

**PRESS RELEASE**

## **Byblos Bank launches first-of-its kind Real Estate Demand Index in Lebanon**

**Byblos Bank Headquarters, November 17, 2015:** In the first initiative of its kind in Lebanon and the Arab World, Byblos Bank launched the Byblos Bank Real Estate Demand Index for Lebanon. The launch took place in the presence of Byblos Bank corporate clients, as well as of representatives of the Association of Banks in Lebanon, the International Monetary Fund, the World Bank, the International Finance Corporation, the United Nations agencies, commercial attachés at several embassies, media representatives and Senior Managers at Byblos Bank.

Dr. François Bassil, Chairman of Byblos Bank Group, declared that “the launch of the Index is part of Byblos Bank's vision to raise the transparency of the Lebanese economy, and is a component of the Bank's strategy to rely on solid indicators and reliable analysis in its decision-making process. He added "the Index will serve as an essential tool to assess the evolution of the local real estate market and, therefore, to better understand the factors that affect the sector."

The Byblos Bank Real Estate Demand Index is a measure of local demand for residential units in Lebanon. The real estate sector is a driver of the Lebanese economy and accounts for about 14% of the country's Gross Domestic Product, constituting the highest sectoral contribution to economic activity. Also, residential real estate affects the value chain across the sector from developers to contractors, sub-contractors and suppliers, among others. Further, buying a house constitutes one of the most important investment decisions for the Lebanese, and the value of a house is usually the single most important non-financial asset for resident Lebanese. In addition, the Lebanese banking sector has a large exposure to the real estate sector, with housing loans representing about 17.4% of utilized credits.

The Byblos Bank Real Estate Demand Index will meet a major market need by providing a reliable measure of residential real estate demand. It will also fill a wide statistical gap by measuring a key driver of economic activity; by increasing the transparency of the Lebanese economy and the real estate sector; and by providing a new analytical tool to local, regional and international stakeholders.

On a calendar basis, real estate demand started to increase tangibly in 2008 and accelerated in 2009 and 2010, with the Index increasing by nearly 80% during the period. In fact, the Byblos Bank Real Estate Demand Index posted an average monthly value of 60.1 points in the second half of 2007, and rose to 73.8 in 2008, 99.8 in 2009 and 108 in 2010, the highest annual value on record. However, the Byblos Bank Real Estate Demand Index fell by 40.2% in 2011 to 64.6 and by an additional 33% to 43.3 in 2012. It then rose to 51.5 in 2013, reached 35.6 in 2014, and 40.3 in the first nine months of 2015. The Index posted its highest level in April 2010 at 157 and its second highest level in March 2010 at 151.5, while it reached its lowest level in January 2015 at 24.3 and its second lowest reading in February 2015 at 27.2.

Commenting on the results, Mr. Nassib Ghobril, Chief Economist and Head of Economic Research and Analysis Department at Byblos Bank Group, said "the results of our Index show

that real estate demand in Lebanon is significantly affected by the level of political risks, economic growth and consumer confidence." He noted that demand for residential real estate in Lebanon was highest between May 2008 and August 2010, a period of improved political and security conditions in the country, but it was also a period of unrealistic market expectations that led to speculation in the sector." He added that, "real estate demand started to drop systematically when prices escalated to levels beyond the reach of most resident Lebanese, when political risks resurfaced in 2011 and increased in the following years, and when economic growth decelerated and reached very low levels."

Furthermore, Mr. Ghobril added "based on the results of Byblos Bank Real Estate Demand Index, we identified five stages for the real estate sector between July 2007 and September 2015."

The first stage lasted from July 2007 until April 2008 and was characterized by frequent security breaches, a presidential vacuum, political tensions and government paralysis. The Index averaged 56.7 during this stage, the third highest value among the five stages.

The second stage, which saw the sector booming, stretched from May 2008 to August 2010, and was driven by the resulting positive momentum from the Doha Accord, by political stability and proper security conditions, by lower interest rates on mortgages and by supportive overall economic conditions. In addition, real estate prices increased during this period and market expectations pointed to further increases in prices. In addition, amateur developers and speculative investors entered the market during this period. The Byblos Bank Real Estate Demand Index posted an average monthly value of 101.1 during the boom period, reflecting a 78.3% increase from the preceding stage.

