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DEFINITE VALUE IN THE PROPERTY SECTOR IN THE MEDIUM TO LONG TERM

Realty purchases worsen while rentals improve amid security risks

The real estate sector has been under considerable pressure since the onset of the crisis in 2019 with demand dwindling across the board. The decrease in demand came amid a major drop in purchasing power for local households driven by the depreciation of the local currency lack of loan opportunities and imbalances between the cost of living and income. In details, the number of sales operations in the first seven months of 2024 stands 22.4% below the corresponding levels recorded pre-crisis. In parallel, demand for office spaces has been one of the hardest hit from the crisis, remaining the furthest away from 2019 prices. This comes as many office spaces, especially in the capital, have become vacant.

Sluggish construction activity amid uncertainty, low investor appetite

The supply of new property in the Lebanese market has been increasingly sluggish ever since the start of the economic crisis in 2019, recently exacerbated further by the war eruption. The latest figures provided by the Order of Engineers and Architects of Beirut (OEAB) showed a decrease of 9.9% in construction permits, which provides an indicator of forthcoming projects, between the first seven months of 2024 against figures from the same period of 2019. Concurrently, at the level of cement deliveries which provides an indicator of ongoing projects, a drop of 26.5% was recorded between 2019 and 2023, as released by the Central Bank of Lebanon. Cement deliveries reached circa 2,354.6 thousand tons in 2023, down from 3,203.0 thousand tons in 2019.

Real estate prices stabilizing despite elevated geopolitical tensions

Despite boiling military tensions in the region since October 2023, escalating Israeli attacks deep in Lebanon, and the prevailing high level of uncertainty, no significant changes occurred on real estate prices this year. While elevated geopolitical risks in the region soured investor sentiment over this year, Lebanon's real estate market managed to hold up prices attained in summer 2023 prior to the war eruption, with only around one-tenth of residential property owners showing a rush to sell their units at discount. In fact, the very few sale deals struck over the year 2024 indicated realty prices that are 50% less than levels seen before October 2019. Only sellers who are in urgent need of cash US dollars are offering their units at reduced prices, while citizens with fresh buffers and expatriates remained reluctant to close a deal, as they prefer to wait until overall domestic and regional security conditions improve, even if this requires paying relatively higher prices, as they consider it a better option than pouring their money in a country that is in a brink of a war.

Real estate near-term outlook depending on politico-economic scenarios at stake

Looking forward, the real estate sector is at the image of politico-economic conditions at large. Its outlook depends on the different scenarios anticipated at the political and economic levels, with corollary implications for real estate prices and market conditions. Our macro expectations for the twelve months to come actually revolve around three different scenarios at stake (developed in the conclusion of this report): The positive scenario with a probability of realization of circa 20%, the negative scenario with a probability of realization also at circa 30%, and the middle scenario with a probability of realization at circa 50% that makes it identifiable to a kind of base case scenario. In the event of a positive politico-economic scenario, real estate demand would be considerably up, raising with it property prices, with the restoration of housing loans to represent a significant catalyst. In the event of the adverse scenario, real estate demand would contract, sale offers would accentuate, putting further pressure on property market conditions. The middle scenario suggests a stabilization of property market conditions and real estate prices at current levels.

Beyond near term scenarios, definite value in the property sector in the long term

In the longer term, there is undeniably value in the property sector. Such a medium to long-term outlook would be obviously reinforced further in the event of a regional settlement scenario and/or a domestic political normalization scenario. Real estate prices are still well below pre-crisis levels, suggesting a pent up opportunity and substantial capital gains shall politico-economic conditions normalize. The slow evolution of supply over the past five crisis years, with limited construction projects across the country, suggests a potential noticeable price surge once confidence gets back on track, with the potential price growth driven by technical market factors amid potential discrepancy between property demand and property supply at large.

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MARKET DEMAND

Realty purchases worsen while rentals improve amid security risks

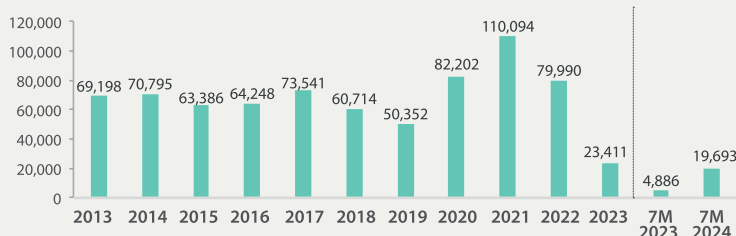
The real estate sector has been under considerable pressure since the onset of the crisis in 2019 with demand dwindling across the board. The decrease in demand came amid a major drop in purchasing power for local households driven by the depreciation of the local currency against the US\$, lack of loan opportunities and imbalances between the cost of living and income.

