LEBANON REAL ESTATE SECTOR

A PROTRACTED ERA OF MARKET CONSOLIDATION AND FLATTENING CONDITIONS

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- **Property market reporting relative activity slowdown**
  Lebanon's real estate market activity has been witnessing a slowing down recent performance, with the ongoing domestic political bickering and regional political tensions weighing on buyer sentiment. In figures, the total value of real estate sales transactions contracted by a moderate 6.7% in the year 2011, and only seems to be picking up slowly, posting a 4.0% upward movement year-on-year in the first four months of 2012. This follows a 32% annual growth in the previous five years characterized by a real estate boom in the country.

- **Residential market seeing net contraction in foreign demand**
  The residential segment of the Lebanese realty market has definitely been feeling the pinch of the regional and local developments since early 2011 and remains constrained by high and sticky price levels that have rendered properties out of reach for a large segment of the resident population. Still, the market remains supported by demand stemming from Lebanese nationals, which account for more than 90% of total residential demand. Foreigners, especially Arab Gulf nationals, have practically been out of the market for the past couple of years.

- **Relatively stable retail and office market demand**
  The retail segment has benefited from steady demand over the past year, ensuring relatively stable annual rents on the overall in Beirut. Demand for retail spots was mainly boosted by the defensive food and beverage industry. Beirut's office landscape was characterized by stagnant demand over the past year, more or less sufficiently met by the existing supply, with rental rates mostly constant on the overall.

- **Supply side adjusting to changing market dynamics**
  The supply side has been witnessing an increase in vacancy rates in new buildings and started slowing down construction activity. The total area of new construction permits, reflecting both current and prospective construction plans, dropped by 7.0% year-on-year in 2011 and by a further 2.7% year-to-date in 2012, following a 19.3% growth per annum in the 2006-2010 period. Construction costs have also decelerated this year, after moderate single-digit growth in 2010 and 2011.

- **Prices on the flat side of the staircase**
  Realty prices have remained rather stable on the overall over the past year and a half despite adverse investment conditions. The evolution of property prices in Lebanon has long been known to embrace the form of a staircase: prices go up after a period of stability in an upward adjustment period, and then stabilize again until the market digests new price dynamics, before going up again. The reasons behind this comparatively atypical evolution are the end-user non-speculative demand type, the quasi-absence of leverage and the relative scarcity of land plots.

- **Growing bank funding but persistently low household and institutional leverage**
  While the market has been increasingly resorting to bank financing over the past years to fund construction projects on one hand and property acquisition on the other hand, leverage is believed to be still relatively low at both the individual and institutional levels. Household leverage is tied to bank housing loans which saw the light only few years ago to account today for circa US$ 6 billion, the equivalent of 4% of bank assets. Institutional leverage is tied to bank loans to construction and which reached US$ 7.1 billion today, the equivalent of 16.2% of total loans, a share that mirrors that of the sector in GDP formation (15.2%).

- **Standstill situation expected to last in the foreseeable horizon**
  In a scenario of increased regional/domestic uncertainties, no significant downward price correction should be anticipated, as there is no significant speculative component in the market, in addition to the absence of financial pressures on developers. Likewise, in a situation of improved overall regional/domestic conditions, no significant upward trend should be anticipated as there is a persistently growing stock of unsold property that weighs on a market that is no more in an undervaluation status. This time, the era of flat property prices seems to be embodied to stay here for a while.

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PROPERTY DEMAND

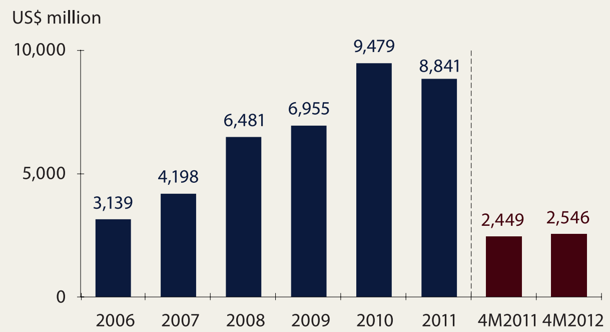
Realty market taking a breather in a cloudy regional environment

Lebanon's real estate market activity has been witnessing relatively flat performances in recent months, marking a trend break from the double-digit growth rates of the previous few years. Domestic realty has actually been caught in the midst of the regional turmoil since the beginning of last year, with the market opting for a wait-and-see attitude on concerns of spillovers from unfolding politico-security events in neighboring countries. At the same time, the ongoing local political bickering and sporadic security concerns weighed further down on buyer sentiment. As a result, the market has been seeing a slowdown in sales volumes after a period of frenetic activity during the second half of the past decade when the market was catching up with regional market activity levels following few years of pent-up growth.

In figures, the total value of real estate sales transactions contracted by a moderate 6.7% in the year 2011, and only seems to be picking up slowly from lower 2011 levels this year, posting a 4.0% upward movement year-on-year in the first four months of 2012. This follows a 32% growth per annum in the previous five years characterized by a real estate boom in the country. The slowdown in sales value reflects a similar pattern in the number of transactions, which dropped by 11.9% in 2011 and by a further 6.0% year-on-year so far in 2012, following a 17% average yearly increase in the 2006-2010 period. It is worth mentioning that the seasonality analysis of property sales shows that the fourth quarter is the most active with an average share of 32.6% of annual transactions over the past five years, followed by the third quarter with 25.6%, the second quarter with 23.6% and the first quarter with 18.2% of the total.

