Lebanon Real Estate Report

July 2009

A RESILIENT ARENA AMID A REGIONAL REAL ESTATE TURMOIL

- The real estate sector in Lebanon, an open and liberal market, has persistently shown resilience to adverse political and security conditions on the local scene as well as adverse external factors at the regional and global levels. Over the past five years, real estate sales value and construction permits posted average growth per annum of 17.6% and 12.6%, respectively.
- Demand has been quasi-continuous, stemming from local residents growing steadily in number, expatriates returning to their home country either permanently or for visiting purposes, and foreigners, mainly Arab nationals, that have been increasingly investing in the local realty market.
- Real estate prices consequently witnessed a steady and gradual appreciation (three-year average estimated at 25%-30% per annum by Ramco Real Estate Advisers), and shot up all throughout last year (average of 50%-60%) especially post-Doha agreement.
- The sector has been relatively shielded from the spillovers of the global financial crisis that hit peer Arab realty markets. First five months 2009 figures show that real estate sales transactions in Lebanon almost stabilized, while construction permits registered a satisfactory 4.3% yearly rise.
- Real estate prices are almost sticky on the downside, posting a comparatively moderate 10%-15% decline in the utmost since the onset of the crisis that brought local realty closer to appealing value.
- The comparative resilience of the local realty market to the crisis is mostly owed to the persistence of demand drivers post-crisis showing genuine needs for realty, and stringent regulations related to bank lending to the sector limiting the impact of speculators on market activity, within the context of the absence of a real estate bubble in the country such as the one witnessed in prime Gulf markets.
- A likely rise in post-election demand amid favorable political and security conditions would ensure a more balanced equilibrium between supply and demand in coming months. Demand could progressively resume an upward trajectory and increase the attractiveness and visibility of Lebanese real estate in the period ahead.

SWOT Analysis

Strengths • Open and liberal market • Activity governed by real needs rather than pure speculation • Property prices relatively sticky on the downside	**Weaknesses** • Volatile political conditions burdensome for the sector • Erratic fluctuations in construction and raw materials prices
Opportunities • Growing return of expatriates to boost demand • All-time low borrowing costs and continuing availability of bank financing • Comparatively low prices on a regional and emerging market scale	**Threats** • Domestic political stalemate, occasional security drifts could slow down demand • Liquidity squeeze in region might affect Arab demand for Lebanese realty

The Lebanon Real Estate Report can be accessed via Internet at the following web address: http://www.banqueaudi.com

CONTENTS

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1. Market Overview

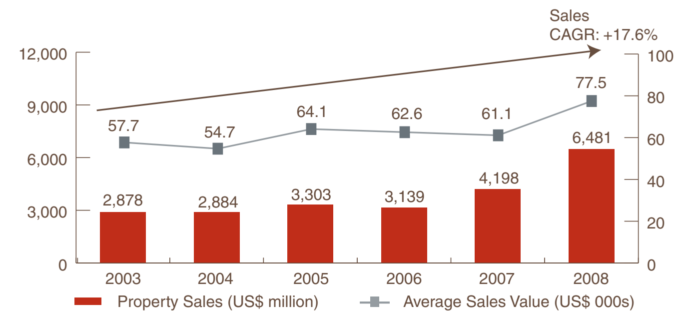
The Lebanese real estate sector, a liberal and open market, has proven historically sound and steadily growing. Thriving in good and prosperous periods, the sector has always shown resilience in times of tense political and security conditions in Lebanon.

The local real estate market had sailed through a series of unfortunate internal events, namely a long-lasting political bickering, a five-week war on the country, and a number of security drifts between 2003 and 2007, and kept on registering sustained levels of activity year after year, albeit growing slowly from one year to another, thus holding on in the face of adversity. With the normalization of the political and security conditions in the country following the Doha accord in May 2008, real estate activity shot up and reached record high levels.

More recently, while the ongoing global financial crisis has not totally spared the Lebanese real estate market, its repercussions locally have been much milder than elsewhere in the Arab region. While prime Gulf real estate markets have seen a collapse in both activity and prices following the tightening of liquidity conditions and drop in assets market value across the globe, the Lebanese market has only seen a relative slowdown in activity in recent months, with comparatively moderate drops in real estate property prices (10%-15%) bringing real estate property closer to appealing value.

Both demand and supply side indicators mirror the relative resilience to adversity. On the demand side, the total value of real estate sales transactions has registered a 17.6% average growth per annum over the period extending from 2003 to 2008 (54.4% year-on-year in 2008), while the number of sales transactions has followed a similar path, progressing by 10.9% per annum in the covered period (21.8% year-on-year in 2008). With the total value of transactions growing faster than the number of operations year after year, the average sales value per real estate transaction has also been on the rise, depicting a progressively growing interest for higher end estate, mostly from Arab citizens. The relatively milder effect of the crisis started to manifest this year, with first five months 2009 real estate sales transaction value posting a moderate drop of 6.7% when compared to the corresponding period of the previous year.

Evolution of Real Estate Indicators

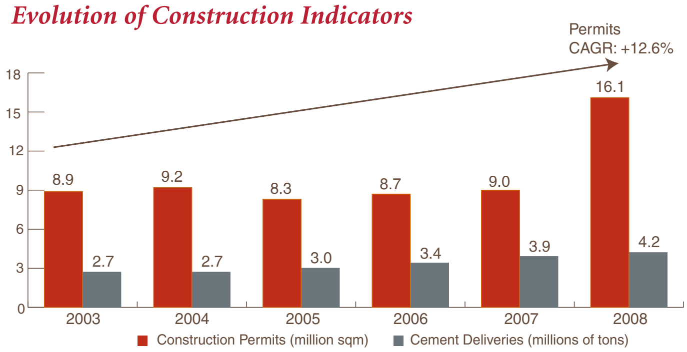


Sources: Real Estate Registry, Bank Audi's Research Department

The regional breakdown of real estate sales transaction value by region shows that Beirut and surroundings account for more than half of total real estate sales activity in Lebanon (52.4%), followed by the Metn area (19.2%), Kesrouan (12.3%), North Lebanon (6.8%), South Lebanon (5.8%), the Bekaa (2.9%), and other areas (0.6%), as per official Real Estate Registry statistics.

On the supply side, construction permits increased by 12.6% per annum on average over the past five years (78.9% year-on-year in 2008), and cement deliveries, a coincident indicator of construction activity, rose by an average of 9.2% per annum between 2003 and 2008 (7.7% year-on-year in 2008). All throughout the covered period, property developers have been trying to catch up with demand while taking advantage of new opportunities in this lucrative sector by acquiring land plots and launching new projects in trendy areas. Over the first five months of 2009, permits posted a positive 4.3% yearly rise (in square meters), which underlines a slowdown -but evidently not a halt- in activity, while cement deliveries have pulled out a healthy 18.4% growth.

