

THE LEBANON BRIEF

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FINANCIAL MARKETS

Equity Market Stock Market

	20/02/2015	13/02/2015	% Change
BLOM Stock Index*	1,201.86	1,204.63	-0.23%
Average Traded Volume	148,748	138,537	7.37%
Average Traded Value	1,019,485	1,078,806	-5.50%

*22 January 1996 = 1000



Banking Sector

	Mkt	20/02/2015	13/02/2015	% Change
BLOM (GDR)	BSE	\$9.91	\$9.91	0.00%
BLOM Listed	BSE	\$9.05	\$9.05	0.00%
BLOM (GDR)	LSE	\$9.85	\$9.90	-0.51%
Audi (GDR)	BSE	\$6.76	\$7.00	-3.43%
Audi Listed	BSE	\$6.59	\$6.50	1.38%
Audi (GDR)	LSE	\$6.76	\$7.00	-3.43%
Byblos (C)	BSE	\$1.68	\$1.69	-0.59%
Byblos (GDR)	LSE	\$76.50	\$76.50	0.00%
Bank of Beirut (C)	BSE	\$18.40	\$18.40	0.00%
BLC (C)	BSE	\$1.70	\$1.70	0.00%
Fransabank (B)	OTC	\$22.00	\$22.00	0.00%
BEMO (C)	BSE	\$1.79	\$1.79	0.00%

	Mkt	20/02/2015	13/02/2015	% Change
Banks' Preferred Shares Index *		106.17	106.04	0.12%
Audi Pref. E	BSE	\$102.80	\$102.20	0.59%
Audi Pref. F	BSE	\$103.00	\$102.80	0.19%
Audi Pref. G	BSE	\$103.00	\$103.00	0.00%
Audi Pref. H	BSE	\$103.00	\$103.00	0.00%
Byblos Preferred 08	BSE	\$102.00	\$102.10	-0.10%
Byblos Preferred 09	BSE	\$102.20	\$101.20	0.99%
Bank of Beirut Pref. E	BSE	\$26.25	\$26.25	0.00%
Bank of Beirut Pref. I	BSE	\$26.00	\$26.00	0.00%
Bank of Beirut Pref. H	BSE	\$26.25	\$26.25	0.00%
BLOM Preferred 2011	BSE	\$10.20	\$10.20	0.00%

* 25 August 2006 = 100

The stock market retreated during the week in the absence of news that can create momentum. The positive impact from domestic political discussions between different parties has already discounted in the market during the previous weeks.

Consequently, the BLOM Stock Index (BSI) recorded a slight 0.23% downturn to close at 1,201.86 points. The average traded volume improved from 138,537 last week to 148,748 this week. In contrast, the average traded value slipped from \$1.08M to \$1.02M by the end of the week. Similarly, the market capitalization displayed a weekly decrease from \$10.14B to \$10.12B.

The BSI underperformed the S&P Pan Arab Composite Large MidCap Index, the S&P AFE Index, and the Morgan Stanley Emerging Markets Index (MSCI), all of which posted gains of 0.21%, 0.33% and 1.43%, respectively.

As for Arab bourses, the best performers were Abu Dhabi, Bahrain and Saudi Arabia with respective weekly gains of 0.91%, 0.87% and 0.46%, even as volatile oil prices ate away at some of the weekly earnings.

Contrastingly, the worst performing Arab stock markets were the Egyptian bourse and the Dubai financial market with respective drops of 2.73% and 1.17% following Egypt's military retaliation to the murder of 21 of their citizens at the hands of the Islamic State in Libya and S&P's prediction of a 10-20% drop in real estate prices in Dubai. Also, Qatar's stock market experienced a dip of 0.88% following political tensions with Egypt.

Regarding the BSE, the banking sector and the industrial sector accounted for 65.81% of overall traded value while the remaining 34.19% were contributed by the real estate sector.

In the banking sector, Bank Audi listed shares added 1.38% to close at \$6.59. In contrast, Audi's GDR shares and Byblos bank listed shares declined 3.43% and 0.59% to end the week at respective prices of \$6.76 and \$1.68.

Real Estate

	Mkt	20/02/2015	13/02/2015	% Change
Solidere (A)	BSE	\$11.22	\$11.40	-1.58%
Solidere (B)	BSE	\$11.19	\$11.18	0.09%
Solidere (GDR)	LSE	\$11.60	\$11.15	4.04%

Manufacturing Sector

	Mkt	20/02/2015	13/02/2015	% Change
HOLCIM Liban	BSE	\$15.50	\$15.50	0.00%
Ciments Blancs (B)	BSE	\$3.50	\$3.50	0.00%
Ciments Blancs (N)	BSE	\$2.75	\$2.75	0.00%

Funds

	Mkt	20/02/2015	13/02/2015	% Change
BLOM Cedars Balanced Fund Tranche "A"	-----	\$7,406.77	\$7,406.72	0.001%
BLOM Cedars Balanced Fund Tranche "B"	-----	\$5,297.43	\$5,298.15	-0.01%
BLOM Cedars Balanced Fund Tranche "C"	-----	\$5,625.49	\$5,625.46	0.001%
BLOM Bond Fund	-----	\$9,531.87	\$9,531.87	0.00%

Retail Sector

	Mkt	20/02/2015	13/02/2015	% Change
RYMCO	BSE	\$3.23	\$3.23	0.00%
ABC (New)	OTC	\$27.00	\$27.00	0.00%

Tourism Sector

	Mkt	20/02/2015	13/02/2015	% Change
Casino Du Liban	OTC	\$330.00	\$330.00	0.00%
SGHL	OTC	\$7.00	\$7.00	0.00%

As for the BLOM Preferred Shares Index (BPSI), it increased by 0.12% to end the week at 106.17 points, as Bank Audi preferred shares classes "E" and "F" gained a weekly 0.59% and 0.19% to \$102.80 and \$103.00. Simultaneously, Byblos Bank preferred shares 2009 improved 0.99% to \$102.20. Meanwhile, Byblos Bank preferred shares 2008 edged down 0.10% to end the week at \$102.00.