Prior to the start of the conflict on the southern border of Lebanon, the market was more or less stabilizing with purchasing power gaining momentum as the economy and most salaries were considered dollarized. However, local consumption trends remained mostly focused on essential goods as the middle-class had almost crumbled. The only demand for realty came from the upper class towards moderate to high priced realty as a means of employing their cash instead of stashing them at home.

However, since the onset of the conflict in Southern Lebanon, the real estate demand was the second most affected after tourism. This comes as external demand for investment within Lebanon crumbled amid high security risks leading to investors pausing their projects or scrapping them altogether. The same sentiment was somewhat similar within the local upper class and expatriates as their investments have migrated from the southern region towards the capital which is considered safer.

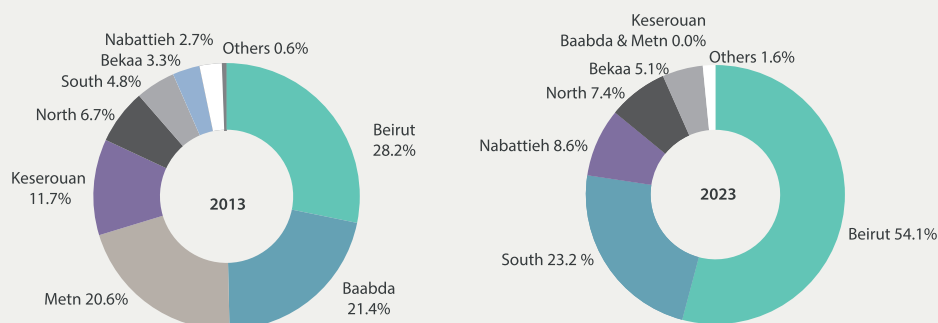
Looking at household consumption and income, both are expected to moderate or decline during 2024 as the market grapples with severe issues such as inflation, contractions in the economy and political

NUMBER OF SALES OPERATIONS



Sources: General Directorate of Land Registry and Cadastre, Bank Audi's Group Research Department

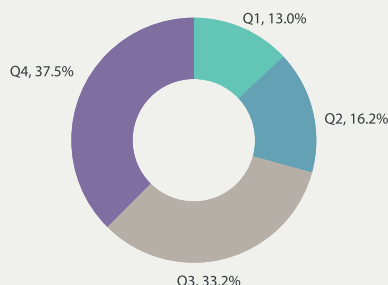
PROPERTY SALES TRANSACTIONS VALUE BY REGION



Sources: General Directorate of Land Registry and Cadastre, Bank Audi's Group Research Department

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SEASONALITY ANALYSIS: PROPERTY SALES BY QUARTER (2013-2023)



Sources: General Directorate of Land Registry and Cadastre, Bank Audi's Group Research Department

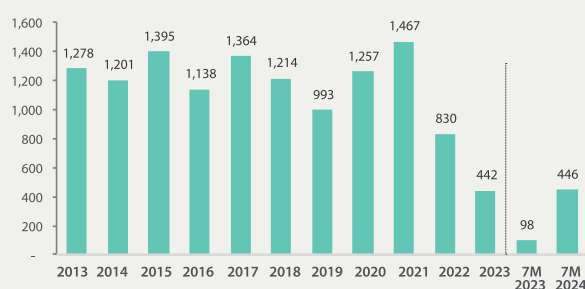
gridlocks. Additionally, living standards and incomes are projected to stay below pre-crisis levels. In parallel, several factors are expected to weigh on household spending such as: weaker tourism activity, lower arrivals reducing the amount of cash remittances sent through unofficial channels, negative sentiment likely pushing households to restrain their spending and save their money for emergencies, higher political risk from the conflict driving the cost of import shipping upward, and higher income tax under the 2024 budget.

Concurrently, apart from higher purchasing prices for real estate, household maintenance and household furnishing prices recorded increases of 8.1% and 155.8% year-on-year respectively in July 2024 against July 2023, as per data from CRI. These inflations compound additional financial pressures on those aiming to buy apartments or houses.