Evolution of Construction Indicators



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

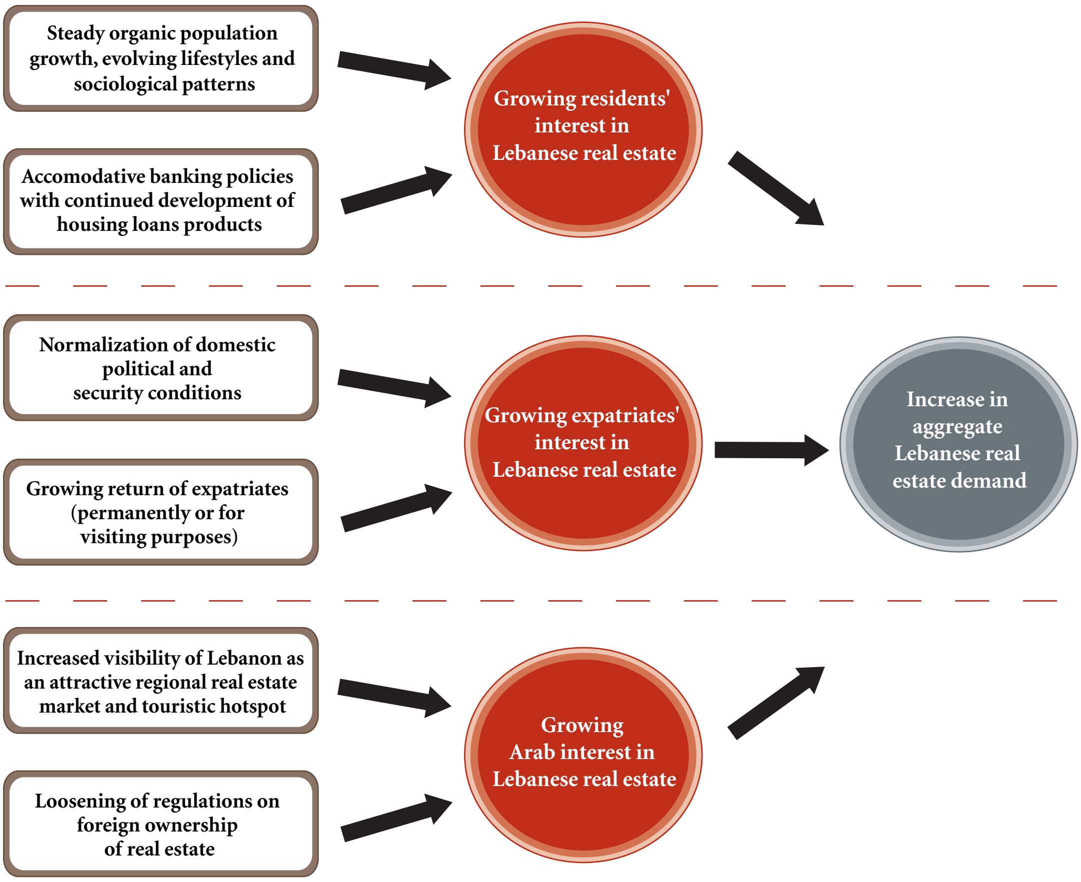
2. Market Drivers

It is important to actually grasp the nature of activity drivers in this comparatively peculiar market to better understand its behavior and performance in recent months and years. There are three major components of demand in the Lebanese market, namely demand stemming from foreigners, and mainly Arab nationals, demand stemming from locals or resident Lebanese, and demand stemming from Lebanese expatriates.

a. Demand stemming from Arab nationals

Arab nationals have increasingly turned their radar screens on Lebanese real estate this decade. First, the 9/11 events prompted them to increasingly repatriate part of their assets from the US and the Western world to the Arab region, some of which have been targeting Lebanese real estate. Also, Arab nationals have been choosing en

Real Estate Market Drivers



vogue regional cities as their preferred tourism destination, a trend that progressed hand in hand with the overall appreciation of the Euro currency vis-à-vis the US Dollar -a currency of reference in most Arab economies- which rendered traditional European destinations more expensive.

The oil boom of the past few years only came to reinforce these trends. With global crude oil prices rising exponentially during the oil boom (2003-2008), Arab and Gulf individuals and institutional investors have found themselves awash with liquidity, which they increasingly channeled into what they believe always yields big bucks -real estate. It is worth noting that even at the current oil price of nearly US$ 60 per barrel by the finalization of this report, oil prices are at more than three times their pre-oil boom levels.

With Lebanon already gaining visibility both as a promising real estate market and an attractive touristic hotspot, more and more Arab nationals have been purchasing private residences in Lebanon, both in Beirut, the heart of Lebanese real estate, and surroundings. Gulf based developers have found in Lebanon an enticing, undervalued market for realty, and have started several joint venture projects in the country. As a matter of fact, Arab investments in Lebanon at large progressed at double-digits over the past five years, and those in Lebanese realty in particular reached comparative highs, and accounted for no less than 60% of total Arab investments in the country.

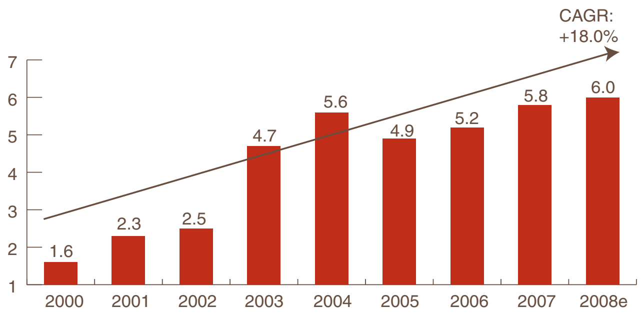
Foreign interest in Lebanese real estate has been facilitated by much looser regulations on foreign ownership of property. Early this decade, Law no. 296 of April 2001, aimed at encouraging investments in the real estate sector, lowered the real estate registration fees for foreigners from 16% to a low of 5% (from 6% to 5% for Lebanese nationals), while allowing foreigners to invest in up to 3,000 square meters of land freely, i.e. without prior approval from Lebanese authorities.

b. Demand stemming from locals and expatriates

Local residents have been increasingly demanding realty in their country. Apart from Lebanon's steady growth in resident population year after year, evolving lifestyles with double-income households have increased disposable income and fostered demand for more affordable realty. Sociological patterns in Lebanon have evolved as well, further giving a boost to local property demand, with more and more bachelors seeking to live by themselves, and non-Beirutis renting or purchasing a foothold in the capital city for education or professional purposes.