On the LSE, Solidere Global Depository Receipts (GDR) gained weekly 4.04% to close at \$11.60. In contrast, Bank Audi and BLOM Bank GDR shares experienced declines of 3.43% and 0.51% to respective values of \$6.76 and \$9.85.

In the real estate sector, Solidere "A" shares lost a weekly 1.58% to \$11.22, while Solidere "B" shares remained relatively stable, moving from last week's \$11.14 to end the current week at \$11.15.

In the industrial sector, HOLCIM shares traded a meager 24 shares with no change in price.

The market is more or less in a wait-and-see approach to monitor what the end-result of the ongoing domestic political discussions will be.

Foreign Exchange Market

Lebanese Forex Market

	20/02/2015	13/02/2015	%Change
Dollar / LP	1,512.50	1,511.00	0.10%
Euro / LP	1,707.55	1,723.07	-0.90%
Swiss Franc / LP	1,584.67	1,623.06	-2.37%
Yen / LP	12.70	12.68	0.16%
Sterling / LP	2,316.42	2,320.43	-0.17%
NEER Index**	1,512.50	1,511.00	0.10%

*Close of GMT 09:00+2

**Nominal Effective Exchange Rate; Base Year Jan 2006=100

**The unadjusted weighted average value of a country's currency relative to all major currencies being traded within a pool of currencies. The NEER represents the approximate relative price a consumer will pay for an imported good.

Nominal Effective Exchange Rate (NEER)



Money & Treasury Bills Markets

Money Market Rates

	20/02/2015	13/02/2015	Change bps
Overnight Interbank	2.75%	2.75%	0
BDL 45-day CD	3.57%	3.57%	0
BDL 60-day CD	3.85%	3.85%	0

Treasury Yields

	20/02/2015	13/02/2015	Change bps
3-M TB yield	4.38%	4.38%	0
6-M TB yield	4.87%	4.87%	0
12-M TB yield	5.08%	5.08%	0
24-M TB coupon	5.84%	5.84%	0
36-M TB coupon	6.50%	6.50%	0
60-M TB coupon	6.74%	6.74%	0

Demand for the dollar strengthened over the week, as reflected by the Lebanese pound's peg against the dollar that went from \$/LP 1,509-1,513 with a mid-price of \$/LP 1,511 to \$/LP 1,512-1,513 with a mid-price of \$/LP 1,512.5 this week. Foreign assets (excluding gold) at the Central Bank remained almost constant, decreasing by a monthly 0.01% to \$37.86B by end-January. Meanwhile, the dollarization rate of private sector deposits stood at 65.68% in November 2014 compared to 66.13% in December 2013.

The Euro depreciated as the bailout agreement between Greece and the EU shows positive prospects. The dollar benefitted from the strengthening of the American job market, as fewer Americans than forecasted filed jobless claims. In addition, the Russian and Ukrainian's failed ceasefire might have placed additional pressures on foreign investors, causing the acceleration of the Euro weakening against the dollar at a higher rate by 0.90%, compared to last week's 0.22%.

Demand for gold decreased as the dollar appreciated. Gold prices fell from \$1,222.20/ounce on Thursday 12th of February 2015 to \$1,207.05/ounce this week. By Friday February 20th, 2015, 12:30 pm Beirut time, the dollar-pegged LP appreciated against the Euro, going from €/LP 1,723.07 the prior week, to €/LP 1,707.55. The Nominal effective exchange Rate (NEER) gained 0.37% over the week to 158.85 points, with its year-to-date gain reaching 7.83%.

During the week of January 29 until February 5 2015, broad Money M3 increased by LP 225B (\$149.52M), to reach LP 176,331B (\$116.97B) with a 5.32% year-on-year growth. Furthermore, M1 gained LP 125B (\$83M) due to the increase in money in circulation by LP 281B (\$186.40M) while demand deposits decrease by LP 156B (\$103.48M). Total deposits (excluding demand deposits) edged up by LP 100.25B (\$66.50M), given the increase of deposits denominated in foreign currencies by \$43M. Term and saving deposits in domestic currency edged up by LP 36B. Over the above mentioned period, the broad money dollarization rate fell from 58.48% the prior week to 58.44%. According to the Central Bank, the overnight interbank rate stood at 2.75% at the end of November 2014. In the TBs auction held on the 12th of February 2015, the Ministry of Finance raised LP 189.66B (\$125.81M), through the issuance of bills maturing in 3M and 1Y, and 5Y notes. The highest demand was achieved on the 5Y notes that took a share of 80.19%, while the 1Y and 3M bills had respective shares of 10.88% and 8.93%. The 3M and 1Y bills yielded 4.39% and 5.08% respectively, while the average coupon rate for 5Y notes stood at 6.74%. Maturing T-bills exceeded new subscriptions by LP 18.83B (\$12.49M)