These realities in the sector have allowed the lower class to buy only from suppliers needing quick liquidity. This has led demand from those needing an apartment to turn to rentals instead. Additionally, some investors are also opting for rentals in order to wait to better assess the situation in Lebanon looking forward. Internal displacement due to the conflict has also contributed to the surge in rental demand especially in areas deemed safe. However, the residential rental market cannot be considered stable as it lacks good-quality offerings and availability in well maintained buildings. In turn, this subsector remains in a buoyed state on the back of individuals who cannot or do not wish to purchase property on the short-term. On the prices front, the start of the war led to an increase amid higher demand pressures. In Beirut, rent prices are increasingly approaching pre-crisis levels. This has led to the narrowing of demand side price expectations with more and more renters willing to pay pre-crisis prices for these accommodations.

In details, looking at the number of sales operations in the first seven months of 2024, 19,693 operations were recorded, up from 4,886 operations in the same period of 2023. This increase however does not signify an increase in demand but comes amid the closure of land registries in multiple cadasters leaving up to 150,000 files frozen, especially in Mount Lebanon, pushing registrations for sales done in 2023 to be declared in 2024 when they were re-opened. When looking at the first seven months of 2019, the amount of sales operations recorded during the period is 25,384. In turn, levels recorded in the first seven months

NUMBER OF PROPERTY SALES TO FOREIGNERS



Sources: General Directorate of Land Registry and Cadastre, Bank Audi's Group Research Department

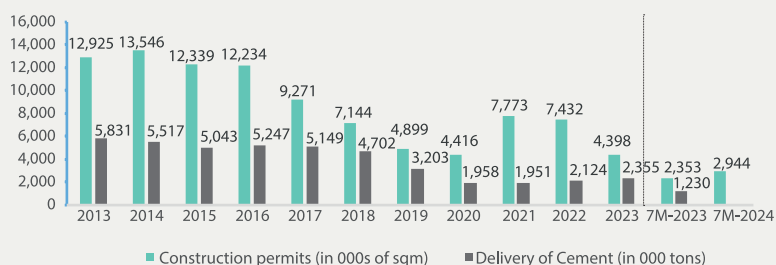
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of 2024 stands 22.4% below the levels recorded pre-crisis when demand was not buoyed by the disparity between the market exchange rate and the official one.

In parallel, demand for office spaces has been one of the hardest hit from the crisis remaining the furthest away from 2019 prices. This comes as many office spaces, especially in the capital, have become vacant. This deterioration has been disproportionate however with migration of office space demand. In Achrafieh, the degradation of office spaces and their old age has led companies to pivot towards the newer business centers on the outskirts of Beirut such as Sin el-Fil, Horch Tabet, Dbayeh and Jisr el-Bacha. On the other hand, Mina el-Hosn and the Beirut Digital District have almost returned to pre-2019 prices as buildings remain well maintained and attracts several local and international companies, especially of a cultural nature.

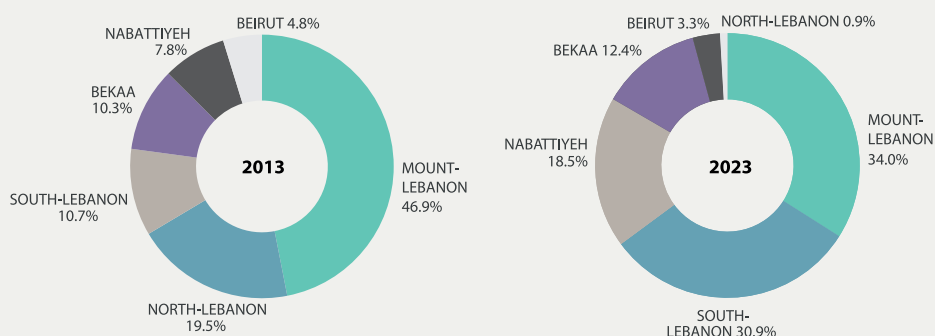
Looking ahead, demand for the real estate sector is set to remain at a standstill as long as the conflict remains ongoing and the country remains in political deadlock. Additionally, several factors pose downside risks to demand in the future such as low household purchasing power, price stubbornness and increases as well as an average of circa 41 fold increase in the prices of foreigner residence permits making it more expensive for foreigners to live in the country and therefore less attractive to invest in realty. On the other hand, the end of conflicts is usually followed by a flocking of investment in real estate in areas where the price was affected and foreign investors are likely to resume their investment operations which could help rejuvenate the real estate sector.

