investment, alleging that they have increasingly directed their resources to dubious areas which depress the currency.
- b. Follow a very detailed schedule and buy a percentage 90% of the raw material needed before beginning to sell. Profit in the construction business is a factor of time. Time could mainly affect the price of money, change in price for raw material, and change in demand for apartments in specific areas. For this purpose, a time schedule plan should be set forth with all the details and steps of the necessary activities. Generally speaking, high profit margins are affected by the talent of the management which could forecast the price sensitivity over the span of the project.
- c. Build in areas where high demand is required. A very luxurious residential building constructed in an area where there is only a demand for commercial units, is difficult to sell. Also the new Lebanese trend, which

is due to the economic crisis, is the purchase of small apartments (80-120 m²) in areas located 300 m & 700 m above sea level.

- d. Offer net and reasonable prices which a consumer can afford to pay and, if possible, ensure credit facilities in order to encourage people to buy. There are many ways to differentiate the product on very few criteria.
 - 1. Functional use of building (residential versus commercial).
 - 2. Location reflects the value of land and the social level of inhabitants.
- e. Improve the efficient factors by reducing the time span between building and delivery.

In determining what are the investment opportunities, investors seek an adequate financial return on investment - (ROI). It depends on strategy and policy followed by each investor. Most of the investors prefer to sell in the short term. Some sell on plan, but this is risky, because rapid changes of raw materials prices in a volatile environment may lead to low profitability. Some others prefer to sell after completing most of the heavy work and finishing all the major components and materials. They would prefer to sell in this way and minimize any possible risk. The rentability in this sector, as said earlier, has reached 30%.

Nevertheless, the construction industry is face enormous challenges and responsibilities. And if the housing problem were to be solved, it would be through the collaboration of the private sector with the public sector.

The construction sector is suffering from severe shortages of housing for middle and low income groups. The upper class which includes wealthy families that are interested in big luxurious apartments of 300 m² and above are not the majority of the Lebanese consumers. While the middle class which represents 30% of the Lebanese consumers are interested in apartments consisting of 3 to 4 bedrooms. This class is diminishing more and more because of the high rate of inflation, decrease of income and limited job opportunities. The low income class, mainly employees or young couples with limited income whose main concern is to settle in 1 or 2 bedroom apartments depending on their purchasing capacity and the amount of their capital. Other major causes of shortages have been legal restrictions on rents and a lack of appropriate housing financing facilities. Under the prevailing housing market conditions, low & middle income families cannot afford to purchase or rent acceptable dwellings.

Lebanon has traditionally favored private enterprise. In some countries the construction activity is dominated by the public sector (UK, France, Holland); the state contributes to investment on housing by about 47.9%, 33.5%, and 26.1%. The role of the public sector in Lebanon, as we said before, is not perceived as a builder of housing units but rather as a facilitator, a creator of circumstances in which the individual can build for themselves. This kind of behaviour denotes a certain individualism in Lebanese business and a lack of social solidarity.

In addition, Lebanon does not have an effective urban growth strategy; the absence of an approved land use plan classifies the whole country as suitable for urban development. As a result, residential development is being implemented with little consideration to land conservation or

urban planning. Nevertheless the public sector has contributed to an extending of credit to the productive sector of the economy and the households through specialized institutions.

The achievements of the loan programs for the repair and acquisition of houses during this period enjoined many of problems:

1. Failure of housing finance agencies to respond adequately to the monitoring and control procedure.
2. Unavailability of sufficient domestic funding.
3. The necessity to continuously update the loans conditions and the ceilings which is due to the acceleration of inflation.

The public advances the construction sector and provides only 5% of the total fund instead of 80% as it is done in the developed countries. The percentage had fallen from 60% to 20% then to 5% although the total amount is higher in Lebanese currency. CDR expenditures on housing represent only a 3.13% of the total CDR expenditures.

We have to note that the ineffectiveness of public financing to the construction has reduced the number of Lebanese citizens who can procure money for purchasing apartments.

An example will serve as an illustration. Let us say that the average price of a low-cost apartment according to average standards is \$350 per square meter, or \$35,000 for a 100 sq m apartment. The L.L. 2.5 million provided by the housing banks could not be sufficient. Then the person who has asked for the credit has to provide the other portion of money and that exceeds L.L. 10 million. Even if the

banks were to raise the amount to L.L. 10 million, how would any person who earns L.L. 50,000 be able to pay back his debt over 20 years? On this account it is agreed that the government should adopt a financial policy whereby it could finance the housing projects without creating inflationary pressures.

According to "Dr. Elias Saba²", there is one way to finance the proposed housing units for low & middle income families without creating undue inflationary pressure and expansion in the money supply, namely through the creation of a fund to support the interest charges on the housing loans that would eventually replace the housing bank.

Any Lebanese citizen who wants a housing loan would go to the bank of his choice, and if he satisfies a certain criterion (similar to that used by the housing bank), he would receive a subsidized loan for constructing or purchasing a house.

The subsidy will be paid by the proposed fund. Such a plan which would eventually help in solving the housing problem and activate the construction industry and the related industries could have positive effect on the national economy, and the Lebanese banking sector by creating safe credit outlets, and new money market instruments, (housing bonds could be used in the open market operations). According to Dr. Saba the effect of this financing scheme on inflation would be below 5% and probably not above 1%.