Eurobond Market

Eurobonds Index and Yield

	19/02/2015	12/02/2015	Change	Year to Date
BLOM Bond Index (BBI)*	106.973	106.878	0.09%	0.84%
Weighted Yield**	5.35%	5.38%	-3	33
Weighted Spread***	392	401	-9	-38

*Base Year 2000 = 100; includes US\$ sovereign bonds traded on the OTC market

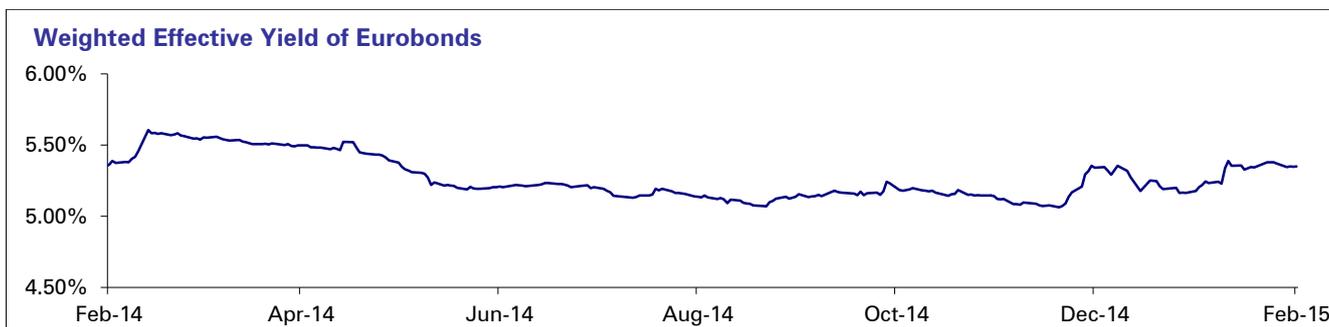
** The change is in basis points

***Against US Treasuries (in basis points)

Lebanese Government Eurobonds

Maturity - Coupon	19/02/2015 Price*	12/02/2015 Price*	Weekly Change%	19/02/2015 Yield	12/02/2015 Yield	Weekly Change bps
2013, Mar - 9.125%	103.914	103.941	-0.03%	0.94%	0.12%	82
2013, Jun - 8.625%	100.449	100.365	0.08%	1.31%	1.09%	22
2014, Apr - 7.375%	101.011	100.965	0.05%	1.65%	1.66%	-1
2014, May - 9.000%	108.219	108.244	-0.02%	1.66%	2.12%	-46
2015, Jan - 5.875%	100.539	100.509	0.03%	3.42%	3.58%	-16
2015, Aug - 8.500%	100.71	100.738	-0.03%	3.67%	3.83%	-16
2016, Jan - 8.500%	100.029	99.954	0.08%	4.07%	4.11%	-4
2016, May - 11.625%	100.261	100.33	-0.07%	4.17%	4.31%	-14
2017, Mar - 9.000%	103.659	103.508	0.15%	4.60%	4.66%	-6
2018, Nov - 5.150%	100.832	100.642	0.19%	5.05%	5.05%	0
2020, Mar - 6.375%	101.864	101.959	-0.09%	5.60%	5.57%	3
2021, Apr - 8.250%	112.222	112.017	0.18%	5.82%	5.83%	-1
2022, Oct - 6.100%	101.387	101.15	0.23%	5.86%	5.89%	-3
2023, Jan - 6.00%	100.467	100.361	0.11%	5.92%	5.93%	-1
2024, Dec - 7.000%	105.958	105.736	0.21%	6.16%	6.22%	-6
2026, Nov - 6.600%	100.691	100.634	0.06%	6.38%	6.43%	-5
2027, Nov - 6.75%	102.523	102.346	0.17%	6.56%	6.67%	-11

• Mid Prices ; BLOMINVEST bank



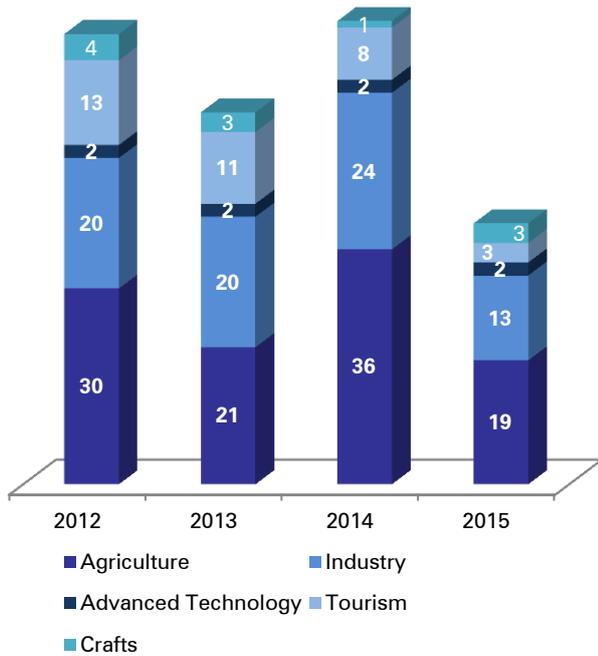
Investors' demand for Lebanese Eurobonds increased during the week as political dialogue extended across different political parties and sects to diffuse security tensions. Consequently, the BLOM Bond Index (BBI) experienced a weekly 0.09% uptick to 106.97 points mainly on improving demand for medium term and long term maturities. The 5Y and 10Y yields each edged down by 2 basis points (bps) and 1 bp to 5.25% and 6.20%, respectively. In the U.S, wage increases and an improving labor market, coupled with the Fed's intentions of raising interest rates between June and September decreased demand for U.S treasuries. In details, the 5Y and 10Y yields augmented the week by 8 bps and 12 bps to 1.58% and 2.11%, respectively. Correspondingly, the 5Y and 10Y spreads between the Lebanese Eurobonds and their U.S benchmark narrowed by 10 bps and 13 bps to respective levels of 367 bps and 409 bps.