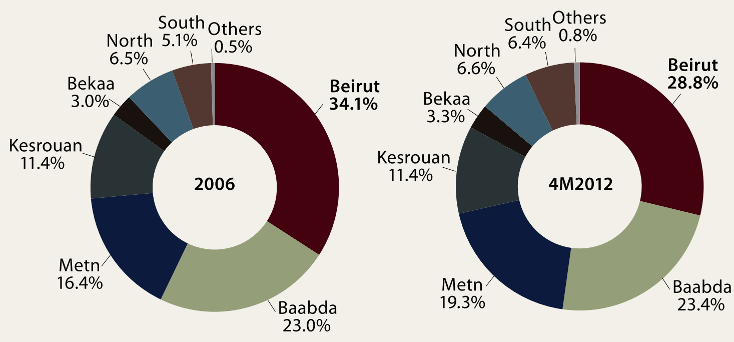
The correction in sales activity from a high base in previous years has been affecting the land and apartment components of the Lebanese realty market, with Real Estate Registry figures showing a drop in transactions on both built and unbuilt realty. Land sales transactions, which accounted for almost half of total real estate transactions in Lebanon over the past years, have been driven to a certain extent by the will to invest funds in real assets rather than traditional bank savings given the relative decline in interest rates domestically and globally to ultra-low levels and the emergence of realty as an alternative investment channel in times of global capital markets volatility. Still, they have slowed down relative to previous years. The currently prevailing politico-security situation in the region more or less refrained buyers from making land investments, with some opting for readily available liquidity instead, especially that land prices have attained peaks after a couple of years of upward corrections. Same goes for apartments, though activity on built properties remains supported by end-users which continue to have genuine needs for housing.

PROPERTY SALES TRANSACTIONS VALUE



Sources: Real Estate Registry, Bank Audi's Group Research Department

TRANSACTIONS VALUE BY REGION



Sources: Real Estate Registry, Bank Audi's Group Research Department

A two-tier residential segment

The residential segment of the Lebanese realty market has definitely been feeling the pinch of the regional and local developments since early 2011 and remains constrained by high and sticky price levels that have rendered properties out of reach for a large segment of the resident population. Still, the market remains supported by demand stemming from Lebanese nationals, which account for more than 90% of total residential demand, and particularly by Lebanese residents accounting today for the bulk of property buyers. The latter are mostly looking to acquire a property either to start a new family, or to live by themselves, or in some cases to move to a permanent and newer residence.

In contrast, foreigners, especially Arab Gulf nationals, have practically been out of the market for the past couple of years. Since the start of the Arab turmoil, they appear to prefer to wait for the outlook of the regional landscape to get clearer prior to investing anew in realty abroad, especially within the context of growing fears of spillovers of turmoil in neighboring countries on the Lebanese economy. As a matter of fact, the number of property sales to foreigners retreated by 20.3% in 2011, following a 10% yearly rise in the previous five years, and only recovered at a moderate pace this year from a low 2011 base (+7.7% in this year's first four months). The moderate yearly increase in sales to foreigners so far in 2012 could partly be explained by some interest on behalf of Syrian nationals looking to acquire properties in Lebanon, especially small to mid-size areas, as a result of events in their neighboring home country.

Lodging in Lebanon today is a two-tier market. On the one hand, the high-end segment, traditionally consisting of large sized apartments, is affected by the expensive prices per square meter throughout the capital city and suburbs, all the more so foreigners -traditionally driving this segment of the market- have been shy in their appearances on the domestic realty scene. On the other hand, the smaller size flats are faring relatively better, with demand stemming from a local clientele base willing to settle for smaller but more affordable areas. Buyers are currently looking to acquire readily available flats rather than making an investment in projects still under construction, which actually reflects a genuine -and more or less imminent - need for lodging.

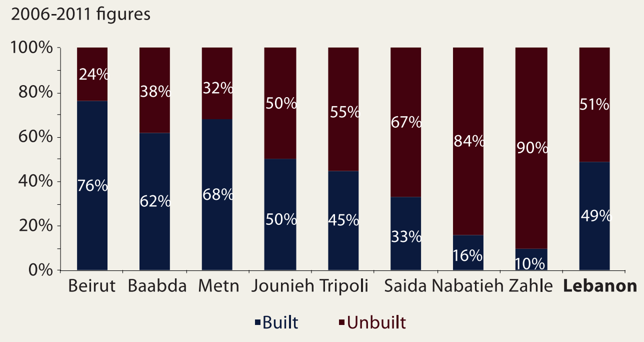
Current market demand revolves mostly around small-size flats in the already expensive capital city, and increasingly small to mid-size lodging in immediate and less immediate surroundings. As a matter of fact, the share of Beirut in total real estate sales transactions value has been on a relative decline over the past few years, moving from 34.1% in 2006 to 28.8% in the first four months of 2012, with regions outside Beirut benefiting from both the high prices and the increasing scarcity of available plots in the capital city.

