Political situation and foreign donors support economics essay

Economics

Introduction

The real estate industry sector is considered one of the important sectors in a country's economy, since it has a great impact on GDP and it activates about 40 to 60 other sectors. Government policies and national banks pay close attention to the real estate market situation. In the last few years, the world encountered global economic crisis. This crisis was mainly related to real estate market. It started with crisis in the American real estate market and then propagated to the whole world. The real estate prices decreased in most of the countries and many leading banks and multinational companies were bankrupted as a result of real estate market crises. This economic crisis reached Dubai and some countries in the region. As a result many investors moved and planned to invest in Lebanon due to the stable situation and the Lebanese banking system regulations that attract businessmen and investors due to the privacy rules they follow. The real estate industry in Lebanon represents an important source of the Gross Domestic Product (GDP). It was surprising how this sector was growing while the world was facing a dramatic drop in the real estate prices, and the property sales are expected to rise further, as demand continues strong, and the economic outlook is bullish. Historical studies show that this sector resists all the external factors that might affect negatively the real estate market vales. Despite the economic crisis on global economic recession, the Lebanese real estate sector prices boomed in the last few years in a very dramatic way. This huge increase is due to many variables. The first boom occurs in the year 2008, where the average property sales price was up 26. 8% to LBP116. 3 million (US$77, 500), according to the Real Estate Registry. According to

the Inter-Arab Investments Guarantee Corporation, foreign investors were mainly from Arab nationalities and especially from UAE. The UAE investors made up 41. 9% of total Arab investments in Lebanon in 2008, at LBP1. 65 trillion (US$1. 1 billion). The second boom occurs in the second quarter of 2009, where the average residential property price in the Beirut Central District (BCD) soared 40. 7% (or 37. 4% after inflation) to LBP8. 85 million (US$6, 000) per square meter from the same period last year, according to Ramco Real Estate Advisers and Bank Audi's Research Department, this impressive increase enhanced Lebanon as a good investment destination for expatriates. As known the real estate sector is affected by the governmental policies and the monetary policies of central bank. Thus in this paper we are going to highlight the various factors that influenced the Lebanese real estate sector in the last few years and focus mainly on the war July 2006.

Objective of the study:

The objective of this study is to observe the different factors that affects real estate prices in Lebanon, especially in the last few years, which has faced a bubble in the prices due to many reasons some of these factors were studied and analyzed by other researchers but none of the studies focused on the war in July 2006 which will be considered in this research as a " dummy variable". The main objective of this study is to establish the following: The relationship between real estate prices and interest rate. The relationship between real estate prices and prices of raw materials. The relationship between real estate prices and unemployment rate. The relationship between real estate prices and government policies. The relationship between real estate prices and political situation especially war July 2006.

The relationship between real estate prices and the demand and supply for real estate. In this research we are going to study the effect of all the above variables on the value of Lebanese real estate market, and study mainly the effect of war July 2006 on the prices since after the war the real estate sector shows a significant boom. Unfortunately none of the researchers focused on the impact of the war on the high increase in prices of real estate. The purpose of this study is to focus on the impact of war and some other determinants that played an important role in increasing real estate prices in the last few years. In the next chapter we are going to talk about the literature review, including information done by other researchers concerning real estate market in many countries and study the key factors that affect the prices of this sector, although the ' war' variable was not mentioned as a key factor for the fluctuation in real estate market.

Literature Review

In this chapter we are going to review the literature dealing with the factors affecting the real estate market and the methodology followed by researchers and the results which explain the relationship between variables and describe it. Khoury & Mikhael (November 13, 2010), studied the factors that affect the Lebanese estate market such as:- The Lebanese taxation system with the lowest fiscal charges worldwide that attracts investors to pump money in the Lebanese estate market leading to increase in demand and thus prices.- The local economy that follows the free ' Laissez Faire' market and the domination of private sectors on the local economy is also factor that attracts Arabs investors to choose Lebanon. ' Laissez Faire' is an economic environment in which private parties are exempted from tariffs