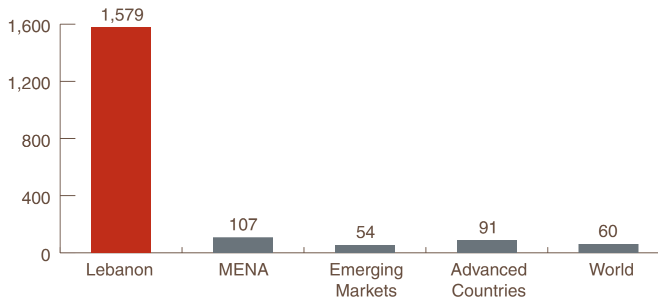
The large Lebanese market Diaspora, well scattered

Remittances to Lebanon (US$ billion)



Sources: World Bank, Bank Audi's Research Department

Remittances per capita (Year 2008 estimates, US$)



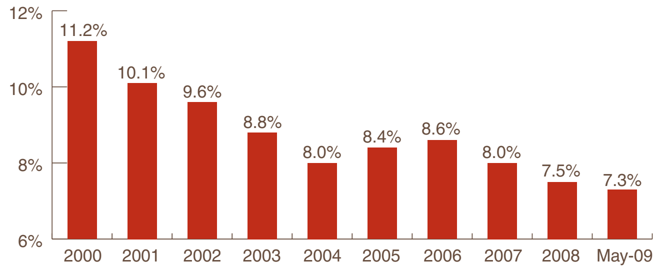
Sources: World Bank, IMF, Bank Audi's Research Department

across the world, has continuously maintained strong ties with relatives and homeland. Remittances from Lebanese expatriates to their siblings in their native land have shown steady progression year after year, rising by 18% on average per annum since the beginning of this decade. Lebanon benefits from one of the highest remittances per capita ratio in the world, which actually represents financial support for locals and facilitates their acquisition of residences. Such remittances are not forecasted to be dramatically affected by the outburst of the global financial crisis.

Over the past couple of years, Lebanese expatriates, especially those working in the neighboring Gulf region, have played a more direct and major role in driving demand for Lebanese real estate. The geographic proximity of the Gulf region to Lebanon has made such business hubs a temporary place of residence in the eyes of Lebanese expatriates, unlike those who headed towards the European and American continents during the 1975-1990 civil war. While it is true that part of the elderly generation, having fled their country a couple of decades ago, is returning to the country following the normalization of the political situation over a year ago, many expatriates that have been living in the Gulf have accumulated sufficient wealth and are returning to Lebanon either for their children's education or to establish a family, all of which is nowadays contributing to demand for real estate in Lebanon.

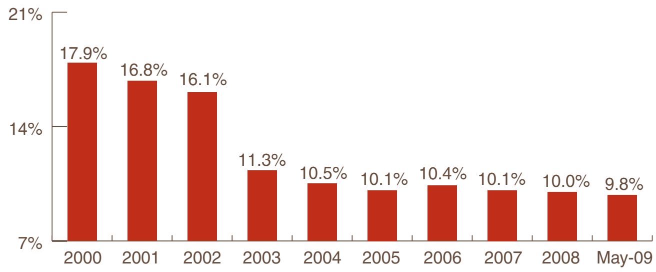
Property demand stemming from Lebanese residents or expatriates has been boosted by accommodative banking policies. On one hand, the market has widely benefited from the gradual lowering of debtor interest rates throughout the past few years, which rendered housing loans more affordable. Interest rates on loans labeled in US Dollars moved down from a range of 11%-11.5% in the late nineties to one of 7%-7.5% presently. Similarly, interest rates on local currency loans have gradually moved down, from rates close to the 20% threshold in the late nineties to less than 10% currently. The BDL circular No. 185 dated May 9, 2009 is an obviously constructive initiative on behalf of monetary authorities in stimulating further LP lending, exempting a number of lending categories, including housing loans, from reserve requirement, which should translate into lower interest costs for borrowers at large.

Avg. Interest Rates on Bank Loans in US$



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

Avg. Interest Rates on Bank Loans in LP



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

With demand for real estate, mostly residential properties, on the rise over the past few years, Lebanese banks have developed tailor-made housing loans to meet the growing funding needs of locals and expatriates. Commercial banks' housing loans have progressed markedly in recent years at a compounded average rate of 15.6% per annum over the 2004-2008 period to reach circa US$ 1.8 billion, while those extended to the construction sector rose by an average of 8.4% per annum in the past five years to reach circa US$ 4.3 billion at year-end 2008.

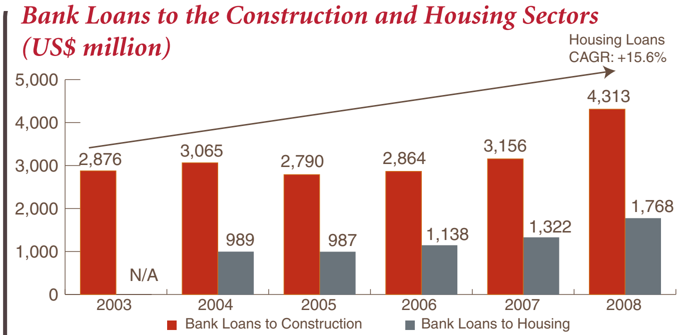
Moreover, two housing agencies, namely the Housing Bank (partly state-owned) and the Public Housing Institute, provide low interest loans to individuals for the purchase, construction or refurbishing of residences, and have been acting as a catalyst for demand in the past few years.

The Housing Bank mainly extends long-term local currency loans to low and middle income individuals seeking to fund the ownership of housing, construction works (maximum reimbursement period for such purposes is 20 years), renovation and restoration of residential units (maximum reimbursement period for such purposes is 10 years). It also obtains and upgrades land to be sold later at lower prices to individuals and companies in order to encourage the construction of low cost lodging, extends loans to housing cooperatives and to building materials cooperatives, and cooperates with government authorities in funding housing projects.

Recently, in an aim to boost residential property growth, the Housing Bank announced its raising of the maximal loan amount from LP 375 million to LP 450 million, while the ceiling on loans for the refurbishing of apartments was raised to LP 150 million, to cope with the rise in property prices in Lebanon. The Bank added it would cover property registration fees as an additional incentive for encouraging housing loans. Interest rates are fixed at 6% per annum, according to the Housing Bank, while the loan to value ratio stands at 80% for local residents and workers, and 50% for those working abroad.

The Public Housing Institute grants loans to low and middle income households practically for the same purposes, and has agreements with several local banks. The borrower secures a loan from a local bank of his choosing, which is paid back through monthly installments. The borrower reimburses principal amounts only on a monthly basis to the bank, while the monthly interest amount is at the expense of the Public Housing Institute. After having reimbursed the entire principal amount to the bank, the borrower starts reimbursing dues (bearing lower interest rate) to the Institute. The loan repayment period goes up to as much as 30 years.