SEASONALITY ANALYSIS: PROPERTY SALES BY QUARTER

	Q1	Q2	Q3	Q4	Total
2007	13.7%	20.9%	24.5%	40.9%	100.0%
2008	16.3%	23.7%	29.4%	30.6%	100.0%
2009	14.5%	20.4%	26.5%	38.6%	100.0%
2010	22.3%	27.4%	23.7%	26.6%	100.0%
2011	20.5%	23.1%	24.7%	31.8%	100.0%
Total	**18.2%**	**23.6%**	**25.6%**	**32.6%**	**100.0%**

Sources: Real Estate Registry, Bank Audi's Group Research Department

BREAKDOWN OF SALES TRANSACTIONS BY TYPE



Sources: Real Estate Registry, Bank Audi's Group Research Department

Sustained retail demand in a F&B supported segment

The retail segment has benefited from steady demand over the past year, ensuring relatively stable annual rents on the overall in Beirut. Demand for retail spots was mainly boosted by the defensive food and beverage industry. Indeed, despite lower tourist arrivals and expenditures since the beginning of 2011, retail spots continued to be sought-after on the back of sustained per capita consumption on behalf of residents supporting demand for food and beverage outlets, notwithstanding some uncertainties on the local front and fears of spillovers from regional developments. In particular, shopping malls remain highly coveted areas, performing rather well and reporting more or less stable occupancy rates exceeding the 90% mark, as per Ramco Real Estate Advisers.

The Beirut Central District retail landscape remains of a dual nature. On the one hand, there are trendy areas which include the largest local brands and international franchises. On the other hand, there are less sought-after areas which boast lower occupancy rates. Apart from the established retail hotspots, the previously neglected Uruguay area in the Beirut Central District gained some attention recently as reflected by the opening of several pubs and restaurants.

In parallel, Hamra and surroundings, as well as Gemmayze, have cemented themselves as popular areas for commercial establishments mostly specialized in the food and beverage industry. Hamra, major pedestrian destination in Beirut, stands out among the batch as it displays sustained demand dynamic for restaurants and pubs, with prime streets reporting an occupancy rate hovering around 90%, as per the same source.

Also, the success example set by some projects in Mar Mikhayel, Qobayate and Beddaoui has fueled curiosity towards these areas, but demand is still relatively shy and more confined to food and beverage outlets. Major out-of-town traditional retail hubs such as Kaslik continue to benefit from relatively steady demand, and most recently Jounieh has been witnessing significant interest, again favored by the success of restaurants and other food outlets.

Stable demand in a calm office market

Beirut's office landscape was characterized by stagnant demand over the past year, more or less sufficiently met by the existing supply. Accordingly, rental rates were mostly constant on the overall with the office market maintaining stable yet high occupancy rates.

The Beirut Central District remains the main business hub in the country with more than 130 office buildings, and occupancy rates in the 75%-85% range, as per Ramco Real Estate Advisers. Similar to retail segment trends, the downtown area continues to be a two-tier market. In fact, high-end products with ample space recently put to the market are relatively rare but easily matched with demand from local and international companies. Conversely, and regardless of the area within the Central District, less well kept offices are met with lower demand, and display higher vacancy rates.

Ashrafieh's Tabaris-Charles Malek sector is another top destination for businesses, with occupancy rates hitting the 90% mark, as per the same source. This central area with modern spaces is targeted by banks, local and international companies. In parallel, Verdun also possesses a range of new buildings erected since the mid-nineties and boasts high occupancy rates, thus confirming the significant interest towards this area from businesses escaping the ageing Hamra landscape.

With approximately 50 buildings strictly dedicated to office use, Hamra is to date the area with the largest concentration of commercial space outside the Beirut Central District, according to Ramco Real Estate Advisers. Still, demand for office space in Hamra is almost exclusively local and primarily from the medical community. Indeed, a significant number of medical doctors practicing in the area's medical centers and hospitals also retain a private practice nearby. The large local companies and international institutions tend to shy away from Hamra as it has not been able to revamp its ageing stock.

PROPERTY SUPPLY

Adjusting to changing market demand dynamics

With the market losing steam on the demand side, the supply side has been witnessing an increase in vacancy rates in new buildings, and started slowing down construction activity. These trends have been echoed by the supply side performance indicators. Cement deliveries, reflecting current construction activity, slowed down considerably last year (+5.2%) and posted a 4.2% contraction so far this year, following a healthy 11.2% average yearly increase in the previous five-year period. Similarly, the total area of new construction permits, reflecting both current and prospective construction plans, dropped by 7.0% year-on-year in 2011 and by a further 2.7% year-to-date in 2012, following a 19.3% growth per annum in the 2006-2010 period.