Emerging markets benefited from the short-term rally in oil prices and foreign peace-keeping attempts in Russia and Ukraine. Accordingly, emerging bonds advanced over the week, sending the JP Morgan Emerging Markets Index up by 0.31% to 668.68 points.

Lebanon's credit default swaps for 5 years (CDS) steadied over the past week, moving from last week's quote of 370-392 bps to a current 371-393 bps. In regional economies, the 5Y insurance premiums on sovereign debt in Saudi Arabia remained at last week's quote of 75-80 bps, while that of Dubai widened from 208-226 bps to 213-228 bps. As for emerging economies, the 5Y CDS quotes in Brazil and Turkey narrowed from 237-240 bps and 188-191 bps to respective quotes of 235-237 bps and 185-187 bps.

ECONOMIC AND FINANCIAL NEWS

Breakdown of Kafalat Guarantees by Sector in January



Source: Kafalat

Kafalat Guarantees Dipped to \$5.13M in January 2015

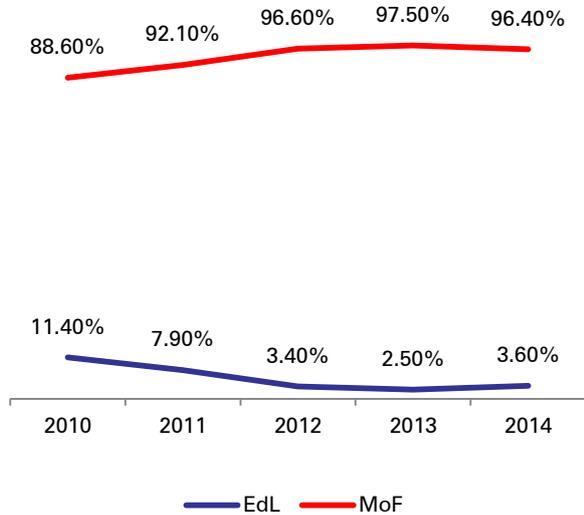
Kafalat issued 40 guarantees in the 1st month of the year with a total value of \$5.13M, lower than the 70 guarantees worth \$10.66M that were issued during the same month in 2014. Therefore, the average value per loan shrank from \$150,093 in January 2014 to \$128,373 in 2015.

Agriculture remained the primary sector to benefit from Kafalat guarantees with a share of 47.50%, followed by industry (32.50%), tourism (7.50%) and crafts (7.50%). The guarantees of the agriculture, industry and tourism sectors decreased by 17 guarantees, 11 guarantees, and 5 guarantees to 19, 13 and 3 guarantees, respectively. Meanwhile guarantees for the crafts sector added 2 guarantees to 3.

As for the regional breakdown, Mount Lebanon continued to grasp the majority of guarantees, with a 47.50% share, followed by respective shares of 20% for the South and 11.50% for each the Bekaa and the Nabatieh regions. The guarantees issued in Mount Lebanon, South and Bekaa dropped to 19, 8, and 5 from a previous of 26, 9 and 19 guarantees. Nabatieh was the only region to experience an increase of 1 guarantee, to 5 guarantees.

Transfers to EdL Declined to \$1.41B by August 2014

Contribution of EDL and Ministry of Finance (MoF) in the Total Oil Bill by August



Source: EDL

Transfers to EdL for the first eight months of 2014 showed a 6.46% year-on-year (y-o-y) drop to \$1.41B. This was the result of the 5.15 % y-o-y decline in payments to fuel oil and gas oil suppliers KPC and Sonatrach to \$1.39B.

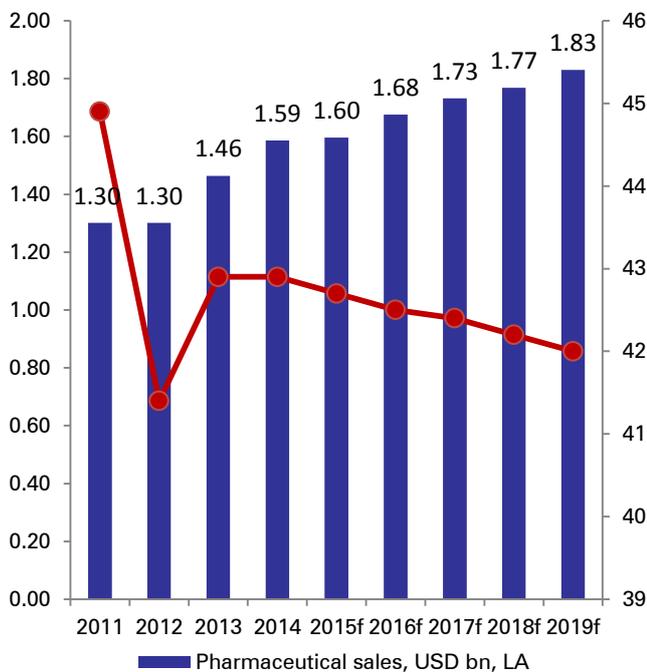
In fact, the imported quantity of gas oil covering consumption for the period between May 2013 and March 2014 and paid for between January and August 2014 shrank by 11%, while payments for fuel oil in the same period covering consumption between August 2013 and April 2014 rose by 11.5%. Moreover, the average price per barrel of crude oil ticked down by 0.7% to \$109.16 for payments made in the first eight months of 2014.