Bank Loans to the Construction and Housing Sectors (US$ million)



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

3. Market Trends

An appreciation of real estate property in recent years

Within the context of strong activity drivers in the Lebanese real estate market, and the tangible improvement in the local political and security conditions in the aftermath of the Doha accord in May 2008, real estate properties that had witnessed a steady and gradual appreciation in value over the past few years (estimated at a three-year average of 25%-30% per annum, in the capital city mostly, by Ramco Real Estate Advisers), shot up all throughout last year (Ramco estimate of 50%-60% on average).

The increase in demand and return of favorable conditions, in a country narrow in size, have actually coincided with a couple of factors justifying further this boost in real estate prices, both of which are external. First, the surge in global construction and raw materials prices, mostly in 2008, contributed to said appreciation in Lebanese realty. Steel prices in Lebanon started rising last year to reach record highs during summer time, prior to easing down markedly when the crisis erupted.

The second factor is tied to the pre-crisis regional real estate boom. Within the context of soaring commodity prices to the benefit of oil-rich Arab and Gulf countries in the pre-crisis period, the emergence of trendy Gulf cities as the new business hubs of the region at large, and the speculative component of property demand in such markets, real estate in the Arab world witnessed frenetic activity that triggered excessive price hikes. With Arab investors also channeling their excess liquidity into real estate investments in Lebanon, the local property market started seeing demand at prices much higher than what the Lebanese market had gotten accustomed to.

Most developers and promoters used the hike in construction prices and the signing of the Doha accord as an excuse for raising end-buyer prices considerably through successive waves throughout the year. The last such one coincided with the outbreak of the global financial crisis in September 2008, and thus proved difficult to pass on to end-customers.

The global financial crisis, regarded as the most severe in contemporary history, has triggered a wave of sell-offs and deleveraging across the four corners of the globe, with assets, of which real estate, losing significantly in value, in what resembles a downward spiral. Arab markets, particularly those of the Gulf region, have suffered greatly, with real estate activity frozen in certain areas and projects canceled if not put on hold. Yet, what's rather peculiar is that the spillovers of the crisis on the Lebanese real estate market have been rather limited so far.

Why Lebanese real estate has been relatively shielded from the global crisis

The relative resilience of the local sector to such adversity lies in the regulatory framework and the nature of demand in this market. First and foremost the Lebanese market did not witness a real estate bubble such as the one in prime Gulf markets. Besides, bank lending to the sector is well regulated by the Central Bank of Lebanon. The latter has long kept a close eye on real estate investments and actively contributed to preventing the country from entering into an excessive real estate bubble.

As a matter of fact, monetary authorities issued in July 2008 circular no. 177 limiting real estate loans from banks to 60% only of the project's value, while requiring collateral against such loans to amount to at least 60% of the project's value, thus putting a cap on leverage and pushing speculators away from the sector. This has not discouraged demand, as the new measure is not applicable for instance to housing loans intended for the acquisition of a first home, loans extended by the Housing Bank, and those extended to the Public Housing Institute and those targeted at army volunteers. As such, contrarily to neighboring markets, real estate buyers are practically the end-users and are not acquiring property to resell in the near term and reap the benefits of an appreciation in value.

Such stringent regulations have not allowed realty to appreciate at the image of the price surges witnessed in regional markets, but have at least kept local prices closer to their appealing value, and thus avoided the local market from witnessing the collapse in prices seen in Gulf markets post-crisis.

The sound practices of the Central Bank of Lebanon have also prevented banks from investing in sub-prime products and limited the repercussions of the crisis on local banks. The Lebanese banking sector, increasingly acting as a financier for real estate buyers in recent years, largely relies on a solid depositor base, and is known to be highly liquid, which further underlines its solid financial standing and ability to weather the current global crisis. While it is true that lending conditions have somehow tightened and that banks are increasingly cautious these days, the Lebanese banking sector, which enjoys large financial flexibility, has been able to continue lending to the private sector, albeit at a slower pace due to the delicate global credit market conditions.

Along the same lines, local developers mostly rely on their own equity for their projects, rather than borrowing from the banking sector. Alternatively, a good chunk of presale funds adds to self-financing, but leverage in real estate development is low, especially in the upper end of the market, thus underlining the solid financial standing of the industry on the supply side, while ensuring the continuity of projects underway in difficult times.

Second, while demand for real estate in Lebanon has witnessed a relative slowdown from peak activity levels reached during summer 2008, the persistence of real estate demand drivers is seemingly cushioning the effects of the global financial crisis on the local property market.

Adverse conditions across global markets have indeed slowed demand down and put some projects on hold, at least large scale ones. But one should not forget that within the context of low nominal interest rates and not so low inflation rates (high in summer-fall of 2008 and moderate thereafter), real interest rates have been either negative or slightly positive, but are nowhere near recent realty performance and return on real estate investments. Also, with global capital markets in deep trouble, available liquidity has been channeled either towards banks, yielding relatively constant, low interest rates, or towards realty, expected to yield much more, at least in the medium to long term.

Besides, demand in Lebanon being driven by end-users, not speculators, means that the needs for residences are real and genuine. Returning expatriates or newlyweds cannot really postpone their realty purchase, and have continued to drive demand in the local market in the months following the eruption of the crisis.

Supply and demand have not come to a halt at all, but the sector is not totally immune to the crisis. After having held up during the few months following the crisis' outbreak, real estate and construction indicators are now indicating that the local market is somehow feeling the pinch of the crisis, albeit mildly when compared to Gulf peers. Foreigners are reportedly still purchasing realty in the country, though at a slower pace than previously in light of tightened liquidity conditions, while local residents are still contributing to demand but seemingly adopting a wait-and-see attitude in such delicate times.

Why real estate prices in Lebanon are almost sticky on the downside

From one angle, the global financial crisis could be considered to have played a positive role in the local real estate market developments as it has pushed prices to decrease from peak levels, albeit marginally, bringing them back close to or at appealing value. But market sentiment is still rather positive: developers are not desperate to sell, and those who are cash-rich anticipate better days ahead, which avoided tangible discounts on realty available for sale.

According to Ramco Real Estate Advisers, asking prices have not officially declined, but developers tend to sell and close a deal when they offer a rebate. Real estate prices, according to the same source, have overall dropped by a range of 10% to 15% (20% in some areas) since the onset of the crisis. This relatively slight correction can be attributed to an adjustment to the decrease in the cost of construction, but also to a lower, more realistic profit margin for developers, and remains by far narrower than the abrupt fall in Gulf property prices.

Ramco executives assert that in spite of the aforementioned market driven correction, local realty prices today stand about 30% higher than their levels at the start of 2008. Understanding the component of property costs would help understand better the mechanics of sticky prices on the downside.

Property prices are usually made up of the cost of land, which accounts for an important part of total property value, and other costs, namely construction costs, including transportation costs, materials cost and currency fluctuation effects, labor costs, engineering and studies cost, but also real estate developer margin.