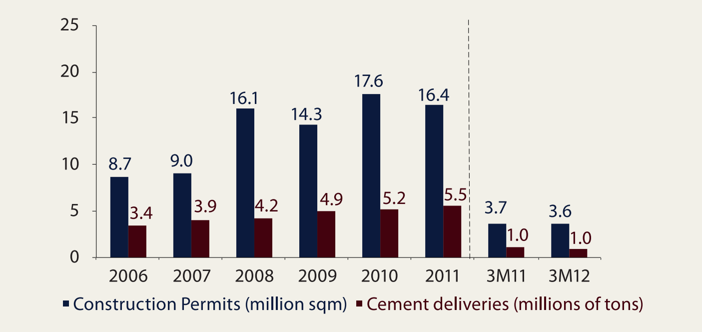
Within the context of slower activity on both the demand and supply sides of the market, construction costs have also decelerated this year, after moderate single-digit growth in 2010 and 2011 when the local economy was performing relatively better. The Audi compiled construction cost index for Lebanon, including various materials and labor prices, posted a 4.2% upward movement so far in 2012, driven by increasing labor costs driven the rise in minimum wages effective in the early months of the year outweighing stagnant material costs in a calm realty market. This follows upward variations of 6.6% in 2010 and 7.7% in 2011.

Developers are currently catering to the lower and middle end of the realty market, with some even amending projects in the pipeline to match the new demand requirements for units below 250 square meters, mostly demanded by Lebanese residents. A market seemingly still in the making is that of residential studios, mostly sought after by the younger generation seeking to move away from the family residence or divorcees or even independent professionals seeking a residence nearby their workplaces, in addition to expatriates seeking a foothold in their homeland.

But with land prices at record highs, supply side participants are eyeing areas on the outskirts of the capital city in a widening circle from Beirut. New projects continue to see the light in the Baabda and Metn areas, especially the green hillsides north and east of the Greater Beirut, especially that developing infrastructure shortening commuting distances has been encouraging purchasers - who in any case are finding it harder to afford lodging within Beirut - to look at more remote areas to purchase a residence.

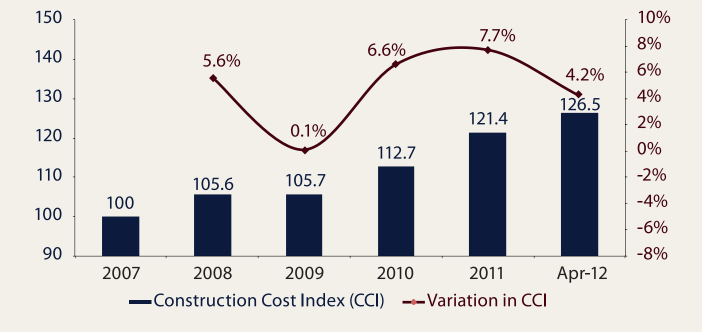
For some developers, the cooling down domestic residential market initiated a search for opportunities in the commercial segment. In fact, the lack of adequate modern supply relative to a significant proportion of old office buildings lead to new office projects emerging within Beirut and its outskirts over the past year. In the capital city, more than a dozen developments are under construction mainly in Ashrafieh's peripheral areas and in Ras Beirut. In the Northern and Eastern suburbs, several sectors such as Sin el-Fil,

CONSTRUCTION PERMITS & CEMENT DELIVERIES



Sources: Order of Engineers of Beirut and Tripoli, Banque du Liban, Bank Audi's Group Research Department

CONSTRUCTION COST INDEX



Sources: Davis Langdon, Lebanon Opportunities, Bank Audi's Group Research Department

Hazmieh and the Zalka-Dbayeh axis are seeking to establish themselves as business centers capable of competing with renowned destinations. This would contribute to the modernization of an ageing stock noting that such areas remain less expensive than Beirut and offer larger spaces and better amenities while remaining close enough to the capital city. In parallel, demand for retail spots called for additional supply in the pipeline with the construction of four new malls both in the capital city and on its outskirts. Accordingly, the supply of retail areas would increase by nearly 50% at the 2015 horizon.

BOX A

SOLIDERE 2011 PERFORMANCES REFLECTING A SLOWING DOWN REAL ESTATE MARKET

Solidere sal, Lebanon's largest real estate developer and one of the key players on the regional realty scene, posted US$ 162.6 million in full-year 2011 net profits. While this compares to a higher bottom line of US$ 196.5 million in the previous year, the 2011 performance comes within the context of political uncertainties throughout part of the year on the local front and unprecedented turmoil in neighboring countries over the past year, impacting the Lebanese real estate market in general and Solidere's activity, which is concentrated in the Beirut Central District, in particular.

The 2011 bottom line performance actually reflects that of total revenues from real estate sales which reached US$ 241.7 million in 2011, the equivalent of 67,000 square meters of built areas, against US$ 337.2 million in 2010. Still, rental revenues pulled out a decent 20.9% yearly increase to US$ 49.9 million last year. The 2011 sales are attributed to sales backlog related to transactions signed a few years ago, in addition to a few new land sales contracts on the waterfront during the fourth quarter of 2011. Solidere said it is currently negotiating with a number of investors and expects to sign additional contracts prior to year-end 2012. Solidere still retains a large land bank consisting of 1.88 million square meters valued at around US$ 8 billion at current market prices, as per company statements.