By August 2014, EdL contributed 3.60% of the total oil bill of \$1.45B compared to a lower contribution of 2.5% in the total oil bill of \$1.51B for the same period in 2013.

During the same period, transfers to EdL represented 22.4% of the government’s primary expenditures, approximately the same share of 22.5% as that of 2013.

Lebanon’s Healthcare Expenditures to reach \$3.74B in 2015

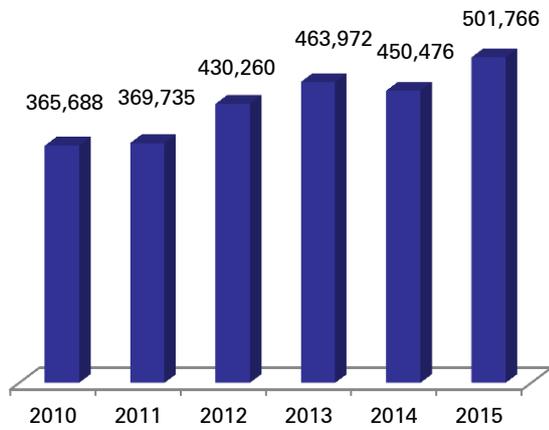
Lebanese Pharmaceuticals Industry in Figures



Source: Business Monitor International

According to Business Monitor International’s (BMI) latest industry view, the Lebanese healthcare system is “under enormous strain due to the increasing number of Syrian refugees seeking treatment in the country”. Moreover, BMI notes that the political instability will adversely affect the government’s policy regarding healthcare and will therefore expose the pharmaceutical sector to risk. Pharmaceutical sales are expected to grow marginally from \$1.59B in 2014 to \$1.60B in 2015. As for healthcare expenditures, they are projected to rise from \$3.7B in 2014 to \$3.74B in 2015. BMI’s Risk/Reward Score for Lebanon in Q2 2015 stood at 52.0 out of 100 down from 54.7 in the previous quarter. In fact, the industry rewards’ score, measuring the size of the market and the growth potential fell from 21.2 over 44 in Q1 2015 to 20 out of 44 in Q2 2015. As for the industry risks’ score, it stood at 9.5 out of 21 in Q2 2015, above the regional average of 7.7. According to BMI, this means that it is less risky for multinationals to operate in the country. However, the political instability, the lack of data protection and counterfeiting are likely to affect the future risk profile of Lebanon. The country risk score is at 7.9 out of 14 in Q2 2015, barely above the regional average of 7.3, due to the ongoing issues of a poor legal framework and political instability.

Total Number of Passengers in January



Source: Rafic Hariri International Airport

Airport Passengers Stretched by 11.40% y-o-y in January 2015

Rafic Hariri International Airport (RHIA) activity recorded an 11.40% year on year (y-o-y) progress in January 2015, with the total number of passengers reaching 501,766. This increase is explained by the annual surge of traveler’s arrivals and departures by 12.73% and 10.37% to register 255,479 and 275,366, respectively. On the other hand, the increase in regional tensions during 2014 might be the reason why the number of transit passengers in January 2015 diminished by 3.46% to 921, compared to last year January 2014.

Best and Worst Countries for Retirement

Top 10 countries on the GRI	Bottom 10 Countries on the GRI
Switzerland	Mali
Norway	Burundi
Australia	Liberia
Iceland	Niger
Netherlands	Sierra Leone
Sweden	Lesotho
Denmark	Comoros
Austria	Democratic Republic of Congo
Germany	Central African Republic
New Zealand	Togo

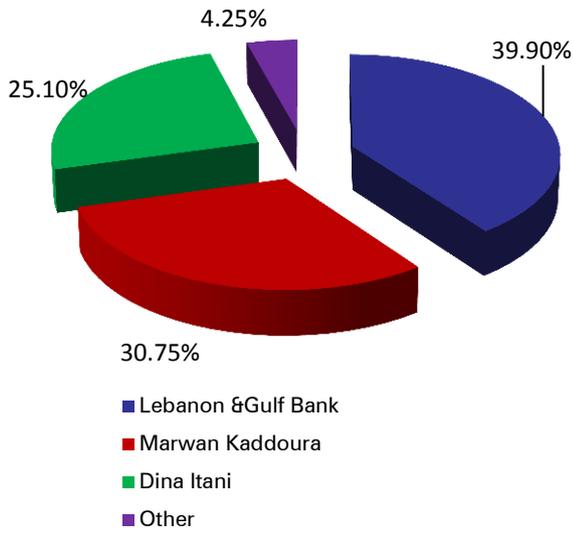
Source: Natixis

Lebanon Ranks 94th on the Global Retirement Index

The Global Retirement Index (GRI) 2015, issued by global asset manager, Natixis, shows which countries are the best homes for retirement and which countries aren’t. According to Natixis, welfare in retirement is achieved when the retiree has “good health and access to quality health services, enough material means to live a comfortable life, access to quality financial services, including preserving the value of savings” and when the retiree is “living in a clean and safe environment”. Based on these criteria, Switzerland earned the top spot on the GRI followed by Norway. As for Lebanon, it earned the 94th spot amongst 150 countries. In previous years, Lebanon fared better on the GRI with a rank of 53 in 2013 and 72 in 2014. In terms of quality of life, Lebanon was on the bottom 30 list with a rank of 143. Some Middle Eastern countries were however in the top 30 list. Qatar, the United Arab Emirates and Kuwait ranked 21st, 25th and 26th, respectively.