and government subsidies.- The Lebanese liberal financial environment with a free foreign exchange market, full currency convertibility policies, banking secrecy law and no restriction on the movement of capital, which makes the country ideal for conducting business.- The Lebanese well-developed, transparent and non-discriminatory legal framework that protects private property and provides Lebanese and Non-Lebanese with equal business rights. All of the mentioned variables are very important and have a great influence on the price of real estate, but still are some other variables are not mentioned which might be the reason of this historical increase in price, such as regional security situation and the Arabic spring revolutions in the neighbour countries. Credit Libanais Bank (August 2012), published a study about the real estate sector and studied the influence of some variables such as: 1- Low interest rates2- Excess liquidity in the region3- Prices of raw materials. 4- Laws of foreign ownership and low tax rate. 5- Political situation and foreign donors' support. 6- Demand versus supply of real estate. This study gave an overview about the historical change in real estate prices along the last decade but it didn't study ' July war 2006' which might be one of the indicators of this unused increased price in the Lebanese real estate sector. This study was conducted using multiple regression analysis, at a 5% level of significance, asserts that all independent variables considered in the analysis and stated above, explain altogether a great deal (more than 99%) of the variation of average real estate prices per sqm in the Achrafieh region. The regression analysis is as follows: Ladki et al (2008), studied the Lebanese real estate market in the last few years, and found trend in the Lebanese estate market, starting from assassination of last prime minister

Rafic Al-Hariri followed by the war July 2006, inter community violence, strikes, war struck out between the Lebanese army and the terrorist group in Nahr Al-Bared ' Fateh Al-Islam' in summer 2007. The data was collected using personal interviews and secondary date from 3 Lebanese official newspapers, to examine the dependency of each of the variables on the others by regression analysis to fin7d the highest R, R2, ratio of the explained variation of the dependent variable with respect to the independent variable. At the end of this study they were able to answer the question of the research which is to determine that the trend of real estate in Lebanon is upward and the economical and political factors didn't severely affect this sector where the prices and demand are increasing respectively.

Singh & Komal (2009) studied the trends in real estate sector in India. The key factors used are: demand, supply and restrictions to use and site characteristics. To generate this study they selected a sample of size 50 major companies working in India in the field of real estate. The methodology followed in this study is analytical and exploratory nature. To analyze the data, tables, percentage and graphs were used. The data used are primary and secondary data but more dependent on secondary data, due to the unreliability of the primary data. Primary data: interviews, personal visits to various companies. Secondary data: newspapers, magazines, internet, RBI review (Reserve Bank of India). The variables under study: Independent Variables: prices. Features of flat, material used and advertising. Dependent Variables: customer awareness, presences and their perception about property. They concluded that the real estate is highly affected by macro – economic factors like: GDP, FDI, per capital income, interest rates and

employment in the nation. According to this study the most important factor in the case of India is location which affects the value and returns from the real estate. As a result the real estate in India is a very good investment opportunity for expatriates and also be aware of the increasing inflation and interest rates. Hamelink & Hoesli (2002) used constrained cross-section regressions to distinguish the effects of various factors on international real estate security returns. Besides a common factor, pure country, property type, size, and value/growth factors are considered. Country factors are the dominant factors, and size is shown to have a negative impact on returns. Statistical factors derived by means of cluster analysis explain about one third of specific returns on international real estate securities. The implication for portfolio managers is that failing to recognize the importance of the various factors leads to the portfolio being exposed to systematic risk.

Methodology and research design

The literature review gave us an overview about the real estate sector in general and what are the fundamental factors that determine the value of real estates. Some of these factors are:

1) Demographics

Demographics are the data that describes the composition of a population, such as age, race, gender, income, migration patterns and population growth. Major shifts in the demographics of a nation can have a large impact on real estate trends for several decades. 2) Interest RatesInterest rate: also have a major impact on the real estate markets. Changes in interest rates can greatly influence a person's ability to purchase a residential property.

Thus as interest rates on mortgages decrease, the cost to get a mortgage to buy a property decrease, which creates a higher demand for real estate, which pushes prices up. Conversely, as interest rate increase, the cost to get a mortgage increases, thus leads to decrease in demand and prices of real estate. 3) Prices of raw materialsA significant increase in construction raw material prices (steel, cement, etc.) had occurred in the last few years; this global increase in raw materials prices played an important role in the inflating real estate properties prices in Lebanon. 3) The state of the economyAnother key factor that affects the value of real estate is the overall health of the economy. This is generally measured by economic indicators such as the GDP, employment data, manufacturing activity, the prices of goods, etc. Broadly speaking, when the economy is sluggish, so is real estate. 4) Government Policies/SubsidiesLegislation is also another factor that can have a sizable impact on property demand and prices. Tax credits, deductions and subsidies are some of the ways the government can temporarily boost demand for real estate for as long as they are in place. Being aware of current government incentives can help you determine changes in supply and demand and identify potentially false trends. The size and scale of the real estate market make it an attractive and lucrative market for many investors. Investors can invest directly in physical real estate or choose to invest indirectly through managed funds.