Beirut City Center Developments

Status	Projects	BUA (sqm)	% of total area
Completed	272	1,375,455	42.7%
Under restoration	6	12,543	0.4%
Under construction	40	341,562	10.6%
Awaiting permit	13	153,573	4.8%
Under study	51	925,018	28.7%
No activity	8	20,128	0.6%
Awaiting submission	13	395,834	12.3%
Total	**403**	**3,224,113**	**100.0%**

Sources: Solidere, Bank Audi's Group Research Department

PROPERTY PRICES

Prices again sticky on the downside

The evolution of property prices in Lebanon has long been known to embrace the form of a staircase: prices go up after a period of stability in an upward adjustment period, and then stabilize again until the market digests new price dynamics, before going up again ultimately. But they don't really fall, at least not tangibly. The reasons behind this comparatively atypical evolution are three-fold.

First, realty demand in Lebanon is mostly driven by end-users. The latter are none other than the real estate genuine beneficiaries who purchase a residence to actually live in it rather than just investing in property. The bulk of demand comes from Lebanese residents who have real needs for lodging, mostly primary residences. This is not to say that there is no speculation whatsoever in the domestic market. Realty speculators do exist in Lebanon, mostly enticed by the attractiveness of real estate investment relative to traditional asset utilization alternatives, but they do not account for more than 20% of the domestic market at most, and remain visible mostly in the large surfaces segment. Hence, they do not have a tangible impact on real estate market price dynamics in Lebanon.

Second, land, an important component of residential prices, has been favoring upward pressures on end-users prices in the market. Residential prices are in fact influenced by the cost of land purchased to undertake the project, the cost of construction materials used in the building phase and the developer's margin. While the latter two have not exerted significant pressures on the end-buyer in the past couple of years, interest in land on behalf of market participants remained significant, especially that land plots in the capital city, and more recently in immediate surroundings, are turning to be increasingly scarce.

Still, while demand for land plots over the past few years has been stemming from both developers and investors, the slowdown in property demand since end-2010 and the high land price levels attained have been pushing some developers to refrain from making investments in land for new construction purposes. Land price movements generally vary from one area to the other, but in some cases are proving somehow disconnected from the evolution of residential prices and appear today relatively expensive for developers. The interest manifested in some land investments in recent months stemmed primarily from investors seeking to place their funds in real assets. Hence, the impact on new residential projects underway is likely to remain limited to a certain extent as those land plots are not aimed at building new projects.

Third, the supply side is not significantly leveraged. Developers actually rely on self-financing or, alternatively, on pre-sales rather than bank debt in order to undertake new real estate projects. This means that, in the event of a market respite phase such as the one we have been witnessing in Lebanon since end-2010, they are not urged to close a sales deal as they do not have significant debt dues to reimburse. On the contrary, they are perfectly aware of the market mechanisms in the country, and expect demand to pick up ultimately. As a result, they do not have much incentive to grant price discounts. And when they do, those discounts remain quite moderate.

As a matter of fact, the occasional discounts that the Lebanese residential real estate market has seen mostly revolve around the high-end segment which has witnessed some price drops in the 15% range, according to Ramco Real Estate Advisers. It is worth noting that asking prices are being reduced in some cases from their post-boom peaks, but not the fair value of property, which remained more or less unchanged, as per the same source. With demand for luxury apartments feeling the pinch of the regional and local developments over the past year and a half, high-end realty developers have been more inclined than others to grant some discounts on flats. The low to middle end of the market has only seen some occasional price discounts in the 5%-10% range, but realty prices have remained rather stable on the overall for the past 18 months.

PROPERTY MARKET FINANCING

Growing bank funding but persistently low household and institutional leverage

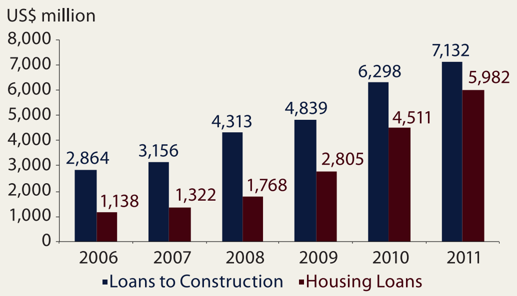
While the market has been increasingly resorting to bank financing over the past years to fund construction projects on one hand and property acquisition on the other hand , leverage is believed to be still relatively low at both the individual level and institutional level. Individual leverage is tied to housing loans extended by banks and which actually saw the light only few years ago in Lebanon. Institutional leverage is tied to bank loans to the construction sector and which is a mirror image of the share of construction in the formation of output.

At the supply side, the annual growth in bank loans to the construction sector has been mirroring the sector's overall activity, i.e gaining vigor over the period of economic boom and slowing down when the sector started to report signs of sluggishness. Over the past five years, bank loans to the construction sector rose at an average annual rate of 22.6% (close to the 17.5% annual growth in bank loans to the private sector) to reach US$ 7,132 million at end-2011, the equivalent of 16.2% of total bank loans outstanding. Such a share mirrors that of the construction sector in the formation of GDP and which stands at 15.2%.

