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Phase II: Next for Solidere's development

Buyers eyeing reclaimed area

The reclaimed area of the Beirut Central District (BCD), also known as Phase II or the Waterfront, is in the making. Solidere is finalizing the infrastructure to allow investors who have already bought land to begin their projects. The reclaimed area is expected to lure more investors, as it is considered the market's most prime location. With most plots snapped up, a new stock of residential units and commercial spaces will gradually become available starting in 2019. Most developers are waiting for the completion of infrastructure projects or for better market conditions before beginning their projects while others have already taken a step forward.

LOCATION

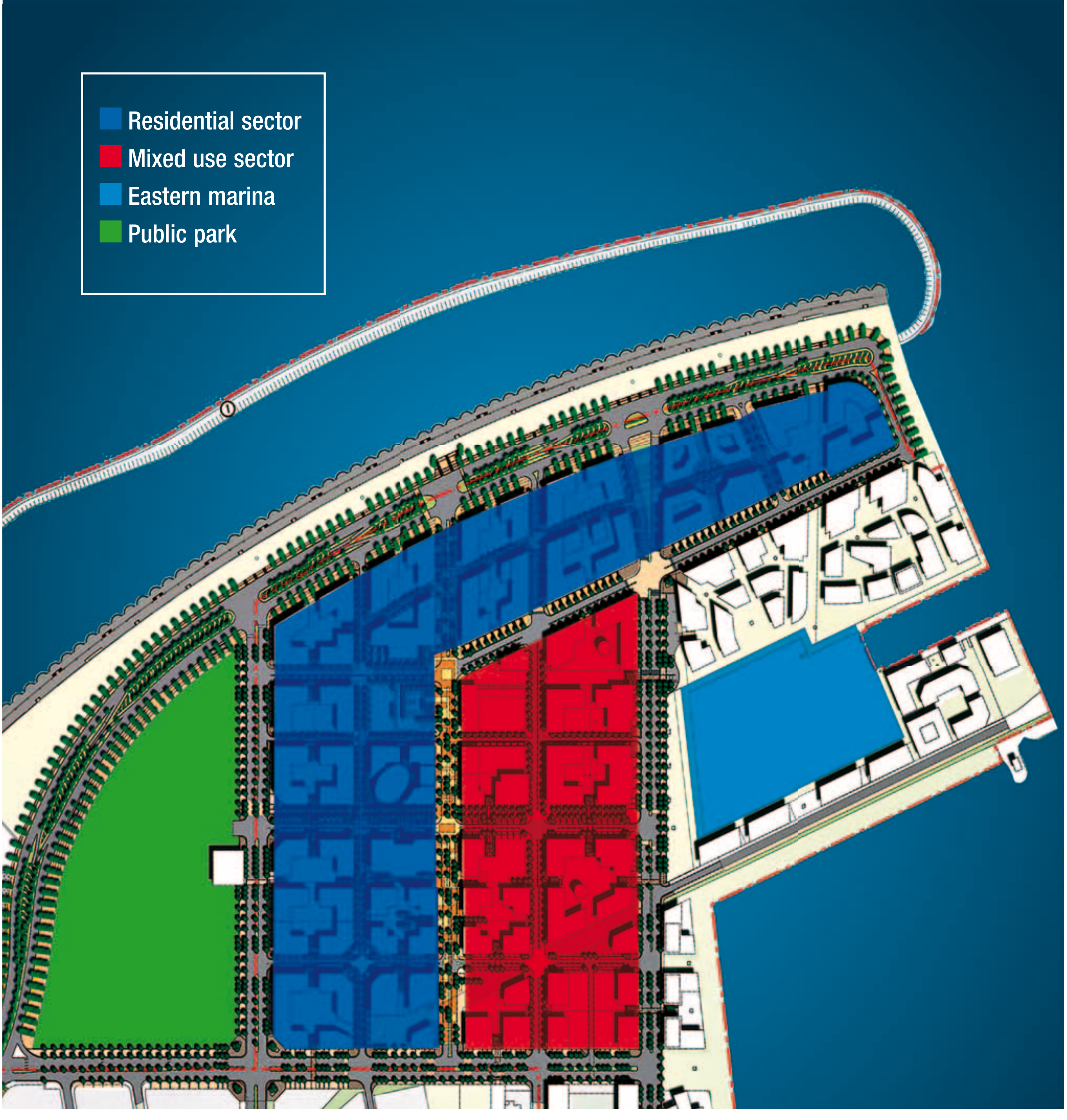
Solidere is upgrading the infrastructure of the BCD's reclaimed area, which stretches from Quay 1 at the Port of Beirut (presently occupied by the naval base) to Zaitunay Bay. Solidere's General Manager, *Mounir Doueidi* said: "We are installing underground power, water, sewerage, and telephone networks." The roads have already been developed but side roads are still being fixed, trenches filled, and sidewalks developed. The projects are expected to be completed within the next few months, according to Doueidi. Infrastructure costs are $250 million, or $587 per m². The waterfront area is an extension of the original BCD and will portray the same concept. "It will offer a mix of residential and office space, as well as commercial projects," he said. It will also host hotels and furnished apartments, similar to those found in the BCD. The reclaimed land measures 600,000 m². Approximately half of this will be public domain and will include a large park, the Eastern Marina, a corniche, green areas, and roads. The Marina, designed by the Denmark-based consultancy firm COWI, will host luxury yachts and be similar to the Beirut Western Marina, located on the Saint George Bay (Zaitunay Bay). Not yet completed, Solidere plans to turn it into an area for entertainment and commercial activity. The park, which faces the Four Seasons Hotel Beirut, constitutes ten percent of the total area, or 60,000 m². The remaining area will be dedicated to private projects. More than 30 lots were already on the market when Solidere began selling.