The second component has benefited from the drop in transportation costs following the marked drop in global oil prices in the post-crisis outbreak period, and from the effect of overall depreciation of the Euro currency vis-à-vis the US Dollar from summer 2008 peak rates of 1.60 US Dollar per Euro on import costs of materials prices, bearing in mind that most such materials stem from European countries. However, these were offset by a reportedly steep rise in labor costs, especially following the Lebanese government's adjustment of salaries to higher cost of living late in 2008, with retroactive effect.

But more importantly, the first and major component of property prices, i.e. the cost of land, has not really moved down, as land is getting increasingly scarce in many areas of the capital city and surroundings, all the more so anticipation of strong demand post parliamentary elections this summer and onwards pushes land owners to hold on to their assets and not let land prices move downwards to reflect the slower demand relative to pre-crisis activity in spring and summer 2008.

4. Market Segments

The real estate market in Lebanon, the bulk of which continues to revolve around Beirut, is composed of two major segments: the residential or housing market, the major driver of the local real estate market, and the commercial market, including both the office and retail market segments.

a. Residential Segment

The residential segment is witnessing satisfactory activity as we speak, in spite of the ongoing global financial crisis. A large scale survey recently conducted by Ramco Real Estate Advisers and Commerce du Levant confirms that Beirut remains a premium choice to erect new construction sites, with several projects currently underway.

High-end estate in trendy neighborhoods in both the Eastern and Western sides of the central capital district, such as Ramlet el Baida, Verdun, Koraytem, Sursock and Furn el Hayek, is still in demand, with asking prices remaining quite elevated, at no less than US$ 3,500- US$ 4,000 per square meter. The real estate rush of last year has led prices in such areas to rise strongly and reach levels close to those prevailing in the most en vogue district in the city, the Beirut Central District.

Middle-end estate has nowadays become expensive for lower middle income households and individuals, even after the slight 10%-15% price correction reported locally, and not luxurious enough for upper middle income nationals and foreigners. Hence, realty in areas such as Hamra, Sakiet el Janzir, Sioufi and Zahret el Ihsan are in demand, but developers might be pushed to grant discounts on asking prices to secure the sale.

Within Beirut city, less expensive areas include the Hôtel-Dieu neighborhood, the South side of Nazareth, the South-West side of Sioufi, and Zarif, among others. While these areas are relatively less trendy, they are attracting a number of developers that have been launching residential projects where flat area ranges from 175 square meters to 250 square meters, thus lower than usual projects, to compensate for the rise in prices and maintain the overall price of a residential flat relatively affordable.

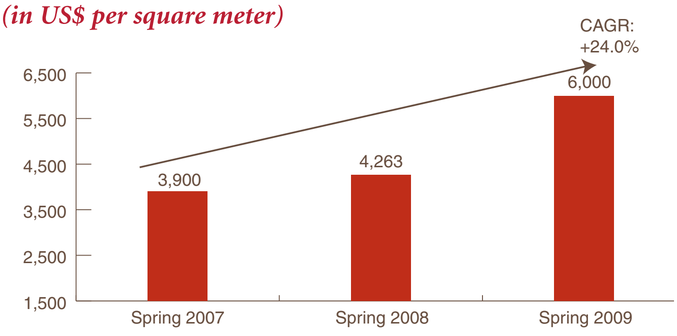
The Beirut residential market could be divided into three main areas: the Beirut Central District, the Western side of the Beirut Central District, and the Eastern side of the Beirut Central District.

The Beirut Central District (BCD)

The BCD mainly comprises of the Minet el Hosn, Wadi Abou Jmil, Foch, Martyrs Square, and Saifi Village areas, in which residential flats and apartments have been selling like hot cakes in the past few years. Demand has pushed prices up by 24.0% per annum on average in the past couple of years, as per figures derived from the Ramco and Commerce du Levant surveys of residential flats in the capital city (first floor apartments).

Minet el Hosn has the advantage of being exposed to the much seeked for sea front, with Lebanese expatriates and Arab nationals, two major drivers of demand in the

Avg. Residential Property Prices in the BCD (in US$ per square meter)



Sources: Ramco Real Estate Advisers, Bank Audi's Research Department

Box 1: Solidere - the Lebanese real estate giant

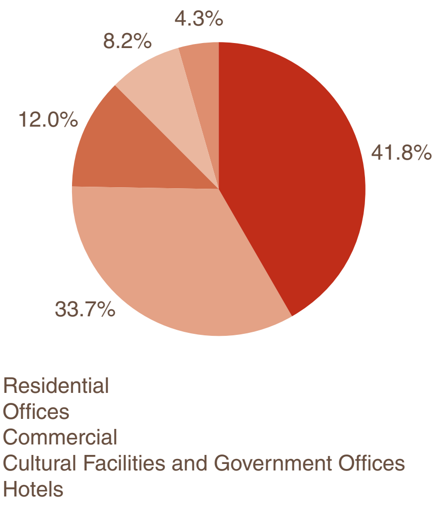
a. Company Overview

A period of 15 years, that was full of political and regional tensions, was enough for Solidere to reshape the downtown of Beirut; transforming it from a port-war area into one of the most attractive locations within the MENA region.

Today, being a local or a foreigner, Solidere is one of the most prestigious targets whether one is looking for an office, shop, residence or even a walk.

The project encompasses the reconstruction and development of 4.69 million sqm of built-up space segmented for various uses, such as business units, residential units, recreational units, archeological units and public units.

Breakdown of Solidere's Built Up Area



Source: Solidere

Today and after 15 years of development, Solidere has emerged as a major center of attraction for locals as well as foreigners. Over 50% of the plans were accomplished with the remaining development still on track. Currently, it is estimated that Solidere stands on a remaining land bank of 1,953,790 sqm.

Among Solidere's major current projects is the Beirut Souqs, a modern shopping district in the heart of Beirut. It constitutes a unique environment that integrates archeological features and gardens accentuating the historical value of the place. The total built-up area consists of 117,498 sqm divided into two parts: the South Souqs and the North Souqs. The gross built-up area of the South Souqs stands at 71,903 sqm while that of the North Souqs stands at 45,595 sqm.

b. Company Strategy

Solidere has gone through different phases since its inception:

1995-2006

The company's primary objective was to finance and execute all infrastructure works in the Beirut Central District and the two marinas, and the treatment of the land reclaimed from the sea. The master plan was revisited numerous times so as to come up with an end-product that would offer an attractive and useful urban setting while at the same time addressing environmental, historical and social concerns.

In addition to completing the installation of modern infrastructure such as roads, sewage systems, utilities, public spaces and marine works, Solidere reclaimed 645,000 sqm from the sea in order to transform a former dumping site into public gardens, recreational and cultural areas and office spaces.

Solidere did not only re-develop demolished buildings but also restored buildings that had not yet been renovated by their former owners in order to create conformity in the style of the buildings in the BCD. Some of the real estate developments were conducted by Solidere, and the remainder was outsourced to those third party contractors who made the most attractive bids.