The analysis of financing suggests that despite growing bank lending, Lebanon's developers still are not characterized by important leverage. As market financing is persistently absent given the narrowness of Lebanon's capital markets, and as bank lending is not exceeding US$ 1 billion in annual financing to construction - the equivalent of less than 20% of the increase in the construction stock - developers and contractors are undeniably counting to a large extent on their own means in the erection of construction projects. They do enjoy, as a matter of fact, healthy financial standing that enable them to count on their own equity in the financing process. Such a feature insulates them from massive selling pressures in periods of slowing down demand, especially that a non-negligible part of sales is already undertaken on maps (pre-sales).

At the demand side, banks' housing loans have witnessed a considerable growth of slightly less than 40% per annum over the past five years. Such loans yet grew from a very low base a few years ago when they were quasi inexistent. Accordingly, they still do not account for a leading share in property acquisitions. Indeed, despite sustained bank loan growth, the total portfolio of housing loans outstanding stood at a mere US$ 6.0 billion at end-2011. The US$ 1.5 billion of additional housing loans extended in 2011 account for 36% of the annual built property transactions. Although such a ratio has been gradually growing from the low of 10% in the years 2007 and before, it is still mild by comparative standards, underlining relatively low household leverage on the overall.

BANK LOANS TO CONSTRUCTION AND HOUSING



Sources: Banque du Liban, Bank Audi's Group Research Department

PROPERTY SECTOR FINANCING

US$ million	2006	2007	2008	2009	2010	2011
Property sales transactions	3,139	4,198	6,481	6,955	9,479	8,841
o.w. Built property estimate	1,636	2,207	3,318	3,367	4,542	4,089
Housing loans portfolio	1,138	1,322	1,768	2,805	4,511	5,982
New housing loans	-	184	446	1,037	1,706	1,471
Avg lending ratio	-	8.3%	13.4%	30.8%	37.6%	36.0%
Avg self financing ratio	-	91.7%	86.6%	69.2%	62.4%	64.0%

Sources: Real Estate Registry, Banque du Liban, Bank Audi's Group Research Department

Banks extend housing loans to their customers on the basis of the affordability of their annual income, the steadiness of their cash flow and the stability of their net earnings. Although the size of extended housing loans ultimately affects the budgets available for property acquisition, banks do not interfere in the types and specificities of acquired property at large. It is worth mentioning that the NPL ratio for housing loans currently stands at 0.5%, i.e a significantly low level compared to the NPL ratio of the banking industry as a whole and to international benchmarks at large.

As to interest rates applied on housing loans, they have been following a downward trend in recent years, along with the overall contraction in LP and foreign currency benchmark rates, in addition to the relative direct support such rates increasingly enjoy from BDL. The Central Bank of Lebanon indeed exempt banks to the extent of 60% from reserve requirements, whenever the debtor rate applied to housing does not exceed a margin of 3% above 40% of the one-year Lebanese Treasury bills yield. With one-year Treasury bills rates currently standing at 6.2% by the closing of this report, the maximum rate applied to those supported loans should not exceed the 5.5% threshold. What remains to be said is that although such a support had a positive effect on housing loan affordability, it doesn't represent a major demand driver in a market with persistently low leverage and high self-financing ratios.

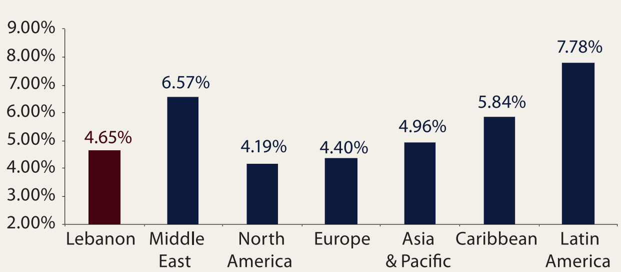
PROPERTY RENTS

Low rental yields in a long lagging segment

The domestic rental residential segment demand continues to be driven mostly by local residents, namely newlyweds awaiting the completion of their acquired permanent residence still in the works, young professionals often originating from outside the capital city and seeking a foothold nearby their work place, and by foreigners temporarily working in Lebanon. The latter usually work in foreign embassies/organizations or multinationals and usually tend to have a higher rental budget than local residents and thus are more visible in the higher end of the rental segment.

But with prices of residential property in Lebanon reaching record highs in the past few years and the market strongly biased towards residential ownership, rental demand has been having a hard time keeping pace with buyers' interest in ownership. Consequently, rental yields in the capital city declined over the past decade to reach a relatively low level of 4.7% according to the latest figures published by Global Property Guide comparing rental yields across capital cities for centrally located 120-square meter residences. While these figures do not represent averages for the whole market, they are indicative enough to reflect a high price-to-rent ratio (i.e. the number of years it takes to recover a property purchase) of close to 22 years, comparing rather poorly to much lower regional benchmarks such as Jordan (around 11 years), the UAE and Egypt (15 years), Morocco (16 years) or even Turkey (17 years).