REPLENISHING SUPPLY

Solidere plays an important role in determining how and what kind of projects should be developed. Doueidi said: "When investors approach us to buy land, we have to know upfront what their intentions are and the type of projects being planned." According to these intentions, Solidere offers guidance to the investors into where to buy land. "If they are planning residential developments, we show them vacant lots on the frontline facing the sea or park, because these lots will have a view of both," he said. The master developer also advises investors to develop office and commercial spaces in the reclaimed area's central part. Infrastructure projects have begun because Solidere has sold several plots to investors, some of which were sold ten years ago when Solidere first started selling. Although the land had been reclaimed at the time, work on the land, such as infrastructure, was still needed. According to conditions within

> There is a surplus of large size units

Beirut Central District phase II



the initial sale's agreement, investors who bought property were not supposed to start developing their projects until five years after the date of sale. "Their financial terms went along with that agreement," he said. From this year forward, developers will be able to begin construction. Structures that are already present on the waterfront, such as the Beirut International Exhibitions and Leisure Center (BIEL) owned by Joueidi Holding, a batching plant owned by Araco, as well as several restaurants and bars, will be dismantled when the plots are sold and work on the Marina begins. "These tenants have temporary leasing contracts and knew that their presence on the waterfront was short term," Doueidi said.

MASTER PLAN

Once a sale agreement is signed, investors receive a development brief prepared by Solidere's urban development department, which provides details about zoning and other regulations. The development brief is important because each plot at the BCD, including the new extension, has different characteristics. The master plan, also formulated by Solidere, determines the surface area, total exploitation, and public areas for which land should be accounted, in order for sufficient land to be allocated. "The maximum height in specific frontline spots that face the park and the sea is 40 meters," Doueidi said. The minimum height of a development is 32 meters, according to the master plan. A selected number of plots will be dedicated to high rise towers, with authorized heights on some of these plots reaching 180 meters. The surface exploitation of most of the plots is 70 percent, reaching 100 percent near the Marina. The master plan details were approved by the Council of Ministers and cannot be changed, except by a Cabinet decree. But developers are left with the possibility to negotiate buying more built-up area. The most attractive—and expensive plots—are northeast of the reclaimed area (the furthest right angle away within the Biel area). These plots have a good exploitation coefficient and overlook the Eastern Marina, near Beirut Port's Quay 1, with clear views of the sea. Both Solidere and the Lebanese Armed Forces are in battle over the quay, which the company claims to own.