CONSTRUCTION PERMITS & CEMENT DELIVERIES



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

BREAKDOWN OF CONSTRUCTION PERMITS BY AREA



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

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MARKET SUPPLY

Sluggish construction activity amid uncertainty, low investor appetite

The supply of new real estate in the Lebanese market has been increasingly sluggish ever since the start of the economic crisis in 2019. This came amid the dollarization of the market, the depreciation of the Lebanese pound, the surge in raw material prices and the lack of financing. In turn, few construction projects remain active in Lebanon with those initiated prior to 2019 consisting of the majority of current activity. Additionally, the start of the ongoing hostilities in the southern region has weighed heavily on investor appetite leading to an almost complete stop in new projects and a diversion of interest away from Lebanon which has become a high-risk, low-reward location amid dwindling real estate demand.

Looking at the investment environment in Lebanon, short-term political and economic outlook has worsened. This comes amid regional tensions, domestic challenges and inflation. Despite openness to foreign investment, Lebanon's risks have been deterring investors. Additionally, the government's decision to raise taxes in the 2024 budget will further weigh on economic activity with socioeconomic and political risks in 2025 skewed downwards. These factors have led to a historical low for the level of investment/GDP in Lebanon as investor appetite dwindled and investors prefer to wait in order to assess the situation within the country before investing their capital.

In parallel, the latest figures provided by the Order of Engineers and Architects of Beirut (OEAB) showed a decrease of 9.9% in construction permits, which provides an indicator of forthcoming projects, between the first seven months (7M) of 2024 against figures from the same period of 2019. Construction permits for 7M 2024 recorded 2,943,771 m², down from 3,265,933 m² in 7M 2019.

This decrease in construction permits was mostly due to a 27.6% drop in construction permits for Mount Lebanon (with a weight of 36.2% in 7M 2024), a 1.6% decrease in construction permits for South Lebanon (weight of 25.6%) as well as a decrease of 52.3% for Beirut (weight of 4.6%). These decreases were partially offset by increases in construction permits within the regions of Bekaa (weight of 20.4%), Nabatiyyeh (weight of 12.2%) and North Lebanon (weight of 1.1%) of 51.7%, 11.5% and 1.7% respectively during the period.

Concurrently, at the level of cement deliveries which provides an indicator of ongoing projects, a drop of 26.5% was recorded between 2019 and 2023, as released by the Central Bank of Lebanon. Cement deliveries reached circa 2354.6 thousand tons in 2023, down from 3,203.0 thousand tons in 2019.

The current construction activity is mainly focused on maintenance and construction of old projects planned and sold before the crisis. This has led to a somewhat saturated market offering with some buildings remaining without proper maintenance work and several construction projects halted.

It is worth noting that confidence in Lebanon's real estate sector, a major driver to the sector's recovery, depends heavily on the country's internal and external stability. Therefore, the absence of state intervention to stabilize the economy, regional tensions and the absence of real estate financing pose downward risks towards the real estate market's supply in Lebanon.

Having said that, multiple threats and opportunities present themselves looking ahead. Looking at future opportunities for Lebanon's real estate and construction sectors, an end of hostilities on the Southern border might bring forward a reconstruction phase. This phase is bound to increase construction activity within the affected regions. Additionally, if an agreement is reached that includes prospects for long-term stability on the border, investor appetite is expected to increase again. At the level of threats, the current political inactivity in Lebanon as well as border tensions are affecting future prospects of the sector. If these threats are not tackled and proactive actions are not taken, real estate supply could continue eroding as foreign investor appetite diverts to other options and local producers have no incentive to create new projects due to low demand.

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MARKET PRICES

Real estate prices stabilizing despite elevated geopolitical tensions

Despite boiling military tensions in the region since October 2023, escalating Israeli attacks deep in Lebanon, and the prevailing high level of uncertainty, no significant changes occurred on real estate prices this year.

While elevated geopolitical risks in the region soured investor sentiment over this year, Lebanon's real estate market managed to hold up prices attained in summer 2023 prior to war eruption, with only around one-tenth of residential property owners showing a rush to sell their units at discount.

In fact, the very few sale deals struck over the year 2024 indicated realty prices that are circa 50% less than levels seen before October 2019. Only sellers who are in urgent need of cash US dollars are offering their units at reduced prices, while citizens with fresh buffers and expatriates remained reluctant to close a deal, as they prefer to wait until overall domestic and regional security conditions improve, even if this requires paying relatively higher prices, as they consider it a better option than pouring their money in a country that is in a brink of a war.

