

# REAL ESTATE POLICY ASKS

## INTRODUCTION

The real estate sector in Lebanon accounted for 14-20 % of GDP on average between 2004 and 2016. The founding of the Lebanese Company for Development and Reconstruction of Beirut Central District (Solidere) in 1994 was integral to the post conflict trajectory of Lebanon as a service-driven economy. This contributed to the GDP, positively affected the tourism sector, and attracted significant domestic and foreign investments (Diaspora and GCC) as well as state and quasi state support.

Unfair competition between established legally registered real estate developers and new illegal entities backed by powerful oligarchs, political figures associated with bankers, and those involved in questionable financial activities - including alleged money launderers - created an imbalance that not only disrupted the market equilibrium, but also raised concerns regarding governance legality, and the ethical foundation of the business landscape. Moreover, it deprived the government of vital financial flow by bypassing customs and taxes. This imbalance led to market distortions affecting quality, price, and availability of real estate options.

The lack of urban planning and zoning guidance specifically to cater to the needs of the middle class and first time home buyers created an affordability prices, social and environmental degradation.

Moreover, use of technically obsolete and noise-polluting construction machinery, insufficient safety measures on project sites, corner cutting in many post-conflict developments, and reliance on informal labor involving non-Lebanese workers boosted profit margins further at the expense of public and employee safety.

Accordingly, the correlation between real estate and sustainable employment has been very weak. The share of the blue-collar Lebanese workforce in this sector never exceeded 0.4% favoring foreign and informal labor whose earnings were mostly channeled to their home countries.

Cautionary voices warned at the time that while the subsidy strategy for real estate was propping up the economy, it carried a high risk of bringing about a rentier economic structure while discouraging investments in productive sectors.

Real estate investments also fell short of contributing to the achievement of sustainable development goals due to the cyclical overproduction of housing units in periods such as the early 2010s, and failure to develop green urban spaces, efficient public transportation, and other urban infrastructures.

While the real estate market attracted regional and expatriate buyers up until the 2010s, much of the appeal to Arab buyers has declined in the past 15 years. Competing with other property destinations around the Mediterranean was further hindered due to the country's political, social, and economic instability.

Notwithstanding, new real estate development and property management opportunities exist if there are measures to prevent the use of development as a money laundering conduit.

These opportunities are as follows:

1. Refurbishment and reconstruction of unsafe and dilapidated apartment buildings in Lebanon including those resulting from the August 2020 port explosion.
2. Redesigning of urban infrastructures with the aim of energy preservation in pursuit of climate targets.
3. Upkeep projects in collaboration with the Ministry of Culture and the Department of Antiquities to ensure heritage preservation and cultural integrity in cities and towns.
4. The creation of much needed urban green spaces in alignment with UN Habitat targets.

## POLICY ASKS



### POLICY ENVIRONMENT:

- Update the archaic rent law and increase supervision of building codes in rental properties and all multi-party dwellings.
- Implement legislation that supports the recovery or upgrading of dilapidated housing units.
- Eliminate corruption in public sector real estate administrations through digitization and public sector reforms.
- Ensure that every developer is registered as a company not as an individual.
- Control qualifications and quality and enforce the decennial insurance to be able to follow up and take action to protect the buyers.
- Update and enforce heritage preservation laws and building codes for seafront properties.
- Issue mandates for earthquake safeguard requirements.
- Reform construction and property insurance laws.
- Eliminate value and time gaps in assessment and registration of property transactions.
- Collect property taxes in a transparent and equitable manner throughout the country.
- Incentivize investments in green construction machinery, technology, and smart buildings.
- Incentivize investments in affordable housing projects targeting middle class and first time homebuyers.



### REGULATORY FRAMEWORK:

- Strengthen the rights of Lebanese construction workers through unionization.
- Introduce incentives for hiring Lebanese across the board and in all sectors.

- Clarify and define equitable rights of renters and landlords and create a rent index with reliable data.
- Enact tax incentives to attract new investments in the sector and facilitate flows from foreign investors.
- Decentralize renewable power generation to reduce extreme pollution emanating from rampant diesel generators across the country.



## INFRASTRUCTURE & CORPORATE POLICY RECOMMENDATIONS:

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- Implement a modern transportation system to enable access to out-of-city urban centers which is currently nonexistent or too costly.
- Strengthen and support existing and nascent vocational training initiatives for Lebanese construction workers.
- Establish clear quality certification standards and training for real estate and construction companies and professionals.
- Improve working conditions on construction sites especially with regards to worker safety and highlight companies with exemplary labor practices.
- Formalize the hiring of construction workers, fulfill social safety network obligations, and enforce applicable laws with regards to work permits and tax obligations.
- Invest in less polluting machinery and green certification.
- Enhance transparency, strengthen the legal framework, and foster a culture of ethical business practices.