5) Political situation and foreign donors' support

Lebanon was always suffering from unstable political situations starting from assassination of the Prime Minister Rafic Al-Hariri and followed by the Israeli war against Lebanon in July 2006 and other internal clashes between the

Lebanese army and other " Extremist Groups" followed by DOHA agreement on May 2008. All these reasons refrained investing in Lebanon during the clashes periods. Nevertheless the international agreements Paris II on November 2002 ($ 4. 4 billion) and Paris III on January 2007 ($ 7. 6 billion) which secure investors confidence against towards the Lebanese real estate market and enhance investments especially from Arabs investors.

6) Unemployment

Unemployment is considered as a factor which affects real estate property prices, since as unemployment increase the demand to buy properties decrease.

Sampling:

A representative random sample is as used in the survey. This sample is selected using a stratified sampling technique, in which we divide the population into mutually exclusive groups; and random samples are drawn from each group. The sample consists of some real estate companies, financial institutions, engineers, real estate market professionals, and brokerage.

Hypothesis:

The hypothesis in this study is whether the war July 2006 has effect on the increase in real estate prices. The variables under study are classified into 2 types: independent and dependent variables.

Hypothesis test:

Null hypothesis H0: μo = 0 (no correlation between real estate prices and war July 2006). Alternate hypothesis HA: μo ≠ 0 (correlation exists between real estate prices and war July 2006).

Hypothesis test:

Null hypothesis H0: μo = 0 (no correlation between interest rate and war July 2006). Alternate hypothesis HA: μo ≠ 0 (correlation exists between interest rate and war July 2006).

Hypothesis test:

Null hypothesis H0: μo = 0 (no correlation between raw materials prices and war July 2006). Alternate hypothesis HA: μo ≠ 0 (correlation exists between raw materials prices and war July 2006).

Hypothesis test:

Null hypothesis H0: μo = 0 (no correlation between unemployment rate and war July 2006). Alternate hypothesis HA: μo ≠ 0 (correlation exists between unemployment rate and war July 2006).

Hypothesis test:

Null hypothesis H0: μo = 0 (no correlation between governmental policies and war July 2006). Alternate hypothesis HA: μo ≠ 0 (correlation exists between governmental policies and war July 2006).

The independent variable:

July war 2006 denoted by " x1" Interest rate denoted by " x2" Prices of raw materials by " x3" Unemployment rate " x4" governmental policies " x5"

The dependent variable:

The only dependent variable is the real estate prices denoted by " y".

Data Collection:

To test the above hypothesis we need various kinds of data that can help us understand the type of relationship between variables and then reach to the conclusion where u can either reject the null hypothesis or fail to reject. The data used in this study are classified into primary and secondary data. 1- Primary data such as: face to face interview with real estate marketing professionals, personal visits to various companies to know the current market situation, and case study, while collecting such data the interviewer should be aware of: The reliability of the participants. Don't put pressure on the participant to get information. The personal information of the participant should be anonymous. 2- Secondary data are the information gathered from governmental studies about real estate sectors mainly from The World Bank Data, The Business and Economy Database of Lebanon, The Lebanese central Bank (BDL), and the Central Administration of Statistics (CAS), Order of Architects and Engineers in Beirut and Lebanon Statistics

Data interpretation and analysis:

This involved interpreting of information collected. The researcher compiled them by use of data editing, data coding and data tabulation. Data analysis was carried out by use of Statistical package for the social Scientists (SPSS) to obtain descriptive statistics and excel to obtain a summary regression and the linear regression model. The multiple regression equation is: $y = a + b_1 x_1 + b_2 x_2 + b_3 x_3 + b_4 x_4 + b_5 x_5$ Using this equation on the SPSS

software, we can observe and analyze the correlational coefficient between the dependent variable and each independent variable under the condition where only the studied variables are varying while all other independent variables are constant. All the obtained results include the central tendency tools; score regression analysis, multiple correlation coefficients. All these results are summarized in tables, scatter plots, and charts. The expected results: The relationship between the real estate prices and July 2006. The relationship between the real estate prices and interest rate, the 2 variables are inversely proportional then the correlational coefficient is low and negative. The relationship between the real estate prices and prices of raw materials, these 2 variables are directly proportional since as the prices of raw material increase the real estate prices increase, thus the correlation coefficient is positive and slightly high. The relationship between the real estate prices and unemployment rate, these 2 variables are inversely proportional, thus the correlation coefficient is negative. The relationship between the real estate prices and governmental policies, the governmental policy plays an important role in enhancing the demand on real estate thus leads to increase in demand which in turn leads to increase in real estate prices. The relationship between the real estate prices and the war July 2006 is directly proportional since after the war a huge destruction occurs in the country and the demand for housing and in the real estate sector in general increased leading to bubble in the prices.