In parallel, the sale price of high-end apartments, especially in Ashrafieh and Ras Beirut, continued to show some kind of resilience, as they were offered at 10%-15% less than price levels seen before October 2019. In some "golden areas" like Solidere Waterfront and Fakra, property prices returned to their pre-crisis levels.

As to the land market, activity was almost absent despite the large price cuts. In details, land prices in Beirut are currently 50% to 60% less than price levels seen before October 2019. Land prices in some areas outside the capital were even slashed by 70% relative to pre-crisis levels.

Regarding the rental market, with more than 100,000 people displaced from South Lebanon since hostilities along border areas broke out in October 2023, and as families from Beirut's southern suburbs have also been recently displaced, apartment rents across Beirut and Mount Lebanon have spiked from an average of US\$ 300 per month to as high as US\$ 1,400 per month, with real estate agents also demanding several months of rent in advance. This stems from an imbalance between supply and demand, where demand has far outstripped supply.

On the other hand, office rents have relatively stabilized over the year 2024 despite heated regional military tensions and the gloomy climate, noting that they remain 40% less than their levels seen before October 2019.

Within this context, it is worth mentioning that the rental yield, which is the return on real estate investment if it is rented out, ranged between 2.8% and 3.2% over the year 2024, compared to 3%-4% in 2023. The current rental yield assumes that the recent spike in apartment rents is only temporary and is not based on fundamentals.

Finally, Lebanon's real market would gain momentum should security conditions be restored, the cadaster department in Baabda resume its activity, and commercial banks resume lending activity and the opening of Letters of Credits. Under these conditions, the undersupplied realty market is projected to witness a surge in activity and prices may be heading towards pre-crisis levels.

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MARKET OUTLOOK

Beyond near term scenarios, definite value in the property sector in the long term

Looking forward, the real estate sector is at the image of politico-economic conditions at large. Its outlook depends on the different scenarios anticipated at the political and economic levels, with corollary implications for real estate prices and market conditions.

Our macro expectations for the twelve months to come actually revolve around three different scenarios at stake: The positive scenario with a probability of realization of circa 20%, the negative scenario with a probability of realization also at circa 30%, and the middle scenario with a probability of realization at circa 50% that makes it identifiable to a kind of base case scenario.

The positive scenario actually rests on an end of the current war shortly, the imminent election of a Lebanese president, the formation of an effective and efficient government, the start of reform implementation, the reaching of a final agreement with the IMF and the materialization of international assistance. If these conditions are met, we expect real GDP growth rate to exceed 7%, the inflation rate to decline considerably to global benchmarks, the exchange rate to stabilize at below 90,000, the BDL's reserves to strengthen, and a noticeable surplus in the Balance of Payments to be recorded. In the event of such a positive politico-economic scenario, real estate demand would be considerably up, raising with it property prices, while the restoration of housing loans would provide a considerable catalyst to the market.

As for the negative scenario, it rests on the widening of the current conflict on the Lebanese territory, the absence of presidential elections and therefore the absence of government formation, no implementation of the required economic reforms and no agreement with the IMF. Under these conditions, we forecast a negative growth rate in real GDP of circa -20%, an increase in the inflation rate to 400%, a wiping out of BDL's reserves and a significant deficit in the balance of payments. In case the adverse scenario materializes, real estate demand would contract considerably, sale offers would accentuate, putting further pressure on real estate prices and market conditions at large.

Looking at the middle scenario, we assume that the conflict in the south remains but confined while maintaining the rules of engagement, yet without internal political breakthroughs that lead to economic reforms. Under this scenario, we expect real GDP growth rate to be close to nil with the inflation rate nearing 25%. Additionally, a stability in BDL's reserves is expected along with a slight deficit in the balance of payments. As far as the real estate market is concerned, such a middle scenario suggests a stabilization of market conditions and real estate prices at current levels.

In the longer term, there is undeniably value in the property sector. Such a medium to long term outlook would be obviously reinforced further in the event of a regional settlement scenario and/or a domestic political normalization scenario. Real estate prices are still well below pre-crisis levels, suggesting a pent up opportunity and substantial capital gains shall politico-economic conditions normalize. The slow evolution of supply over the past five crisis years, with limited construction projects across the country, suggest a potential noticeable price surge once confidence gets back on track, with the potential price growth driven by technical market factors amid potential discrepancy between property demand and property supply at large.