CORPORATE DEVELOPMENTS

Shareholders of CSC



CSC Bank Increases its Capital

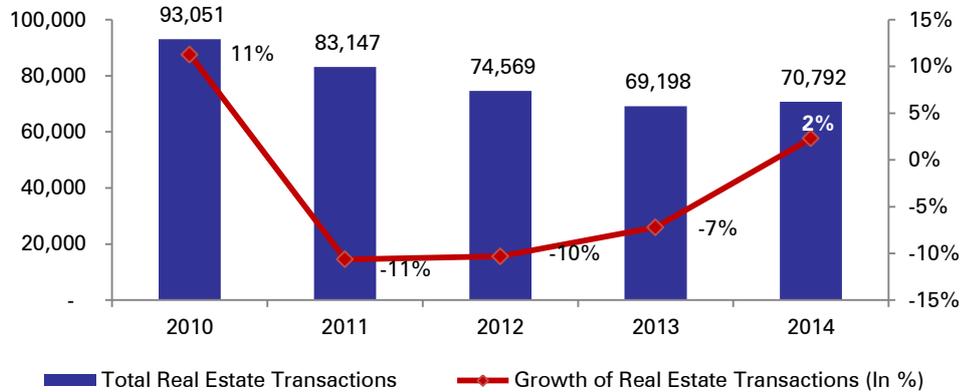
According to Midclear, the capital increase for CSC bank has been approved. The bank's capital will increase from LBP 75,000,000,000 to LBP 100,000,000,000 through the issuance of 1,000,000 ordinary shares with a nominal value of LBP 25,000.

With this new issuance, the total number of CSC's ordinary shares will reach 4,000,000. The shares of CSC bank are not listed on the Beirut Stock Exchange.

FOCUS IN BRIEF

Real Estate Activity in 2014: Sluggish Performance amid Intensifying Challenges

Evolution of Total Real Estate Transactions



Source: Cadastre

For too long, real estate sector in Lebanon remained one of the core sectors to assess the economic health of the country and determine its forthcoming standing. The undeniable importance of real estate activity is reflected by the sector's substantial contribution to the country's Gross Domestic Product (GDP) which was estimated around 14% by 2013¹. Yet, the lack of data in the sector undermines the valuation of real estate demand and supply. The size of current local demand cannot be assessed accurately as updated income distribution and housing ownerships are not available, noting that remittances from the large Lebanese diaspora contribute substantially to the uphold of domestic demand as well as the growth potential for the real estate.

As a matter of fact, and similarly to the majority of Lebanon's economic sectors, real estate remained highly dependent on the country's political and security conditions. For instance, total real estate transactions (local and foreign) during 2010-2013 slumped 25.6% to 69,198. Actually, 2013's political factors have sent the "Political Stability and Absence of Violence" (PSAV)² index for Lebanon to the 14th lowest level among 214 countries. Lebanon's index kept revealing very low figures over the past 8 years, hovering between a lower band of 3 Percentile Rank (PR) in 2007 and a higher band of 8 PR in 2009 alluding to the country's persistent instability. The latest index of 2010 stood at 6 and steadied at this level till 2013. Worth mentioning, the index scores the variation of political stability in a country correspondingly to the occurring incidents and their weight as a Percentile Rank (PR) among all countries from 0 (lowest political stability) to 100 (highest political stability).

In 2014, mixed political signs shaped the local demand for real estate. In the first half of the year, activity in the Lebanese real estate market got little breathing space despite the escalating challenges that were undergoing in Lebanon and the region. Investors revealed optimistic prospects about the year and translated their hopes in both the construction and real estate markets. This resulted from the long-awaited Cabinet formation in February along with a firm security plan that managed to reduce security incidents in several Lebanese regions. However, the presidential vacuum that started by the end of May painted the second half of the year and was coupled with series of security incidents topped by the hostage of Lebanese soldiers by militants in Aarsal in the first week of August.

Construction Activity retreats in 2014 despite Global Economic Turmoil

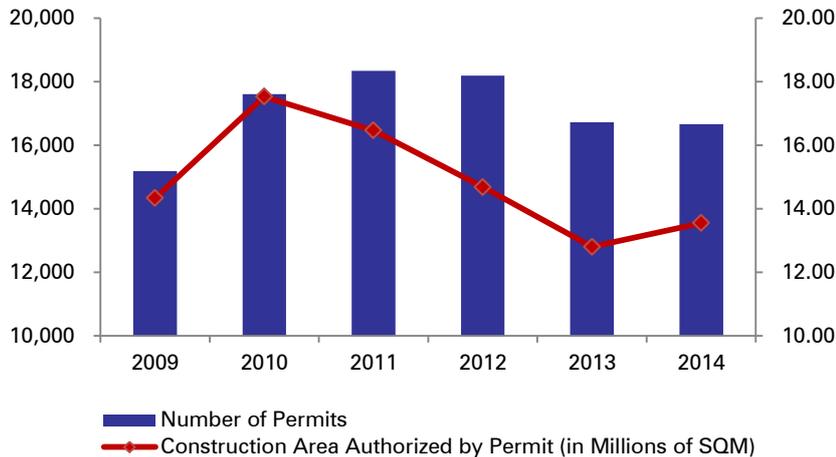
The international bearish trend in oil prices, that reached in 2014 one of their lowest levels since 2010, could have significantly triggered down transportation costs in the construction industry especially when developers' projects are located far from the providers of construction materials.