COMPARATIVE RENTAL YIELDS



Sources: Global Property Guide, Bank Audi's Group Research Department

SHOPPING MALLS IN GREATER BEIRUT AND SUBURBS

Overall supply	
Total number of shopping malls	6
Total number of stores in malls	720
Total gross leasable area in malls (sqm)	197,000
Occupancy & rental value	
Average occupancy rate in malls	85%-95%
Average rental value in malls (US$/sqm/year)	1,000-1,500
Covered retail space in Beirut (gross leasable area,sqm)	
Existing shopping malls	197,000
Existing shopping galleries	42,000
Shopping malls under construction	127,000

Source: Ramco Real Estate Advisers

Rental market activity has long been hampered by obsolete legislation. In fact, rental contracts signed before the year 1992 are subject to a four-decade old law yielding very low rents for landlords on an annual basis (indexed on old rents prevailing prior to the depreciation of the Lebanese Pound during the civil war) and offering strong protection for tenants against eviction or contract termination attempts on behalf of owners. Rental contracts signed after the year 1992 usually have a three-year tenure after which the landlord can terminate the contract if a new price is not agreed upon, which somehow increases uncertainties for potential tenants and holds back demand.

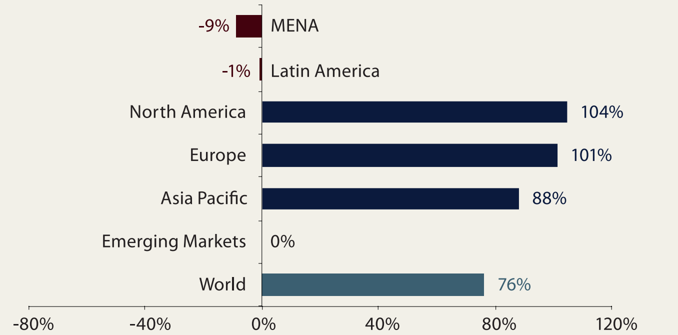
A new rental law has been recently approved by the Lebanese authorities a few weeks ago, aiming at a gradual liberalization of old rents over a six-year timeframe. Tenants would pay upward adjusted annual rents for six years until old rents are aligned with new ones prevailing in the market. Tenants can renew the rental contract after expiry at the end of the six-year period for another three years in a one-time deal for an agreed upon annual rent. However, should the landlord wish to recuperate the flat before the end of the transition phase, then tenants would have to be compensated. The law stipulates that authorities would help lower income families to pay upward adjustments during the transition phase. Anyhow, although the new law's repercussions on the market are unclear at this point in time, it remains apt to spur demand for rented apartments or even residential buys on behalf of some old-system tenants. Another option could lie in a new project on behalf of Lebanese authorities which intend to provide tenants with lease-to-own contracts for new residences to be built in the years to come.

At the retail level, while rents remained mostly stable for the past year, Beirut's top retail locations managed to record a relatively more favorable performance than regional peers which were affected by a tough operating environment. The retail market across some parts of the region has been impacted by lower tourist expenditures and a reluctance of retailers to go through with expansionary plans. Within this context, the latest Cushman & Wakefield global survey of the prime retail locations around the world covering the 12 months to June 2011 showed that average prime rents for countries falling in the broader Middle East and North Africa geography are 9% below those of Beirut's prime retail locations. Rents across Beirut's prime retail locations are now in line with those of emerging market peers, but still relatively distant from the much higher rents of the world's most renowned retail hubs. In the near term, rents across the capital city are likely to remain relatively unchanged on the overall, at least until new supply - and hence additional competition - comes to the market, which is not expected for the remainder of the current year, according to Ramco Real Estate Advisers.

At the office level, rents managed to maintain relative overall stability while other countries within the Middle East and North African geography were subject to downward pressures. According to Cushman and Wakefield's global survey of prime office locations covering the year 2011, oversupply and slow business confidence gripped over surveyed countries within the region which somewhat weighed down on rents. Within this context, the average occupancy costs of the prime locations within the MENA region included in the survey are 21% lower than those of Beirut's Central District. Still, on a global basis, occupancy costs of the world's most renowned business hubs were 7% higher than those of the capital city's business district.

RETAIL RENTS 12 MONTHS TO JUNE 2011

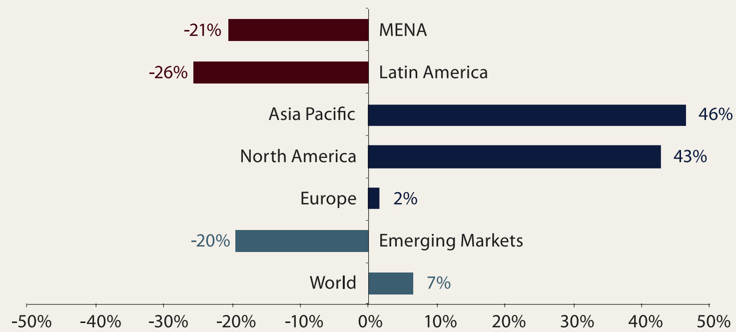
RELATIVE TO PRIME BEIRUT RENTS



Sources: Cushman and Wakefield, Bank Audi's Group Research Department

CENTRAL DISTRICTS OFFICE OCCUPANCY COSTS 2011

RELATIVE TO BEIRUT CBD OCCUPANCY COSTS



Sources: Cushman and Wakefield, Bank Audi's Group Research Department

PROPERTY MARKET OUTLOOK

Era of flat property prices seemingly established

In sum, the Lebanese real estate sector has been evolving at a much flatter pace over the past couple of years, with some correction in sales volumes but not accompanied with significant correction in prices. This actually follows a lengthy 4-year period of double-digit activity and price growth that can best be described as a catching up phase bringing prices more in line with fundamentals from low bases in the middle of the past decade in a relatively undervalued arena back then.