The third stage, ranged from September 2010 to July 2012, and saw the beginning of the slowdown in market demand. It was characterized by high real estate prices, political tensions, the start of the Syrian conflict and deteriorating economic conditions. The Index fell by 38.8% from the previous period to a monthly average of 61.9, the second highest value among the five stages.

The fourth stage, which ushered in the stagnation in demand, lasted from August 2012 until December 2013 and was characterized by political instability, the intensification of the Syrian conflict, the deterioration of domestic security conditions and weak economic activity. On the positive side, the Central Bank introduced its first stimulus package for 2013 with about 50% of the available funding directed to support residential real estate. The availability of funding at reduced interest rates provided support to domestic demand and prevented it from further declining. Still, the Index averaged 48.7 per month and dropped by 21.2% from the preceding period, constituting the second lowest reading among the five stages.

The fifth stage, which saw the deepening of the market's stagnation, started in January 2014 and is still ongoing. It is characterized by a high level of political uncertainties, the start of the presidential vacuum, poor economic and security conditions, institutional paralysis, the lack of prospects for ending the Syrian conflict, declining job opportunities and increasing job

insecurity. The Index maintained its downward trend and fell by 22.8% from the previous period to a monthly average of 37.6, the lowest average score among the five stages. Overall, the Byblos Bank Real Estate Demand Index fell by 62.8% between the boom period and the period of deep stagnation.

In this regard, Mr. Ghobril considered that "market dynamics have gradually shifted from a sellers' market prior to the fourth quarter of 2010 to a buyers' market since then, and this trend has solidified since 2014." He further noted "that the current stagnation in the residential real estate market is unlikely to be reversed without a positive political shock of the magnitude of the Doha Accord", adding that "such a shock would reduce political uncertainties, improve household confidence, restore economic growth, generate job opportunities and, therefore, would help increase demand for housing."

In parallel, real estate demand by residents of Beirut and Mount Lebanon was the highest on average between July 2007 and September 2015. Between the boom and the deep stagnation periods, the Byblos Bank Real Estate Demand Index fell by 71% in the South; regressed by 66% in each of Beirut and Mount Lebanon; decreased by 56% in the North; and by 50% in the Bekaa. Further, the results of the Index by region show the average percentage of Lebanese planning to buy a home is the highest in Beirut and Mount Lebanon, and the lowest in Bekaa. Also, the share of Lebanese planning to build a house is the highest in the Bekaa and the South, and is the lowest in Beirut.

The results of the Index by income category show that demand from residents with a household income above USD 2,500 fell by 80% between the boom and the deep stagnation periods, followed by a drop of 64% of demand by resident Lebanese with a household income between USD 1,500 and USD 2,499; a decline by 62% of demand from residents with a household income between USD 750 and USD 1,499; and a drop of 55% of demand from Lebanese with a household income below USD 750.

Ramona Moubarak, Economic Research Senior Analyst at Byblos Bank, noted that consumer confidence, economic activity and political stability are the three main drivers of real estate demand in Lebanon. She added that the real estate market has been highly volatile since the inception of the Index. She indicated that a regression analysis showed that these drivers explain 78% of the variation in real estate demand in Lebanon between July 2007 and September 2015. She added that "when limiting our timeline to a period of relative stability in the country between May 2008 and December 2010, we noticed that real estate demand is related to the previously mentioned drivers, in addition to remittance inflows."

In line with Byblos Bank's tradition of transparency, Byblos Bank will release a comprehensive report that will include the full results of the Index; in-depth analysis of the results and Index fluctuations; further details on the methodology, sample selection, and Index calculation; as well as the full results of the Index by categories.

## **Methodology**



The Byblos Bank Real Estate Demand Index is based on a nationally representative survey of 1,200 face-to-face interviews with adult males and females living throughout Lebanon, whereby residents are asked about their plans to buy or build a house in the coming six months.

The monthly field survey is conducted by Statistics Lebanon, one of the leading opinion polling firms in the country. The firm draws a random sample of the population for each monthly survey. The Index calculation and analysis are conducted by the Economic Research and Analysis Team at Byblos Bank.

The Byblos Bank Real Estate Demand Index is calculated on a monthly basis, with November 2009 as its base month. The Index calculation started in July 2007 and is produced every month. So the Byblos Bank Real Estate Demand Index currently reflects 99 months of data until September 2015. In addition, the data segregates the Index based on age, gender, income, profession, region, and religious affiliation.

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