

# Invested development

## Banks bend BDL regulations to cash in on real estate

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A house is more than just a home. It is also an investment vehicle that, if things go well, can produce handsome earnings. With real estate producing double digit returns in recent years, especially in Beirut, it should not come as a surprise that Lebanon's banks and investment firms are increasingly in on the action.

Dozens of projects have been realized despite the fact that Banque du Liban (BDL), Lebanon's central bank, explicitly prohibits banks from developing real estate unless it concerns offices, branches or housing units for staff. The most common way around BDL's legal hurdles seems to be the creation or acquisition of a separate subsidiary dedicated to property development.

Blominvest Bank in 2010, for example, established its real estate unit “to originate, structure and manage projects” on behalf of its clients. In a similar fashion, Mawarid Bank owns Al Mawarid Real Estate (AMRE), while the Saradar Group owns Conseil et Gestion Immobilière (CGI).

On paper, a bank and its real estate subsidiary are different legal entities keeping entirely separate books. In practical terms, however, the latter profits from the services and contacts the bank has to offer. So, the bank may help raise capital through its private banking unit, offer attractive loans and interest rates and direct its home-seeking clients towards its subsidiary’s projects. It is a strategic alliance that, in a healthy market, can prove mutually beneficial.

Fait accompli

“The 2008 financial crisis especially hit the United States banks because of their indirect exposure to real estate through subprime housing loans,” said Lara Kanj, head of Blominvest’s real estate unit, which, among other projects, is responsible for Zeitoun 1589 outside Tripoli. “What we are talking about here is not a balance sheet exposure for Blominvest. It is purely advisory and alternative asset management. Therefore, should the real estate market suffer a significant downturn, no impact would be felt by the bank apart from an opportunity cost of lower fees generation.”

AMRE, the property development arm of Al Mawarid Bank, entered the Beirut property market in 2005 with Shams Beirut, a four tower project in Mazraa. Currently, AMRE is developing six projects, five of which are situated in Beirut. Signed for by Lebanese architect Bernard Houry, AMRE’s Skyline is a 24-story residential structure overlooking the Beirut Port and the Mar Mikhael neighborhood. Houry also designed the Paramount building, a residential tower on the south side of Ashrafieh. AMRE is set to build two more projects in central Beirut’s Wadi Abu Jamil area.

Founded in 1998 by Banque Saradar, CGI is also specialized in real estate investments and project development in greater Beirut. The firm used to be affiliated with Bank Audi following the 2004 merger between Banque Saradar and Bank Audi. Today, its corporate identity is slightly different, as Marius Saradar Holding acquired 81 percent of CGI in 2011 while Audi Saradar Private Bank maintained a 19 percent stake.

“CGI has developed, financed and managed seven projects since its inception and is one of the largest real estate companies in Beirut, involved in luxury residential real estate properties,” said CGI General Manager Aboudi Farkouh. “The company is currently developing two of the five tallest towers in Beirut. To date, CGI has raised a total of around \$170 million in equity, with a total expected sales value exceeding \$600 million and a total built up area exceeding 200,000 square meters [sqm].”

Completed projects include Ashrafieh 784, Hugo 43 and the Airport Mall (land and concept). Abdel Wahab 618, Gemmayzeh Village, Urban Dreams and Marfaa 1474 are ongoing. The projects are located in central Beirut and the Ashrafieh district. “Ashrafieh 784 and Hugo 43 have been fully sold,” said Farkouh. “Abdel Wahab 618 and Gemmayzeh Village projects have sold over 50 percent of their total sellable areas, while the Urban Dreams project will start to sell in the coming months.”

Lebanese investment firms, such as FFA Private Bank and MENA Capital, are also known to manage real estate funds. Founded in 2004 and regulated by BDL, MENA Capital is involved with private equity fund management and property development. The company has so far executed five projects in Beirut, including Sky Gate in Ashrafieh, the Hochar Tower on the Corniche and the Ibrahim Sursock Residences adjacent to the Sursock Museum.

Founded in 1994, FFA Private Bank is arguably Lebanon’s largest private and investment bank. “In terms of real estate, we do everything from recognizing the opportunity to invest and developing the concept, to executing the actual project and sales,” said Head of Sales and Marketing Mireille Korab Abi Nasr, who is also a board member of Lebanon’s real estate syndicate.

So far, FFA Real Estate has nine projects in different stages of development. Following the completion of Foch 94 and Marfa in downtown Beirut, Badaro Gardens and Uptown Badaro were launched. Both projects were sold out in less than six months. Amchit Bay, a gated community of beachfront villas and chalets with a sales price of some \$6,000 per sqm, did even better. Launched in October 2012, it was sold within a month.

The firm is currently working on launching two projects at some distance to greater Beirut, Ahlam and Naas Springs. The first project near Faqra measures over 1 million sqm and lies at an altitude of 1,400 meters. At its heart is a nine-hole golf course and country club, as well as a number of residential and retail units. Situated in Bikfaya, Naas Springs is a health and residential resort covering an area of 133,000 sqm of mainly pine trees. The gated community will include a wellness center, restaurant and some 38 residential units.

Finally, Capstone Investment Group is a holding group modeled as a private equity firm, with one exception: it is not registered and regulated by BDL. "When you solely do property development, there is no need to register at BDL — a difficult and very lengthy procedure," said Chief Executive Ziad Maalouf, who had co-founded MENA Capital before establishing Capstone.

"Raising capital in public is only allowed by registered financial institutions, according to the rules and regulations of BDL," he continued. "As we are not allowed to do that, we raise capital in private. For each project we create a new legal entity with its own investors and bank leverage. The board of directors of each firm is chosen from the participating investors."

In addition to a potential return on investment, investors enjoy a discount if they decide to buy an apartment in the project they partly own. Founded in 2010, Capstone has so far launched three projects. Trabaud 1804 is a 23-story high-end residential tower on Ashrafieh's Trabaud Street, 80 percent of which has been sold. Half of the 12-story L'Heritage de Abdel Wahab has been sold, while Capstone is set to launch 237 Sursock, a 30-story glass tower in the Sursock area.

No diminution of will

Taking stock of these project portfolios, it is unmistakable that irrespective of the strict central bank regulations and legal restraints on property development activities by banks, some of Lebanon's financial powerhouses have exerted great influence on the real estate sector. They have done so in real terms of luxury towers that have crowded into the old quarters of Beirut and in funneling investments through the specialized subsidiaries they have set up with their financial expertise.

All of these "financial" developers admitted to Executive that the market, due to the current economic and political climate, has taken a downward turn and that profit margins are not what they used to be. Still, the banker-developers emphasize there is demand among high-net worth Lebanese individuals looking for niche, quality products. So far, the formula of stirring banking and investment advisory expertise into Lebanon's property development imbroglio has worked for them. Yet, seeing the overwhelming number of high-end towers, chalets and apartments being built, one may wonder: just for how long will it last?

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