Looking ahead, the size of property sales volumes are set to be determined by the evolution of politico-economic conditions at large, with property prices likely to remain at or near current price levels in the foreseeable future. In other words, the market is stuck for a while on the flat side of its stairs-like evolution that characterized price patterns over the past two decades. The market has been indeed going up during boom periods and flattening during slowdowns to go up again in the first recovery opportunity but never really went down.

Reasons for that are numerous, reinforcing our conviction that there is actually no reason to be worried about the health of the real estate sector in Lebanon. Property demand in Lebanon is based on a strong end-user demand, which gives it a relative resilience. With a resident population of 900 thousand households growing at a long-term average rate of 1.6%, additional housing needs of residents alone are roughly estimated at close to 15,000 units per annum, notwithstanding non-resident demand which accounts for a significant portion of total demand for property in Lebanon. This suggests that demand for Lebanese realty rests on sound structural fundamentals despite current environment uncertainties.

In parallel, with leverage limited at both the institutional and individual levels, no price collapse is expected. Institutional leverage is relatively low, with total bank loans to the construction sector amounting to US$ 7.1 billion, the equivalent of 16% of total bank loans, a similar share to the contribution of the construction sector to Lebanon's GDP. Household leverage is still considerably low with total housing loans amounting to US$ 6.0 billion, the equivalent of 4% of bank assets and a mere 15% of GDP. Both developers and households are largely counting on their own equity for projects and property acquisition financing. It is estimated that less than 20% of the annual construction stock is financed by bank lending and less than 40% of annual property acquisitions are likewise financed by banks.

Still, the main recommendation to ensure a healthier real estate sector is to address the social issue related to the residents' affordability for Lebanese property, with real estate prices sticky on the downside and with a growing gap between the purchasing power of residents and the price of the housing stock in the capital city. This calls for reinforcing the recent trend of building smaller size apartments to match buyers' needs for more affordable housing, whether in the capital city or in the immediate suburbs, which is likely to be increasingly shaping the realty market in years ahead.

By the time of the finalization of this report, a government budget draft proposal was being debated in Cabinet, including for the first time capital gain taxes on property. A 4% capital gain tax applied to property held prior to 1/1/2009 and a 15% capital gain tax applied to property held since 1/1/2009 are proposed. The plans to impose a property capital gain tax in Lebanon could be an important source of income for the State from a viable sector in Lebanon's economy but it would have to be accompanied with measures to reinforce transparency and reliability of real estate registers and credibility of registered prices.

In principle, the imposition of such a tax can limit any potential growth in speculative activities, although such activities remain currently narrow on the overall. As to the relatively low rate applied to long term holdings (4%), it is not apt to have a major market impact or disruptions. Alternatively, further reductions could be suggested on the basis of land or apartment size or on the basis of property sales value. Such reductions would be aimed at minimizing taxation on property holders from the relatively low to middle income bracket in Lebanon while ensuring adequate revenues for the government from the transfer of upscale realty. The thoroughness of transparency reinforcement efforts accompanying such plans undeniably represents a key success factor for a proper implementation of new tax measures in the realty sector in years ahead.

The actual materialization of such taxes would depend on the prospects for the 2012 budget. In its current form, the Budget is still only a proposal submitted by the Ministry of Finance to Cabinet. It has to earn the government's approval following the current Cabinet budget discussions. It then has to earn the Parliament's approval following plenary discussions by MPs. While the property capital gain tax does not face by itself a major opposition, it remains dependent on the required approvals on the whole Budget within this current domestic political bickering and rough regional surroundings.

Prevailing political uncertainties represent, as a matter of fact, a major impacting factor for the real estate sector in the foreseeable future. In particular, the outcome of developments in Syria have a significant spillover effect, given their overall impact on the wait-and-see attitude of investors in Lebanon. Real investment in the country has been in the red for the past eighteen months, with investors postponing major investment decisions. By the time of the finalization of this report, a number of domestic incidents, presumably linked to the Syrian turmoil, took place, somehow adding to the overall deal of uncertainty in the domestic investment environment at large.

Still, the property market is in a standstill situation where no considerable downside or upside is expected. In a scenario of increased regional/domestic uncertainties, no significant downward price correction should be anticipated, as there is no significant speculative component in the market, in addition to the absence of financial pressures on developers that enjoy good financial standing on the overall. Likewise, in a situation of improved overall regional/domestic conditions, no significant upward price correction should be anticipated as there is a persistently growing stock of unsold property that weighs on a domestic market which is no more in an undervaluation status relative to peer markets benchmarks. This time, the era of flat property prices seems to be embodied to stay here for a while.

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