50 percent price premium for sea view

CAUTIOUS DEMAND

Solidere was able to sell most plots that face both the sea and the park and some that overlook the Marina. "We are currently focused on selling plots in the middle part of the waterfront," said Doueidi. But some developers shy away from the central part. "The midsection is a stone's throw away from the original central district and is not very different from it," said *Aboudi Farkouh*, Chairman of Forefront Development, a property development and management firm. This is why many plots have not yet been sold there. *Victor Najjarian*, Chairman of Care Group, said: "The best time to buy property is during crises periods, which applies to what is happening today." His company handles a sales portfolio of more than 30 projects worth $3 billion, mainly in the BCD. Care Group recently bought two plots on behalf of its clients. "The appetite among investors is limited. We are trying to create interest, attracting them with the idea that the conditions and opportunities today are the best, especially for plots," said Najjarian. A third client purchased property through Najjarian a few years ago. "This project recently broke ground," he said. It is a residential development consisting of three buildings. The two other plots that were recently bought are under design and will take at least a year and a half to complete. One will be an office development and the other, a commercial one. "When the infrastructure is complete, the development of several projects is expected to commence," he said. Demand at the waterfront is similar to the type of property present in the original quarters of the BCD. But over time this has changed. "It is now about luxurious small apartments, with the possibility to expand into modular space," said Najjarian. Forefront Development is managing the development of a mixed-use project in the reclaimed area on behalf of its investors. The project has a land area of 2,100 m^2 facing the park. "We will not start developing the plot immediately," Farkouh said. The company will choose an architect to design residences and ground floor retail spaces, which will be under the name Marfaa 1515. Bought three years ago, the plot has a built-up area of roughly 16,000 m^2 and a 40-meter high building. Buyers in the reclaimed area have different investor backgrounds. Some are developers while others are private investors. But the majority of these investors are mainly Lebanese, according to Doueidi. Sources close to Solidere disclosed that among the investors who bought plots are Dar al Handasah (Shair and Partners), Azadea, investors Sharif Idriss, Fadi Daouk, brother of former Information Minister Walid Daouk, Adnan Kassar, a group of Saudi investors, and the M1 Group (Mikati family).

SMALL LUXURY

The residential apartments at Najjarian's new project have sizes that start at 200 m^2, expandable to 1,200 m^2 in some units. One of his clients has already purchased a penthouse. "Ninety percent of clients are Lebanese and ten percent Gulf nationals,"

he said. Fifty percent of the Lebanese who are interested in this new area are expats, the others are local residents. "Potential buyers will purchase units in the Phase II development that are unavailable in the original district of the BCD," Farkouh said. These include small units and apartments that face the park. "Buyers will not find anywhere else what constitutes the best combination: A view of the park, Marina, and the sea," he said. The company is planning to develop small, one- and two-bedroom units with a rare sea view. "We expect high net worth locals and expats to buy units," he said. People are willing to pay a premium price to buy an apartment in a premium location. "But this won't happen soon because demand is not strong," said Farkouh.

The reclaimed area measures 600,000 m^2

ADDING UP THE COSTS

Just like in the original BCD neighborhoods, Solidere offers potential buyers payment facilities to finance land sales. "We ask for a 25 percent down payment. The remaining amount is financed over a six-year period with equal maturities," said Doueidi. Most investors request such financing incentives, with few paying upfront. Land in the BCD, especially in the reclaimed area, constitutes the highest cost for the investor, followed by construction. Farkouh's investors also received the same financing incentives for their land purchase. Investment in his project would cost over $50 million. "The return on equity (ROE) in today's conditions is low. This is why we haven't started developing it yet," he said. Usually, the ROE should be at least 50 percent and the return on investment more than ten percent. "Before the real estate sector started to slow down four years ago, the price of a buildable area in the reclaimed area ranged between $4,000 and $4,500 per square meter," said Najjarian. The prices have decreased by around ten percent since then. The prices, as expected, are the highest facing the sea and the park. Apartment prices at the prime seafront location will be at least $10,000 per m^2. "Our strategy is to start construction only if we pre-sell at least 20 percent of the project. This way, the risk that the investor will incur will be limited. We, as development managers, will be assured that demand exists," said Farkouh. Otherwise, the company will wait for better times. The price of a 150 m^2, two-bedroom apartment will be approximately $1.5 million. In the original BCD, such an apartment is now being sold for $1 million. "The buyer is paying a 50 percent premium for the sea view," he said.

AN APPETITE FOR INVESTMENT

The reclaimed area has all the factors for success: A prime location, state-of-the-art infrastructure, and unbeatable views. Najjarian said that the area has a big future and that it will be a success story. The original BCD district was one of the most successful property developments in the Middle East, according to Najjarian. The second phase will follow suit. "Solidere must encourage investors to buy in this area by starting to work on its own projects," he said. When Solidere pumps investments into the BCD, both developers and investors will be encouraged to do the same. Farkouh said: "When things get better, Solidere Phase I will gradually fill up, although there is still a large stock of large units," he said. In order for developers to build successful projects, they should differentiate themselves from the competition and their upcoming unit stock from existing stock. "It is not the ideal time to develop in this phase, but it is the right time to buy land," said Farkouh. Buying land as an investment is a good strategy because there are a few plots left on the seafront. Developers are waiting for Solidere to further advance its infrastructure projects, in order to keep investors' appetites in check. Although such an appetite for property investment has been going down for some time, this area holds a lot of potential. It is the most prime development land not only in Beirut, but in the entire country.

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ON OUR WEBSITE

More information is available by typing the numbers below into the **Reference Finder** on our home page

- L0516-73 Solidere annual report 2012
- L0516-74 Solidere waterfront overview and details
- L0516-75 Contact information

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