2007

Seeking to diversify, the company successfully expanded into the Middle East and North Africa through the establishment of its subsidiary Solidere International. This expansion gave Solidere the opportunity to gain a foothold in the MENA region by establishing alliances with leading local companies and governments.

2009

The company's emphasis is to add to its investment property portfolio in order to maintain cash flow stability. By mid-2009, Solidere expects to launch the Souqs project with more than 100,000 sqm of Net Leasable Area (NLA) where rent revenues are expected to grow significantly.

2011

The company expects to start delivering land plots in the reclaimed area of the Beirut Central District; hence revenues from sales will be recognized in its income statement. Solidere has already sold 263,000 sqm of built-up area during 2006 and 2007 but did not recognize these transactions before the delivery date.

Beyond 2011

Solidere plans on keeping part of the unsold land plots in order to build a rental portfolio that spans commercial and retail segments. It will emphasize on developing a large investment property portfolio as it will secure cash flows stability for the company.

market, willing to pay starting prices of US$ 8,000 per square meter. The availability of flats in buildings and towers on the sea front, labeled the "Golden Strip", has actually become scarcer, and demand has naturally shifted to surrounding streets, whose realty is somehow relatively more affordable.

Wadi Abou Jmil is currently witnessing notable construction activity, with three huge residential projects underway, namely the Wadi Hills, Wadi Grand Residence, and Beirut Square. More than 200 flats, penthouses, studios, independent apartments, and others are being built, all offering access to a wide range of amenities. In this area, prices average about US$ 6,000 per square meter, about 35% higher than those prevailing last year, according to Ramco.

Other BCD zones, namely Bab Idriss, Foch, and Saifi Village, traditionally known for their hosting of office floors and retail outlets, are becoming mixed zones with several residential projects due for completion soon, most of which have already been sold.

The Western side of the BCD

This side of town has also seen a huge leap in prices in the past couple of years driven mostly by healthy demand. On the coastal front, spanning from Ain el Mreisseh all the way to Ramlet el Baida, prices are not far from those of the BCD's "Golden Strip". Farther inland, prices are slightly lower, depending on the standing of the neighborhood, but remain much higher than historical levels, or even those prevailing a couple of years ago.

Ain el Mreisse is a mixed two-type residential market witnessing changes that are shifting it further from its traditional etiquette of "popular neighborhood": the sea front boasts high-end large scale apartments, while inner streets comprises of less expensive estate with smaller surfaces of about 200 square meters.

Manara, Jal el Bahr and Raouche fall right on the sea front, which led prices to shot up to reach close to those of the BCD, while inner streets followed suit, though remaining less expensive. Ramlet el Baida has also benefited from the same features, and remained widely appreciated on the high-end local and regional scale. The broad area is witnessing a flurry of residential projects.

Other areas of this zone are also witnessing healthy activity. Hamra, for instance, known to be the principal pole of commercial activity in this side of town, has seen new residential projects pop up since last year. Demand in adjacent streets to the main Hamra Street is driven by residents seeking to live at walking distance from the multitude of workplaces in the area, such as office centers, universities, and hospitals.

Clémenceau and Kantari streets, perhaps the closest to the BCD, are becoming trendier and a dozen of buildings are either under construction or in the planning phases. Koraytem is also becoming the venue for residential towers and is much appreciated by the local elite, leading newly built apartments to range between 350 square meters and 600 square meters.

Verdun and Ain el Tineh are seeing a series of new residential projects underway, mostly concentrated north of the area, i.e. closer to Koraytem, which are bound to render the zone more balanced between residential and trendy commercial centers. Nearby, Tallet el Khayat has become in recent years a homogenous residential zone, close to poles of attraction, i.e. Verdun commercial shops and centers, with prices increasingly aligned with those of Ain el Tineh. Last but not least, Sanayeh and Zarif have seen smaller scale apartments mushroom and attract lower budget, young couples seeking to live in the capital city.

The Eastern side of the BCD

The Eastern side of town hosts one of the trendiest areas in the capital city, known as the "Golden Triangle". The Triangle is the zone between Sodeco, Sassine and Sofil which has seen high rise residential towers erected in recent times. Mostly driven by strong demand, the area established itself a reputation for being en vogue and close to one of the largest malls in the country, ABC Achrafieh. Consequently, realty buyers have shown willingness to pay more to live at walking distance to city hotspots.

At the periphery of this newly emerged residential hub are middle-to-low end properties of Achrafieh, such as Sioufi, Hôtel-Dieu, Mar Mikhael, Geitaoui, Karm el Zeitoun, Medawar, among other areas, whose prices are lower than those of the Triangle, and apartments usually smaller in size, thus providing buy opportunities for those looking for more affordable lodging realty.

An increasingly trendy venue for realty appears to be the Saifi zone, at the borderline between the BCD's Saifi Village and the rest of Achrafieh. The few residential projects in this area have sold out well, and could be a good opportunity for future developments, all the more so prices remain below those of the Golden Strip and other fashionable BCD streets.

In recent times, especially with realty prices in Beirut soaring and the city becoming crowded with buildings and inhabitants, the capital city's surrounding areas are witnessing changes in their landscape, with developers looking to take advantage of newly arising opportunities. Areas such as Fanar, Dekouaneh, Mansourieh, and especially Hazmieh, Baabda, Mar Takla, Horch Tabet and Brasilia, are increasingly becoming residential centers. The wave of realty appreciation has consequently started to catch up with those previously under-developed areas.

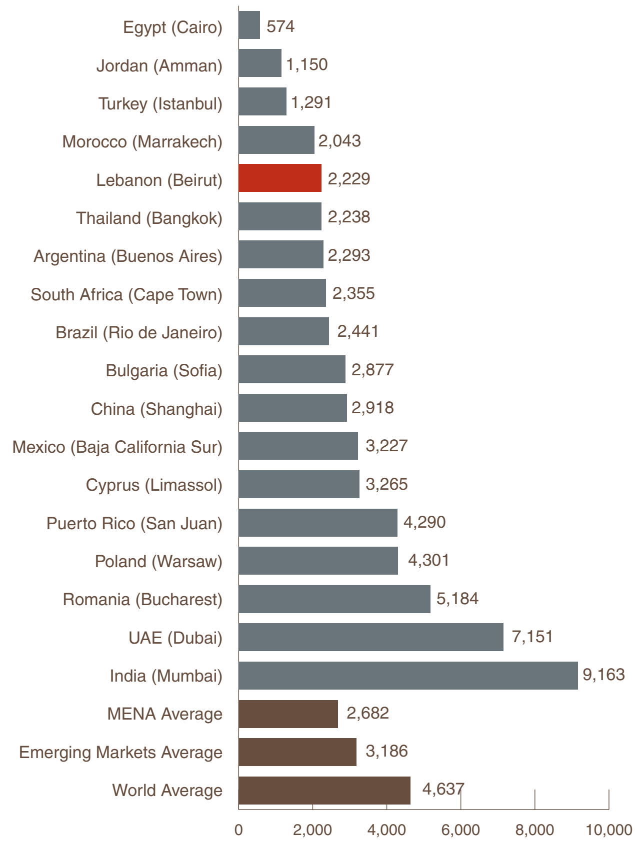
Why the local residential market remains undervalued on a comparative scale

The currently high prices of residential estate in the capital city should however not lure anyone. The local market remains undervalued, especially on a regional and global scale.

