

## **Byblos Bank Real Estate Demand Index in Fourth Quarter of 2018**

- Index stagnates in fourth quarter amid absence of concrete measures to stimulate housing demand
- Banks' processing of mortgages throughout the year, even though at a slower pace, supported demand and limited the decline of the Index to less than 6% in 2018

**Byblos Bank Headquarters, February 19, 2019:** Byblos Bank issued today the results of the Byblos Bank Real Estate Demand Index for the fourth quarter of 2018.

The results show that the Index posted a monthly average of 51.2 points in the fourth quarter of 2018, nearly unchanged from 51.4 points in the third quarter of 2018 and increasing by 14% from 44.9 points in the fourth quarter of 2017. The fourth quarter results constitute the 20<sup>th</sup> lowest level in 46 quarters.

Commenting on the results, Mr. Nassib Ghobril, Chief Economist and Head of the Economic Research and Analysis Department at the Byblos Bank Group, said: "real estate demand in the fourth quarter of the year was affected by the absence of concrete initiatives to stimulate demand in the real estate market, amid political uncertainties, stagnating consumer confidence and slow economic activity." As such, the Index's average monthly score in the fourth quarter of 2018 came 61% lower than the peak of 131 points registered in the second quarter of 2010, and remained 53.4% below the annual peak of 109.8 points posted in 2010. Also, it was 14.1% lower than the Index's monthly trend average score of 59.6 points since the Index's inception in July 2007.

Mr. Ghobril noted that "the government's announcement in April that it intends to earmark LBP 1,000 billion on subsidized housing loans, the Parliament's vote in September to allocate LBP 100 billion for subsidized mortgages, as well as the multiple draft laws that political parties submitted to Parliament to restore subsidies, raised the expectations of citizens that subsidized mortgages will resume on a large scale." As a result, even though banks processed more than 1,000 mortgages in 2018, many citizens have delayed their purchasing decisions in the hope of a resumption of subsidies.

The answers of respondents to the Index's survey questions in the fourth quarter of 2018 show that 5.8% of Lebanese residents had plans to either buy or build a residential property in the coming six months, unchanged from the third quarter of the year and compared to 5.1% in the fourth quarter of 2017. In comparison, 6.7% of residents in Lebanon, on average, had plans to buy or build a residential

unit in the country between July 2007 and December 2018, with this share peaking at nearly 15% in the second quarter of 2010.

Further, Mr. Ghobril considered that "the intentions of the Lebanese to buy a residential unit need a conducive environment in order to translate them into actual sales and transactions, which, in turn, requires immediate measures and incentives from authorities and stakeholders." In this context, he stressed the need for the government to support demand through three practical measures. First, the government should reduce by 50% the registration fee on all purchased residential units for two years, not just on apartments whose price is \$250,000 or less, as is currently the case. Second, authorities should develop the rent-to-own, or leasing, option for low-income persons, which is a more viable long-term solution than subsidizing mortgages. Third, the government should activate the LBP 100 billion in subsidized mortgages that Parliament enacted in September. In addition, stakeholders in the sector need to start promoting rent as a viable housing choice, as is the case in most other countries.

Mr. Ghobril noted that "reducing the registration fee on purchased residential units for a limited period of time would provide an incentive to prospective or hesitant buyers to save a considerable amount of money, given the very high registration fee that is equivalent to 6% of the price of the purchased property. Also, it would encourage thousands of persons who already bought residences in the past to officially register their transaction, which would increase public revenues."

In addition, Mr. Ghobril pointed out that "Banque du Liban, in cooperation with commercial banks, has subsidized interest rates on housing loans since 2009. These measures were supposed to be temporary, in order to give the executive branch time to develop a housing policy. He added "it is clear that citizens have more confidence in Banque du Liban's initiatives than in politically-motivated promises. However, it remains the responsibility of the executive branch to not only cover interest subsidies on housing loans for limited-income citizens, but also to take the lead in developing a comprehensive housing policy that stimulates demand for all segments of the residential market in Lebanon."

In parallel, the Byblos Bank Real Estate demand Index posted a monthly average of 44.9 points in 2018, constituting a decline of 5.7% from a monthly average of 47.6 points in 2017. Mr. Ghobril noted "the limited decline of the Index, despite the prevailing political uncertainties and economic slowdown throughout most of the year, reflects the continuous efforts by commercial banks to extend housing loans during the year, as banks met a part of the demand by subsidizing mortgages from their own funds, as well as by offering regular housing loans." He added "the other reason for the limited decline of the Index in 2018 is that stakeholders in the private sector have tried to fill part of the gap left by the suspension of subsidies, as some developers that are financially liquid have started to offer



payment facilities to potential buyers that are similar to subsidized loans, until subsidies resume.”

The results of the Index show that demand for housing was the highest in the South in the fourth quarter of 2018, as 9.2% of its residents had plans to build or buy a house in the coming six months, compared to 9.1% in the third quarter of 2018. The Bekaa followed with 9.1% of its residents planning to build or buy a residential unit in the coming six months, up from 6.3% in the preceding quarter; while 6.3% of residents in the North had plans to buy or build a house, relative to 4.7% in the previous quarter. In addition, 3.8% of residents in Mount Lebanon intend to buy or build a house, down from 5.5% in the preceding quarter, while 3% of residents in Beirut had plans to build or buy a residential unit, down from 4% in the third quarter of 2018. In parallel, real estate demand decreased in two out of four income brackets in the fourth quarter of the year, while it increased by 17% quarter-on-quarter by residents who earn between USD 1,500 and USD 2,499, and by 16.2% by those who earn between USD 750 and USD 1,499.

The Byblos Bank Real Estate Demand Index is a measure of local demand for residential units and houses in Lebanon. The Index is compiled, implemented and analyzed in line with international best practices and according to criteria from leading indices worldwide. The Index is based on a face-to-face monthly survey of a nationally representative sample of 1,200 males and females living throughout Lebanon, who reflect the demographic, regional, religious, professional and income distribution of Lebanon. The surveyed persons are asked about their plans to buy or build a house in the coming six months. The Byblos Bank Economic Research and Analysis Department has been calculating the Index on a monthly basis since July 2007, with November 2009 as its base month. The survey has a margin of error of  $\pm 2.83\%$ , a confidence level of 95% and a response distribution of 50%. The monthly field survey is conducted by Statistics Lebanon Ltd, a market research and opinion-polling firm.

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