2. 2) Saba E., "A fund to support housing", As Safir, January 30, 1985

Other interim solutions are being considered. The suggested ideas of the mechanization and development of the construction industry such as employment of prefabrication techniques have caused many controversies.

It is well known that prefabrication guarantees an implementation speed not attainable by traditional methods. As it is oriented toward the utilization of machinery which cuts down manpower by approximately 50% and overcomes bad quality labour, it is aimed, actually, at reducing costs.

However, the absence of coordination and the lack of norms or unified standards in planning have not been conducive to the modernization or industrialization of building construction. In addition, industrialization requires large investments for establishing a productive system. Accordingly, it would be useless to invest large sums of money if a stable market outlet were not yet assured for such items as prefabricated products.

A feasibility study was conducted in 1980 by "Dar Al-Handasah Consultants" for the establishment of prefabricated houses. The cost of one square meter was calculated to be L.L. 1042, about 300 U.S. dollars. That was cheaper than the conventional methods of construction.

But during this period with all the on-going changes in Lebanon, the cost of one square meter of an ordinary apartment is about 100 U.S. dollars which is relatively cheaper.

Although labor has become rare and expensive, yet it does not contribute except for 12% of the total construction cost. This is cut down by prefabrication to 6% ap-

proximately. A certain percentage of this percentage difference is absorbed by amortization of machinery, which leaves 3%.

In addition to these the psychology of the Lebanese consumers and their social behaviour have not been in favor of the prefabricated unit. There are also technical problems related to foundations, type of soil, unlevelled Lebanese topography, types of related products and finally transportation of the units.

Finally, the general security situation, the paralysis of many parts of the administrative body and a deep crisis in the public finance have all provided severe restrictions to planning and the adoption of meaningful policies.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

Development is a complex process in which both the private and public sectors have important roles to play.

In practice, the private and public sectors are interdependent. The public sector has a decisive impact on the scope and vitality of the private sector's contribution to development, e.g. through regulation or lack of it, as well as the provision of necessary infrastructure and taxes and the creation of an environment conducive to private investment.

Attempts by the state have been fruitless because of the obsolete rent laws and the creation of inefficient institutions, particularly the Ministry of Housing and Cooperatives which was supposed to play a major role in setting up a housing policy.

The housing crisis has become an intricate problem for Lebanon and its solution is only possible on the basis of short and long term multiphased measures and programs. Hence, government measures could be used to boost construction.

The following comments on short and long term recommendations might be helpful to our enquiry:

A. Short Term Recommendations

1. There is an urgent need for construction to house the displaced low and middle class population. The essential strategy is to lay stress on the role of the private sector which should receive the necessary credit through soft loans at preferential rates of interest. Thus it is incumbent upon some banks and societies to restrict their efforts to granting loans.
2. Measures could be used by the government to boost construction activity through: 1) tax exemptions on construction zones targeted at providing housing units for the low and middle income families; 2) imposition of taxes on unbuilt property, based on the premise that such a property which is unproductive capital has benefited more than many other commodities both from the increases in demand and in the infrastructural improvement projects of the state (Agricultural lands should be exempted). Also there should be a tax on property improvement, for it is a benefit derived from the public effort. Equity requires the appropriation of a part of such exceptional capital gains. In addition, taxes should be raised on land selling transactions.
3. Costs can be cut by use of construction techniques that make more effective use of local human and material resources. Slight modifications of the techniques used coupled with a rigorous quality control could lower costs by reducing wastes. Also, measures should be taken to improve the skills of the workers, such as the formation of vocational schools that teach various construction works (as an alternative to dispensing with prefabricated materials at lower cost by using labor intensive construction techniques).

4. Many building contracting firms may find it necessary to merge with one another should they want to assimilate new construction techniques, reduce overheads, improve efficiency and be competitive.

B. Long Term Recommendations

1. Issuing of laws which could encourage in a way the construction of apartments for rent. The restrictions imposed by the rent laws on "ordinary" building and on contracts have not helped to solve the general problem, and their removal will not restore the balance between supply and demand in the housing market unless the government implements an extensive low-cost housing program for lease and sale in the housing market. Also, an index of construction costs should be established and the development of rent prices should be tied up to it and to the age of the building.
2. Issuing of laws which could encourage the syndicates and municipalities to realize habitation projects.
3. Regional development and planning would help the decentralization of the economic activity and reduce the pressure from the main cities, particularly Beirut and its suburbs, and stimulate the construction activity in the country side. Laws for urban planning should be implemented to encourage building of small apartments, small parcels of land and higher exploitation factors in certain regions.

However, regulations for the utilization of the land, should recognize the interest of the population as well as the coming generation. Building should also envisage protection and agricultural zones.

Government intervention would also be geared towards alleviating supply restrictions in the provisions of land services utilities.

To sum up, the optimum scenario calls for a mutually reinforced partnership among all the Lebanese communities. The lessening of regional tensions will undoubtedly contribute to reconciliation, harmony and peace. Thus the enforcement of government authority and the restoration of the trust in the society will eventually create a solid basis for the implementation of a comprehensive solution.

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