¹ According to the national accounts of the Central Administration of Statistics (CAS)

² Index introduced by the World Bank, as a part of the yearly Worldwide Governance Indicators. It is defined as a tool to measure the "likelihood that the government will be destabilized or overthrown by unconstitutional or violent means, including politically motivated violence and terrorism."

In addition, construction costs were partly impacted by the Euro's depreciation. Noting that Lebanese developers heavily rely on the European building materials for design and decoration purposes (such as ceramic and marble from Italy and Spain), their imports from the Euro Zone became cheaper. Worth mentioning that, the European official currency almost saw a 12% yearly slump, by the end of 2014, from €/€ 1.37 to €/€ 1.21. In fact, the MSCI World Construction Materials Index reflected as well the situation and dropped 13.6% y-o-y, which could explain the potential drop in Lebanon's construction costs as the global decline of construction prices was imported to Lebanon.

Evolution of Construction Activity



Source: Orders of Engineers in Beirut and the North

Besides the repercussions of the Syrian crisis on the Lebanese real estate sector, contractors benefitted from the cheaper Syrian labor force. As several Syrian citizens were fleeing the country for employment at low wages, the local workforce was facing fierce competition while real estate developers were enjoying cheaper labor costs and fewer obligations (when it comes to social security), which contributed in decreasing their construction costs even more.

Yet, Lebanese developers witnessed several challenges in 2014 of which the changing demand, the scarcity of land, the volatility of workforce availability and the economic slowdown. Choosing the location for their units amid ongoing security developments across the country and centralization of projects in the capital was another burden for real estate suppliers. Several developers failed to survive the economic slowdown and were forced to exit the market. This has partly left room to the remaining players, which were mainly the biggest developers.

Cement deliveries, which are one of the earliest barometers of construction activity, posted a 7.0% y-o-y decline by November 2014 to 5.07M tons. Similarly, 2014 saw the number of authorized construction permits slightly slid by a yearly 0.36% to 16,663. However, the number of construction permits is not reflective of the precise volume of real estate supply in a specific time as applications are filed 6 months earlier and the execution of a permit is valid up to eight years from the date of issuance. Still, permits can disclose contractors' sentiments and expectations for the coming period.

Real Demand Remains Stagnant in 2014 despite Increasing Real Estate Transactions

According to official data, the total number of real estate transactions (foreign and local) went up by 2.3% y-o-y by the end of 2014 to 70,792. Even though 2014's yearly increase followed 3 years of continuous drops, the total number of transactions remained well below 2011's and 2012's respective levels of 83,147 and 74,569. This explains that demand did not really improve in 2014 but slightly recovered from the very low base reached a year earlier. In addition, the number of real estate transactions reveals when ownership of the sold entities is recorded with the Cadastre in the Registrar of Deeds. In reference to an interview with the Executive magazine, Mr Jihad Ibrahim, general manager of Jamil Ibrahim Establishment, stated that the number of real estate transactions does not show when the transaction really took place as the time frame to handover a residential unit requires at least 3 years and the majority of sales happen during or before the

project is initiated. Thus, the increase in the average value per transaction by the end of 2014 does not necessarily indicate a growing demand or even an increase in the prices of real estate projects.

In effect, 2 main types of apartments characterize the Lebanese real estate market: luxurious flats and affordable apartments that each had a divergent path in 2014.

1. Luxurious and Spacious Apartments Went Hand in Hand with Fading Foreign Demand

Wealthy Lebanese citizens and Arab nationals were renowned for their consistent demand for luxurious spacious flats in Lebanon. Those apartments are usually above 220 Square Meters and are very well located, mainly in the capital Beirut.

However, the fact that the small Mediterranean country has a strategic location in the Middle East makes real estate demand for expensive apartments vulnerable to the slightest regional tensions that can upsurge. In fact, sales to foreigners slumped by a year 6.4% to 1,196 in 2014, the lowest level in 6 years.

Noting that GCC citizens constitute a substantial stake of the demand for luxurious apartments in Lebanon, their demand kept on dwindling following repeated warnings from their governments to avoid Lebanon due to the high degree of political uncertainty and security developments. Correspondingly, Lebanon's real estate projects were further losing foreign investors' appeal over the years, noting that the share of real estate sales to foreigners in 2014 stood at 1.7% compared to 1.8% and 1.9% in 2013 and 2012, respectively.

Lebanese suppliers were more cautious when initiating large-scale deluxe projects and preferred serving the existing local demand. On the other hand, the Syrian war also took its toll on the real estate developers that feared a probable extension of the conflict to Lebanon that could affect their projects and sales.