The latest survey of the world's most expensive real estate residential markets conducted by leading worldwide property consultants Global Property Guide early this year asserts that Beirut only ranks 83rd out of 112 cities in terms of average price of residential realty, with the average price of a 120 square meters high-end apartment in good condition standing at US$ 2,229.

Beirut thus remains far cheaper than the MENA region whose average stands at US$ 2,682 per square meter, the emerging markets (average of US$ 3,186 per square meter), and as much as twice cheaper than the global average of US$ 4,637 per square meter.

Avg. Residential Property Prices 2008 (Apartment price in US$/sqm)



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

b. The Office Segment

The office market in Beirut, mostly concentrated in the BCD, has similarly witnessed increased interest in recent years, with demand for prime office space coming mostly from large local, regional and global institutions looking for state-of-the-art international standard offices and/or seeking to move from current inferior space, such as converted flats or office space with less advantageous subdivisions.

Foreign market players have been enticed by the country's open and easy to access market relative to other regional peers. Diplomatic corpse missions and global organizations have also moved their local and regional mainstays to the BCD, which has more or less been outstripping other commercial hubs, such as Hamra Street or even some Achrafieh areas, from their traditional reputation as a prime venue for institutionals. Indeed, the BCD offers the highest proportion and concentration of modern office space in the capital city, thus increasing its influence in shaping the overall office market trends in the city.

While it is true that an 18-month long blockage in the 2007-mid 2008 period of one of the BCD's main office street has affected to a certain extent demand for office space in nearby buildings, prices in the market have not really shifted their stance. This could be mostly attributed to the fact that most landlords in the BCD office market are cash rich investors, many of which come from the GCC area, and have been more than willing to await the normalization of the political situation as of spring 2008 in order to benefit from enhanced movement in the market.

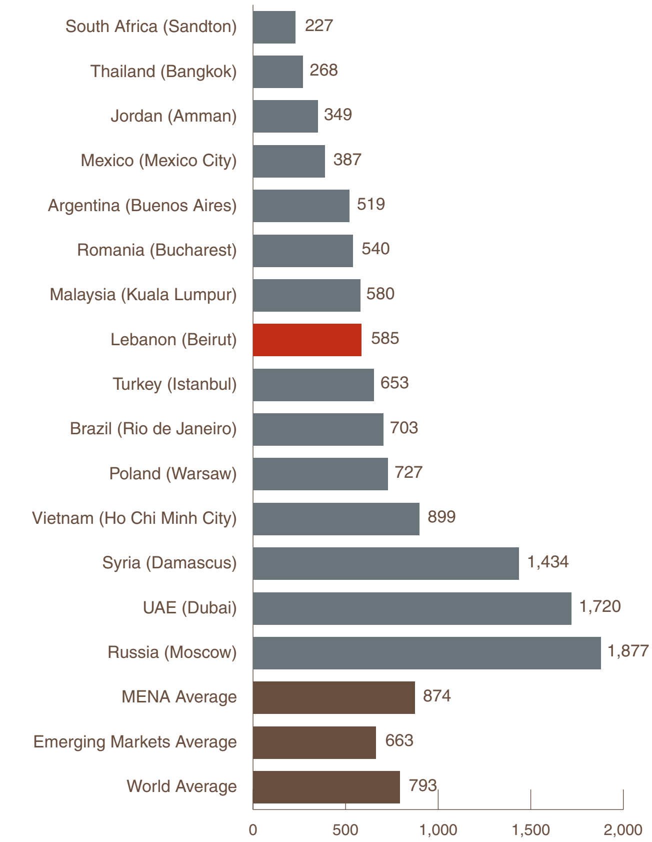
Why the local office market remains undervalued on a comparative scale

With the substantial appreciation in overall property value throughout last year, and the shortage, outside the BCD, of good quality office accommodation, rental values for prime office space in the BCD has appreciated by a healthy 14% over the year 2008, as per the latest survey conducted by global consultants Cushman and Wakefield. The latter indicates that the BCD office market activity has proven more vigorous than that of Jordan's Amman (stagnation over the year 2008), Syria's Damascus -a market getting trendier and trendier (stagnation over the year as well), and the UAE's Dubai (7% yearly growth in 2008). The new hotspot for offices in the Gulf region seems to be the developing market of Abu Dhabi, which has posted a tangible 33% yearly rise in 2008.

The Cushman and Wakefield survey ranked Beirut's BCD zone 33rd out of 57 office hubs across the globe in terms of occupancy cost per annum. While the average annual BCD occupancy cost revolved around US$ 585 per square meter last year (data collected during 2008, converted from Euros into US Dollars based on the average exchange rate during the covered period), those of other global office markets have proven much more expensive.

Beirut's BCD remains much cheaper in terms of office occupancy cost than many neighboring cities such as those of the UAE, and Syria (in its first appearance), and than the MENA average of US$ 874 per square meter per annum, the emerging markets average of US$ 663 per square meter per annum, and the global average of US$ 793 per square meter per annum, suggesting that the local market, in spite of growing rental costs throughout the year, remains undervalued on a comparative scale.

Avg. Office Occupancy Costs 2008 (US$/sqm/annum)