Even though several Syrian citizens fled their country heading to Lebanon, their demand was mainly concentrated in rentals and not real estate purchases. This can be explained by the fact that the wealthy Syrians leaving their country were looking for more secure countries, none of which was Lebanon. Thus, the ones targeting Lebanon were the middle-range families and those expecting to go back to Syria when the situation improves. Those could not afford buying real estate units in Lebanon, but rather rented apartments.

Thus, and with supply outpacing the demand for luxurious and spacious apartments, the latter's prices went down around 20% as buyers gained more freedom and time to negotiate their purchases. Worth mentioning that the time needed to sell an apartment has prolonged lately as buyers have the option to choose from the overflowing number of unsold apartments and negotiate for their own best interest.

2. Small Flats: Steady Demand from Low- and Middle – Income Households

In 2014, demand for real estate was mainly restricted to basic housing on the expense of luxurious accommodation. With local demand being the one to rise over the year and with the majority of spacious apartments remaining unsold, local consumers were looking for small affordable houses. In fact, the average income of a Lebanese employee is relatively low and the maximum payment that the latter can settle is one third of its monthly income.

In addition, the subsidy that BDL provides to commercial banks for housing encourages demand for small apartments with area not exceeding 150 Square Meters (SQM). Accordingly, Lebanese buyers are looking for smaller flats that they can afford with their relatively low income. Thus, demand for such apartments is growing and was mainly behind the uptick of housing loans distributed in the financial sector that rose 8.8% y-o-y in H1 2014 to reach \$8.53B.

The rising number of unsold apartments made suppliers more cautious and alert about a potential mismatch between the existing demand and supply. Accordingly, and before initiating any new project, in-depth studies of the market are conducted to avoid any risk that could restrain developers from liquidating their projects. Defining the needs of real estate buyers became more essential in 2014 which have turned investments towards small and affordable apartments.

Given the scarcity of land and its effect on prices, developers were looking for new areas for their investments where they can benefit from larger plots thus reducing their costs. Despite the slump in the number of construction permits, the

construction area authorized by permits (CAP) increased by a yearly 5.8% to reach 13,545,707 SQM in 2014. The increase in the CAP should not be regarded as an improvement in the construction sector but rather as a partial recovery from 2013's levels when it had shrunk by an annual 13%. In fact, developers became more oriented towards new type of projects to serve the changing demand. Given that only big contractors survived the economic slowdown, they became more interested in large scale projects (as they are built over large plots of land) featuring small apartments with numerous facilities at an affordable price.

Real estate contractors also tried in 2014 to spread their projects over new geographical areas where land is more abundant and less expensive to serve a more selective demand. Mount Lebanon kept on capturing the lion's share (48.9% of total permits) in terms of geographical distribution of projects given its relative proximity to the capital and thus the slightly lower prices in terms of land. However, the number of projects in Mount Lebanon area slightly slipped by 0.7% y-o-y in 2014 to 7,248 permits. Furthermore, the rising clashes in the Bekaa area (10.9% of total projects in 2014) and North of Lebanon region (14.4%) were behind the downturn in the number of projects from 1,776 and 2,196 to 1,617 and 1,984, respectively. Meanwhile, Beirut, that showed the lowest number of permits (given the scarcity of land) with a slight stake of 5.6% of the total, saw a 6.2% yearly rise in the number of construction permits to 839.

Additionally, the falling construction costs facilitated prices' decline of small apartments. Therefore, many developers were more open for price negotiations with some of them willing to offer approximately 10% to 15% of discount.

What about the Commercial Market in 2014?

While maintaining their high levels, commercial rentals in Lebanon showed substantial declines in 2014. In details, and amid a slowdown in the residential market, investors were more oriented towards commercial projects. Those investments have become more income appealing in terms of sales and rents given the shortage in stock.

Cushman & Wakefield annual report showed that retail rents in the main Lebanese locations hovered between \$500 - \$1,600 per SQM/Year and considerably declined during 2014 around 15%-30%, partly on dropping investment sentiment. However, ABC Centre Achrafieh, which was 2014's most expensive retail location in Lebanon, preserved 2013's level of \$1,583 per SQM/Year. The Lebanese mall ranked 37th among 64 countries and stood just after Biblioteksgatan - Sweeden (\$1,636 per SQM/Year) and Rue Neuve - Belgium (\$1,750 per SQM/Year). ABC Achrafieh rental was higher than that of Grand Rue - Luxembourg (\$1,500 per SQM/Year) and Shopping Centre - Kazakhstan (\$1,330 per SQM/Year).

On the local front, Beirut Central District and Rue Verdun rental prices followed ABC Centre Achrafieh at respective prices of \$792 per SQM/Year (a 16.7% yearly decline) and \$633 per SQM/Year (a 20.0% y-o-y drop). Rue Hamra and Kaslik ranked fourth in Lebanon with similar rental price of \$554 per SQM/Year.

Finally, assessing real estate prices and the trend they followed in 2014 remains challenging on insufficient existing data that could be misleading. Despite the economic slowdown, the substantial decline in construction costs and the complications on the Syrian front that kept on weakening investors' confidence, property prices went in the same direction. Though, the decline in the prices of luxurious flats certainly took place at a faster pace than that of affordable apartments.

Real estate and construction activities have been struggling for several years to preserve their leading positions as core sectors in the Lebanese economy. Following 2008-2009 booming period, real estate was hindered starting late 2011 by pressures from the war in Syria and the fragile domestic situation. However, the strong fundamentals of the sector managed to slow down the retreat in activity up until 2014 when indicators began to stabilize.



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