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

c. The Retail Segment

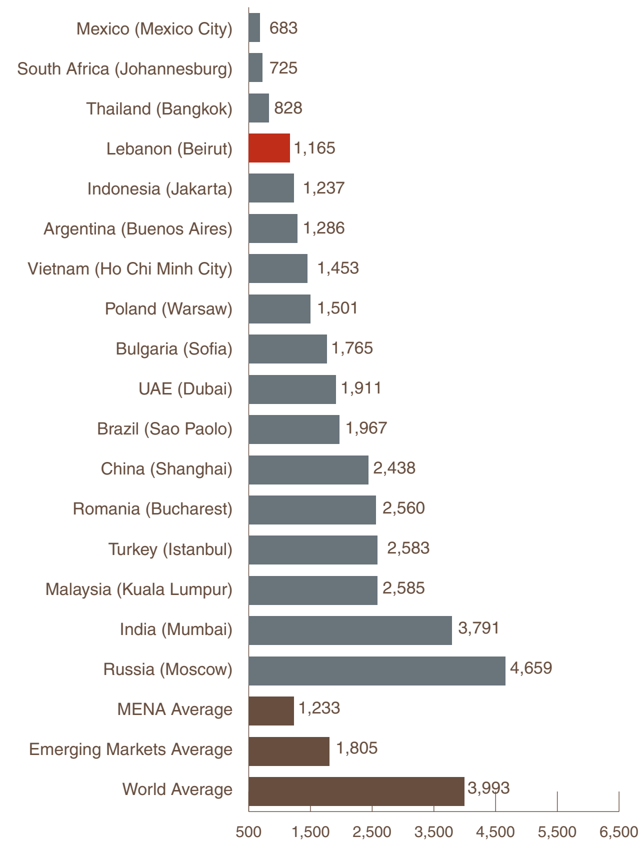
The local retail market has benefited in recent times from the openness and liberalism of the country's economy which has attracted many large retail stores into Lebanon. This has been fostering changes in consumer dynamics on the local scene, with full-fledged malls seeing the day in recent years and attracting not only traditionally famous Lebanese shoppers, but also a growing number of Lebanese expatriates and especially large-spending Arab nationals. The retail market in Lebanon is mainly focused on Beirut and its northern outskirts, which were developed mostly during the civil war that caused the capital city's retail hubs to lose in visibility. Independent retailers in such areas, namely in Dbayeh, Mkalles, Baabda, Dora, Jal el Dib, Jdeideh, and Furn el Chebbak, and to a certain extent Kaslik and Jounieh, had meanwhile mushroomed.

Yet, central location and accessibility remain the major drivers for success of retail ventures. Hence, the capital city quickly regained its stance in the mid and late nineties, and patterns shifted progressively towards the domination of malls and retail streets and centers, especially as the reconstruction of the BCD gained pace. The latter zone is today one of the prime retail centers of the country across many of its streets. While one would argue that the BCD lacks large malls such as those in Achrafieh and northern Beirut (ABC Achrafieh, ABC Dbayeh, CityMall in Dora, and the newly opened Le Mall in Sin el Fil), the forthcoming opening of a huge mall, the Beirut Souqs, is already further attracting major local retail outlets and international franchises into the BCD.

Why the local retail market remains undervalued on a comparative scale

Retail sales have proven healthy in recent times and triggered upward pressure on shop and outlet rents. Traditional post-war retail hubs such as Verdun (hosting retail centers and a large number of brand names), Achrafieh (ABC Achrafieh mall, in addition to smaller retail stores scattered throughout the area), and lately the BCD have been doing well. The latest survey report of Cushman and Wakefield asserted that the retail market has started to pick up, especially following the improvement of the political conditions in the country. With limited availability in the capital city, vacancy rates in prime pitches are generally low and competition for prime retail space remains fierce, according to Cushman and Wakefield.

Avg. Retail Occupancy Costs 2008 (US$/sqm/annum)



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

What remains to be said is that in spite of healthy activity and growing retail rental costs, the local retail market looks as well much less expensive that those of global retail hotspots. The country's most expensive retail location, ABC Achrafieh, only ranks 43rd out of 48 countries surveyed late in 2008 by Cushman and Wakefield, with rental costs at US$ 1,165 per square meter per annum (data converted from Euros into US Dollars based on the average exchange rate over the covered period), below the MENA average of US$ 1,233 per square meter per annum and the emerging markets average of US$ 1,805 per square meter per annum, and much below the global average of US$ 3,993 per square meter per annum.

5. Market Outlook

The real estate sector in Lebanon has been performing rather well in recent years, and has proven resilient to adverse political and security conditions on the local scene, and to the spillovers of the global financial crisis that hit peer realty markets in the broader Arab region.

The successive waves of appreciation in real estate value across the capital city and its outskirts, as well as across other regions in the country at large, were caused by strong demand, especially since the return to stability on both the political and security scenes last year, which coincided with the real estate rush in the region and the surge in global commodity and construction materials prices.

Real estate property and land in Lebanon were not victims of speculators as was the case in prime Gulf real estate sectors. This prevented, in the aftermath of the global financial crisis, a collapse in prices and demand - which come mainly from local residents, Lebanese expatriates from the Gulf and Arab nationals, all of which purchase realty as end-users.

In recent months, all attention was focused on the local parliamentary elections held this June and their outcome, which according to local real estate sources, represent a significant determinant of sector activity in the months ahead. Indeed, the political environment remains the true barometer of real estate activity in the country. During times of instability, demand is rather refrained, but not halted, and during times of solid stability, demand soars, as buyer sentiment is at its best.

With the highly anticipated one-day election process having been pretty smooth, and results yielding on the overall positive reactions from all parties and willingness to cooperate in the next phase, Lebanese parliamentary elections appear to have been sending positive signals to the broader Arab community, and to international investors.

Following a relative slowdown in real estate demand and a slight correction in prices in the past few months, real estate developers could very well, in anticipation of enhanced demand, tend to maintain prices at their current levels or even increase them slightly, all the more so buyers have in recent months had the time to get accustomed to new price dynamics in the local market.

In parallel, the touristic summer season looks promising. Hotels are reportedly nearly fully booked, and airlines are increasing their flights to Beirut in order to match buoyant demand. The summer of 2009 should be a good occasion to gauge the market and its appetite for realty.

The drivers of the real estate in Lebanon could very well resurface on the market. The increasing number of Arab nationals visiting Lebanon could give a boost to demand after having perceived positive signals from Lebanese parliamentary elections, especially that investment in realty yields value of sure. Lebanese expatriates could also be encouraged by the continued stability in the country. Demand in the commercial segment could increase, with multinationals possibly moving their headquarters from the Gulf to Beirut.

Local residents -newlyweds, residents seeking to move to new premises- who might have been postponing their decision regarding the purchase of realty in Lebanon until after local elections, could begin to resurface progressively. Besides, with remittances only foreseen to drop marginally this year, financial support from the Lebanese Diaspora is not expected to decrease, at least tangibly. Demand from locals could shift increasingly towards less expensive, smaller size flats, while Arab nationals would continue to seek large size apartments and upper end realty, though they could end up buying relatively smaller high-end estate.

It is important to mention that within the context of the global crisis, which slowed down the launch of new projects in recent months, and thus of near term supply, forthcoming demand would come and dig into the current stock of supply, thus ensuring a more balanced equilibrium between supply and demand in coming months. Hence, real estate prices in Lebanon could stick at or close to current levels, or even increase slightly.

Finally, risks to the outlook do somehow exist in Lebanon, with the threat of political and security instability still possible, and prolonged spillovers of the global financial crisis on global economies in general, and regional economies in particular, not to be totally out ruled. Yet, the Lebanese real estate market benefits today from healthy fundamentals and overall good perspectives, which could bolster the sector's contribution to developing economic activity at large in the country, raise Lebanon's visibility on the regional real estate map, and reestablish progressively the country and its central district's status as a major realty hotspot in the Middle East and North Africa region in the years ahead.